

Effects of Branch Banking on Commercial Credit in Rural Counties*

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Introduction

Focus:

- observe banking conduct, particularly in rural areas

Data used

- Call reports from FDIC
- DATA BOOK: Operating Banks & Branches
- Survey of Buying Power Data Service

Market area

- 8 States
- MSA & nonmetro counties

Empirical model:

- to describe the commercial lending behavior of rural banks in branching and nonbranching states

(Table 3)

Dependent Variables: (by hdqtr. office only)

- commercial loans as % of total loans
- commercial and agricultural loans as % of total loans

Independent Variables:

Internal

- average bank size (+)
- loans to depository institutions (-)
- level of savings (-/+)
- branch banking law (-/+)
- branch share of deposits in non-metro counties

External

- population growth (+)
- population density (+)
- disposable income per capita (+)
- retail sales per capita (+)
- economic dependency on farming (-/+)
- major roads (+)

Regression summary

(Table 2)

For Commercial loans (metro and nonmetro areas):

- Unlimited branching and
- savings rates are positively related

In metro areas:

- level of retail activity is positively related

In nonmetro areas:

- population density in farm-dependent counties is positively related and
- savings in farm-dependent counties is negatively related

For Commercial and Agricultural loans (in nonmetro areas):

- population density
- savings(1984) and
- population density in farm-dependent counties are negatively related,

while •savings (1987),
•branching law and
•farm dependency are positively related.

Problems:

- don't know where loan proceeds are used
- don't know difficulty in obtaining loan
- not all branch information reported separately

Table 1. Classification of States According to Types of Branching Prevalent, June 30, 1988

<u>Statewide Branching</u>	<u>Limited Branching</u>	<u>Unit Banking</u>
Alabama	Arkansas	Colorado
Alaska	Florida	Montana
Arizona	Georgia	Wyoming
California	Illinois	
Connecticut	Indiana	
Delaware	Iowa	
District of Columbia	Kansas	
Guam	Kentucky	
Hawaii	Louisiana	
Idaho	Minnesota	
Maine	Mississippi	
Maryland	Missouri	
Massachusetts	Nebraska	
Michigan	New Mexico	
Nevada	North Dakota	
New Hampshire	Ohio	
New Jersey	Oklahoma	
New York	Pennsylvania	
North Carolina	Texas	
Oregon	Wisconsin	
Puerto Rico		
Rhode Island		
South Carolina		
South Dakota		
Tennessee		
Utah		
Vermont		
Virginia		
Washington		
West Virginia		

This classification is made for the purpose of discussing changes in the banking structure and is based on the type of banking seemingly prevalent in each state and not necessarily on the current status of legal provisions.

(Source: DATA BOOK, Operating Banks and Branches, FDIC, Washington, D.C.)

TABLE 2: Regression Results to Explain the Share of Commercial Lending in Total Loans and Leases

1. COMMERCIAL LOANS: Nonmetro Counties (n = 366)

Variable	1987		1984	
	Coefficient	t-stat	Coefficient	t-stat
Constant	0.103	2.65*	0.176	10.60*
SAVINGS	0.177	3.28*	0.092	3.87*
BRANCH LAW	0.025	1.86**	0.0332	2.82*
ROADS	0.0229	2.64*	0.0187	2.53*
FMxDENSITY	0.00177	2.34*	0.000493	.82
FMxSAVINGS	-0.139	-5.98*	-0.108	-5.91*
R ² -adj=13.6%	F=12.49		R ² -adj=17.2%	F=16.19

2.COMMERCIAL LOANS: MSAs (n=32)

Variable	1987	
	Coefficient	t-stat
Constant	-0.368	-1.73**
BRANCH LAW	0.0625	1.83**
RETAIL	0.0417	3.08*
SAVINGS	0.623	3.08*
R ² -adj= 18.0%	F = 3.26	

3. COMMERCIAL-PLUS-AGRICULTURE LOANS: Nonmetro Counties (n=366)

Variable	1987		1984	
	Coefficient	t-stat	Coefficient	t-stat
Constant	0.0512	1.05	0.550	3.70*
DENSITY	-0.000263	-1.85**	-0.00092	-2.44*
SAVINGS	0.558	8.25*	-0.0386	-1.79**
BRANCH LAW	0.0833	4.68*	0.0429	2.71*
FARM	0.181	8.67*	0.191	8.74*
FMxDENSITY	-0.00347	-3.63*	-0.00112	-1.15
R ² -adj=34.1%	F=38.83		R ² -adj=29.8%	F=31.91

4. COMMERCIAL-PLUS-AGRICULTURE LOANS: Nonmetro Counties (n=356)

Variable	1987	
	Coefficient	t-stat
Constant	0.0767	1.499
DENSITY	-0.000788	-2.681*
SAVINGS	0.552	8.059*
BRANCH LAW	0.107	4.422*
FARM	0.163	7.367*
FMxDENSITY	-0.00307	-3.292*
BRANCH SHARE	-0.0402	-1.252
R ² -adj=34.9%	F=33.0	

*significant at the 95% confidence level or better

** significant at the 90% confidence level or better

TABLE 3: Variables used in the Equations in Table 2

DUMMY VARIABLES:

BRANCH LAW¹

FARM²

ROADS³

SLOPE VARIABLES:

FMxSAVINGS⁴

FMxDENSITY⁵

CONTINUOUS VARIABLES:

	Metro(87)	Average Values for	
		Nonmetro(87)	Nonmetro(84)
COMMERCIAL LOANS ⁶	.27	.21	.23
COMMERCIAL-PLUS- AGRIC LOANS ⁷		.53	.61
SAVINGS ⁸	.59	.69	.75
DENSITY ⁹	171.4	21.7	19.2
RETAIL ¹⁰	5674.0	4658.0	3907.0

¹SMSA or nonmetro county with unlimited branching, value =1; else =0.

²Farm dependent (nonmetro) county, value =1; else value =0.

³SMSA or nonmetro county containing a major US highway, value =1; else value =0.

⁴Value of Savings in FARM (farm dependent nonmetro counties).

⁵Value of Density in FARM (farm dependent nonmetro counties).

⁶Commercial and Industrial Loans / Total Loans and Leases in an SMSA or Nonmetro county.

⁷Commercial and Industrial Loans plus Agricultural Loans / Total Loans and Leases in a nonmetropolitan county.

⁸Total Nontransactions Accounts / Total Liabilities

⁹Population per square mile in each SMSA and nonmetro county.

¹⁰Retail Sales / Population in each SMSA and nonmetro county.

APPENDIX A. GEOGRAPHIC RESTRICTIONS ON BRANCHING

(From Conference of State Bank Supervisors, Donna Y. James, Assistant Director, Washington D.C., July 1988.)

Idaho Statewide Branching.

Iowa Branching specifically prohibited; however, banks may operate up to 5 full-service facilities within the municipal corporation or urban complex in which the principal office is located if the municipal corporation or urban complex has a population of over 200,000; 4 such facilities if the population is over 100,000 but less than 200,000; and 3 such facilities if the population is less than 100,000. Full service office facilities are also permitted outside the municipal corporation or urban complex in which the principal office is located provided they are in the same county or in a contiguous county.

Minnesota Limited Branching. Full service detached facilities are permitted. Any bank, savings banks, and trust company is permitted five detached facilities. They may be located anywhere in the municipality in which the principal office is located; or within 100 miles of its principal office, but within another municipality. A bank may also have 1 detached drive-in facility within 1,500 feet of its main office or 1 of its detached facilities. If the municipality location, other than that which contains the principal office, has population of 10,000 or less based upon the last federal census, existing banks must provide consent in writing to the establishment of the facility. 8/1/87 amendments allow banks to operate unlimited number of branches in Minneapolis-St. Paul. No limitations on mergers and consolidations.

Montana Branching prohibited; a facility is permitted provided it is located within 1000 feet of a bank's principal office, and is not closer than 200 feet to a facility of another bank nor 300 feet to a facility of another bank nor 300 feet to another bank's principal office.

North Dakota Branching is prohibited. A bank may establish paying and receiving stations within the county in which its home office is located or in any adjoining county with a 35 mile radius, provided that no such station may be established in any city or town with an established banking institution located therein. Every bank under the supervision of the state banking board, and any national bank doing business in the state, may, upon compliance, maintain and operate separate and apart from its banking house one facility for drive-in and walk-up service, in addition to such service at its main banking house, and at its paying and receiving station, if any.

The facility shall be within the corporate city limits of the main banking house or within three miles of such city but shall not be within the corporate limits of another city.

One additional separate drive-in and walk-up facility may be maintained and operated not more than 1,500 feet from its main banking house by any bank that does not have a drive-in facility at its main banking house.

Oregon Statewide branching.

South Dakota Statewide branching.

Washington Statewide branching.