Federal Reserve Bank of Chicago - - Agricultural Letter

June 13, 1975

Number 1330

ASSET PORTFOLIOS OF SMALL BANKS in the Seventh Federal Reserve District contain a somewhat smaller proportion of loans and a somewhat larger proportion of securities than do the portfolios maintained by large banks. These differences in combination with different techniques used to acquire lendable funds permitted small banks to earn a somewhat higher return on equity last year. These findings among others are presented in the Federal Reserve Bank of Chicago's statistical summary of district member bank *Operating Ratios* for 1974.

Net income of member banks with less than $25 million in deposits equaled 12 percent of equity capital in 1974. In contrast, the net income-to-equity ratios for larger banks ranged from 10.1 to 11.7 percent. The difference partially reflected a greater reliance upon borrowed funds by larger banks. Interest on borrowed funds absorbed 0.5 percent or less of total operating income of small banks. At banks with $25 to $500 million in deposits interest expenses ranged from 1 to 6 percent, and at banks with over $500 million in deposits interest fees absorbed 17 percent of operating income. Although loans to businesses and individuals made up a smaller proportion of total operating income of smaller banks, earnings from securities and federal funds sold were offsetting.

Securities accounted for about 33 percent of the total asset portfolios of district member banks with less than $25 million in deposits, compared to around 30 percent for larger banks. Moreover, the security portfolios of smaller banks contained a comparatively large proportion of U.S. Treasury obligations, while those of larger banks were heavily weighted with the obligations of states and political subdivisions. Cash assets—including vault cash, reserves, and balances due from other banks—ranged from 10 to 13 percent of total assets among all size categories of district member banks. The cash assets of smaller banks, however, were composed of a comparatively large volume of balances due from other banks, while required reserves were proportionately greater among the larger banks.

Outstanding loans accounted for 50 to 55 percent of total assets among district member banks with less than $25 million in deposits compared to 56 to 64 percent among larger banks. The loan portfolios of small banks were heavily weighted by non-real estate loans to farmers, while the loan portfolios of larger banks contained a comparatively larger volume of real estate loans and commercial and industrial loans.

Non-real estate loans to farmers account for less than 5 percent of the total amount of loans outstanding at all commercial banks—including member and nonmember banks—in the Seventh District. Nevertheless, all but 17 percent of the district banks provide such loans to farmers. The proportion of banks providing non-real estate loans to farmers, however, varies widely among district states. Virtually all of the banks in Indiana and Iowa have outstanding loans to farmers, while in Illinois about two-thirds of the banks lend to farmers. In Michigan and Wisconsin outstanding loans to farmers exist at 82 and 85 percent of the banks, respectively.

Distribution of Banks by Agricultural Loan-to-Total Loan Ratios

Agricultural loans as a percent of total loans	Ill.	Ind.	Iowa	Mich.	Wis.	Dist.
	(percent of banks)					
70 or over	0.5	—	12.1	—	—	3.2
50-69	4.4	1.9	30.7	0.3	1.4	9.7
40-49	7.5	3.2	16.2	1.4	2.4	7.5
30-39	9.6	7.1	14.6	1.0	5.1	8.7
20-29	9.8	12.2	10.8	6.5	14.0	10.7
10-19	11.9	23.1	6.5	14.7	21.7	14.0
0.1-9	23.2	46.7	8.6	58.0	40.6	29.5
0.0	33.1	5.8	0.5	18.1	14.8	16.7
	100	100	100	100	100	100

Non-real estate loans to farmers represent a significant proportion of the total loan portfolios at many district banks. For example, 13 percent of the district banks have outstanding loans to farmers that account for 50 percent or more of their loan portfolios. An additional 16 percent of the district banks have non-real estate loans to farmers that account for 30 to 50 percent of their total loan portfolios. As suggested in the table, the distribution of banks in Iowa is heavily weighted with banks that have high agricultural loan-to-total loan ratios.

The bulk of agricultural lending by district banks is provided by small rural banks. Nevertheless, a few large city banks account for a fairly significant portion of all loans to farmers. For example, the three largest banks in Chicago hold nearly 6 percent of all farm loans outstanding at district banks.

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