THE LENDING POLICIES OF BANKS IN NON-METROPOLITAN AREAS AND THE IMPLICATIONS FOR LOCAL ECONOMIC DEVELOPMENT: COMMENT

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The paper by John R. Kaatz and Fred A. Tarpley entitled "The Lending Policies of Banks in Non-Metropolitan Areas and the Implications for Local Economic Development" is particularly relevant during this time of outmigration of population from the non-metropolitan or rural areas to urban centers. With the current emphasis on development in rural areas any study which indicates a means of accelerating economic advancement in non-metropolitan areas is surely welcome.

In attempting to anàlyze bank lending policies, Kaatz and Tarpley have used a technique employing ratios of loans and discounts, U.S. government securities, other securities, and other assets to the total of these four categories entitled total discretionary assets. While the traditional loan-to-deposit ratios has certain deficiences, so does this newer approach. One must wonder how much latitude for asset preference is available to a banker in deciding the amounts in these categories, especially the other assets classification. It would appear that bank buildings, furniture and fixtures are primarily long-run phenomena and are therefore not subject to much discretionary control at least in percentage terms. Another questionable aspect is the delection of "cash and due from banks" from the total discretionary asset category. It is known that small banks of non-metropolitan areas generally have a higher cash-to-deposit ratio than larger banks because they are further from their source of cash. It is also observed that the ratio of cash assets to assets varies from small banks to larger banks and that this ratio may vary considerably from one Federal Reserve district to another.[1]

It appears that the major omission in the paper is the use of balance sheet data collected on December 31. Since non-metropolitan Georgia is classified as being heavily agriculturally oriented any banking data will display the seasonal influences of agriculture. Agricultural loan demands would be associated with spring and summer with repayments occuring during the fall and winter seasons. Therefore, December 31 data would indicate a relatively greater proportion of assets in the U.S. Government securities and a lesser proportion in loans as loans would have been repaid out of harvest proceeds. The conclusions that rural banks are not servicing their communities may be due to the data the data was collected instead of actual lending policies.

My last comment on the analysis in this paper concerns itself with the problem of capital absorptive capacity of rural areas and the corresponding demand for capital that would be expected. Alfred Marshall likened supply and demand analysis to a pair of sissors and cautioned against emphasizing one at the expense of the other. It appears that the authors of this study may have slightly the demand conditions for loans. In a study of Oklahoma banks if was found "that only 57 or 55 percent of the toal respondents indicated they had received requests for this type loan (new plant). Of the 47 not having request for such loans 28 would make them. This last point is important for it indicates that 26 percent of the total questionnaires returned indicated they would make new plant loans but had never received any such request."[2] Therefore, it may be that rural banks are servicing actual legitimate loan demands for their communities.

All of the above discussion may not alter the contention of Kaatz and Tarpley that non-metropolitan banks are "unwilling or unable to maximize their contribution to local development effort." To maximize the financial impact on local economic development may require positive government programs and/or structural changes in the banking system as the authors conclude. This conclusion also appears to be supported by Federal Reserve research on the performance and external sources of funds of rural banks.[3]

FOOTNOTES

[1]See page A 100 and A 104 of July 1971 Federal Reserve Bulletin. The range of cash assets to total assets ranged from 10. 09 percent (Philadelphia) to 18. 04 (Dallas District).

[2]See Miller, James, Oklahoma Industrial Finance, mimeograph. University of Arkansas, 1970.

[3]See Talley, Samuel H., The Effect of Holding Company Acquisitions Bank Performance and Lawrence, Rober J. Operating Policies of Bank Holding Companies, Part I, Staff Economic Studies of the Board of Governors of the Federal Reserve System. "Rural Bank Needs for External Funds" Business Conditions, Federal Reserve Bank of Chicago, May 1972.