Clifford Rossi

Rural Banks in Good Shape, S&L's a Potential Trouble Spot

News these days about the shape of the Nation's financial institutions is not so good. The insurance fund backing bank deposits recently required replenishment, the cost of the thrift savings and loan (S&L) crisis is still unknown, and even the largest banks in the country have seen their balance sheets deteriorate markedly during recent years. While ailing financial institutions are not confined to big cities, rural financial institutions are generally in better shape than urban ones.

Banks Dominate Rural Credit Markets

Among the major players in rural credit markets, banks by far dominate S&L's and credit unions. Banks account for about 70 percent of assets and deposits of rural-based firms. The success of the banks is linked to business focus. For example, banks have a more diversified portfolio than do S&L's and credit unions. S&L portfolios are heavily weighted toward home mortgages (74 percent), while credit unions concentrate on personal loans (52 percent). Rural banks allocated over 25 percent of their portfolios to home mortgages and another 21 percent to other real estate in 1989. One expects that the slump in residential and commercial real estate markets, once confined to the Southwest and now spread across the country, would be hurting rural banks and thrifts. But drops in residential property values appear less severe for rural banks and S&L's than for urban financial institutions because rural real estate values tend to be more stable.

The speculative fever that ran real estate prices in several metro areas did not carry over as much to rural areas. Another sign of market stability in rural areas was that bank provisions for loan losses (funds set aside to cover possible losses from bad loans), an indicator of potential future losses, fell 6.8 percent from 1988 to 1989. Further bolstering rural bank portfolios were strong agricultural land values during the period.

Rural Banks Performing Well, But Thrifts Post Poor Results

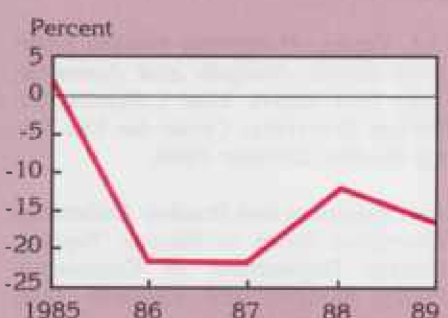
Since 1986, bank earnings have steadily risen, with return on equity averaging nearly 6 percent per year from 1986 to 1989. Two factors helped spur these results: a decline in loan losses attributed to bad loans, and a better match in interest rates on assets and liabilities. Rural banks' percentage of problem loans (loans past due 90 days or more and nonaccruing loans) dropped nearly 14 percent each year. Relatively robust economic conditions helped propel growth in rural bank assets and lending by 2.4 and 2.8 percent, respectively, from 1986 to 1989.

In contrast to the condition of rural banks, S&L balance sheets continue to reflect the problems characterizing the industry. Return on equity has remained negative since 1985, due chiefly to bad loans and a mismatch in interest income and expense. Sagging real estate markets continue to plague S&L's more than banks because of the S&L emphasis in real estate. More than 13 percent of all rural thrifts are technically insolvent but remain in operation. Rural thrifts in general are undercapitalized (unable to meet regulatory capital standards). In 1989, for example, the average capital/asset ratio of these firms barely exceeded 2

Clifford Rossi, a financial economist with the Office of Thrift Supervision, was formerly with the Agriculture and Rural Economy Division, ERS.

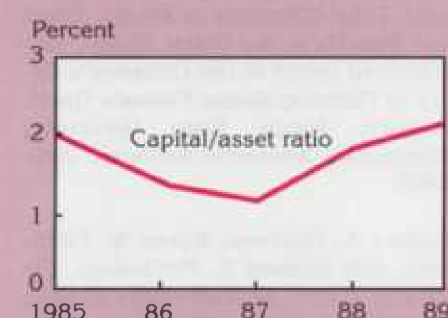
Rural S&L's still in the rough

Negative return on equity reflects industry losses



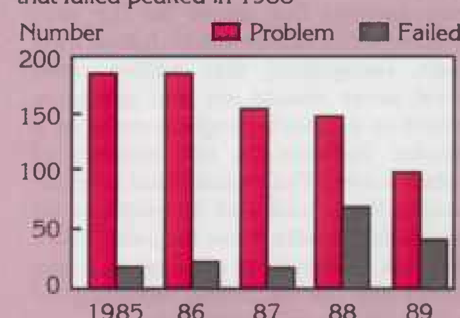
Capitalization

Up slightly since 1987, but still dangerously low



Failed and problem rural thrifts

The number of problem S&L's seems to have peaked in 1985, but the number that failed peaked in 1988



percent. Surviving past the recession will be a challenge for many S&L's.

Credit unions, small players in rural credit markets, have so far avoided the problems overhanging the thrift industry. They have not engaged in many of the riskier activities that landed S&L's in trouble in the 1980's. Their steadier investments are consequently reflected in fair earnings of 11.3 percent return on equity for 1989. Loan delinquencies declined 8 percent in 1989, but the number of problem rural credit unions for 1989 accounted for 4 percent of all such institutions, a higher percentage than for banks. Still, the industry remains well capitalized.

Battening Down the Hatches To Weather the Downturn

The most recent recession is expected to bring about an increase in loan delinquencies. As a result, banks have become more cautious in underwriting loans because maintaining a sufficient margin of capital is imperative for a sound banking system. Most rural banks are well capitalized, maintaining capital above the regulated level, and are in good shape to ride out even a severe downturn in the economy, if it should come to that. The number of undercapitalized rural banks (banks with capital/asset ratios of less than 6 percent) declined 17.5 percent from 1988 to 1989. Likewise, the number of rural bank failures has declined steadily since the peak in 1987.

The recession that began in 1990 generally brought with it tighter credit conditions, although new and higher capital standards also meant a curtailment in lending activities for many banks and S&L's. As the effects of the recession linger, credit unions will be hurt as consumers shy away from debt. For thrifts, the impact of the recession has made compliance with tougher capital standards difficult. To meet the tougher standards, many thrifts opt to sell off salable assets in an attempt to raise their capital/asset ratios. A report by the Office of Thrift Supervision found that 69 percent of all capital-deficient thrifts sold off some assets in the third quarter of 1989. But as asset sales have climbed, thrifts have also put the brakes on lending.

Prospects for Rural Banking Mixed

For depository institutions serving rural areas, performance prospects are mixed. The longest economic expansion in U.S. history has ended. A weak economy means higher loan defaults and lower earnings for financial institutions. But compared with urban financial institutions, rural financial institutions may be hurt less by troubles in real estate markets. Although rural banks are well poised to weather the downturn, lending has contracted. This reaction by rural banking firms to the recession is more worrisome to financial markets than is the prospect of increased bank and thrift insolvencies. The last 2 years have witnessed the loss of 10 percent of rural thrifts with negligible disruption of financial markets. Further consolidation is expected. But the loss of these firms is somewhat overstated because many were taken over by healthier banks and thrifts seeking new markets or economies of scale. Nevertheless, continued subpar performance will haunt S&L's for some time, translating into a smaller but more stable industry and a drop in lending as thrifts move to meet their capital standards.

For rural borrowers, the most noticeable sign of hard times for their financial institutions may be tighter credit requirements and lending activities than in 1989. Closer scrutiny of credit applications and lower availability of funds for riskier ventures are the norm. So, while rural borrowers may be less likely to get a loan, they may take some solace in knowing that their local banks will likely stay in business.

Definitions

There is no consensus regarding the definition of a rural financial institution. The definition used herein is based upon the location of a firm's headquarters. If in a nonmetro county, we call it a nonmetro (or rural) firm. One obvious problem with this definition is that nonmetro banks and thrifts may make loans and take deposits in metro areas and vice versa.

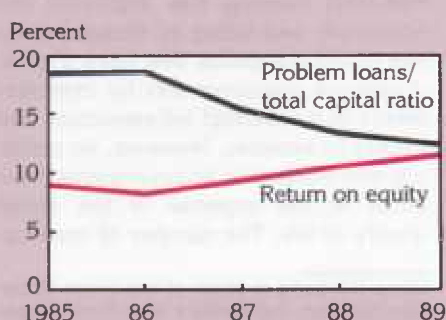
Return on equity is the ratio of net income to capital. It captures how profits relate to the capital base of the firm.

For Additional Reading...

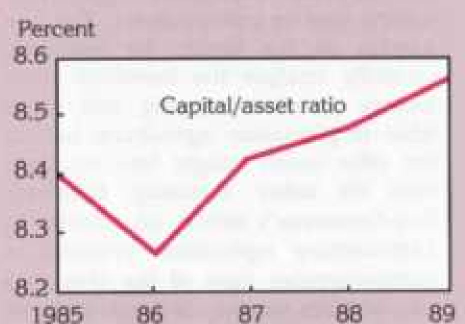
Clifford Rossi, *Special Report on Financial Institutions and Markets, Rural Conditions and Trends,* U.S. Department of Agriculture, Economic Research Service, Spring 1991.

Rural banks, by contrast, post string of healthy indicators

Return on equity rebounds after 1985, with fewer problem loans

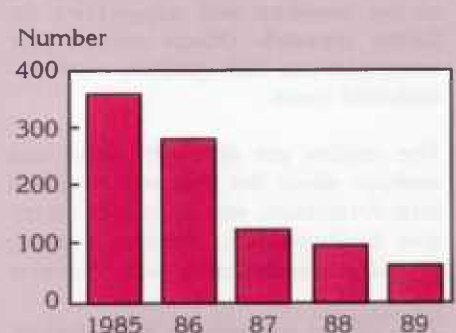


Improved capital/asset ratios reflect healthier industry



Problem rural banks

Dramatic annual drops reflect healthier industry



19th-Century Trends Relevant Today?

Agriculture and National Development: Views on the Nineteenth Century. *Lou Ferleger (ed.). Ames: Iowa State University Press, 1990. 363 pages. $39.95. ISBN 0-8138-0314-4.*

Reviewed by Anne B.W. Effland

As Wayne Rasmussen highlights in his introduction to this collection, American farmers in 1800 made up 90 percent of the population and produced $333 million worth of food and fiber. By 1900, less than 40 percent of Americans were farmers but they produced $5.7 billion of agricultural goods. Meanwhile, American agriculture had moved across an entire continent, mechanized many tasks, and joined a national economy connected by railroads, telegraph, and even telephone. Yet these dramatic changes occurred amid a diversity of regional, racial, ethnic, and gender experiences that have complicated efforts to understand the history of American agriculture and rural life in the 19th century.

For this collection, Ferleger commissioned 12 essays to illustrate the variety of interpretations historians have developed to describe this transformation in agriculture. The articles address rural life in the North and Midwest, the South, and among women and immigrant groups. Some focus on a review of the literature and suggestions for further research. Others present new interpretations that question more established views.

The articles are rich with detail and analysis about the past experience of rural Americans, and all include extensive bibliographies. Readers working in rural development will discover helpful insights with applications to current issues. An article by Douglas Hurt, for example, contrasts old and new interpretations of the nature of change in northern agriculture after the Civil War. According to the old consensus, agriculture declined because midwestern farmers produced staple crops more cheaply using new machinery, larger landholdings, and improved transportation. The new consensus holds that the well-documented population losses and the rise of specialty crops serving urban centers indicated not a declining but a maturing farm economy, which adapted to new economic and social circumstances. Such an interpretation may have implications for responding to the current problem of new world sources of staple crops and the continuing loss of farm population in the United States.

An article by Donald Winters counters the traditional theory that many midwestern farmers failed in the depressions after the Civil War because northeastern investors controlled credit, railroads, and land. Winters argues instead that it was precisely because urban investors in the Northeast provided land, credit, technology, and transportation resources, that many farmers developed successful commercial farms in this period. Although his interpretation is not widely accepted, Winters does force one to reconsider the sources and intentions of populist farm protest both then and now.

Most of the other articles in the collection, however, will appeal more to historians than to policymakers. The five articles on the South, for example, carefully analyze the transition from slavery to sharecropping and wage labor in plantation agriculture, but do not offer much insight into southern rural life today. Similarly, Elizabeth Fox-Genovese's article on women in 19th-century agriculture provides a comprehensive view of the changing role of farm women, but can suggest only historical background for understanding the much-altered role of women on today's farms.

The introduction, moreover, fails to place the articles' sometimes contradictory interpretations into historical context. General readers particularly, but even specialist historians, will be unfamiliar with much of the debated evidence and unable to weigh the soundness of opposing positions. As a result, the collection will not provide an integrated picture of 19th-century agriculture and rural life, despite the strength of its individual essays.

Anne Effland is a historian in the Agriculture and Rural Economy Division, ERS.

Part-Time Farming in Japan Devalues Social Life

Japanese Part-Time Farming: Evolution and Impacts. *Raymond Adelard Jussaume, Jr. Ames: Iowa State University Press, 1991. 212 pages. $29.95. ISBN 0-8138-0823-5.*

Reviewed by Donn A. Reimund

Japanese farming became increasingly part time from 1960 to 1980, in conjunction with both rapid industrial development and labor-saving technological innovations in Japanese agriculture. This book assesses the causes of the rapid transition to part-time farming and evaluates the impacts of this transition on the physical and social well-being of farm households and the hamlets in which they reside.

Part-time farming has improved the economic well-being of those Japanese farm households that have tried it. Jussaume measures this by improvements in the hamlet infrastructure and access to services. However, he points out that economic improvements have come at the expense of the social quality of life. The number of commu-

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nity activities, the emotional attachment hamlet residents feel toward each other, and the richness of local life have all declined, Jussaume contends.

The locale for the study is Okayama Prefecture, a district where the number of households depending chiefly on agricultural income dropped from almost 70 percent in 1960 to less than 25 percent in 1980. This rapid decline in dependence on farming is typical of the transition throughout Japan. Okayama Prefecture also represents Japan with respect to growth of the nonfarm industrial sector and deterioration of the agricultural sector. The demographics of the Prefecture range from a large, fast-growing urban area centered in the adjoining cities of Okayama and Kurashiki to isolated mountain villages and hamlets with declining populations.

Jussaume employed statistical analyses of Japanese Census data for 1960, 1970, and 1980, and household interviews in nine hamlets. The hamlets in which the interviews were conducted were selected to represent a cross-section of all hamlets in the Prefecture with regard to size and urban proximity. The selected hamlets were full-time farm hamlets in 1960.

Jussaume views the part-time farming phenomenon in Japan as a transitory situation that came about as a means of shifting the labor force from agricultural to industrial occupations: "The forces that push and pull labor out of agriculture have forced most families to abandon agriculture as their primary vocation. Given their monetary needs and the lack of land and capital resources, agriculture is no longer an economically viable alternative for them. It would seem to be only a matter of time before many of these households totally abandon their commercial agricultural production." Jussaume concludes that this transition is now essentially finished.

This book sheds some light on the politics behind Japan's agricultural policy, especially as it pertains to rice production and imports. Because rice is produced primarily by part-time farm households that need the income, they strongly resist any government attempts to change the rice support program or rice trade barriers, or to restructure agriculture. The lack of any nonfarm pressure to change agricultural policies gives Japan's part-time farmers considerable political clout to maintain the status quo, which should hold until the current generation passes from the picture.

Though worthwhile as a comprehensive view of post-World War II Japanese agriculture, the book is very heavy on methodology. I wish that much of the methodological content had been relegated to an appendix.

Because of the differing development of Japanese and U.S. agriculture, the analyses may not provide much help in understanding part-time farming in the United States. Much of the part-time farming in the United States, particularly in the urban fringe areas, has more the flavor of a consumption than a production activity. Yet, the analyses in this book may be pertinent to evaluating economic development in other countries that, like Japan, have limited land resources and high population densities.

Farm Size Influences Community Well-Being

Locality and Inequality: Farm and Industry Structure and Socioeconomic Conditions. *Linda M. Lobao. Albany: SUNY Press, 1990. 290 pages. $49.50. ISBN 0-7914-0476-5.*

Reviewed by G. Andrew Bernat, Jr.

The decreasing importance of farming in the U.S. economy means that one has to look at more than farm structure to learn about social inequality, even in farm-dependent areas. Lobao's book provides a framework that explains how both farm and industry structure affect community well-being.

She finds that counties characterized either by large commercial farms or by small family farms have greater inequality of earnings than do counties dominated by large family farms. For nonfarm industries, she finds higher levels of well-being in counties dominated by "core" industries, which she defines as industries characterized by large-scale production and high rates of unionization.

One of Lobao's most notable contributions is her simultaneous analysis of the farm and nonfarm sectors, an approach not taken by previous studies. Another improvement is her method of farm size disaggregation, which breaks the usually single category of large farms into two categories: large, family-operated farms and industrialized farms. The primary distinction between these categories is that industrialized farms use much more hired labor than the large, family-operated farms. Finally, her review of the literature on the relationships between farm structure and community inequality is invaluable.

Unfortunately, the study's conclusions are compromised by its data, particularly the absence of a time series. Lobao's goal is to find causal relationships and identify trends, but she only looks at two points in time: 1970 and 1980. Any inferences drawn from a decade as irregular as the 1970's are suspect. Furthermore, the data for agriculture cover a different period than the other data. The relatively small difference in years makes a big difference in farm sector indicators such as net farm income.

While local economic structure largely determines inequality and socioeconomic conditions at a point in time, it cannot explain inequality in a dynamic setting due to external events. People migrate and firms relocate, expand, or fold because of conditions and events in other areas. All these affect the distribution of resources within a community and cannot be ignored if one is looking for more than correlations among variables.

I believe this book is essential for researchers with an interest in the impact of farming on socioeconomic conditions. I am not convinced, however, that the book uncovers any causal relationships. I believe the book will prove much more valuable to researchers grappling with the same issues as Lobao than to policymakers looking for final answers.

G. Andrew Bernat, Jr., is an agricultural economist in the Agriculture and Rural Economy Division, ERS.

Compiled by Louise Stutzman

Innovating Smalltown Finances

Faced with budget cutbacks and an increasing demand to expand services, communities have begun to try innovative financing alternatives to fund their local projects. Mini-bonds, or small denomination municipal bonds, were the solution for Hamburg, MN (pop. 485). The town financed a new fire hall/community center mainly by selling a $115,000 bond issue in $1,000 denominations, and through various fundraisers. Washington Lake Township and Young America Township, both served by the Hamburg Fire Department, also chipped in to help finance the $236,184 project.

Foundations can also work for small towns. The North Dakota Community Foundation, established in 1977, operates four programs: a microbusiness initiative to assist cottage industries, an annual competitive grant program, a special endowment program for children and families at risk, and a mini-endowment program. Donors to the statewide foundation donate cash, stocks, bonds, or life insurance policies. The system began when North Dakota Bremer Bank presidents saw individuals regularly making gifts to projects outside the State. The bankers thought such gifts would flow to local projects if means were available. Since 1980, the foundation has garnered $1 million for mini-endowments in 18 small North Dakota towns.

Alexandria Township, MN (pop. 4,500), officials had worked out of their homes for years. When construction of a new school building was proposed, Township Supervisor Russell Johnson approached the school superintendent with a proposal to lease space in the new school. The township uses the faculty conference room for board meetings, and large public hearings are held in the school cafeteria. "For $600 a year, the township gets all the storage area it needs, and because the other facilities are used only in the evenings, the school district charges us nothing," Johnson explains, "so we avoided paying about $50,000 that a new town hall would have cost us."

Other innovative fundraising and cost-cutting techniques are detailed in *Innovative Grassroots Financing*, published by the National Association of Towns and Townships (NATaT). The book, a video, and a facilitator's guide to use in training sessions, comprise a package that can help local officials analyze expenditures and evaluate the financial resources available to them locally. Information on the purchase or rental of the training package is available from NATaT, 1522 K Street NW, Suite 730, Washington, DC 20005. Telephone 202-737-5200.

Youthful Entrepreneurs

Mom and Pop stores now sometimes find themselves competing against their kids, thanks to a rural school-incubated enterprise program sponsored by REAL Enterprises (Rural Entrepreneurship through Action Learning). Twenty-five high schools in the Southeast have offered REAL Enterprises classes in the last 10 years. Students have started about 15 working businesses over the last 10 years, including a child care center, shoe repair shop, deli, fabric store, a feeder pig farm, and a recycling business.

"Footprints" (Beaufort, SC) is one such business. Students in a high school enterprise class started a shoe repair business (instead of a record shop or a teen center—ideas also considered) because there was a need for shoe repair in Beaufort, while the other businesses already had competitors. Eight students wrote the business plan, did market research, learned about the shoe repair business from community business leaders, and raised $1,049 from dances and contests. They found a full-time manager/repairman, and negotiated with the owner of a dry cleaner to repair shoes previously sent out of the area. Footprints also shares space with the dry cleaner in a new shopping center. The students purchased used shoe repair equipment with a loan secured through REAL Enterprises, and hired their former teacher as their bookkeeper. The new business became a reality by the end of the school year.

Local businesspeople and leaders serve as mentors for the students, and some owners allow students to observe them in a typical workday, as they perform a variety of roles and tasks. Teachers and students are supported by continuous training and business assistance from State-level REAL staff. Each State organization is a member of the national REAL Enterprises federation, which networks ideas and information across State lines. REAL revises and distributes course materials, publishes a newsletter (The REAL Story), and organizes a variety of national conferences and training events, as well as orientation sessions for groups who want to find out more about the program.

For information about the REAL Enterprises program (and a $19.95 video), contact Georgia REAL Enterprises, P.O. Box 1643, Athens, GA 30603; telephone 404-546-9061; FAX 404-353-2014.

Home Again

A new statewide program in North Dakota is attempting to entice former residents to move back home. Operation Home Again, while still in its formative stages, hopes to break the rural "brain drain" of educated people moving away from the area. The loss of such people makes it more difficult to attract firms into the area.

Here's how it's supposed to work. Communities that participate in the program will get postcards and survey forms free from the North Dakota Economic Development Commission. They will send out the postcards and a letter printed on the group's stationery to high school graduates and others who have left the community over the last 40 years. Those responding that they would be interested in returning to the community or State are then sent a survey asking about their skills, job interests, or other reasons they might return to the area (such as retirement). A State agency will process the responses and use the information as input for State and community economic development strategies.

Organizers hope that those responding to the survey will provide a source of workers with necessary skills to attract industries that otherwise might not consider locating in North Dakota. The database can also be a source of information to identify midlevel managers who might be interested in coming home to start their own businesses. If a former resident wants to return to start a business but needs assistance, the State or locality may provide loans, grants, or technical assistance.

Free information about the program is available from Kim Stenehjem, Operation Back Home Again Coordinator, North Dakota Economic Development Commission, 604 E. Boulevard Ave., Bismarck, ND 58505-0820; telephone 701-224-2810.

Rural Health Atlas

A new reference on rural health is out from the North Carolina Rural Health Research Program. The *National Rural Health Policy Atlas* combines 72 black and white county-level U.S. maps with figures and text to give a unique picture of the health status of rural Americans and the services available to them.

Map topics include general demographics, infant mortality, communicable diseases (including the HIV virus), hospital utilization rates and services, physician and nurse supply, and medically underserved areas. Three maps compare changes in physician shortage by nonmetro county from 1978 to 1990. The availability of hospital-based geriatric clinics and adult day care services for the elderly in rural areas is shown in other maps.

A map showing mortality from automobile crashes reveals not only the variation among regions of the country, but also how nonmetro areas have a 40-percent higher rate of injury-related mortality than metro areas nationwide. Although motor vehicle crashes occur less often in rural than in urban areas, when they do occur they are more likely to be fatal. Car crashes are the number one cause of death among rural males aged 15-24 years. Another map shows the location of 125 migrant health centers in 41 States and the three principal migrant "streams" in the country.

The *National Rural Health Policy Atlas* (March 1991) costs $25.00. To order, write to the North Carolina Rural Health Research Program, Health Services Research Center, Chase Hall, CB #7490, University of North Carolina, Chapel Hill, NC 27599-7490. Make checks payable to UNC-CH Health Services Research Center.

Minor League Baseball a Rural Amenity

Many rural communities are carving out baseball diamonds in the middle of farmland, hoping to lure minor-league franchises and the recreational dollars they represent.

Anticipated major league expansion will require at least 8 minor-league teams, adding to the nearly 200 already playing ball. Twenty-two franchises relocated in 1987-89. Such activity has small cities clamoring for teams. Some host cities, like rookie ballplayers, hope to make the jump from the A or AA level to AAA, upgrading their economic prospects as they upgrade their baseball facilities.

The health of minor-league baseball is an encouraging sign for the rural economy. Many franchises and leagues (Southern and Texas AA) are located in the South, an area traditionally beset by rural poverty. The Appalachian rookie league, the lowest of the minors, has no city larger than 44,000 people.

A nationwide survey reports the experiences of 16 communities as potential or actual sponsors of minor-league baseball. Small cities (50,000 or less) must weigh their initial investment against potential return. Startup costs may be defrayed in a number of inventive ways. In York County, SC, a local businessman built the AA league stadium in Fort Mill (pop. 4,000). He will turn the stadium over to the county and lease it back in exchange for the extension of infrastructure (valued at nearly $6 million) to the stadium. The businessman is in partnership with the owner of the surrounding acreage and is under obligation to develop it according to a county-approved master plan.

New sports facilities, which cost $3-5 million for an A-league stadium, have been financed through lease-purchase agreements, the use of hotel, automobile, and liquor taxes, and the acceptance of land in return for tax credits.

Local Government and the Business of Minor League Baseball: Considerations for Local and State Government Officials, by Arthur T. Johnson, costs $5. Write to the Center for Governmental Research and Public Service (CGRPS), Bowling Green State University, Bowling Green, OH 43403-0225, or call (419) 372-8710.

Senior Citizens Help Meet Rural Transport Needs

Public transportation may be rare or even nonexistent in some rural communities. But senior citizens of John Day, OR, population 8,500, are working to make it easier to get around in eastern Oregon.

The People Mover Express, operated by Grant County Senior Citizens, uses two vans to provide a dial-a-ride service to local communities, transportation to senior meal sites, and intercity bus service as part of Greyhound's Rural Connection Program.

The People Mover is the only source of public transportation available in many small Oregon communities. The program receives $17,500 in State and Federal grants, but is largely dependent on donations from cities, local businesses, and individuals.

The People Mover Express is one of several programs selected to receive an Urban Mass Transportation Administration (UMTA) Award for its contribution to rural public transportation.

The Ninth National Conference on Rural Public Transportation: Final Report highlights the contributions made by the People Mover program, as well as other UMTA award winners. It also offers new viewpoints and ideas about rural transportation issues, such as software solutions for rural transit problems, safety/risk management, drugs, and accounting automation and management information.

For a free copy, write to the Technology Sharing Program, Research and Special Programs Administration, U.S. Dept. of Transportation, Washington, DC 20590.
(Contributed by Judy Garza.)

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