Introduction

The United States is a nation of small banks. In 1975, the median size bank had between $15 and $20 million of demand and time deposits. Since banking structure is determined in large part by state regulations, the number and sizes of banks vary a great deal among the states. Table 1 shows the number of banks in Nebraska, Iowa and surrounding states in 1975. Nebraska had 448 banks and ranked eleventh in the nation in total number. Iowa had 654 banks and ranked fifth. Nebraska had fewer people per bank than any of the surrounding states and the median size Nebraska bank had less than $10 million in total deposits. Iowa's median size bank had just over $10 million.

Federal Deposit Insurance Corporation (FDIC). Table 2 indicates the proportion of small banks to total banks in Nebraska, Iowa, and the U.S. for recent selected years. The percentage of small banks is declining in the U.S., but remains relatively high in Nebraska (38.4 percent) as compared to Iowa (14.2 percent) and the nation (16.0 percent).

A random sample of the small banks in Nebraska and Iowa has been drawn and their Statements of Condition examined. The FDIC has done some analysis of the banks in their various size categories, but not of variations in the performances of individual banks. The present study has first examined variations in three general characteristics and then discussed performance according to four indicators of fund management.

### Table 1

<table>
<thead>
<tr>
<th>State</th>
<th>Total Banks</th>
<th>Banks With Less Than $5 Million of Deposits</th>
<th>Population Per Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nebraska</td>
<td>448</td>
<td>172</td>
<td>3312</td>
</tr>
<tr>
<td>Iowa</td>
<td>654</td>
<td>93</td>
<td>4320</td>
</tr>
<tr>
<td>Minnesota</td>
<td>745</td>
<td>186</td>
<td>5106</td>
</tr>
<tr>
<td>South Dakota</td>
<td>158</td>
<td>39</td>
<td>4217</td>
</tr>
<tr>
<td>Wyoming</td>
<td>77</td>
<td>12</td>
<td>4319</td>
</tr>
<tr>
<td>Colorado</td>
<td>263</td>
<td>41</td>
<td>3383</td>
</tr>
<tr>
<td>Kansas</td>
<td>615</td>
<td>206</td>
<td>3657</td>
</tr>
<tr>
<td>Missouri</td>
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**Note:** Demand plus time deposits. South Dakota is the only state among this group with state-wide branching.


It is the purpose of this paper to examine a group of the small banks in Nebraska and Iowa and to identify some of the major variations in performance and the possible impacts of such variations. "Small" will be defined as having less than $5 million of total deposits, the smallest category of banks compiled by the Federal Deposit Insurance Corporation (FDIC). Table 2 indicates the proportion of small banks to total banks in Nebraska, Iowa, and the U.S. for recent selected years. The percentage of small banks is declining in the U.S., but remains relatively high in Nebraska (38.4 percent) as compared to Iowa (14.2 percent) and the nation (16.0 percent).

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### Table 2

<table>
<thead>
<tr>
<th>Year</th>
<th>United States</th>
<th>Nebraska</th>
<th>Iowa</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Banks</td>
<td>Count</td>
<td>Count</td>
</tr>
<tr>
<td>1966</td>
<td>4776</td>
<td>35.4</td>
<td>284</td>
</tr>
<tr>
<td>1971</td>
<td>3862</td>
<td>28.5</td>
<td>252</td>
</tr>
<tr>
<td>1973</td>
<td>2880</td>
<td>20.6</td>
<td>200</td>
</tr>
<tr>
<td>1975</td>
<td>2308</td>
<td>16.0</td>
<td>172</td>
</tr>
</tbody>
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**Source:** Calculations from FDIC, Bank Operating Statistics, various years.

*Dr. E.J. Steele is Kayser Professor of Economics in the College of Business Administration at the University of Nebraska at Omaha.*

*Although the U.S. Constitution gives Congress the power "to print and coin money and regulate the value thereof," most of our money has been created by the commercial banks through the process of creating loans which become demand deposits, while the Congress has been reluctant to assert its power totally.*

2*The FDIC, Bank Operating Statistics, Washington, D.C., for the years indicated, is the source of these statistics on an aggregative state basis.*

3*The author is indebted to Dr. Jack Revelle, former Chairman of the Department of Decision Sciences at the University of Nebraska at Omaha, for his assistance in developing the sample. As selected, the sample is composed of 18 Nebraska and 14 Iowa banks and permits a maximum error in the proportions of ± 6 percent at the 90 percent confidence level. The Statements of Condition and Earnings of individual banks are now a matter of public record and may be obtained from the regulating agency for the period beginning with 1972.*

### In this Issue

- Small Banks of Nebraska and Iowa: An Examination of Some Variations in Performance
- Midcontinent Metropolitan Areas Show Continued Growth
- Outstanding Loans for New Housing Units, July, 1977
General Characteristics

Location. Most small banks in Nebraska and Iowa are located in communities of less than 500 people with several in Nebraska being in places of less than 100 persons. The sample used in this study was taken from 111 small banks (those banks with less than $10 million in deposits) examined by the banks currently operating in Nebraska during 1975. In Iowa the proportion is 16 percent. Only 20 percent have been chartered in Nebraska since World War II, and 12 percent in Iowa. Control. Six Iowa and 12 Nebraska small banks are nationally chartered. These 18 state-chartered banks are responsible to the banking departments of the state supervisory offices and the FDIC, the Comptroller of the Currency and the Federal Reserve are involved with the operations of these banks. The Federal Reserve designation is in bank holding companies. Forty-eight percent of Nebraska small banks are one-bank holding companies and another 40 percent are controlled by other banks through multi-bank, chain or affiliate arrangements.

Small Iowa separate banking "offices" are permitted; the result is a form of branching. The state now has over 200 forms that provide full service including loans. No branching is permitted in Nebraska.

Performance

General. Some of the small banks are managed well, and some quite poorly—regardless of whether they are singly owned or chain operated, and regardless of their supervisory agency. In this study, performance was judged from a number of different aspects, one of which was the manner in which the bank seemed to be managing its deposttors'.

Summary of Findings

Second quarter economic activity for the Midcontinent urban areas showed moderate increases over the same period of 1976. From the second quarter of 1976 to the second quarter of 1977, the region's labor force grew by 66,300 persons, yet the number of jobs available to the labor force dropped by 4,300. The unemployment rate of the midcontinent urban centers, taken as a group, dropped a full percentage point to 5.1 in the second quarter of 1977, from 6.2 in the first quarter of 1977. Only Denver-Boulder and Cheyenne experienced unemployment rate increases during the period, however, the job losses in those metropolitan areas were less severe than the nation as a whole.

The remaining cities, particularly Waterloo-Cedar Falls, Omaha, Great Falls, and St. Louis, showed encouraging and substantial increases in employment. The employment rate increased over 1977, being at a first quarter average wage of $280.53. The national average for this period was 2.7 percent.

Regardless of the FDIC criteria, the review process should include an examination of the economic needs of the area the bank serves. Serious consideration should also be given by the legislatures of both states to setting a higher capital requirement for new institutions chartered. It is suggested that the criteria for a new bank should be no less than $1 million (with a three-to-five-year period of $10 million) of deposits.


AREAS SHOW CONTINUED GROWTH

Quarter period varied significantly among cities, ranging from a 3.0 percent decline in City M to a 7.4 percent increase in Sioux Falls.

Manufacturing employment also experienced varied changes in the Midcontinent urban areas. Regionally, employment in manufacturing in the second quarter of 1977 was nearly equal to the national increase. The gain in the number of manufacturing workers was accompanied by a 1.6 percent increase in the region's population. This is said to the region's production workers and resulted in a second quarter average weekly wage of $280.53. The national average for this period was 2.7 percent.

On the whole, the economy of the Midcontinent urban areas has been relatively strong over the past year, with manufacturing employment rate falling significantly from 1976 to 1977.

Nonagricultural wage and salary employment for the Midcontinent urban areas showed a gain of 2.2 percent from the same period one year earlier. This increase of 2.2 percent was well below the nationwide increase of 3.2 percent. The year-to-year changes in the number of nonfarm wage earners

profitable, the deposits of many are not being used for loans in the community, but rather for investments which are assisting agencies and others outside the respective communities and states. In other words, many of these small banks are acting as something more than investment banks for their owners. Some of these banks, one of two things has happened:

1. The banks are acting as solicitors of funds from other communities and trading areas, with financial resources to meet its various needs.

2. For some of these small banks, one of two things has happened: either the bank was simply not making loans, or many of the loans were "off-shored". The proportion of loans going to the nonfarm sector went from 3.2 percent from 1976 to 1977 was nearly equal to the national increase. The gain in the number of manufacturing workers was accompanied by a 1.6 percent increase in the region's population. This is said to the region's production workers and resulted in a second quarter average weekly wage of $280.53. The national average for this period was 2.7 percent.

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23.5 percent and 24.0 percent, respectively. Even though construction employment declined in the Region as a whole, the number of building permits issued during the second quarter rose 47.1 percent from the previous year. Nationwide building permits increased 40.8 percent. This suggests that the current slump in construction employment will be reversed in the coming months.

Department store sales rose in most of the Region's metropolitan areas. The year-to-year quarterly increases were, however, generally below the nationwide increase of 11.2 percent. The Region's largest gains in department store sales occurred in Tulsa, which reported a 20.4 percent increase. Telephone customers and air passengers were up in most of the Region's cities, resulting in overall increases of 4.8 percent and 5.6 percent, respectively, between the second quarters of 1976 and 1977.

G. Hanlon
addition, the cost of examining the poorer banks is one that must be paid. Much of the economic information on the various communities and counties in Nebraska and Iowa is already available, however, through state economic development agencies and university departments. What is required, principally, is that trained individuals in the supervisory agencies of banking and finance use the information and recommend appropriate action. In the past, this assistance has sometimes been used ad hoc when circumstances have been given to a new charter application. It should be a permanent and ongoing function of bank examinations.

A different but somewhat related matter is that of the number of banks. What if some of these small banks were closed? Most of them, as indicated above, are in the more populous areas of the state. The sample indicated that it was not just the isolated bank that had a problem. It is, therefore, difficult to believe that in some instances customers could not drive ten or fifteen miles to another bank. One small community in Nebraska has two small banks. Some of the other small banks need an opportunity to grow, including those in the $5 to $10 million deposit category. They need more capital, more deposits and more borrowers in order to provide even better service. With manned and unmanned tellers, point-of-sale machines and armored cars, the day of small "brick-and-mortar" banks is passing. This is a case where "larger" is less costly and less efficient, not more.

Another aspect is that of governance. In both Nebraska and Iowa, bank commissions are appointed by the respective Governors. Although, in both instances, the departments in which they serve have broader responsibilities over financial institutions other than banks, these commissions have traditionally been driven from the banking community. Nebraska could consider changing to a commission form with a permanent director of finances. Institutions in the state, however, a commission of three or five persons could allow the majority of those selected (not elected) by the respective Governor to be interested and qualified citizens, yet having no current direct connection with any financial institution. This commission could recommend legislation, or advise on other recommended legislation, which they felt appropriate for the state's citizens. Use of such a commission process would give much needed public input into the laws that have been prepared in large part up to this point by the various financial lobbies.

Finally, the Governors of Nebraska and Iowa (perhaps others also) should appoint ad hoc commissions to bring recommendations concerning changes that should be considered or made in the structure of the financial systems of their states. We know that Congress has been considering many such matters. Even so, much of the control of the structural arrangement will still remain with state law. For the most part any changes will come from the state. If this is true, the future of financial institutions and their impacts on the citizens of a state are too important to be left in the hands of vested interest groups, or to be disregarded indefinitely. Today, the debates may be limited to those between banks and credit unions or savings and loan associations. Tomorrow there may be other institutions involved in the financial affairs of the state's economy. If only existent institutions and agencies are to be permitted, then new ones and their new ways of organizing financial resources may not become available which in turn may be detrimental to the economy.

**ANNOUNCEMENT**

The Center for Applied Urban Research announces the appointment of Mr. Jack Ruff as Coordinator of the Division of Housing Research and Services. Mr. Ruff has an M.A. in Political Science from the University of Iowa and has taken coursework toward the Ph.D. at the University of Nebraska - Lincoln. For the past six years, he has been with the Nebraska Department of Economic Development, serving as Community Development Specialist and, since 1973, as Deputy Director of the Community Affairs Division. Mr. Ruff has been involved in preparation of community and regional development plans, particularly in developing the housing elements of comprehensive plans. As a participant in the state-level housing program, he has worked with the State Technical Assistance Agency and the Nebraska State Energy Office. Mr. Ruff is especially interested in the initiation of programs directed at identifying housing needs and development of a State housing data system. In his capacity as Coordinator of the Division of Housing Research and Services, he will develop programs of research and housing consumer education and provide assistance to communities and organizations involved in various aspects of housing.

**REVIEW OF APPLIED URBAN RESEARCH**

Vol. 5
September 1977
No. 9

Published monthly by the Center for Applied Urban Research as a public service and mailed free upon request in Nebraska. Annual subscription rate outside Nebraska $3.60. The views and opinions expressed in the Review are those of the individual authors and do not necessarily represent those of the University of Nebraska at Omaha. Material in this report may be reproduced with proper credit.

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