The 2001 Survey of Commercial Banks in the Tenth Federal Reserve District: Changes and Challenges

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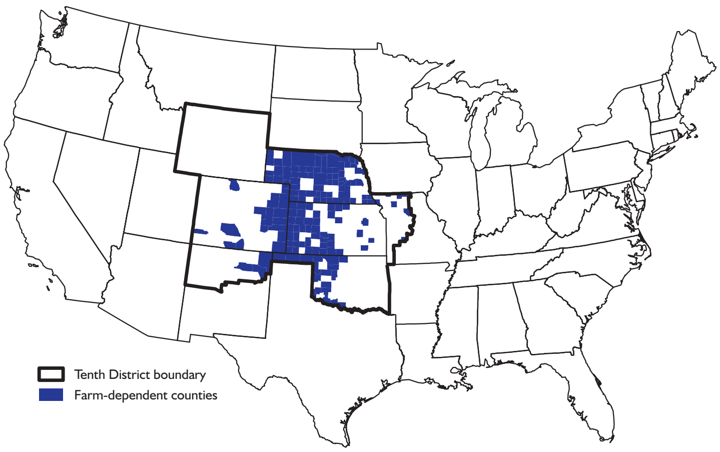
The decade of the 1990s witnessed dramatic changes in the competitive situation of individual banks and in the structure of the banking industry. Legislation removed barriers for bank holding companies to own banks across state lines, allowed banks to operate across extensive areas in a single branch network, and created financial holding companies that could operate banks, securities firms, and insurance companies under a single organization. Improved computer and communications technology enabled financial institutions to more effectively manage geographically diverse operations and, through the Internet, to easily extend the geographic reach of marketing efforts. Financial innovation expanded non-deposit investment options for consumers and intensified competition for deposits.

Besides competitive factors, local economic conditions present banks with varying challenges. In the Tenth District, a large number of rural counties lost population during the 1990s, and it is often younger people who migrated, taking their banking business to urban areas. In smaller communities, migration has also eroded the labor pools of many banks. Other localities may have more favorable economic environments, but banking markets in these areas are typically highly competitive, and competition has been made more vigorous with the legislative and technical changes of the 1990s.

Against this backdrop, community and regional bankers face daunting questions as they plan for the first decade of the 21st century. Will bank performance suffer against the competitive onslaught presented by bank and non-bank firms? Will their banks successfully obtain needed funds or achieve

Map 1

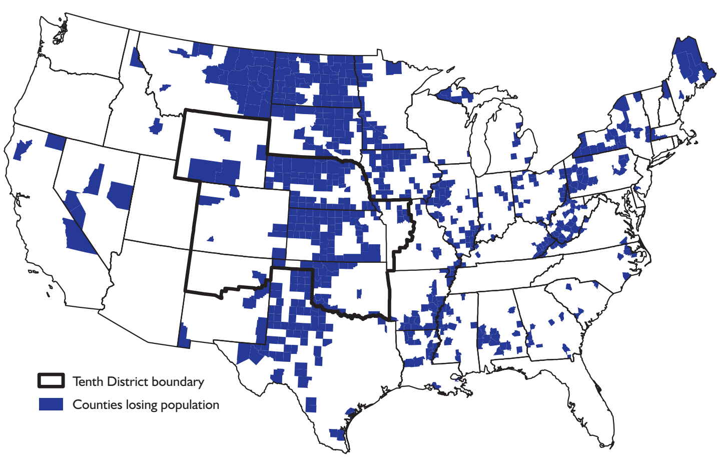
Farm-Dependent Counties: Tenth District



Note: Farm-dependent counties outside the Tenth District are not shown in the map.

Map 2

Counties Losing Population 1990–2000



sufficient margins and profitability? How can their banks attract and develop personnel to meet future challenges? How can they best exploit new technologies, such as the Internet, to deliver their services in a cost-effective manner? How will permitting affiliation among banks, securities firms, and insurance companies affect the competition their banks face?

To investigate these questions, the Federal Reserve Bank of Kansas City conducted the 2001 Survey of Commercial Banks in the Tenth Federal Reserve District. Results are presented and discussed in the following four articles in this issue of *Financial Industry Perspectives*. This essay sets the stage for the articles by describing economic and demographic characteristics of the Tenth District and by reviewing the competitive environment in which bankers operate.

The following section details economic and demographic characteristics of the Tenth District, including information on its banking industry. The second section of the article presents information about banker opinion on their competitive environment and expectations regarding problems they expect to encounter in the future. Where appropriate, we compare information from the 2001 survey to information from a similar survey conducted in 1994.[1] This essay concludes with a preview of the remaining four articles in this issue of *Financial Industry Perspectives*, which provide detailed discussion of hiring and retaining personnel, Internet banking, the impact of the Gramm-Leach-Bliley Act, and funding options for community banks.

DISTRICT PROFILE: CHANGES AND CHALLENGES

Banks operate in economic and demographic environments that offer both opportunities and challenges. In the case of the Tenth District, many banks are in small towns that are heavily dependent on agriculture. Many of their towns have stagnant populations and limited job opportunities. On the other hand, many banks are in areas with diversified economies and expanding markets. This section profiles these aspects of the District economy and discusses their implications for bank operations.

The Tenth Federal Reserve District encompasses all or part of seven states—all of Colorado, Kansas, Nebraska, Oklahoma, and Wyoming; the western one-third of Missouri; and the northern one-half of New Mexico. Population density shows that a significant portion of the District is sparsely settled. The District has roughly 32.4 people per square mile, while the average U.S. population density is 79.6 people per square mile.[2] However, several large urban metropolitan areas dot the District landscape. There are six urban areas with a population of more than 600,000. Denver is the largest, having a population of 2.6 million people.[3]

Like in other parts of the country, manufacturing, government, wholesale and retail trade, transportation, financial, insurance, real estate and other services are important sectors in the District economy. Unlike the country as whole, however, the District economy depends more heavily on agriculture (2 percent of gross state product for the seven District states vs. 1.4 percent for the nation) and mining activities (2.7 percent vs. 1.2 percent for the nation).[4]

It is this heavier reliance on commodities and raw materials production that has played an important role in much of the population loss experienced within various parts of the District. For example, Map 1 shows District counties that are dependent upon agriculture for their economic support.[5] Over the last 65 years, continued capital investment, greater specialization, improved production methods, ongoing technological advances, and a host of other factors increased farm productivity. This, in conjunction with greater competition from globalization, led to excess capacity that has triggered industry consolidation, resulting in fewer and larger farms and fewer job opportunities.[6]

As a result, many rural communities have suffered population decline. Map 2 shows District counties that have lost population in the period from 1990 to 2000. By comparing Maps 1 and 2, it is easy to see there is a high correlation between counties that lost population and those dependent upon agriculture. Demographically this loss often translates into fewer working age people (Table 1) and more elderly, as younger individuals seek opportunities in more economically vibrant communities.

Table 1

Age Distribution for Tenth District States

Age Bracket	Age Distribution, Percent of total population: Metropolitan Counties	Non-metropolitan Counties
Under 5 years	6.99	6.58
5 to 9 years	7.27	7.11
10 to 14 years	7.34	7.63
15 to 19 years	7.40	7.90
Subtotal (<20 years)	29.00	29.22
20 to 24 years	7.24	6.41
25 to 34 years	14.46	12.13
35 to 44 years	16.31	15.30
45 to 54 years	13.59	13.39
Subtotal (20 – 54 years)	51.60	47.23
55 to 59 years	4.62	5.03
60 to 64 years	3.57	4.26
65 to 74 years	5.96	7.34
75 to 84 years	3.90	4.95
85 years and over	1.36	1.96
Subtotal (>54 years)	19.41	23.54

Source: 2000 Census.

By contrast, the population of many of the District's counties, and its metropolitan areas, continues to grow. Engines of economic growth include manufacturing, tourism, and telecommunications. In comparison with non-metropolitan counties, the population of metropolitan counties is weighted towards a particularly attractive market segment for banks, working-age individuals (Table 1).

The District's banking structure reflects its sparsely settled nature and the legacy of its restrictive state branching laws that, until the 1980s and 1990s, often limited banks to a single office. At year-end 2000, the Tenth District had 1337 commercial banks (Table 2). Only 24 of these banks had assets over $1 billion, and the largest bank in the District, with $16 billion in assets at the end of 2000, ranked 80th in asset size among U.S. banks. The District's remaining banks, for the most part, are fairly small, with nearly 84 percent of banks having an asset size of less than $150 million.[7] The

Table 2

Asset Distribution of Banks in the Tenth Federal Reserve District

Year-end 2000

Assets	Commercial Banks Number	Percent of total
Less than $150 million	1118	83.6
$150 to $300 million	122	9.1
$300 million to $1 billion	73	5.5
Over $1 billion	24	1.8
Total	1337	

Source: Call Reports.

median bank had total assets of $48 million and 20 full-time equivalent employees (FTE).[8]

Responses to the 2001 Survey of Commercial Banks show that banks in the Tenth District are overwhelmingly family-owned and locally controlled (Chart 1). Seventy-four percent of survey respondents report that their banks were family-owned, and 72 percent report that the majority of shareholders reside in the bank's community. In many instances, family members are an important part of the banks' senior management (61 percent of chief executive officers in our survey are family members or part of a group that controls the bank). More information about methodology and characteristics of the survey is provided in the appendix.

Like the rest of the banking industry, District banking is undergoing consolidation. At year-end 2000, there were 41 percent fewer banks in the District than there were at year-end 1988. Important factors propelling this consolidation have been product and place deregulation for banks, increased competition from other financial service providers (insurance companies, broker/dealers, finance companies, government-sponsored agencies), improved computer and communication technology, enhanced financial product engineering, and better direct financial market access for many bank customers. These forces have put pressure on lending margins and profitability, especially for some of the District's smaller banks whose performance has lagged that of larger banks since the late 1980s.[9]

Survey information shows that many of the District's banks serve small communities (Chart 2). Almost forty-five percent of survey respondents report that they are in communities with a population of less than 2,500.

Prospects for District banks depend in part on population growth and the primary economic support of the banks' communities. Banks may struggle if the population of their community is stagnant, because it limits market growth. They may also struggle if markets do not allow diversification of loan portfolios. For example, among survey respondents whose banks are located in towns with less than 2,500 people, only 33 percent report that the population of their communities grew since 1990, and 83 percent report that agriculture is the primary economic support in their communities (Chart 3). A downturn in the agricultural industry would hit these banks particularly hard, and they do not generally have alternative lending opportunities.

On the other hand, many District banks enjoy the benefits of market growth and a more diversified economy. Chart 3 illustrates that, as the size of the community rises, population growth is more likely, while dependence on agriculture is less likely. For banks in communities with a population of at least 2,500 people, a majority (55 percent or more) report that their communities grew since 1990, and 52 percent or less report agriculture as their community's primary economic base.

Local economic conditions and demographics shape the environment within which banks operate and present significant constraints and opportunities. Banks in communities with stagnant populations are often faced with limited lending alternatives. Migration of population out of their communities often means loss of deposits as well. Additionally, limited growth and limited economic diversification often causes younger community members to seek job prospects elsewhere, reducing the pool from which banks can hire staff and management. Many other banks operate in localities that have strong market trends and with fewer environmental constraints. However, these attractive market characteristics are no secret, often inviting entry of strong and active competitors.

These local conditions, in turn, color the responses we received from survey respondents. We now turn to an analysis of banker assessment of their competitive environment and their expectation for future prospects.

COMPETITIVE ENVIRONMENT AND FUTURE PROSPECTS

Over the last 40 years, market innovations and deregulation have eroded distinctions among financial service firms and dismantled barriers that once separated these firms from one another, increasing financial service industry competition. In light of these developments, survey respondents have turned their attention to the basics of banking. They view community banks as their most important competitors and express concern over revenue sources, profitability and competition, yet overwhelmingly expect to remain in the banking industry.

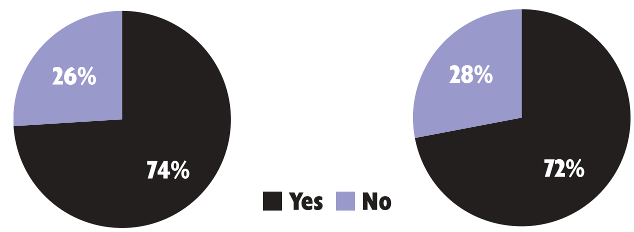
The passage of the Gramm-Leach-Bliley Act of 1999 (GLB) and its prospects for increased competition add significance to survey questions that asked banks to identify sources and intensity of deposit and loan competition they expect to face in their markets over the next five years. Their responses are summarized and compared with similar information obtained from our 1994 survey in Charts 4 and 5.

Respondents expect community banks to offer the most intense deposit competition, followed by large in-state banks, mutual funds and securities firms. Financial institutions on the Internet ranked last of the nine options. However, expected intensity of competition from Internet institutions is not too far behind that of insurance companies or thrifts, which is a respectable showing for a competitor that was nonexistent at the time of our last survey.

Community banks also offer the most intense loan competition expected by survey respondents. Respondents expect Farm Credit Associations to be the second most intense loan competitor, reflecting the agricultural base of the bankers' communities. Large in-state banks and lending subsidiaries of

Chart 1

Family Ownership and Local Control



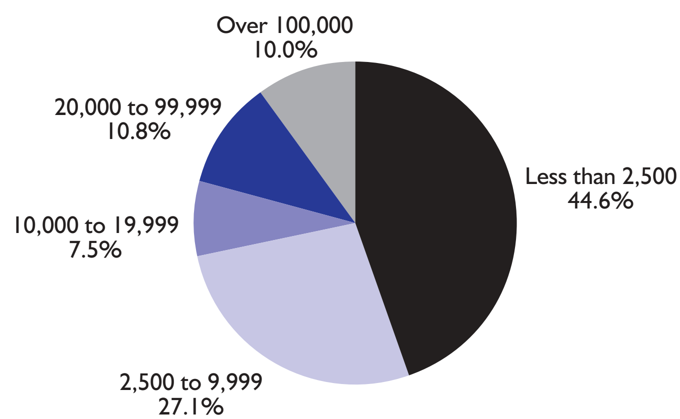
Is your bank family-owned (is the controlling interest in the bank or its parent bank holding company owned by a family)?

Do the majority of your largest shareholders reside in the bank's community?

Source: 2001 Survey of Commercial Banks in the Tenth Federal Reserve District.

Chart 2

Distribution of Banks by Population of Their Communities

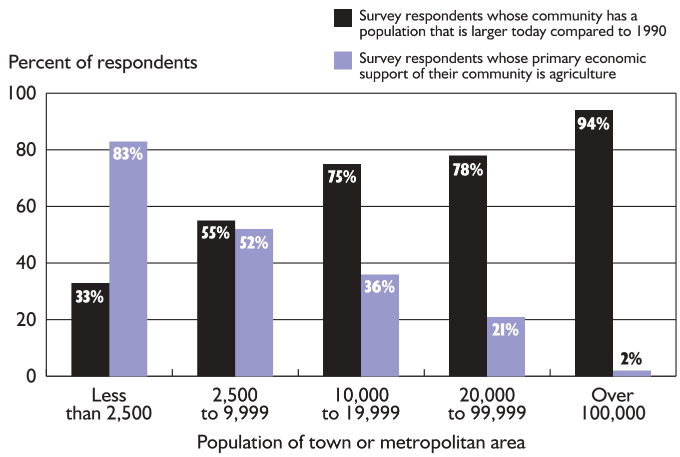


Note: This chart shows the proportion of survey banks that report that the size of their community is in the population size category. For example, 44.6 percent of respondents reported that their community has a population of less than 2,500.

Source: 2001 Survey of Commercial Banks in the Tenth Federal Reserve District.

Chart 3

Community Size, Population Growth, and Economic Support



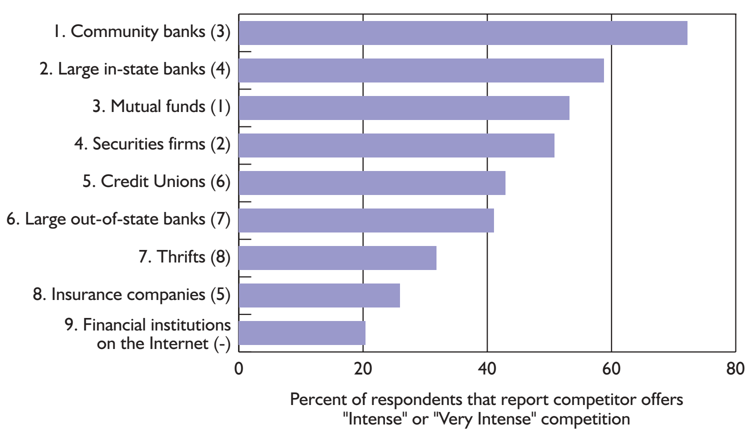
Note: The base for the calculation is the subset of respondents from each category of town or metropolitan area. For example, of 214 respondents from towns of less than 2,500, 71 (or 33%) report that their towns grew since 1990. Responses across all population categories do not necessarily sum to 100 percent.

Source: 2001 Survey of Commercial Banks in the Tenth Federal Reserve District.

Chart 4

Deposit Competition Expected for 2001–2005

Commercial Banks in the Tenth Federal Reserve District



Notes: An "Other" category was available for this survey item, and four respondents report competition in this category.

Numbers in parentheses are rankings of competitive intensity from the 1994 survey. A (-) indicates this type of competitor was not broken out separately in the 1994 survey.

Sources: 1994 and 2001 Survey of Commercial Banks in the Tenth Federal Reserve District.

machinery and auto dealers are also expected to offer intense loan competition.

In comparing the most recent survey with that of 1994, expected competition from community banks increased relative to non-bank firms. In the previous survey, respondents expected that mutual funds and securities firms would be the first and second most intense deposit competitors, while community banks ranked third. One potential reason for other community banks moving to the top of deposit competitor rankings is that banks that have survived the recent, extensive consolidation of the banking industry may be stronger and more aggressive competitors.

There were several other changes in the rankings of competitors. Among deposit competitors, the rank of mutual funds and securities firms fell to third and fourth in the 2001 survey. Respondents in the previous survey ranked lending subsidiaries of machinery and auto dealers as likely offering the most intense loan competition, but the ranking of these lending subsidiaries fell to fourth in the 2001 survey.[10] On the other hand, rankings for some competitors, such as credit unions (for deposits) and mortgage companies (for loans), are higher in the most recent survey compared to the 1994 survey.

Despite new technologies that enable financial institutions to extend their geographic reach, survey responses clearly show that bankers regard presence in the market as a prime determinant of competitive intensity. In general, expected competition tended to be stronger when there was a physical market presence. For every individual loan and deposit competitor, respondents report that they expect more intense competition when the competitor is already in the market. Differences in expected intensity is very large: across all competitors, the average proportion of respondents expecting "Intense" or "Very Intense" competition is 60.4 percent when the competitor is already in their local market, compared to only 34.0 percent when the competitor is not in the local market.[11]

Turning next to prospective matters, the 2001 survey asked respondents to peer into the future and rate the expected significance of sixteen potential problem areas. The proportion of respondents who identify a particular problem area as significant is presented in Chart 6. In order to highlight differences in expected problem areas, Chart 6 splits respondents into two groups, those who are in communities with a population of less or more than 2,500.[12]

All respondents rank maintaining and attracting retail deposits as the number one problem they expect to face in the next five years. They are also highly concerned with building noninterest income sources and competing against nonbank financial firms.

While these three categories all rank in the top five of significant problem areas for both groups of banks shown in Chart 6, there is disagreement between them over the significance of the last two slots in the top five. Banks in communities with a population of less than 2,500 consider a declining economy or population and lack of opportunities for diversification as highly significant problem areas. This concern is understandable given that many of their communities showed little population growth over the 1990s and their economies are heavily dependent on agriculture, as we have seen. By contrast, banks in communities with a population of more than 2,500 would round out their top five problem areas with meeting competition from community banks and achieving satisfactory net interest margins (NIM) and return on average assets (ROAA).

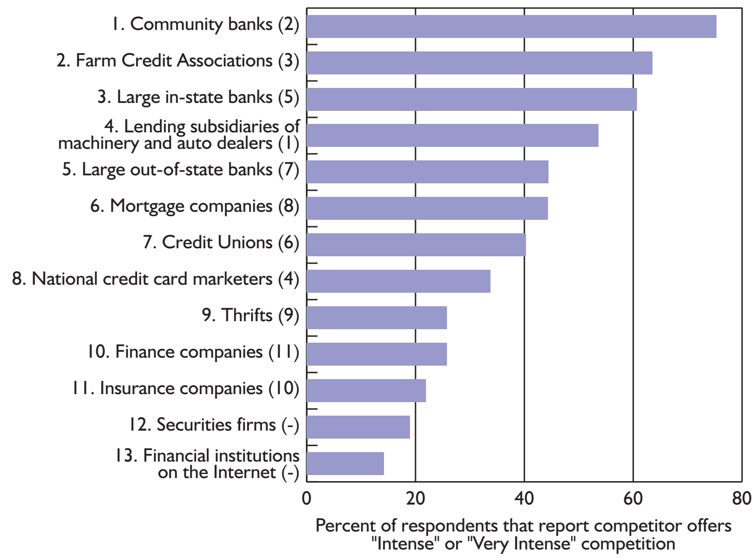
In our 1994 survey, bankers ranked complying with regulations as the most significant future problem that they expected to encounter. This contrasts sharply with the current survey, where the expected significance of regulatory burden is not even in the top five problem areas, possibly reflecting the efforts of bank supervisors to reduce regulatory burden and recent changes to law that eliminated regulatory barriers.

Among the least important challenges, with less than 20 percent of respondents expecting significant problems, is maintaining credit quality, which shows that most respondents are assured of their ability to identify high-quality borrowers. Maintaining capital and meeting community credit needs are also among the problem areas of least concern, which, on reflection, is not too surprising. First, nearly half of respondents report an equity capital

Chart 5

Loan Competition Expected for 2001–2005

Commercial Banks in the Tenth Federal Reserve District



Notes: An "Other" category was available for this survey item, and four respondents report competition in this category.

Numbers in parentheses are rankings of competitive intensity from the 1994 survey. A (-) indicates this type of competitor was not broken out separately in the 1994 survey.

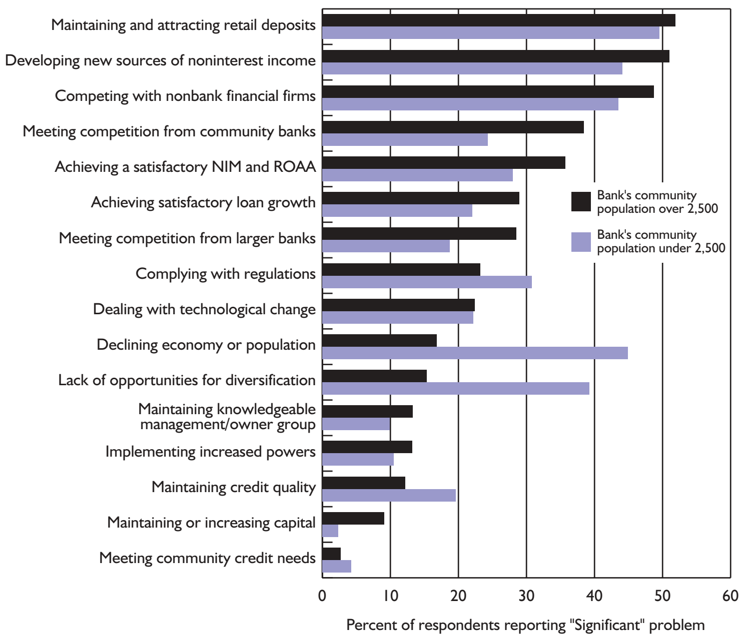
Sources: 1994 and 2001 Survey of Commercial Banks in the Tenth Federal Reserve District.

ratio of 10 percent or more. Second, most survey respondents are community bankers who typically feel they have a strong understanding of the credit needs of their communities.

The written comments included by those completing the survey provide some perspective behind Tenth District community bankers' future concerns. These representative comments highlight competitive pressures bankers feel and what they perceive as a need for a level playing field against those with whom they compete. They also point out the stresses that bankers experience from the changing demographics of the local markets they serve.

> Difficult maintaining deposits. More money going to stock/mutual funds. Aging population in many of our small markets is a problem. As folks die, money goes to kids in other locations.

Chart 6
Significant Problems Expected for 2001–2005



Notes: An "Other" category was available for this survey item, and seven respondents report problems in this category.

Source: 2001 Survey of Commercial Banks in the Tenth Federal Reserve District.

> Noninterest income opportunities are limited in our trade area and up front costs [investment and personnel] are prohibitive.

> The current structure in the rural Midwest banking markets does not appear viable over the next 10 years given the migration of the customer base, steady dissipation of agricultural entrepreneurs, labor problems, technology challenges, and future profitability concerns.

> Must equal the playing field between Farm Credit/Credit Unions and Merrill Lynch. Credit unions are not taxed. …Same with Farm Credit Services as credit unions.

Has competition of the market place and other challenges become so daunting that many see selling their banks to others as their best option? According to the survey, the answer is no. Over 90 percent of respondents do not believe an ownership change is likely over the next five years (Chart 7). Only 6 percent think it likely they will be acquired by another community bank, and only 5 percent think it likely they will be acquired by a larger banking organization. On the other hand, 32 percent think it is likely that they will acquire other banks over the next five years. Thus, the bottom-line message coming from those answering the survey is upbeat: Tenth District bankers intend to remain in the industry and build for the future. Here is what one banker wrote:

> [This bank] is an old fashioned one and extremely proud of it. We are a dinosaur that has not been listed as extinct because we have customers that still want value-added service. We have identified a niche and the products and services necessary to service that niche. Our customers understand how important it is to have a relationship with a bank. We know our customers and they know us…As long as there are our type of customers in our community, we will flourish for years to come.

SUMMARY AND PREVIEW

The bank that is representative of the Tenth Federal Reserve District is a community bank that is family owned and locally controlled. The economic and competitive environment that District banks face depends, in part, on location. Many District banks are located in smaller towns with little growth and limited opportunities for diversification. Many others, however, are in larger communities with expanding markets and a diversified economic base.

In the 2001 Survey of Commercial Banks, respondents identify competitors and challenges that are typical for a well-functioning financial market. The most intense deposit and loan competitors are other community banks. Banks also identify significant competition from sources such as larger banks, mutual funds, and securities firms. Problems that most significantly challenge respondents involve basic aspects of successfully managing a bank: funding, sources of income, and meeting competition. Banks in smaller communities face special challenges with declining populations and limited diversification opportunities. While bankers identify many problems, they expect to remain in the banking business, revealing fundamental optimism about the future of the banking business.

Against this background, the following four articles in this issue of *Financial Industry Perspectives* focus on various aspects of meeting the competitive force of other financial service providers and achieving sufficient returns to remain viable competitors. In exploring community banks' battle for the marketplace in more depth, these articles address such questions as: Will they have the resources to successfully attract and retain management and staff to lead and operate the bank in the future? How can they best use the Internet as a tool to build their competitive position in the market? How will the GLB Act affect the competitive mix in their markets and has the Act worked to their benefit as a competitor or to their detriment? What are the advantages and disadvantages of various funding alternatives?

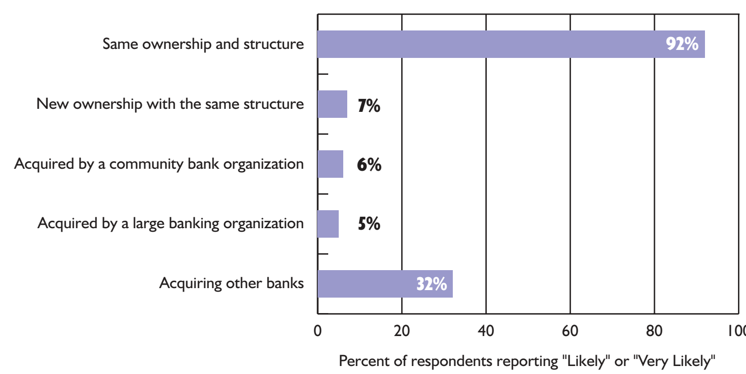
A key aspect of future success for District banks is hiring and retaining quality personnel. Recent strong demand for labor makes this a special challenge, particularly for banks in rural areas where many of the most talented workers are attracted to employment opportunities in metropolitan areas. In his article "Management and Staffing Challenges" (pp. 13–21), Forest Myers reviews responses to survey questions about the difficulties bankers face in attracting official and non-official staff. A significant majority of District community banks report that they can attract and retain the personnel they will need as the future unfolds. Where bankers saw problems ahead, invariably it was factors beyond the banks' control that were stumbling blocks rather than banks' ability to pay a competitive wage. On a more specific matter, many executives at survey banks plan to retire or will reach age 65 during the next five years, suggesting that management succession may become an increasingly important issue. However, less than one-third of survey banks had written succession plans. Thus, succession is an important management issue that deserves attention by bank management and bank supervisors before future turnover, expected or unexpected, occurs.

Many bankers recognize that their future depends upon their ability to exploit new computer and communications technology. One of these new technologies is the Internet, which is beginning to be a significant new channel through which banks can deliver services. In his article "Performance and Operation of Commercial Bank Web Sites" (pp. 23–33), Richard J. Sullivan examines responses to survey questions on Internet banking. The article provides information on the proportion of banks that now have or plan to have a Web site, performance of bank Web sites, and installation and operational experiences that most challenged District bankers. He finds that most banks establish a Web presence for long-term strategic reasons, with less concern for immediately reducing costs or adding revenue. Banks that have decided not to install a Web site are most concerned with high costs and lack of customer demand.

One of the most dramatic legislative changes in recent decades was GLB, which repealed depression-era laws that separated banking, insurance, and securities firms. The legislation may introduce major changes to the competitive landscape of the financial services industry. But what do these changes mean for banks in the Tenth Federal Reserve District? In his article "Financial Modernization: A New World or Status Quo?" (pp. 49–62), Joe Van Walleghem reviews some details of GLB,

Chart 7

Expected Ownership Changes, 2001–2005



Source: 2001 Survey of Commercial Banks in the Tenth Federal Reserve District.

including the extent to which Tenth District banks have taken advantage of a new form of financial institution, the financial holding company. He also examines responses to survey questions on barriers smaller banks face when engaging in new activities and questions on financial services competition. Tenth District bankers report that they are interested in new activities such as insurance agency and real estate management, although this interest is not particularly strong for smaller banks. To a related question, larger banks are more likely to report that GLB was beneficial to their banks. At the same time, many District banks say they face new competitors as a result of GLB.

As seen in Chart 6, the single most important problem area keeping District bankers awake at night is maintaining and attracting retail deposits. In their article, "The Decline in Core Deposits: What Can Banks Do?" (pp. 35–48), James Harvey and Kenneth Spong examine trends in funding at community banks. They first examine the recent decline in core deposits relative to total assets among community banks in Tenth District states and how this decline is affecting other aspects of bank operations. They then look at a number of possible factors behind core funding decline at community banks, including strong loan demand, shifts in household portfolios away from deposits, new deposit competition, higher returns on other financial instruments, and changing demographics in many community banking markets. An important implication from these factors is that community bank funding pressures are not likely to disappear, even though some temporary easing could occur. The final part of the article discusses options and strategies that banks can use to address their funding problems and continue to meet the credit needs of their customers and communities.

APPENDIX

About the 2001 Survey of Commercial Banks in the Tenth Federal Reserve District

The 2001 survey is the third in a series of surveys of commercial banks.[13] Our aim is to collect information on the experiences and opinions of bankers in the Tenth Federal Reserve District on important issues and current events.
This information is useful to the Federal Reserve Bank of Kansas City as a supervisor of banks. It is also useful to the many bankers who want to know what other bankers are thinking and doing.

This appendix will briefly describe the method used to conduct the 2001 survey and review a few sample characteristics. A copy of the complete survey, along with summary statistics of responses, is available upon request and on the Federal Reserve Bank of Kansas City's Web site (www.kc.frb.org/publicat/fip/fipmain.htm).

The survey was mailed in February 2001 to all commercial banks in the Tenth Federal Reserve District that were in operation at year-end 2000.[14] Bankers returned 483 (36 percent) of the 1337 surveys distributed.

Most of the 2001 survey consisted of new questions chosen to reflect topics of recent interest and importance, although selected questions from earlier surveys were repeated. The 2001 survey consisted of 77 questions, 15 of which were devoted to "General Bank Information" (location, charter, size, and so on), 16 to "Bank Staffing and Management," 21 to "Internet Banking," and 23 to "Competitive Environment and Future Prospects" (which also included questions on the impact of the Gramm-Leach-Bliley Act).[15]

The asset size distribution of banks that responded to the Survey of Commercial Banks in the Tenth District closely followed that of all Tenth District banks, with the exception of banks over $1 billion in assets (compare Tables 3 and 4). Only 0.6 percent of survey banks fell in the over $1 billion category, compared to 1.8 percent for all District banks. This under-representation can be traced to District banks that belong to large bank holding companies. Among banks that are in bank holding companies, only 4.8 percent of survey respondents were in holding companies that had consolidated assets greater than $1 billion, compared to 10.2 percent among all District banks.

However, the survey is representative of District banks along a number of other characteristics. Over 70 percent of District banks are located in non-metropolitan areas (Panel A, Table 4), a proportion similar to that of the survey.[16] Panel B of Table 4 shows that there were 29.3 percent of banks with national charters in the District at the end of 2000, while the survey has 30.8 percent. The distribution of returns on average assets for all District banks and survey banks are also similar (Panel C, Table 4). Finally, Chart 8 shows the geographic distribution of District banks. Banks in the District are most commonly located in Kansas, Oklahoma, and Nebraska, followed by Colorado, Missouri, Wyoming, and New Mexico. As can be seen, the geographic distribution of survey banks follows closely that of all District banks.

Table 3

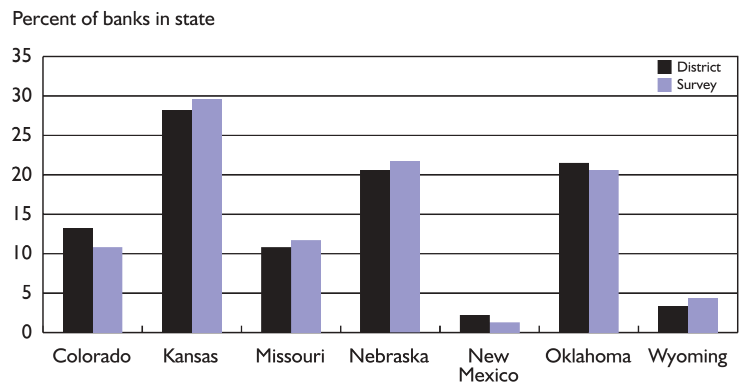
Asset Size Distribution of Banks in the 2001 Survey of Commercial Banks in the Tenth Federal Reserve District

Assets	Number of responses	Percent of total
Less than $150 million	414	86.6
$150 to $300 million	37	7.7
$300 million to $1 billion	24	5.0
Over $1 billion	3	0.6
Total	478	
No response	5	

Note: Total number of survey respondents = 483.

Chart 8

Geographic Distribution of District and Survey Banks



Sources: Call Reports, 2001 Survey of Commercial Banks in the Tenth Federal Reserve District.

ENDNOTES

1 A discussion of the responses to the 1994 survey may be found in Catharine M. Lemieux, "Meeting the Challenges: Community Bankers' Views," *Financial Industry Perspectives*, Federal Reserve Bank of Kansas City (October 1994), pp. 7–20.

2 Population density for the seven Tenth District States and for the U.S. is from the 2000 Census State and County Quick Facts; see Bureau of the Census web site at http://quickfacts.census.gov.

3 The other five cities are: Kansas City—1,776,062, Oklahoma City—1,083,346, Tulsa—803,235, Omaha—716,998, and Albuquerque—712,738. Source: 2000 Census.

4 Data are for 1999, the latest available.

5 Farm-dependent counties are defined as those where farming contributed a weighted annual average of 20 percent or more of total labor and proprietor income over the 3 years from 1987–1989.

6 Since the 1935 peak, the number of farms has dropped by more than two-thirds, and the average size farm has grown from 155 acres to over 487 acres. Robert A. Hoppe [editor], *Structural and Financial Characteristics of U.S. Farms*, Resource Economics Division, Economic Research Service, U.S. Department of Agriculture, Agriculture Information Bulletin No. 768, May 2001, pp. 6–7.

7 Tenth District banks made up 16 percent of all banks in the United States and held 3 percent of bank assets at year-end 2000.

8 Full-time equivalent employees includes the number of full-time employees plus all part-time and temporary employees converted to full-time status based on the number of hours they worked relative to that expected of a full-time employee.

9 Forest Myers and Jinwoo Park, "Tenth District Banks: Who

Table 4

Metropolitan Location, Type of Charter, and Return on Average Assets

Survey Banks and All District Banks

A: Metropolitan Location

	Survey		District Year-end 2000	
	Number	Percent of Total	Number	Percent of Total
Metropolitan	121	25.6	394	29.5
Non-metropolitan	351	74.4	943	70.5
Total	472		1337	
No response	11			

B: Type of Charter

	Survey		District Year-end 2000	
	Number	Percent of Total	Number	Percent of Total
National	145	30.8	392	29.3
State	326	69.2	945	70.7
Total	471		1337	
No response	12			

C: Return on Average Assets

	Survey		District Year-end 2000	
	Number	Percent of Total	Number	Percent of Total
Less than .5%	37	7.7	167	12.5
.5% to 1%	118	24.6	346	25.9
1% to 1.5%	195	40.7	455	34.0
1.5% to 2%	92	19.2	227	17.0
Over 2%	37	7.7	142	10.6
Total	479		1337	
No response	4			

Note: Survey banks are classified as metropolitan if they answered "yes" to the question "Is your community located within 30 miles of a city with a population of 100,000 or more?". District banks are classified as metropolitan if their headquarters is in a Metropolitan Statistical Area.

Sources: Call Reports and the 2001 Survey of Commercial Banks in the Tenth Federal Reserve District.

is at Risk?," *Financial Industry Perspectives*, Federal Reserve Bank of Kansas City, October 1994, p. 22. For the most part, the lagging performance of smaller banks shown in this article has continued through year-end 2000.

[10] Examples of these captive finance subsidiaries include John Deere Credit, General Motors Acceptance Corporation, and Ford Credit.

[11] The corresponding statistics for expected intensity of loan competition are 54.5 percent and 32.2 percent.

[12] This breakdown is based on the difference in local population growth noted in Chart 3.

[13] Results of the 1988 and 1994 surveys may be found in Wilbur T. Billington, *Community Banks: Surviving With Change* (Federal Reserve Bank of Kansas City, 1988), and Lemieux, "Meeting the Challenges."

[14] The population of banks of the 2001 survey differed from our previous surveys, which were limited to banks with assets under $150 million.

[15] Two questions were devoted to effectiveness of Federal Reserve Bank of Kansas City communications with bankers.

[16] Table 4 shows that the distribution of banks across metropolitan and non-metropolitan areas is similar for all District banks and survey banks. Although the survey banks had a greater percentage of banks in non-metropolitan areas, we cannot say whether the difference with all District banks is due to over-representation of survey banks in non-metropolitan areas or due to different definitions of non-metropolitan location (see note to Table 4).