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District Banks: Facing the Competition

Differences among commercial banks, thrifts and credit unions have diminished beginning with the early 1970s and more recently, in response to the Depository Institutions Deregulation and Monetary Control Act of 1980 and the Garn-St. Germain Depository Institutions Act of 1982. Having begun as specialized entities, financial institutions are now taking on a more diverse character. Regulations have changed their powers, and technological innovations have increased the number of alternative "banking" services available to consumers.

This article looks at the composition of financial service providers in Eighth District states at year-ends 1984 and 1987.[1] The second half of the article investigates banks, thrifts and credit unions as suppliers of consumer, real estate and commercial credit.

The Banking Industry, 1984-87

The number of District banks declined between 1984 and 1987. This decline (table 1) was experienced by all District states, particularly Missouri where the number of banks fell by 118 or 16.5 percent. Mississippi, which has the fewest number of banks among District states, reported a 16.3 percent decline—from 153 in 1984 to 128 in 1987.

At the same time, commercial bank deposits in District states grew at a 6.2 percent average annual rate. The largest increases were in Tennessee and Kentucky, where deposits grew at 8.2 percent and 7.8 percent annual rates, respectively. Arkansas reported the slowest deposit growth, increasing only 3.8 percent annually.

Associated with the overall rise in deposits was an increase in the number of banking offices. While the number of District banks declined, the number of bank branches increased, rising 11 percent between 1984 and 1987. Missouri, which had the greatest percentage decline in the number of banks, had the largest increase in the number of branches. In 1984, Missouri had 595 offices; in 1987, it had 765. Illinois also reported rapid growth, increasing 18.4 percent from 1984 to 1987.

The Thrift Industry, 1984-87

Changes in federal laws have allowed savings and loan associations to provide many services traditionally furnished by commercial banks, such as checkable deposits and commercial loans. Thus, the level of competition between commercial banks and savings and loans has intensified.

The number of thrifts in District states declined between 1984 and 1987, from 696 to 667, a 4.2 percent reduction. In Illinois there were 10 fewer thrifts in 1987 than in 1984, while Indiana and Missouri lost four each.

Total deposits at District thrifts increased at an average annual rate of 2.4 percent, much slower than the 6.2 percent at District commercial banks. Total deposits declined in Arkansas and Kentucky from 1984 to 1987, while increasing slightly in the other five states.

As with District commercial banks, the number of thrift offices increased slightly during this period. The number of offices grew in all District states except Illinois and Kentucky.

The Credit Union Industry, 1984-87

The number of District credit unions also declined during this period, falling from 2,658 in 1984 to 2,360 in 1987. Total deposits at District credit unions grew at an average annual rate of 20.1 percent compared with increases of 6.2 percent at commercial banks and 2.4 percent at thrifts. All District credit unions together held assets worth $19.7 billion at the end of 1987, up from $12.2 billion in 1984. The growth of credit union assets has been aided by favorable loan rates compared to those of

[1] The Eighth District includes all of Arkansas and portions of Illinois, Indiana, Kentucky, Mississippi, Missouri and Tennessee. Due to data constraints, however, this article refers to these seven states in their entirety as the Eighth District.

commercial banks and thrifts. Credit unions are able to profitably offer lower installment loan rates because, in most cases, they experience lower loan costs. Since credit union regulations require a common bond among members, this commonality often provides an established source of information and facilitates loan payment through payroll deduction. Moreover, because credit unions are subsidized, they often realize free office space and clerical "volunteers." Credit unions also pay no federal tax and generally little state tax, thus escaping many expenses other institutions face.

The District Loan Portfolio

Total loans outstanding in 1987 at District commercial banks amounted to $227.4 billion, $87.6 billion at thrifts and $10.2 billion at credit unions (table 2). Commercial banks devoted $40.6 billion to consumer loans compared with $5.7 billion at thrifts. Most credit unions' loan portfolios are concentrated in consumer lending areas such as installment credit and automobile loans. Credit unions held $7.3 billion in outstanding consumer loans in 1987, representing more than 37 percent of total District credit union assets. From 1984 to 1987, thrifts reported a 24.2 percent average annual increase in consumer loan business. At commercial banks and credit unions, consumer loans grew more slowly, increasing at average annual rates of 4.9 percent and 2.5 percent, respectively.

In keeping with their original purpose as a major provider of mortgage credit, thrifts held $80.3 billion of real estate loans at year-end 1987, representing more than 58 percent of total District thrift assets. Commercial banks, responding to greater competitive pressures, substantially increased their exposure in mortgage lending from 1984 to 1987. With $74.6 billion in outstanding credit in 1987, banks expanded their real estate portfolio by an average annual rate of 14.8 percent. Mortgage lending at thrifts, on the other hand, grew at only a 1.6 percent rate. Credit unions are fairly recent competitive additions to the mortgage credit market; and at year-end 1987, they held $2.1 billion in outstanding debt. Finally, commercial loan demand continues to be served primarily by commercial banks where 18.6 percent of District bank assets are dedicated.

— Lynn M. Barry

Table 1
Commercial Banking Industry in Eighth District States
(dollar amounts in billions)

	Number of Banks		Number of Branches		Total Deposits		Total Assets	
	1984	1987	1984	1987	1984	1987	1984	1987
Eighth District states	3,373	3,145	5,567	6,177	$271.4	$322.1	$340.0	$394.4
Arkansas	258	256	442	467	14.1	15.7	16.4	17.8
Illinois	1,242	1,211	728	862	120.3	141.9	159.1	179.0
Indiana	378	344	1,252	1,372	35.5	41.7	42.5	49.9
Kentucky	336	330	769	816	22.7	28.0	27.7	34.9
Mississippi	153	128	752	781	13.4	15.8	15.7	18.3
Missouri	713	595	595	765	38.0	44.9	45.9	53.3
Tennessee	293	281	1,029	1,114	27.4	34.1	32.7	41.2

Source: FDIC Reports of Condition and Income for Insured Commercial Banks, December 31, 1984 and December 31, 1987.

Table 2
Industry Loan Portfolio in Eighth District States
(billions of dollars)

	Consumer		Real Estate		Commercial		Total	
Industry	1984	1987	1984	1987	1984	1987	1984	1987
Banking	$35.4	$40.6	$51.7	$74.6	$68.8	$73.5	$194.0	$227.4
Savings and Loan	3.3	5.7	76.6	80.3	0.8	1.3	81.1	87.6
Credit Union	6.8	7.3	0.5	2.1	N/A	0.0	7.3	10.2

Source: FDIC Reports of Condition and Income for Insured Commercial Banks, December 31, 1984 and December 31, 1987. Federal Home Loan Bank Board Quarterly Financial Report, December 31, 1984 and December 31, 1987. NCUA Statements of Financial Condition, December 31, 1984 and December 31, 1987.

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EIGHTH DISTRICT BANKING DATA

LARGE WEEKLY REPORTING BANKS[1]

	Level	Rates of Change			
		Current Quarter	Current Year	Same Periods Previous Year	
	II/1988 ($ millions)	I/1988-II/1988	II/1987-II/1988	I/1987-II/1987	II/1986-II/1987
Selected Assets & Liabilities					
Total Loans & Leases	$20,726	7.7%	6.2%	9.7%	12.4%
Commercial Loans	7,016	9.3	8.5	7.3	9.2
Consumer Loans	4,567	0.5	–3.0	12.3	18.3
Real Estate Loans	5,885	11.5	19.7	21.6	22.7
Loans to Financial Institutions	851	–10.1	–19.6	–14.7	15.7
All Other Loans	2,405	16.1	2.1	1.5	–6.9
Total Securities	5,169	6.8	10.3	12.8	17.8
U.S. Treasury & Agency Securities	3,714	11.3	15.8	22.6	38.9
Other Securities	1,454	–3.8	–1.5	–5.2	–11.5
Total Deposits	23,715	3.0	5.3	6.9	8.5
Non-Transaction Balances	15,084	2.9	10.0	9.8	6.0
MMDAs	2,753	15.9	–5.4	–13.4	14.3
$100,000 CDs	4,833	–18.5	16.6	30.4	7.1
Demand Deposits	5,966	3.2	–5.8	2.1	7.5
Other Transaction Balances[2]	2,664	2.7	7.9	4.3	27.9

EIGHTH DISTRICT INTEREST RATES[3]

	June 1988	May 1988	April 1988	June 1987
NOWs	5.07%	5.06%	5.04%	5.06%
MMDAs	5.42	5.43	5.36	5.27
Time CDS				
92 — 182 days	6.60	6.51	6.34	5.87
1 — 2½ years	7.18	7.09	6.97	6.61
2½ years and over	7.69	7.66	7.51	7.08

All data are not seasonally adjusted.

[1] A sample of commercial banks with total assets greater than $750 million. Historical data have been revised to incorporate adjustment factors that offset the cumulative effects of mergers and other changes involving weekly reporting banks during 1986. These adjustment factors, which are computed each year, are used to construct a consistent time series for which year-to-year growth rates can be calculated. Adjustment factors are available upon request from the Statistics Section of the Research and Public Information Department. Rates of change are compounded annual rates.

[2] Includes NOW, ATS and accounts permitting telephone or pre-authorized transfers.

[3] Average interest rates paid on new deposits by a sample of Eighth District commercial banks.

QUARTERLY BANK PERFORMANCE RATIOS[1]

	Eighth District			United States		
	I/88	I/87	I/86	I/88	I/87	I/86
Annualized Return on Average Assets						
<$100 million	1.08%	1.06%	1.20%	.75%	.70%	.89%
$100 — $300 million	1.04	1.13	1.08	.84	.88	1.01
$300 million — $1 billion	1.08	.92	1.09	.66	.79	.84
$1 billion — $10 billion	.86	.89	.94	.73	.87	.69
>$10 billion	N.A.	N.A.	N.A.	.54	.56	.65
Annualized Return on Average Equity						
<$100 million	12.00	11.99	13.66	8.52	8.19	10.20
$100 — $300 million	12.69	14.14	13.64	10.75	11.55	13.41
$300 million — $1 billion	13.69	12.01	14.25	9.50	11.42	11.25
$1 billion — $10 billion	13.35	13.22	14.44	11.63	13.80	11.15
>$10 billion	N.A.	N.A.	N.A.	12.21	10.41	12.86
Loans as Percent of Deposits						
<$100 million	55.86	53.74	54.68	58.52	57.02	58.86
$100 — $300 million	65.66	62.60	62.52	65.23	63.97	64.60
$300 million — $1 billion	69.12	68.54	69.65	75.17	73.22	72.78
$1 billion — $10 billion	83.90	81.14	80.14	85.71	83.81	82.73
>$10 billion	N.A.	N.A.	N.A.	90.50	88.51	89.42
Nonperforming Loans as Percent of Total Loans[2]						
<$100 million	2.12	2.72	3.11	2.72	3.28	3.47
$100 — $300 million	1.95	2.17	2.30	2.27	2.55	2.60
$300 million — $1 billion	1.64	2.41	2.61	2.48	2.59	2.40
$1 billion — $10 billion	2.44	2.43	2.07	2.37	2.56	2.22
>$10 billion	N.A.	N.A.	N.A.	5.21	5.76	3.38
Loan Loss Reserves as Percent of Total Loans						
<$100 million	1.53	1.51	1.37	1.67	1.67	1.46
$100 — $300 million	1.36	1.34	1.24	1.57	1.50	1.36
$300 million — $1 billion	1.38	1.53	1.34	1.72	1.63	1.45
$1 billion — $10 billion	2.13	1.45	1.44	1.89	1.52	1.51
>$10 billion	N.A.	N.A.	N.A.	4.27	1.93	1.58
Net Loan Losses as Percent of Total Loans[3]						
<$100 million	.08	.14	.15	.16	.22	.22
$100 — $300 million	.09	.13	.16	.14	.16	.16
$300 million — $1 billion	.08	.17	.15	.15	.21	.15
$1 billion — $10 billion	.18	.15	.15	.23	.15	.18
>$10 billion	N.A.	N.A.	N.A.	.25	.21	.18

[1] Size ranges based on bank assets.

[2] Includes past due greater than 89 days and nonaccrual.

[3] Loan losses are adjusted for recoveries.