

AUG 05 1992

March 1992 C-2

# Pieces of Eight

An Economic Perspective on the 8th District



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*Losing Jobs and Losing Confidence*

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*Nonbanks: A "Creditable" Alternative?*

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*Weak Farm Banks — NOT!*

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## THE EIGHTH FEDERAL RESERVE DISTRICT



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**Pieces of Eight—An Economic Perspective on the 8th District** is a quarterly summary of agricultural, banking and business conditions in the Eighth Federal Reserve District. Single subscriptions are available free of charge by writing: Research and Public Information Department, Federal Reserve Bank of St. Louis, Post Office Box 442, St. Louis, MO 63166-0442. The views expressed are not necessarily official positions of the Federal Reserve System.

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# How Well Does Unemployment Explain the Low Levels of Consumer Confidence?

by Adam M. Zaretsky

Thomas A. Pollmann provided research assistance.

*"There is a deep-seated concern out there, which I must say to you I have not seen in my lifetime."*

—Alan Greenspan, December 1991

Associated with the continuing weakness in the U.S. economy are very low levels of consumer confidence. For example, the Consumer Confidence Index, published by the Conference Board, was 46.3 in February 1992, its lowest since December 1974 when it was 43.2 (1985=100).<sup>1</sup> This recent figure reflects a sharp decline from 102.4 in June 1990.

The lack of consumer confidence is puzzling because many of the factors likely to affect it, such as inflation, interest and unemployment rates, are not at levels that many feel would cause such low levels of consumer confidence. Inflation, at least in the near future, is not perceived as a problem. In fact, the low level of inflation is used by many to justify additional expansion of the money supply. Short-term interest rates are at their lowest levels in years. The average yield on three-month Treasury bills in January 1992 was 3.8 percent, the lowest average since May 1972. Current unemployment rates near 7 percent nationally and regionally, however, make unemployment a concern.<sup>2</sup> Nevertheless, current unemployment rates are substantially below their double-digit rates of the early 1980s.

This article takes a closer look at the unemployment rate. It begins with a review of how the official unemployment rate is calculated. Some have suggested that official unemployment rates are inadequate because of the existence of "discouraged workers." Thus, the article examines the consequences of adjusting the unemployment rate for discouraged workers to see if the official numbers might be a misleading indicator of the depth of the current unemployment problems. If so, this might partially explain the low levels of consumer confi-

dence. The article then returns to the consumer confidence level to explore some of the issues surrounding the recent declines.

## Unemployment Rates

An individual must meet a strict set of criteria before being considered officially unemployed. Basically, an unemployed person does not have a job *and* is actively looking for one. Receiving unemployment insurance compensation is not a criterion for classifying an individual as unemployed. Owning a business, performing any work for pay or at least 15 hours without pay in a family-owned business is sufficient to classify an individual as having a job and, therefore, being employed.

The sum of all people who are either employed or unemployed is the *labor force*. The *unemployment rate* is simply the percentage of the labor force that is officially unemployed. Therefore, every individual in the population is either "in the labor force" (employed or unemployed) or "out of the labor force."<sup>3</sup>

Official data are gathered to determine who is "in" the labor force. Anyone not qualifying as "in" automatically qualifies as "out." For example, suppose Mary worked as a financial analyst for a St. Louis firm before losing her job. She has tried to find other work compatible with her skills and experiences but has been unable to do so. If she gives up her job search, Mary will be officially considered "out of the labor force." Thus, she will not be counted in the statistic even though she would accept a financial analyst's position if one were offered to her.

Mary's action of abandoning her job search results in the official unemployment rate *falling* because the total number of unemployed persons has fallen by one *and* the total labor force has fallen by one. Mary is known as a *discouraged worker*. The existence of discouraged workers is one reason why unemployment figures can be understated. For example, imagine an economy with a labor force of 10 people, three of whom are officially unemployed and seven of whom are officially employed. The unemployment rate is then 30 percent  $\{(3/(3+7)) \cdot 100\}$ . If one of the unemployed persons becomes discouraged and stops looking for a job, the total labor force is reduced to nine people, two of whom are unemployed and seven of whom are employed. The official unemployment rate is now 22 percent  $\{(2/(2+7)) \cdot 100\}$  even though 30 percent might better reflect the true circumstance. Consequently, differences in the numbers of discouraged workers may make comparisons of unemployment rates over time less reliable as indicators of the strength/weakness of the labor market.

# BUSINESS

**Table 1**  
National and District Official Quarterly Unemployment Rates: 1980-83 and 1990-91

Quarter	US	Eighth District	AR	KY	MO	TN	
1980	I	6.3	6.2	6.4	6.4	6.0	6.2
	II	7.3	7.5	7.9	8.0	7.3	7.2
	III	7.7	8.0	7.7	8.8	7.9	7.6
	IV	7.4	8.4	8.6	9.0	7.8	8.3
1981	I	7.4	8.3	8.8	8.3	7.6	8.7
	II	7.4	8.0	8.9	7.4	7.4	8.6
	III	7.4	8.2	9.1	7.8	7.4	8.8
	IV	8.2	9.5	9.6	10.0	8.4	10.2
1982	I	8.8	9.9	9.8	10.1	8.4	11.3
	II	9.4	10.3	9.6	11.1	8.8	11.7
	III	9.9	10.5	10.1	10.7	9.5	11.7
	IV	10.7	11.0	9.5	10.6	10.4	12.7
1983	I	10.4	11.2	10.3	11.8	10.5	11.8
	II	10.1	11.2	10.2	11.9	10.5	11.9
	III	9.4	11.1	10.4	12.5	9.8	11.6
	IV	8.5	9.8	9.7	10.3	8.7	10.4
1990	I	5.3	5.6	6.4	5.8	5.7	5.1
	II	5.3	5.4	6.9	5.7	5.1	4.9
	III	5.6	5.9	7.0	5.8	6.1	5.1
	IV	6.0	6.2	7.2	6.1	6.1	5.9
1991	I	6.5	6.5	7.1	6.5	6.3	6.6
	II	6.8	6.7	7.5	6.8	6.8	6.0
	III	6.8	7.1	7.6	8.2	6.8	6.5
	IV	7.0	7.0	7.5	8.1	6.3	6.8

NOTE: Shaded areas represent recessionary periods.

SOURCE: Bureau of Labor Statistics

## *Eighth District Unemployment*

Table 1 shows quarterly unemployment rates for periods encompassing the recessions of the early 1980s (January-July 1980 and July 1981-November 1982) and the most recent recession (July 1990- ) whose end has not been officially declared. During the early 1980s, national unemployment rates peaked at 10.7 percent in the last quarter of 1982, while the District's unemployment rate peaked at 11.2 percent in the first quarter of 1983. Despite being roughly comparable in early 1980, the District unemployment rate exceeded the national unemployment rate by at least 0.3 percentage points in every quarter from the fourth quarter of 1980 through the end of 1983.

Currently, the unemployment rate of approximately 7 percent for both the nation and the District is far below the double-digit levels of the early 1980s. In addition, the relative performance of the District and national economies in 1990 and

1991 is roughly comparable, and their unemployment rates have risen by similar amounts during the last two years. One difference, however, is that for much of 1991 the national rate held constant, while the District rate steadily increased.

Individually, the Eighth District states experienced the recessions to varying degrees. In the 80s' recessions, Arkansas and Missouri moved as the nation did; however, Kentucky and Tennessee ultimately reached levels of unemployment greater than 12 percent. Today, Missouri still reflects the national averages in its movements. Tennessee has performed relatively better than the nation, while Kentucky seems to have weakened substantially during the last half of 1991. Arkansas is not repeating its 1980-82 performance and has experienced small increases in unemployment relative to the nation and other District states. Overall, though, Eighth District states are not experiencing rates of unemployment comparable to those of 10 years ago.

## *Discouraged Workers*

Even though present unemployment rates are substantially below the levels of the early 1980s, it is possible that larger numbers of discouraged workers exist currently than in the early 1980s. If true, this might explain the recent low levels of consumer confidence. The Bureau of Labor Statistics identifies discouraged workers by their responses to particular questions. These individuals must "*want* a job but are *not* searching for employment because they feel that no jobs are available" (italics original).<sup>4</sup> The Bureau further explains that discouraged workers are not counted among the unemployed because "classification of an individual is primarily based on a person's actions rather than on his or her desires."<sup>5</sup>

Table 2 shows the number of discouraged workers nationally. Unfortunately, data are not available for the District or the individual states. What we observe, however, is that the current weakness has produced far fewer discouraged workers than the two previous recessions. The highest number of discouraged workers during the last recession occurred in the fourth quarter of 1982 when close to 1.8 million people were classified nationally as discouraged. During the current weakness, this figure did not exceed one million until the third quarter of 1991 when approximately 1.1 million were classified as discouraged.

To illustrate the impact of discouraged workers on official unemployment statistics, the national unemployment rates are adjusted to include discouraged workers. The best we can do for the District is *approximate* the numbers based on national data. These estimates, especially the national

**Table 2**  
**Discouraged Workers**  
**National Data 1980-83 and 1990-91**  
**(in thousands)**

Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1980	954	952	1008	1055
1981	1102	1045	1109	1174
1982	1335	1507	1645	1793
1983	1764	1729	1619	1433
1990	784	879	831	941
1991	997	981	1075	NA

ones, present a more realistic picture of how many people are jobless and willing to work if they could find a reasonable job.

We find that, adjusting for discouraged workers, the 1990 U.S. unemployment rate (see table 1) would increase about 0.63 percentage points. For the same period, the District's unemployment rate would increase about 0.65 percentage points. Adjustments for 1991 add about 0.77 percentage points to the national unemployment rate and 0.76 percentage points to the District's rate.

Performing the same analysis for the early 1980s, the U.S. official unemployment rates would have gradually increased from as little as 0.82 additional percentage points in 1980 to as many as 1.3 additional percentage points in 1982 and 1983. The District, though, would have shown more of an abrupt change than the nation with increases over the official data as small as 0.9 percentage points in 1980 and 1981, and as large as 1.3 percentage points in 1982 and 1983.

The above estimates show that the current unemployment rates adjusted for discouraged workers are still lower than the official unemployment rates from 10 years ago (see table 1). In other words, the adjusted rates of unemployment (including discouraged workers) we are currently experiencing are much lower than the official rates of unemployment (*not* including discouraged workers) we experienced 10 years ago. In the District, approximately 204,000 additional people would have to become unemployed or discouraged for our estimates of unemployment rates with discouraged workers to approximate the official unemployment rates of the early 1980s.

## Consumer Confidence Levels

The preceding analysis of unemployment rates and discouraged workers does little to resolve the issue of what explains the low levels of consumer confidence. While it is true that we are experiencing almost record low levels of consumer confidence, it is not true to suggest that levels of consumer confidence today are lower than they were during previous recessions. In fact, the lowest level of consumer confidence was achieved during the recession of 1973-75.

Several points may partially explain the recent general impression of very poor consumer confidence. First, between July and August 1990, the index fell 17 points. Then, between September and October 1990, the index fell an additional 23 points. These represent the largest single declines in confidence since the beginning of the recession of 1973, when confidence fell 36.7 points between October and December 1973. In each of the above instances, however, there was a significant development influencing opinions: Iraq's invasion of Kuwait in August 1990, troop buildups in Saudi Arabia and the potential for extended conflict in September 1990, and OPEC's cutback in oil production in the fourth quarter of 1973. These occurrences made the actual declines more dramatic. For comparison, the consumer confidence level was 90.7 entering the recession of 1980, falling 4.8 points the month the recession began.

The second possible explanation for the emphasis currently placed on the consumer confidence level is that those factors listed at the beginning of the article as affecting confidence are not in bad shape. We have already seen that rates of interest and inflation are at low levels and not of much concern. Unemployment, too, while rising, is not at an alarmingly high level. Thus, the plunge in consumer confidence is more noticeable. Nonetheless, on average, 1991 had a higher level of consumer confidence (68.4) than 1982 (59.6).

## Conclusions

Contrary to our hypothesis, unemployment rates are not understating conditions by enough to account for the lack of and decline in consumer confidence. While the number of discouraged workers is higher than in expansionary periods, it is not large enough to justify the conspicuous decline in consumer confidence. In addition, the current levels of discouraged workers are lower than the levels experienced during the recessions in the early 1980s.

The question of what explains the low levels of consumer confidence remains. Many hypotheses have been proposed: the rapid growth of the public

and private debt in the 1980s, increased job uncertainty and the trend of declining U.S. growth since the late 1980s. Such hypotheses, however, have yet to be tested.

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#### FOOTNOTES

<sup>1</sup>The empirical evidence relating consumer confidence to economic activity is mixed. C. Alan Garner found that confidence indexes are not reliable for predicting durable goods purchases and add little when used with other variables in forecasting ("Forecasting Consumer Spending: Should Economists Pay Attention to Consumer Confidence Surveys?" Federal Reserve Bank of Kansas City Economic Review, (May/June 1991), pp. 57-71). On the other hand, Adrian Throop found that the indexes were useful for forecasting total consumption expenditures and GNP ("Consumer Sentiment and the Economic Downturn," Federal Reserve Bank of San Francisco *Weekly Letter*, (March 1, 1991)).

<sup>2</sup>For the purposes of this article, the Eighth District will be represented by the states of Arkansas, Kentucky, Missouri and Tennessee because their economies account for the bulk of District activity.

<sup>3</sup>For determining employment rates, the population is restricted to those civilian individuals who are at least 16 years of age and who are not presently institutionalized (nursing homes, prison, psychiatric wards, etc.)

<sup>4</sup>U.S. Department of Labor, Bureau of Labor Statistics, *Questions and Answers on Popular Labor Force Topics*, Report 522, (1978), p.7.

<sup>5</sup>*Ibid*, p.8.

# When A Bank's Not A Bank—Nonbanks in the Financial Marketplace

by Michelle A. Clark

Thomas A. Pollman provided research assistance.

American businesses and consumers face a growing array of choices in the financial services they purchase and the vendors who sell them. Although depository institutions—banks, savings and loans and credit unions—still provide the bulk of credit to consumers and small and medium-sized businesses, nondepository institutions, or “non-bank” banks, are increasing their involvement in these areas. Unlike commercial banks and thrifts, nonbank financial companies generally are subject to no geographic and product restrictions. As a result, they have become formidable competitors in the provision of financial services. The role of nonbank banks in the financial marketplace and an analysis of their activities are detailed below.

## What is a Nonbank Bank?

The term nonbank bank was coined to describe a firm that provides financial intermediation services (that is, the channeling of funds from lenders-savers to borrowers-spenders), but is not by strict definition a bank. For example, some firms make business and consumer loans, a standard bank activity, but do not fund these loans with insured deposits the way banks usually do. Rather, these firms typically fund their activities through insurance premium receipts or the issuance of commercial paper (short-term, unsecured promissory notes), stocks or bonds. In addition, nonbank firms usually do not have access to check-clearing or electronic money transfer systems as banks do. Nonbank banks essentially fall into one of two groups: contractual savings institutions and investment intermediaries.

**Contractual Savings Institutions.** Contractual savings institutions comprise life insurance companies, fire and casualty insurance companies and pension funds. Because these types of firms generally know their pay-out structure (that is, when their liabilities or benefits will be paid), they need not remain as liquid as banks and therefore can invest their assets in higher-yielding, long-term instruments like corporate bonds and mortgages.

**Investment Intermediaries.** Investment intermediaries are primarily finance companies, mutual funds and money market mutual funds. Mutual funds and money market mutual funds serve as investment vehicles for small investors, allowing them to pool their resources and buy shares in a diversified portfolio of stocks, bonds and certificates of deposit. Money market mutual funds allow shareholders to write checks against their shares, subject to certain restrictions.<sup>1</sup>

## The Nonbank Surge

As table 1 illustrates, nonbank intermediaries have grown rapidly over the last two decades. From 1970 through 1990, asset growth at nondepository institutions exceeded that at depository institutions by a wide margin: assets at contractual savings institutions and investment intermediaries increased at an 11.5 percent and a 14.7 percent annual rate, respectively, versus a 9.0 percent rate of increase at depository institutions (banks). Credit unions were the only type of depository institution to show growth on par with that of the nondepository institutions, as their assets increased at a 13.2 percent annual rate over the period.

The relatively higher rates of growth at nondepository institutions boosted their share of the financial assets pie. At year-end 1970, banks, mainly commercial banks and thrifts, held about 59 percent of total financial assets; by year-end 1990, that share had dropped to about 44 percent. Contractual savings institutions' share rose from 33 percent to 39 percent over the period. The share held by investment intermediaries, on the other hand, more than doubled, rising from 8.6 percent in 1970 to 17.8 percent in 1990.

These swings in asset shares have forced policymakers to change the way they analyze the credit supply and demand needs of the economy. The growth of assets at the investment intermediaries, in particular, has complicated monetary policy, as it is no longer relevant to look just at bank reserves and deposits as the fuel for money creation.<sup>2</sup> On the credit side, looking at bank loans as the major source of credit can be misleading, too. A great number of consumers and small businesses now bypass the banking system completely in favor of finance companies.

## The Finance Company Challenge

Because of their widespread acceptance and the diversity of their product offerings, many of the nation's finance companies, virtually unknown 20 years ago, are household names today. The

**Table 1**  
**Total Assets at U.S. Financial Intermediaries, By Type (dollar amounts in billions)**

	1970		1990		Average Annual Growth, 1970-1990
	Value of Assets at Year-End	Share of Total Assets	Value of Assets at Year-End	Share of Total Assets	
Depository institutions (banks)					
Commercial banks	\$490		\$2,641		8.8
Savings and loan associations	171		1,097		9.7
Mutual savings banks	79		264		6.2
Credit unions	18		214		13.2
Total	\$758	(58.7)	\$4,216	(43.5)	9.0
Contractual savings institutions					
Life insurance companies	\$201		\$1,366		10.1
Fire and casualty insurance companies	50		517		12.4
Pension funds (private)	112		1,125		12.2
State and local government retirement funds	60		743		13.4
Total	\$423	(32.7)	\$3,751	(38.7)	11.5
Investment intermediaries					
Finance companies	\$64		\$641		12.2
Mutual funds	47		580		13.4
Money market mutual funds	0		498		20.7 <sup>1</sup>
Total	\$111	(8.6)	\$1,719	(17.8)	14.7
Total assets at U.S. financial intermediaries	\$1,292	(100.0)	\$9,686	(100.0)	10.6

<sup>1</sup>Average annual growth, 1980-1990.

SOURCE: Federal Reserve Flow of Funds.

General Motors Acceptance Corporation (GMAC) and American Express have as much, if not more, name recognition as the nation's largest bank, Citicorp. Some of these companies rival the nation's largest banks in terms of size. GMAC is far and away the largest U.S. finance company with 1990 assets of \$105 billion (see table 2). If GMAC were a bank, it would be the second-largest in the nation.

As with most of the finance companies in table 2, the bulk of GMAC's 1990 receivables were consumer loans: retail loans (including credit card, automobile and other personal loans) and real estate loans (single-family mortgages and home equity loans). Two of the top 10 companies, Sears Roebuck Acceptance Corp. (issuer of the Discover Card) and American Express Credit Corp. (issuer of the American Express Card and the Optima card), make only consumer loans.

General Electric Capital Corp., the finance arm of the General Electric Corporation (GE), is the second-largest finance company and the most diversified of the group: less than half its year-end 1990

receivables were business or consumer loans, compared with more than 85 percent for the other nine companies. About half of GE Capital's net receivables were leasing contracts for vehicles, aircraft and containers.

Finance companies also rival banks in terms of capitalization. As table 2 shows, each of the top 10 finance companies had equity-capital-to-assets ratios that exceed the 6.43 percent average for U.S. banks. Some, like CIT Group Holdings and Sears Roebuck, recorded ratios almost double or triple the bank average. These high capitalization rates help explain why many of these companies have double-A or triple-A ratings from the nation's credit rating agencies.

Other features of finance companies also set them apart from banks and thrifts. Finance companies do not have federal regulators, nor do they have capital or reserve requirements. Instead, they are primarily subject to market discipline: their poor performance will presumably result in the downgrading of their debt and higher borrowing costs. Thus, market forces help ensure that debt-

**Table 2**  
**Top 10 U.S. Finance Companies, Ranked by 1990 Assets (dollar amounts in millions)**

Company	Assets as of 12/31/90	Consumer Receivables <sup>1</sup>		Commercial Receivables		Equity Capital/ Assets
		As of 12/31/90	Percent of Net Receivables	As of 12/31/90	Percent of Net Receivables	
General Motors Acceptance Corp.	\$105,103	\$62,206	62.1%	\$31,001	31.0%	7.61%
General Electric Capital Corp.	70,385	14,798	29.5	6,880	13.7	9.78
Ford Motor Credit Corp.	58,969	35,950	65.0	15,302	27.7	8.27
Chrysler Financial Corp.	24,702	10,438	50.5	7,868	38.0	11.29
Household Financial Corp.	16,898	7,313	66.9	3,068	28.0	8.60
Associates Corp. of No. America	16,595	8,915	62.4	4,440	31.1	11.44
Sears Roebuck Acceptance Corp.	15,373	15,230	100.0	na	na	18.76
American Express Credit Corp.	14,222	12,242	100.0	na	na	11.32
ITT Financial Corp.	11,665	5,328	59.6	3,595	40.2	11.36
CIT Group Holdings, Inc.	11,374	na	na	7,724	71.0	12.70

<sup>1</sup>Retail and real estate receivables. na = not applicable

SOURCE: *American Banker*, December 11, 1991.

to-equity ratios are much lower at nonbanks than at commercial banks.

Although finance companies and other non-bank banks compete with banks in a variety of financial services, the three main areas of competition are credit cards, automobile and other consumer loans and small business loans.

### *Credit Cards: Can't Leave Home Without Them*

The U.S. credit card market has long been dominated by two firms: MasterCard International and Visa International. These two firms, which are cooperatives of banks and thrifts that issue the cards, have about 80 percent of the U.S. general purpose credit card market. That market share, however, is under pressure from newcomers. Sears' Discover Card, issued by a Sears-owned bank in 1985, now accounts for about 14 percent of all credit cards, while American Express' Optima card, launched in 1987, accounts for the rest of the market. (The American Express Card and the Diner's Club card are not considered general purpose cards, since they operate on a "pay as you go" basis). Banks issuing Visa cards and MasterCards have been forced to offer price protection plans and special interest rates to counter the incentives offered by these new cards, such as the Discover Card's 1 percent rebate on purchases.

The challenge to banks' control of the credit card market is coming from other sources as well. Nonbank companies are making inroads into the

banks' virtual monopoly of the Visa/MasterCard market. In May 1990, Sears purchased a failing Utah thrift from the Resolution Trust Corporation and with it, the thrift's Visa membership. Before Sears could begin issuing its Prime Option Visa card from its newly acquired thrift, however, Visa International took the matter to court, saying its bylaws prohibited the issuance of its cards by direct competitors. Sears countered by charging Visa with anti-trust and trade practice violations.

Although the case has not been resolved, Visa recently revoked its year-long moratorium on non-banks' issuance of Visa cards.<sup>3</sup> That moratorium stemmed from the phenomenal success another competitor, AT&T, enjoyed when it began issuing Visa and MasterCards in 1990. AT&T's Universal Card doubles as a credit card and a long-distance calling card. AT&T offered incentives during the card's first year that resulted in the company becoming one of the nation's top 10 credit card issuers. Whatever the outcome of the Sears-Visa case, industry analysts expect competition for these two cards to intensify, as both Visa and MasterCard now permit nonbanks to issue their cards.

### *The Big Three—Capturing the Auto Loan Market*

Three of the top five U.S. finance companies began by making car loans to consumers who purchased vehicles from the Big Three automakers. Today, those three captive finance companies—GMAC, Ford Motor Credit Corp. and Chrysler

Financial Corp—do much more. GMAC, in particular, continues to diversify. The company, which was formed in 1919, began offering auto insurance in 1925. During the 1980s, the company entered the leasing business.

Also during the 1980s, the company began offering financial services unrelated to the automobile industry. In 1985, GMAC Mortgage Corp. was founded and the subsidiary promptly purchased the mortgage-servicing portfolios of two of the nation's largest regional banks. GMAC Mortgage Corp. is now the nation's fourth-largest mortgage-servicing company and its parent the nation's largest consumer lender, followed by Citicorp, Ford Motor Credit and American Express. Ford Motor Credit and Chrysler Financial have undergone similar transformations, with Chrysler specializing in the small business loan arena.

Despite this diversification, all three captive finance companies still have the bulk of their assets in auto-related products. Approximately two-thirds of their assets are auto loans and another quarter is devoted to auto-related products, such as lease-financing to dealers, wholesale financing of dealer inventories and term loans to dealers for capital improvements. Though banks still lead the captive finance companies in market share, that share is dwindling: from 1978 to 1990, commercial banks' share of the auto loan market declined from 60 percent to 44 percent, with finance companies picking up most of the decline. Finance companies have boosted their share of this market through special-rate financing and dealer rebates.

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## *Small Business Loans—Big Business for Nonbanks*

Nonbanks are making inroads in commercial real estate transactions and small and medium-sized business loans, too. According to a recent study, the third- and fifth-largest commercial lenders are nonbank firms, and the largest commercial real estate lenders are insurance companies, not banks.<sup>4</sup> General Electric Capital Corp. (GECC), the nation's second-largest finance company and largest nonbank provider of business credit, had its origins as a captive finance company of its parent, General Electric Corporation (GE). Today, most of the products financed through GECC are not related to GE: first and second mortgage loans, construction loans, inventory financing, retail merchant loans and vehicle, container and aircraft leasing.

More recently, AT&T announced it would take part in a government-backed lending program to small businesses through its AT&T Capital Corp. subsidiary. AT&T's Small Business Lending Corp. plans to lend \$20 million to \$50 million in

its first year of operation to individuals purchasing their first business franchise.<sup>5</sup>

The vast majority of nonbank firms that provide business credit are profitable, especially when compared with their commercial bank counterparts. The recent foray of some of these firms into risky endeavors like highly leveraged transactions and commercial real estate, however, leaves them as vulnerable as many large banks. Such vulnerability raises potential public policy issues. For example, it is unclear what kind of government assistance might be offered if one of these large, independent finance companies were to run into severe financial difficulty. The growing importance of nonbanks in providing business and consumer credit has led many policymakers to call for some sort of regulatory scrutiny.

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## *Conclusion*

The increasing diversity of the nation's nonbank financial firms has reshaped the way many consumers and businesses obtain credit. U.S. banks, while still the dominant provider of many types of credit, have seen their share of the market erode over the last several decades. While new nonbank players have forced many banks to become more competitive in pricing and service and have led to more choices for consumers, their existence has posed some public policy dilemmas regarding monetary policy and the safety and soundness of the nation's financial system. These issues will no doubt be addressed in the next major round of bank (and nonbank) reform legislation.

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### FOOTNOTES

<sup>1</sup>See Timothy Q. Cook and Jeremy G. Duffield, "Money Market Mutual Funds and Other Short-Term Investment Pools," *Instruments of the Money Market*, Federal Reserve Bank of Richmond (1986), pp. 158-68.

<sup>2</sup>In particular, the growth of money market deposit accounts and mutual funds has made measurement of the broader monetary aggregates, M2 and M3, more difficult in recent years. See Dwight M. Jaffee, *Money, Banking, and Credit* (Worth Publishers, Inc., 1989), pp. 327-51, for a discussion of the money supply and its determinants.

<sup>3</sup>Visa's revised bylaws, however, directly exclude direct competitors Sears and American Express from issuing Visa cards.

<sup>4</sup>See Linda Aguilar, "Still Toe-to-Toe: Banks and Nonbanks at the End of the '80s," Federal Reserve Bank of Chicago *Economic Perspectives* (January/February, 1990), pp. 12-23 for more detail on the activities of the nation's nonbanks.

<sup>5</sup>See Ellen Braitman, "AT&T's New Small-Business Lender Seen as Threat to Banks," *American Banker*, January 10, 1992.

# District Agricultural Banks Ride High in the Saddle

by Kevin L. Kliesen

Kevin B. Howard and Thomas A. Pollmann provided research assistance.

**A**s a result of the rebound in the farm economy since the mid-1980s, agricultural banks are among the most profitable and highly capitalized banks in the United States. Thus, these banks have not figured prominently in the maelstrom that has recently characterized much of the nation's banking sector.

This article reviews the status of agricultural banks in the Eighth Federal Reserve District, compares their financial position with nonagricultural banks of similar size and examines factors that have contributed to their increased profitability relative to nonagricultural banks.

## Agricultural Bank Characteristics

To be characterized as an agricultural bank, a bank must have a relatively high percentage of its loans classified as agricultural real estate and production loans.<sup>1</sup> Generally, agricultural banks (hereafter farm banks) are small banks located in rural areas; approximately 93 percent of Eighth District farm banks have assets of less than \$100 million. Because of this, the peer group of banks for comparison purposes are small, nonfarm banks with total assets of less than \$100 million.

Table 1 lists characteristics of Eighth District farm banks and their peer group for the years 1985-91.<sup>2</sup> As of June 30, 1991, 492 commercial banks in the Eighth District were classified as farm banks (about 12 percent of the U.S. total of 4,053). The typical District farm bank has about \$39 million in assets, slightly less than the average District nonfarm bank.

District farm and small, nonfarm banks, despite similar asset sizes, differ in some important ways. For example, Eighth District farm banks generally have lower loan-to-deposit ratios and a larger percentage of their assets in government securities; this may signify a less-aggressive lending posture. Furthermore, District farm banks have somewhat larger (equity) capital-to-asset ratios. Equity capital is crucial because it cushions bank losses.

**Table 1**  
Agricultural and Small, Nonagricultural Banks in the Eighth Federal Reserve District, 1985-91<sup>1</sup>

Assets <sup>2</sup>	Agricultural	Nonagricultural
Cash	0.9%	1.0%
Securities	37.6	32.1
Loans	48.7	52.9
<b>Liabilities<sup>2</sup></b>		
Deposits	97.4%	97.4%
<b>Equity Capital<sup>2</sup></b>	9.3%	8.7%
<b>Miscellaneous</b>		
Asset size (millions)	\$38.66	\$41.16
Loan-to-Deposit Ratio	55.1%	59.4%
Number of Banks	492	528

<sup>1</sup>District data includes all lenders within the boundaries of the map shown on the inside front cover of this publication. Except for number of banks, ratios are the average of the years 1985 to 1991 (June 30 data). Number of banks measured as of June 30, 1991; nonagricultural banks defined as those with assets less than \$100 million.

<sup>2</sup>Categories of assets defined as a percent of total assets; deposits defined as a percent of total liabilities; equity capital expressed as a percent of total assets. Variables measured from FDIC Call Report data.

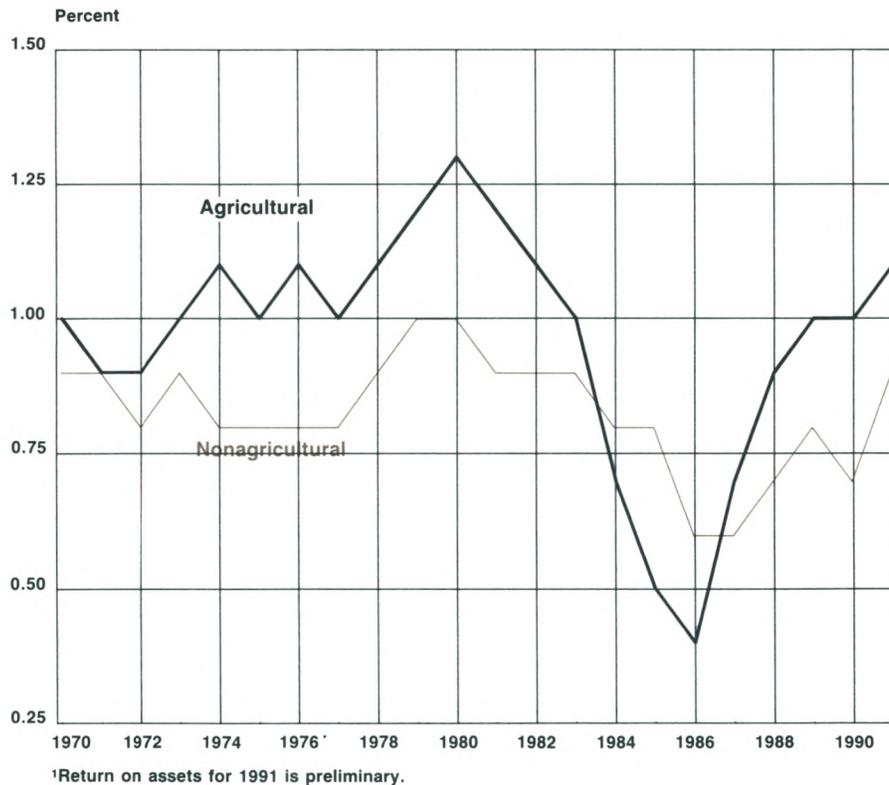
## The Farm Economy and the Health of Farm Banks

Although farm banks tend to possess certain market niches that give them distinct advantages over nonfarm banks, the farm bank must withstand the instability of the agricultural sector. A case in point is the farm debt crisis of the early- and mid-1980s. This crisis had its roots in the 1970s, as farmland values rose dramatically, largely for reasons unrelated to the income they could generate. When farmland values began to fall because of declining inflation, rising real interest rates and the 1981-82 worldwide recession, farmers who borrowed against the increasing equity of their principal asset (land) found themselves in a precarious position. Clearly, the farm debt crisis underscored the linkage between the financial well-being of farmers and the health of agricultural banks.

Figure 1 shows the rate of return on average assets (ROA) at U.S. farm banks and other small banks over the period 1970 to 1991.<sup>3</sup> ROA is a ratio that measures how well management employs a bank's assets to earn income. Except during down-

# Agriculture

Figure 1  
Return on Assets at U.S. Agricultural and Nonagricultural Banks<sup>1</sup>



turns in the farm economy, ROA at farm banks is generally higher than at nonfarm banks. From 1980 to 1986, ROA at farm banks declined sharply because of the financial distress facing the agricultural sector. In fact, beginning in 1984, nonfarm banks began to post higher ROA numbers as return on assets declined sharply at farm banks. Subsequently, many farm banks began to fail.

With the passing of the farm debt crisis, farm banks have resumed their superior ROA performance relative to small, nonfarm banks. In 1990, ROA at farm banks averaged 1 percent (the industry benchmark), which was unchanged from 1989. Small nonfarm banks, on the other hand, saw their ROA decline in 1990 to 0.7 percent from 0.8 percent in 1989. Both types of banks saw improvement in 1991, as ROA at farm banks was an estimated 1.1 percent while at nonfarm banks it was an estimated 0.9 percent.

### *Eighth District Farm Banks vs. Nonfarm Banks*

Table 2 provides an overview by state of farm and nonfarm banks located in the Eighth District.<sup>4</sup>

Table 2 shows that, generally speaking, farm banks performed better than their nonfarm counterparts.

A closer examination of table 2 shows that a consistent pattern emerges between farm and nonfarm banks. For example, farm banks in District states generally have higher ROAs, return on average equity ratios (ROEs), and total equity capital as a percent of total assets compared to small, nonfarm banks.<sup>5</sup> In fact, District farm banks' ROA averages 20 percent higher than that of nonfarm banks, while farm banks' ROE averages 16 percent higher than that of nonfarm banks. Meanwhile, the average District farm banks' capital-to-asset ratio is about 4 percent larger than that of nonfarm banks.

Some exceptions exist. For instance, Mississippi farm banks' ROA (1.27 percent) is slightly lower than at nonfarm banks (1.34 percent). In addition, Mississippi nonfarm banks have a higher capital-to-asset ratio than do farm banks. Tennessee farm banks—as of June 30, 1991—had substantially lower ROA and ROE ratios than did nonfarm banks, a significant exception. This may be an aberration as ROA at farm banks for the period 1985 to 1990 averaged 1.16 percent, while at nonfarm banks the average was 1.11 percent. For ROE, the comparable numbers for farm and non-

**Table 2**  
**Agricultural and Small, Nonagricultural Bank Performance Measures<sup>1</sup>**

State	ROA	ROE	Net Interest Margin	Interest Income	Interest Expense	Net Non-Interest Margin	Loan Loss Provision	Banks with Negative Earnings	Non-performing Loans	Weak Banks <sup>2</sup>	Capital-Asset Ratio	Number of Banks
<b>Arkansas</b>												
Agriculture	1.23	12.38	4.31	9.76	5.44	1.97	0.44	2	1.91	0	10.02	108
Nonagriculture	1.05	12.02	4.46	9.89	5.43	2.21	0.56	4	1.41	1	8.81	103
<b>Illinois</b>												
Agriculture	1.12	11.81	4.02	9.69	5.67	1.97	0.42	5	1.88	0	9.62	129
Nonagriculture	0.84	9.42	4.03	9.73	5.70	2.06	0.78	17	1.69	1	8.83	92
<b>Indiana</b>												
Agriculture	0.99	10.47	4.33	10.04	5.71	2.13	0.52	2	1.94	1	9.55	21
Nonagriculture	0.78	8.29	4.08	9.61	5.53	2.23	0.66	4	1.34	0	9.56	33
<b>Kentucky</b>												
Agriculture	1.13	12.21	4.30	10.04	5.74	2.14	0.42	3	1.38	0	9.40	67
Nonagriculture	0.89	9.74	4.38	10.09	5.71	2.38	0.63	13	1.79	0	9.15	79
<b>Mississippi</b>												
Agriculture	1.27	13.98	4.63	10.11	5.48	2.13	0.37	1	1.90	0	9.28	24
Nonagriculture	1.34	13.34	4.60	10.11	5.51	1.99	0.55	1	1.92	0	10.22	22
<b>Missouri</b>												
Agriculture	1.15	13.06	4.26	9.93	5.66	1.95	0.61	4	1.73	1	9.03	122
Nonagriculture	0.68	8.45	4.31	10.04	5.73	2.37	0.79	21	1.61	2	8.14	142
<b>Tennessee</b>												
Agriculture	0.43	4.88	4.38	10.19	5.81	2.77	0.86	2	2.36	0	9.02	21
Nonagriculture	0.60	6.71	4.61	10.31	5.70	2.72	0.86	15	1.87	2	8.98	57

<sup>1</sup>See shaded insert for description of performance ratios; also, see footnote 2. Ratios measured as of June 30, 1991.

<sup>2</sup>A bank whose total nonperforming loans exceed its total capital (excluding loan-loss reserve).

farm banks (during the same period) were 13.10 percent and 13.17 percent, respectively.

Examining table 2 further reveals that asset performance measures at farm and nonfarm banks in District states are contradictory. Nonfarm banks in the District (except in Kentucky and Mississippi) had a smaller percentage of their loans classified as nonperforming than farm banks. Nevertheless, farm banks—with the exception of Tennessee—have lower ratios of loan loss provisions (funds set aside to cover future expected loan and lease losses) to average assets. Moreover, District farm banks have on average a 25 percent lower loan loss provision ratio (which directly reduces earnings). This provides a reason as to why farm banks have relatively higher ROAs.

In contrast to the relatively better profitability of farm banks is nonfarm banks' generally good performance regarding net interest margin (NIM)—the difference between interest income and interest expense divided by average earning assets. Fluctuations in interest rates that are *unanticipated* not only affect a bank's NIM (an "income risk"), but they also pose an "investment risk" because they can affect the value of a bank's assets, liabilities and net worth. As a result, banks try to limit their exposure to interest rate risk by employing variable interest rate loans or other repricing methods.

For the most part, District nonfarm banks have slightly higher interest income ratios and slightly lower interest expense ratios. Although both measures show relatively little variation between the two types of institutions, the average net interest margin is somewhat higher for nonfarm banks than it is for farm banks.

A final performance measure listed in table 2 is the net noninterest margin (NNIM). NNIM is one indicator of a bank's operating efficiency because it reflects bank overhead costs (see shaded insert). Since noninterest expense normally exceeds noninterest income, NNIM is usually negative. Therefore, since NNIM is reported here as a positive number (that is, multiplied by  $-1$ ), higher NNIMs, which indicate a larger spread between noninterest expense and income, reduce bank earnings. Consistent with their relatively better profitability performance, farm banks—except for those in Mississippi and Tennessee—have lower NNIM measures on average than nonfarm banks.

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## Are Farm Banks Safer Than Nonfarm Banks?

Farm banks have traditionally been a stable lot, as failures at farm banks were a relatively rare event prior to the 1980s. In 1982, however, 11 farm banks failed. This number jumped to 32 in

1984 and then increased to 68 in 1985. Since peaking at 69 in 1987, the number of U.S. farm bank failures have dropped sharply, totaling eight in 1991.

Table 2 reports the number of District farm and nonfarm banks that have negative earnings and those which are classified as "weak." Out of 492 District farm banks, a total of 19—or less than 4 percent—reported negative earnings in the second quarter of 1991. Conversely, nearly four times as many (75), or nearly 14 percent, small, nonfarm banks in the District had negative earnings during the same period. Most of the banks with negative earnings were located in Missouri, Illinois, Kentucky and Tennessee (66 of the 75 banks).

A second measure of financial soundness is the number of weak banks. A weak bank is defined as one whose total nonperforming loans exceed its total capital; this measure is sometimes used as a warning of future failure. By this standard, District farm banks also look relatively strong, as only two banks—one in Indiana and one in Missouri—are classified as weak. Meanwhile, six nonfarm banks are classified as weak.

Although not listed, alternative measures of financial stability are the new risk-based capital measures (see shaded insert). As of June 30, 1991, there were no farm banks in the Eighth District with a deficient risk-based capital measure. In contrast, a total of seven small, nonfarm banks failed to meet the 7.25 percent requirement, while five failed to meet the 3.625 percent standard. Kentucky and Tennessee were the only District states that did not have at least one nonfarm bank with a deficient risk-based capital measure.

Farm banks—even small, nonfarm banks—are currently well-positioned regarding risk-adjusted capital requirements. This is because smaller banks tend to have larger portfolios of government securities (low-risk) and relatively fewer off-balance sheet items (for example, standby letters of credit), which are deemed a higher risk. Consequently, smaller banks are in a position to undertake lending opportunities not afforded to larger banks that suffer from higher-risk portfolios (for example, commercial real estate loans).

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## Summary

Although the health of the agricultural banking sector is linked to the general health of the farm economy, Eighth District farm banks, similar to U.S. farm banks, tended to outperform their peer group of small, nonfarm banks as of June 1991. As a result, farm banks, having recovered from the farm debt crisis of the early- and mid-1980s, appear capable of successfully competing with their small, nonfarm counterparts.

## Ratio Definitions

### *Return on average assets ratio (ROA)*

An indicator of how well management is employing the bank's assets to earn income; ROA is calculated by dividing a bank's net income by its average annual assets.

### *Return on average equity ratio (ROE)*

An indicator to shareholders of the bank's return on their investment; ROE is calculated by dividing a bank's net income by its average annual equity capital.

### *Net interest margin (NIM)*

An indicator of how well interest-earning assets are being employed relative to interest-bearing liabilities; the NIM is calculated by dividing the difference between interest income and interest expense by average earning assets. Interest income comprises the interest and fees realized from interest-earning assets, and includes such items as interest and points on loans. Interest expense includes the interest paid on all categories of interest-bearing deposits, the expenses incurred in purchasing federal funds and selling securities under agreements to repurchase and interest paid on capital notes. Average earning assets rather than average assets are used in the NIM.

### *Net noninterest margin (NNIM)*

An indicator of a bank's operating efficiency and its ability to generate income from noninterest-earning assets; the NNIM is calculated by subtracting noninterest expense (overhead) from noninterest income and dividing by average assets. Noninterest expense is the sum of the costs incurred in the bank's day-to-day operations, which includes employee salaries and benefits. Noninterest income includes income from fiduciary (trust) activities or service charges on deposit accounts.

### *Loan and lease loss provision ratio*

An indicator of expected loan and lease losses; the loan and lease loss provision ratio (usually termed loan loss provision ratio) is calculated by dividing the provision for loan and lease losses by average assets. The provision for loan and lease losses is an income statement account that reduces a bank's current earnings.

### *Nonperforming loan and lease loss ratio*

An indicator of current and future loan problems; the nonperforming loan ratio is calculated by dividing loan and lease financing receivables that are 90 days or more past due or in nonaccrual status by total loans.

### *Risk-based capital ratios*

Two risk-based capital measures have been established to control for credit risk across banks. One ratio comprises Tier 1 capital divided by risk-adjusted assets (a minimum of 3.625 percent) and the other comprises total capital (Tier 1 + Tier 2) divided by risk-adjusted assets (a minimum of 7.25 percent). As of December 31, 1992, the Tier 1 capital requirement will increase to 4 percent and the total capital requirement will increase to 8 percent. Tier 1 capital consists of common stock and its related surplus, undivided profits and capital reserves (retained earnings), noncumulative perpetual preferred stock and its related surplus, minority interests in consolidated subsidiaries and mortgage servicing rights (the FDIC definition of eligible intangible assets) less net unrealized loss on marketable equity securities. Tier 2 capital consists of allowable subordinated debt and limited life preferred stock, cumulative preferred stock, mandatory convertible debt, the allowable portion of the loan and lease loss allowance and agricultural loss deferral. Risk-adjusted assets are computed by attaching weights of 0, 20, 50 and 100 percent to on- and off-balance sheet assets and subtracting disallowed intangible assets, reciprocal capital holdings, the excess portion of the allowance for loan and lease losses and the allocated transfer risk reserve.

## FOOTNOTES

<sup>1</sup>An agricultural bank is defined as a bank whose ratio of farm loans to total loans exceeds the unweighted average of this ratio at all banks. As of June 1991, the ratio stood at roughly 16.5 percent.

<sup>2</sup>Since this is strictly an intra-District comparison of farm and nonfarm banks, the criteria for determining a farm bank is applied using Eighth District banking data. Accordingly, this ratio may differ from the national average because of the greater concentration of farm banks in the Eighth District relative to the United States.

<sup>3</sup>Figure 1 shows year-end data from the Board of Governors of the Federal Reserve System. Thus, ROA is

measured here using total assets and contrasts with the definition of ROA used throughout the remainder of this paper (see shaded insert).

<sup>4</sup>June 30, 1991, data is used to calculate loan and asset ratios because most farm loans are taken out by then and then paid off in the third and fourth quarters. Thus, June 30 data avoids the problems of "window dressing" and the omission of some loans; see footnote 2.

<sup>5</sup>Since farm banks tend to have higher equity capital than nonfarm banks, farm banks must also have proportionately more net income than nonfarm banks to have higher ROEs (see shaded insert). This is a crucial distinction.

## Eighth District Business

	Level IV/1991	Compounded Annual Rates of Change			
		III/1991- IV/1991	IV/1990- IV/1991	1991 <sup>1</sup>	1990 <sup>1</sup>
<b>Payroll Employment</b> (thousands)					
United States	108,921.0	-0.2%	-0.8%	-0.9%	1.5%
District	6,960.1	1.0	0.1	0.2	1.9
Arkansas	965.1	4.1	3.3	3.0	3.6
Little Rock	258.7	3.7	1.6	1.6	3.2
Kentucky	1,489.2	-0.3	0.4	1.0	2.9
Louisville	491.2	2.1	1.0	2.0	2.7
Missouri	2,322.9	0.8	-0.7	-0.7	1.1
St. Louis	1,172.4	1.1	-1.0	-0.9	0.9
Tennessee	2,182.9	0.6	-0.5	-0.5	1.3
Memphis	482.5	4.1	0.7	0.8	1.0
<b>Manufacturing Employment</b> (thousands)					
United States	18,335.0	-1.8%	-2.7%	-3.6%	-1.7%
District	1,454.2	1.2	-1.0	-2.0	-0.1
Arkansas	238.4	3.0	2.5	1.4	0.7
Kentucky	284.2	2.4	-0.6	-1.5	0.9
Missouri	416.2	-2.4	-3.3	-4.4	-0.8
Tennessee	515.5	2.7	-0.8	-1.9	-0.3
<b>District Nonmanufacturing Employment</b> (thousands)					
Mining	47.5	-8.0%	-6.5%	-4.3%	2.0%
Construction	287.9	1.5	-2.5	-2.5	1.6
FIRE <sup>2</sup>	339.8	0.7	-0.3	-0.1	0.6
Transportation <sup>3</sup>	408.7	2.4	-0.0	0.5	1.8
Services	1,640.7	5.0	2.2	2.6	4.5
Trades	1,630.8	-0.1	-0.4	0.0	1.0
Government	1,155.6	-1.7	0.9	1.0	2.6
<b>Real Personal Income<sup>4</sup></b> (billions)					
	III/1991	II/1991- III/1991	III/1990- III/1991	1990	1989
United States	\$3,538.0	0.0%	-0.9%	1.1%	2.9%
District	195.7	1.7	0.1	0.7	2.3
Arkansas	25.6	-1.5	0.8	1.2	2.4
Kentucky	42.5	3.9	0.2	1.9	2.7
Missouri	67.9	1.8	-0.6	-0.3	2.2
Tennessee	59.7	1.4	0.5	0.9	2.1
<b>Unemployment Rate</b>					
	IV/1991	III/1991	1991	1990	1989
United States	6.9%	6.8%	6.7%	5.5%	5.3%
District	7.0	7.1	6.8	5.8	5.8
Arkansas	7.5	7.6	7.4	6.9	7.2
Little Rock	6.4	6.5	6.3	5.9	6.3
Kentucky	8.1	8.2	7.4	5.8	6.2
Louisville	7.3	5.9	6.1	5.1	5.6
Missouri	6.3	6.8	6.6	5.7	5.5
St. Louis	6.9	7.0	6.8	5.9	5.5
Tennessee	6.8	6.5	6.5	5.2	5.1
Memphis	5.8	5.8	5.5	4.5	4.7

Note: All data are seasonally adjusted. On this page only, the sum of data from Arkansas, Kentucky, Missouri and Tennessee is used to represent the District.

<sup>1</sup>Figures are simple rates of change comparing year-to-year data.

<sup>2</sup>Finance, Insurance and Real Estate

<sup>3</sup>Transportation, Communications and Public Utilities

<sup>4</sup>Annual rate. Data deflated by CPI-U, 1982-84 = 100.

## U. S. Prices

	Level IV/1991	Compounded Annual Rates of Change			
		III/1990- IV/1991	IV/1990- IV/1991	1991 <sup>1</sup>	1990 <sup>1</sup>
<b>Consumer Price Index</b> (1982-84 = 100)					
Nonfood	137.8	3.6%	3.2%	4.5%	5.3%
Food	136.9	1.2	1.7	2.9	5.7
<b>Prices Received by Farmers</b> (1977 = 100)					
All Products	140.0	-20.6%	-3.6%	-2.0%	1.6%
Livestock	155.3	-9.0	-7.4	-5.2	6.5
Crops	124.0	-32.3	1.9	2.3	-4.8
<b>Prices Paid by Farmers</b> (1977 = 100)					
Production items	172.0	-2.2%	-1.1%	1.5%	2.3%
Other items <sup>2</sup>	189.0	0.0	1.1	2.9	3.2

Note: Data not seasonally adjusted except for Consumer Price Index.

<sup>1</sup>Figures are simple rates of change comparing year-to-year data.

<sup>2</sup>Other items include farmers' costs for commodities, services, interest, wages and taxes.

## Eighth District Banking

### Changes in Financial Position for the year ending December 31, 1991 (by Asset Size)

	Less than \$100 million	\$100 million - \$300 million	\$300 million - \$1 billion	More than \$1 billion
<b>SELECTED ASSETS</b>				
<b>Securities</b>	6.1%	16.1%	9.2%	28.7%
U.S. Treasury & agency securities	8.9	18.8	14.9	33.4
Other securities <sup>1</sup>	-3.6	8.1	-8.4	15.2
<b>Loans &amp; Leases</b>	-1.0	2.7	-5.5	3.8
Real estate	3.8	11.6	2.1	15.7
Commercial	-7.0	-11.5	-16.9	-0.4
Consumer	-3.8	-3.8	-5.3	-1.3
Agriculture	5.5	21.7	4.7	41.3
Loan loss reserve	6.8	9.1	4.4	11.7
<b>Total Assets</b>	0.5	6.6	-2.5	6.8
<b>SELECTED LIABILITIES</b>				
<b>Deposits</b>	0.4%	7.0%	-2.7%	5.0%
Nontransaction accounts	-0.7	6.0	-3.8	2.1
MMDAs	15.0	16.4	6.3	21.2
Large time deposits	-8.7	-9.8	-27.6	-31.9
Demand deposits	-3.2	1.4	-6.1	5.0
Other transaction accounts <sup>2</sup>	9.3	18.1	7.5	23.8
<b>Total Liabilities</b>	0.3	6.3	-2.9	6.3
<b>Total Equity Capital</b>	1.9	10.4	2.1	13.8

Note: All figures are simple rates of change comparing year-to-year data. Data are not seasonally adjusted.

<sup>1</sup>Includes state, foreign and other domestic, and equity securities.

<sup>2</sup>Includes NOW, ATS and telephone and preauthorized transfer accounts.

## Performance Ratios (by Asset Size)

	Eighth District			United States		
	IV/91	IV/90	IV/89	IV/91	IV/90	IV/89
<b>EARNINGS AND RETURNS</b>						
<b>Annualized Return on Average</b>						
<b>Assets</b>						
Less than \$100 million	.91%	.95%	1.03%	.81%	.73%	.78%
\$100 million - \$300 million	1.01	.96	1.04	.84	.87	.94
\$300 million - \$1 billion	.90	.97	1.05	.76	.74	.82
\$1 billion - \$5 billion	1.00	.83	.47	.55	.47	.70
\$5 billion - \$15 billion	.81	.61	.82	.61	.21	.50
Agricultural banks	1.11	1.10	1.08	1.05	1.02	1.01
<b>Annualized Return on Average</b>						
<b>Equity</b>						
Less than \$100 million	9.94%	10.37%	11.24%	8.85%	8.03%	8.57%
\$100 million - \$300 million	12.18	11.71	12.78	10.41	10.76	11.85
\$300 million - \$1 billion	11.10	12.50	13.49	9.91	9.87	11.43
\$1 billion - \$5 billion	14.87	12.52	7.24	7.82	6.94	10.48
\$5 billion - \$15 billion	12.64	9.42	12.97	9.72	3.64	8.56
Agricultural banks	11.69	11.63	11.44	11.26	10.96	10.87
<b>Net Interest Margin<sup>1</sup></b>						
Less than \$100 million	4.33%	4.30%	4.35%	4.61%	4.60%	4.76%
\$100 million - \$300 million	4.21	4.25	4.41	4.66	4.65	4.86
\$300 million - \$1 billion	4.23	4.44	4.57	4.63	4.73	4.76
\$1 billion - \$5 billion	4.31	4.14	4.06	4.58	4.33	4.44
\$5 billion - \$15 billion	3.71	3.60	4.02	4.42	4.18	4.36
Agricultural banks	4.32	4.22	4.27	4.40	4.32	4.43
<b>ASSET QUALITY<sup>2</sup></b>						
<b>Nonperforming Loans<sup>3</sup></b>						
Less than \$100 million	1.62%	1.58%	1.57%	1.91%	1.99%	2.11%
\$100 million - \$300 million	1.71	1.82	1.64	2.12	2.01	1.92
\$300 million - \$1 billion	1.78	1.60	1.45	2.46	2.51	2.31
\$1 billion - \$5 billion	1.48	1.63	1.56	3.32	3.11	2.15
\$5 billion - \$15 billion	1.96	2.70	1.75	3.64	4.25	2.98
Agricultural banks	1.62	1.61	1.76	1.67	1.72	2.00
<b>Loan Loss Reserves</b>						
Less than \$100 million	1.59%	1.47%	1.46%	1.72%	1.66%	1.68%
\$100 million - \$300 million	1.61	1.51	1.47	1.69	1.56	1.48
\$300 million - \$1 billion	1.60	1.45	1.44	1.91	1.85	1.63
\$1 billion - \$5 billion	1.90	1.77	1.80	2.73	2.20	1.74
\$5 billion - \$15 billion	1.97	1.83	1.40	2.87	2.94	2.36
Agricultural banks	1.63	1.59	1.65	1.81	1.81	1.92
<b>Net Loan Losses<sup>4</sup></b>						
Less than \$100 million	.58%	.50%	.46%	.65%	.66%	.73%
\$100 million - \$300 million	.67	.64	.57	.81	.71	.65
\$300 million - \$1 billion	.68	.64	.55	1.01	.95	.83
\$1 billion - \$5 billion	.76	.86	.87	1.62	1.22	.91
\$5 billion - \$15 billion	1.19	1.11	1.35	1.80	1.71	1.31
Agricultural banks	.44	.38	.52	.44	.46	.62

Note: Agricultural banks are defined as those banks with a greater than average share of agriculture loans to total loans.

<sup>1</sup>Interest income less interest expense as a percent of average earning assets

<sup>2</sup>Asset quality ratios are calculated as a percent of total loans.

<sup>3</sup>Nonperforming loans include loans past due more than 89 days and nonaccrual loans.

<sup>4</sup>Loan losses are adjusted for recoveries.