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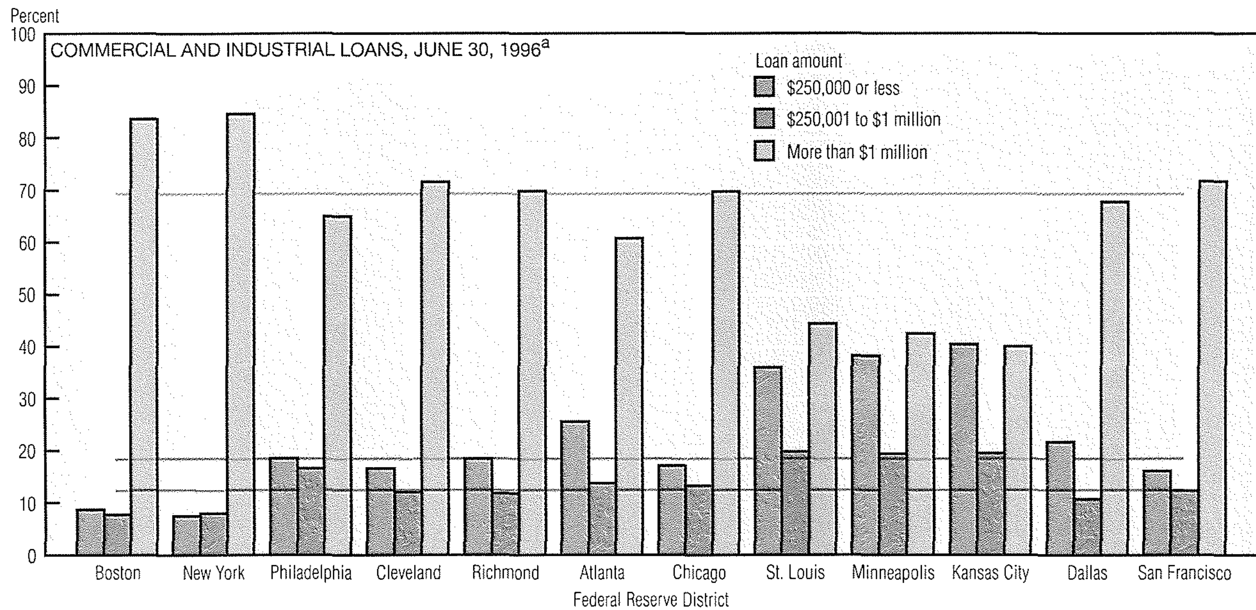
Banking Conditions



Commercial and Industrial Loans by Bank Size, 1996[b]
(Percent)

		Loan amount			
Bank size (assets)	Number of banks	Less than $100,000	$100,000 to $250,000	$250,000 to $1 million	More than $1 million
$0 to $50 million	3,959	10.5	3.4	1.7	0.5
$50 million to $100 million	2,446	14.2	8.1	5.1	0.3
$100 million to $250 million	1,947	18.7	15.7	11.9	1.1
$250 million to $500 million	564	9.2	10.1	8.7	1.6
$500 million to $1 billion	249	6.3	7.1	6.8	1.9
$1 billion to $5 billion	250	12.9	18.4	20.1	12.0
More than $5 billion	126	28.4	37.3	45.7	82.7
Total	**9,541**	**100.0**	**100.0**	**100.0**	**100.0**

a. Horizontal lines represent the distribution of loans in each category for the U.S. as a whole.
b. Totals may not sum due to rounding.
NOTE: Data are for commercial banks.
SOURCE: Board of Governors of the Federal Reserve System, Call Reports, June 30, 1996.

For many years, a distinct characteristic of U.S. banking regulations was the prohibition on interstate banking. In the mid-1980s, this tradition began to give way, generating a strong consolidation movement in the industry.

At the beginning of the century, most states required banks to operate as unit banks (that is, to have only one office). In time, some states began to allow intrastate branching, but retained the prohibition on interstate operations. These restrictions pushed the number of banks to a post-Depression high of about 14,500 in 1984. Since then, the regulatory barriers on interstate banking have been falling one after another.

The first step in the interstate banking movement came when a few states began to allow out-of-state bank holding companies (BHCs) to acquire home-state banks. Then, in 1994 Congress passed the Interstate Banking and Branching Efficiency Act, which defined nationwide standards for a BHC to acquire a bank anywhere in the country and created the necessary conditions for BHCs to convert their bank subsidiaries into a single network of branches.

In parallel with these regulatory changes, the number of banks dropped steadily, mainly because of increased merger activity. Between 1975 and 1984, a total of 2,571 mergers and acquisitions were recorded. Over the next 10 years, that figure jumped to 4,509. As a consequence, by 1995 there were fewer than 10,000 banks in the U.S. This consolidation greatly reduced the number of small banks and boosted the importance of the largest institutions.

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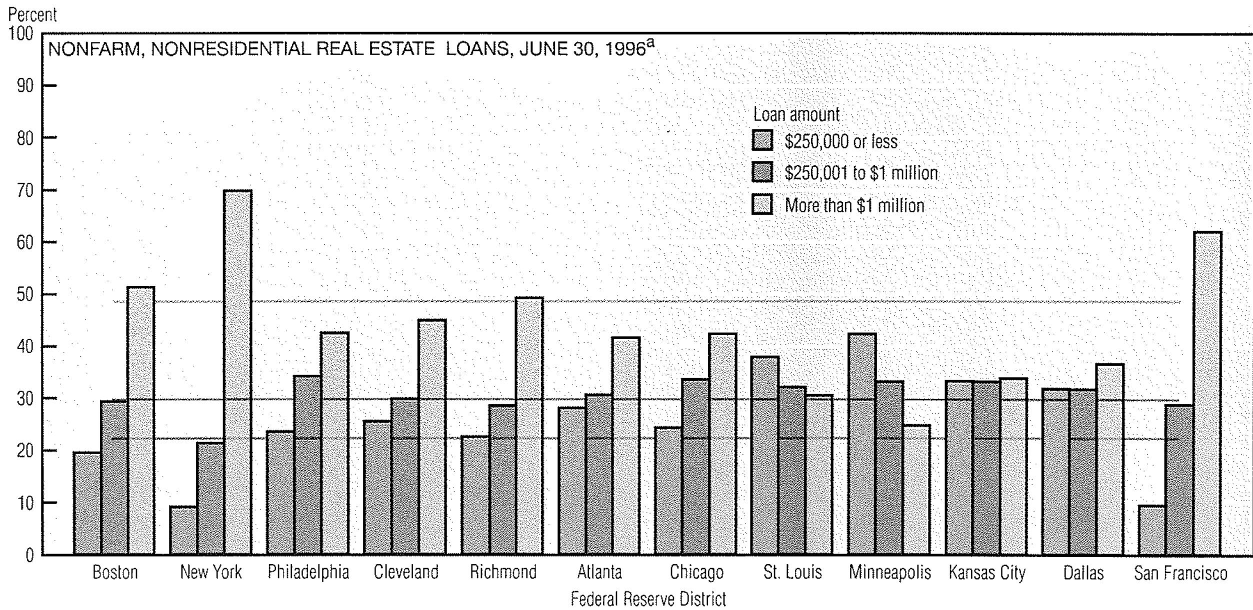
Banking Conditions (cont.)



Nonfarm and Nonresidential Real Estate Loans by Bank Size, 1996[b]
(Percent)

Bank size (assets)	Number of banks	Loan amount: Less than $100,000	Loan amount: $100,000 to $250,000	Loan amount: $250,000 to $1 million	Loan amount: More than $1 million
$0 to $50 million	3,959	12.3	3.7	2.0	0.1
$50 million to $100 million	2,446	19.8	9.4	7.2	0.9
$100 million to $250 million	1,947	25.1	18.9	16.3	4.6
$250 million to $500 million	564	9.7	11.1	11.2	5.3
$500 million to $1 billion	249	6.3	8.3	8.5	5.4
$1 billion to $5 billion	250	10.4	17.6	19.3	19.2
More than $5 billion	126	16.5	31.0	35.5	64.5
Total	**9,541**	**100.0**	**100.0**	**100.0**	**100.0**

a. Horizontal lines represent the distribution of loans in each category for the U.S. as a whole.
b. Totals may not sum due to rounding.
NOTE: Data are for commercial banks.
SOURCE: Board of Governors of the Federal Reserve System, Call Reports, June 30, 1996.

Because large banks are able to make loans to any customer while small banks are limited to small business financing (because of their size and regulations governing individual risk exposure), the drop-off in the number of small institutions has raised concerns about the availability of small firm credit.

Available data confirm that most of the commercial and industrial (C&I) loans made by small banks go to small firms. However, large banks account for a greater share of small business financing. For example, as of June 1996, about 67% of U.S. banks had assets below $100 million. These institutions were responsible for about 25% of C&I loans below $100,000 and for about 12% of loans with original amounts between $100,000 and $250,000. At the same time, the comparable figures for banks with assets above $1 billion (less than 4% of the industry) were about 41% and 56%, respectively.

Similar patterns are present in nonfarm, nonresidential real estate lending. Small banks handled about 32% of loans below $100,000 and 13% of loans between $100,000 and $250,000. For large banks, the comparable figures were 27% and 38%. To a certain extent, these figures should allay some of the concern that banking consolidation will reduce the funds available for small business loans.

Finally, note that in the Fourth Federal Reserve District, the proportion of C&I loans catagorized as small is slightly below the U.S. average, but small real estate loans exceed the national norm.