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SMALL BANKS OF NEBRASKA AND IOWA:
AN EXAMINATION OF SOME VARIATIONS IN PERFORMANCE
BY
E. J. STEELE*

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.¹ 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).²

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.³ 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.

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¹Although 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.

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

³The 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.

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TABLE 1

SELECTED STATE BANK COMPARISONS, 1975

<table>
<thead>
<tr>
<th>State</th>
<th>Total Banks Number</th>
<th>Banks With Less Than $5 Million of Deposits Number</th>
<th>Percent of Total</th>
<th>Population Per Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>NEBRASKA</td>
<td>448</td>
<td>172</td>
<td>38.4</td>
<td>3312</td>
</tr>
<tr>
<td>IOWA</td>
<td>654</td>
<td>93</td>
<td>14.2</td>
<td>4320</td>
</tr>
<tr>
<td>Minnesota</td>
<td>745</td>
<td>186</td>
<td>25.0</td>
<td>5106</td>
</tr>
<tr>
<td>South Dakota b/</td>
<td>158</td>
<td>39</td>
<td>24.7</td>
<td>4217</td>
</tr>
<tr>
<td>Wyoming</td>
<td>77</td>
<td>12</td>
<td>15.6</td>
<td>4319</td>
</tr>
<tr>
<td>Colorado</td>
<td>263</td>
<td>41</td>
<td>15.6</td>
<td>3023</td>
</tr>
<tr>
<td>Kansas</td>
<td>615</td>
<td>205</td>
<td>33.3</td>
<td>3657</td>
</tr>
<tr>
<td>Missouri</td>
<td>700</td>
<td>159</td>
<td>22.7</td>
<td>6682</td>
</tr>
</tbody>
</table>

b/Demand plus time deposits.
b/South Dakota is the only state among this group with state-wide branching.


---

TABLE 2

BANKS WITH DEPOSITS UNDER $5 MILLION IN NEBRASKA, IOWA, AND THE UNITED STATES, SELECTED YEARS

<table>
<thead>
<tr>
<th>Years</th>
<th>United States</th>
<th>Nebraska</th>
<th>Iowa</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Banks</td>
<td>Percent of Total</td>
<td>Number of Banks</td>
</tr>
<tr>
<td>1969</td>
<td>4776</td>
<td>35.4</td>
<td>284</td>
</tr>
<tr>
<td>1971</td>
<td>3882</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>
</table>

Source: Calculations from FDIC, Bank Operating Statistics, various years.
Longevity. It is typical for the banks being studied to have been in business for many years. Six banks, for example, are among the oldest that are currently operating in Nebraska. Six of the 12 who were sampled had been chartered since 1866. The range for the sample of banks was from 13.2 to 18.6 percent. The high value of 18.6 percent indicates that some small banks were holding almost 70 percent of each depositor's available resources. Quite liquidity! The median proportion held, however, was 22.5 percent. Even so, more than 25 percent of the small banks in the sample held at least 18 percent of their deposits as cash and government securities. As noted above, only one-half of the loaned deposits mean that larger portions of the deposited dollars go outside the community into securities or correspondent bank balances. This is undesirable because it might be too much greater than in Nebraska. Nebraska's small banks had most of their primary correspondent accounts in Nebraska cities—usually Omaha and Lincoln. On the other hand, over 50 percent of Iowa's small banks' primary correspondents were outside the state. It even seems likely that small banks would carry more funds in correspondents' accounts if they managed their deposits better. This could mean a loss as large as $30 million. The community loss in Iowa would be, perhaps, $50 million. However, because many small banks in Nebraska have primary correspondents in the state, more funds would depart the state than would the case for Nebraska. In addition, almost all deposits going into government securities and correspondent bank balances would leave the state.

More of Nebraska's small banks had excess capital. Compared with those of Iowa, these excess capital ratios were estimated to be 20 percent or higher. However, these ratios were low enough for banks to enable them to do a better job of financing local community needs or in other types of investments in a capital-shy state. This suggests that this capital could be utilized in some other productive investment. The same was true for Iowa, where the amount of capital that could be used might be estimated from the point of view of the local community was about $28 million.

Another measure of the economic assistance going to a community is the ratio of loans to total assets. In Nebraska, 70 percent of the small banks had loans to assets ratios below the FDIC average of 65 percent. Fifteen percent of Nebraska's small banks had loans to assets ratios of less than 25 percent. In Iowa, about 78 percent of the small banks had ratios lower than 52 percent, with 11 percent having ratios of less than 25 percent.

Conclusions

Many small banks in Nebraska and Iowa are well-managed and seem to be serving their respective communities in acceptable ways. They are certainly not large enough to perform the basic banking function of collecting the community's surplus funds and allocating them among local needs in an appropriate manner. The small banks appear to be profitable, but here again there will undoubtedly be a variance in profitability. Although no sample does indicate that a few of these small banks could have reasonable prospects for survival. They all had placed their capital in a Saving and Loan Association.

MIDCONTINENT METROPOLITAN

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 16,330 persons, yet the number of jobs reported to the government declined by 7,000. 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. This was the lowest level since the end of 1970. Only Denver-Boulder and Cheyenne experienced a smaller drop in unemployment rate during the period, however. The job losses in these metropolitan areas were less than several of the nation's larger cities. The remaining cities, particularly Waterloo-Cedar Falls, Omaha, Great Falls, and St. Louis, showed encouraging and substantial job gains. Only those metropolitan areas with unemployment rates below 5.1 percent continued to experience declines in employment during the second quarter of 1977, being at a level 1.2 percent below that of the previous quarter. The reported pattern of changes continued to be experienced the largest decline in construction jobs with a 2.9 percent loss from the previous year. The largest gains occurred in Oklahoma City and Springfield. It reported increases of

Areas Showed Continued Growth
35 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, and when consideration has 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 somehow more efficient 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 traditional responsibilities.

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 several 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 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.

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