

Fiscal Research Program

GEORGIA BANKING AN OVERVIEW

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FRP Report No. 96.4
May 1996



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FOREWORD

The strength and organization of the banking industry has always been considered to be integral to the economic growth, stability, and viability of the nation, the respective states, and their local communities. Because the fiscal health of the nation was historically linked to the performance of the banking industry, banking became highly regulated at all levels as a well-intended means of preventing or controlling fiscal dislocations in the economy. The form which this regulation took often focused on bank structure with an emphasis on the issue of branch banking.

However, in recent years questions have been raised about the underlying assumptions on which the regulation of banking structure is based. Dr. Samuel Skogstad seeks to begin to address some of those issues as reflected in research on the Georgia banking industry. In this first paper Dr. Skogstad overviews the historical trends and contemporary issues facing the state's banking industry and those who set both statutes and rules regulating this industry.

In this introductory volume, Dr. Skogstad describes the current regulatory environment for the banking industry. Although national trends are decidedly toward banking deregulation, policy makers in Georgia may yet greatly influence the nature of the state's banking industry in the next century. To provide a basis for comparison, this paper describes Georgia's current banking structure relative to other states with particular attention to a comparison of Georgia with other southeastern states.

This paper is the first of a series in which the following issues will be examined: the impact of banking structure on state and local real economic activity, the financial efficiency of Georgia's banking structure, the influence of the state banking structure on Georgia's fiscal capacity, the linkage of structure to safety and soundness, and the responsiveness of the banking system to changes in national monetary policy. This series of papers will later be compiled into a single volume scheduled for publication in December 1996.

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GEORGIA BANKING: AN OVERVIEW

by
Samuel L. Skogstad

INTRODUCTION

Banking has long been one of the most pervasively regulated sectors of the American economy. Banks in our "dual" banking system include those chartered by state governments and those chartered by the national government. However, the two sub-systems are closely interrelated.

Each state has its own body of law governing banking, and all banks, state or national, are subject to the laws of the state or states in which they operate. States also have bank regulatory agencies that monitor bank practices and management policies. National banks must be, and state banks may choose to be (although most do not so choose), members of the Federal Reserve System which regulates many operating practices of its members, and implements national monetary policy. Moreover, virtually all commercial banks are members of the Federal Deposit Insurance Corporation, which also prescribes policies and practices for its members. The office of the United States Comptroller of the Currency and the Federal Reserve System conduct regular examinations of the portfolios and operations of national banks and state bank members of the Federal Reserve System, respectively. Until quite recently regulatory agencies exercised direct or indirect control over interest rates paid on deposits, the kinds of loans that could be made, and the principles that governed allocations of funds across portfolio categories.

One operating issue that has been hotly debated for decades is the right of banks to establish branch offices. National law, for most of the period since the great depression of 1929-1933, has prohibited branching across state lines. State laws have varied substantially, with some barring the establishment of branches altogether, some permitting statewide branching and others permitting branching but with controls on number, location and/or means of establishing branches. Georgia, in 1927, adopted legislation that prohibited the establishment of new branches. The law has been amended many times since then.¹ However, until the 1970s, branch banking was effectively confined to Georgia's largest metropolitan areas. At that time bank

¹Significant changes in the law have included: (1) 1929; branches were permitted for banks in communities with populations between 80,000 and 125,000 and over 200,000; (2) 1956; bank holding company (HC) legislation passed for the first time, prohibited establishment of further HCs and prohibited acquisition of 15% or more of the stock of two or more banks, *inter alia*; (3) 1960; distinctions were drawn between "branches," "offices" and "facilities," and limits on the number and locations of each were prescribed; (4) 1963, 1967, 1970, 1973 and 1976; in each of these years legislation permitted somewhat more liberal branching by expanding the area or lowering the population threshold where branches were permitted. We are grateful to the Office of the Commissioner of the Georgia Department of Banking and Finance for providing a written review of the history of Branch Banking Laws in Georgia, which is the source of the information presented here.

regulation of banking and the degree to which it impinges on the ability of bank executives to manage in response to real economic conditions and in the interests of bank stockholders will always be subjects of varying viewpoints.

Right now, Georgia's citizens and their elected representatives, Georgia's banks and Georgia's banking clients are at a critical point in contemplating the kind of banking system they wish to take into the Twenty First Century. All of the relevant questions are questions whose answers will be contingent to a greater or lesser degree on the "facts" of relationships between the structure of the industry and its operating outcomes. Those "facts" can only be uncovered through hard, objective research. It is the purpose of this project to conduct and report on such research.

For banks in Georgia, it is the facts of relationships within the state that are most important. However financial markets in general, and banking markets in particular, are fluid. Disequilibria in one state or region spread almost instantaneously to others. A bank in North Carolina or Georgia is increasingly bound to consider itself a competitor of banks in Alabama or Florida, or even Wyoming. Thus it is no longer sensible to imagine that the banking structure that is ideal for any state is independent of the structure in neighboring states and in the nation as a whole.

What are the "facts" of banking that influence the kind of system that is best for Georgia? While there is certainly room for a wide range of views, we believe that the most important issues fall under five headings:

- The relationships between banking structure and the overall structure and strength of real productive activity in Georgia, its counties and its municipalities.
- The relationships between banking structure, costs and efficiency.
- The fiscal implications for the state of the structure of its banking industry (i.e. its tax and expenditure implications and the financial services provided to state and local government).
- The relationships between banking structure and the soundness and safety of Georgia's network of banks.
- The relationships between banking structure and the speed, magnitude and regularity of Georgia banks' reactions to national monetary policy actions.

The research undertaken under this project is designed to provide information on these issues that will assist Georgia's banks and bank clients, and the state's lawmakers in arriving at their own judgements about the kind of banking system that best meets the needs of the state and its subdivisions. The organization of the work is as follows. Section I of this paper presents a statistical and narrative description of

The wave of bank failures of the 1980s combined with pressure from the larger banks for relaxation of interstate and intrastate branch banking restrictions gave new impetus to the trend toward consolidation. These influences were reinforced by a rising wave of sentiment in favor of deregulation of business by governments.

As the state and the nation reflect on the dramatic changes in banking structure that are now underway and that loom ahead, it is appropriate to ask how banking structure affects the public interest. As indicated in the introduction, structure may exert a significant influence on: (1) the pace, structure and geographic distribution of real economic activity; (2) costs and efficiency; (3) government financing, revenues and expenditures; (4) the soundness of the banking system and (5) the impact and the transmission channels of national monetary policy.

For Georgians, the primary interest is in the relationships between banking and the economic facts of Georgia. That is not to say, however, that the structure that is best for Georgia is independent of the structure in neighboring states or in the United States as a whole. One of the consequences of changes that have already occurred is that banks in Georgia face very effective competition in many financial service areas from banks in other states. The most immediate competitors, particularly in markets for household and small business finance, are likely to be in neighboring states. Nevertheless in corporate banking, and to a growing extent even in personal and small business banking, banks throughout the nation compete with Georgia banks.

Notwithstanding the increasingly national and even international character of markets for some banking services, it seems likely that a market will continue to exist for the kind of personalized, home-town banking in which clients and their bankers know each other personally. Advances in banking technology bring down costs so that this kind of banking can provide a reasonably full range of services as well as larger banks. Thus in considering changes in the legislative and regulatory environment of banking, it is important to seek an appropriate balance between permitting operating decisions required to keep Georgia banking sound and competitive with banks headquartered elsewhere, and avoiding the creation of an environment that interferes with the survival of economically viable, small banks with a local orientation.

This project will include formal statistical and econometric evaluation of theoretical propositions in the five areas identified above. The degree of applicability of the findings of the research to the region and the nation as a whole will depend upon the similarity of Georgia's bank structure to regional and national structures. Thus we begin this section with a broad comparative overview of banking structures in Georgia, adjacent states in the Southeast and the United States as a whole.

BANKING STRUCTURE IN THE SOUTHEAST AND THE UNITED STATES

Within the Southeastern states there is substantial variation in the average population per bank. This is shown in Table 1-1. North Carolina is clearly the region's

customer or class of customer to another. The question will be explored further in a later section.

There are significant differences among the Southeastern states, as among all of the United States, that may influence the structure of banking from one jurisdiction to the next. It has already been suggested that population and its density exert some influence. The legal and regulatory environment is surely another influence. North Carolina's (and to a lesser degree South Carolina's) small number of banks (relative to other states) almost certainly reflects their relative openness to branch banking (a more recent phenomenon in South Carolina than in North Carolina).

The significance of the differences in the bank-population relationships depends upon the issue at hand. If population per bank is inversely related to average cost, then North Carolina, for example, could have an advantage over the average bank in the region and the nation. Some research findings would seem to support this relationship. On the other hand, if more offices relative to population imply higher average costs, North Carolina would be at a disadvantage in this regard. These relationships will be explored in great detail in the study of relationships between banking structure, costs and efficiency.

Taking a broader perspective, the similarity may be almost as interesting as the differences among the 3 areas. All three have a large number of banks (by international standards), and all three have populations per bank office between three and four thousand. Moreover, as we will soon see, distributions of banks across broad size categories are similar.

There appear to be some significant differences among southeastern states in the number and chartering authority of banks. Information on these matters is presented in Table 1-2. State banking laws may exert a significant influence on banks' preferences between state and national charters. Except for Florida and South Carolina, only between 18 and 23 percent of banks in southeastern states have national charters. About 30 percent in Florida, South Carolina and the United States as a whole are national banks. We do not have an explanation for this difference. However, it will be interesting to examine state laws to determine whether differences in chartering authority are associated with differences in operating outcomes and, if so, whether differences among the states might explain differences in chartering preferences.

Questions that might be pursued in future research include the following. Is the ease of securing a state charter relative to a national charter greater in states with higher proportions of state-chartered banks? Are state regulatory authorities appreciably more lenient in granting charters in some states than in others? Is the relatively high proportion of state-chartered banks in the southeastern states a mere reflection of history dating back to the Civil War? Despite the differences noted above, there are again significant similarities in the state, region and nation. It is safe to generalize that:

- a large majority of banks in the United States (71%), the Southeast (77%) and Georgia (82%) are state chartered banks;
- national banks have many more offices per bank than do state banks; and
- most state banks choose not to be members of the Federal Reserve System.

We turn now to a comparison of the size distribution of banks in Georgia with those in the Southeast and the United States.

Data presented in Table 1-3 reinforce observations that Georgia banking is similar to that of the United States as a whole. Within the Southeast, Florida and North Carolina differ from Georgia and the other southeastern states with a greater proportion of the larger banks and relatively few of the very small banks with assets less than \$25 million. In the nation, the region and the state of Georgia, by far the greatest proportion of banks fall in the relatively small category of less than \$100 million in assets. In the three areas, respectively, this category accounts for 69 percent, 64 percent and 73 percent of all banks. However, these banks account for only 3 percent of bank-held assets in the United States, 8 percent in Southeastern states and 14 percent in Georgia.

a small number of large banks handle most bank resources, while a large number of small banks constitute a large majority of the banking firms. As noted earlier, the trend since the 1980s has clearly been toward consolidation with fewer, but larger, banks operating more branches.

In considering public policy toward banking and its affect on structure, three questions would seem relevant. (1) Does public policy account for differences in structure from state to state and region to region? (2) Are observed differences in structure, or in changes in structure, "good" for Georgia? (3) What elements of policy should be used to promote or impede change in Georgia's banking structure? To set the stage for a more thorough consideration of these issues, we turn now to a more detailed examination of the current structure of banking in Georgia.

DETAILS OF GEORGIA'S BANKING STRUCTURE

Only eight states, none of which is in the Southeast, have more banks than Georgia.² It seems clear that Georgia's laws restricting branch banking have played a role in producing this outcome. As we have seen however, the coexistence of a small number of large banks and a large number of small banks is characteristic of U.S. banking nationally and regionally, as well as in Georgia. Thus it will be useful to look beneath these qualitative comparisons at Georgia's particular brand of dual banking system.

Georgia's banking law has undoubtedly preserved small-town banks. However, it has also permitted the growth of huge, sophisticated money-center banks. As a general rule, the small bank sub-sector is made up of banks chartered by the state, while the big banks are nationally chartered. As noted earlier, state banks may choose whether they wish to be members of the Federal Reserve system, and to meet all the requirements of membership. National banks must be members. The practical effect of the distinction between state and national banks and between member and non-member banks is small. State banks connect firmly to the rest of the system through correspondent and other relationships with national banks. Moreover, virtually all bank deposits are insured (up to \$100,000) by the Federal Deposit Insurance Corporation (FDIC).

The distribution of Georgia's banks by size and chartering authority as of June 30, 1994, is shown in Table 1-4. As these data show, the majority (288 of 386) of Georgia's banks have total assets of less than \$100 million. Of these, 86 percent (247) are state chartered banks. In the aggregate, these banks had only 15 percent of all commercial bank held assets and 19 percent of total deposits in the state. By way of contrast, Georgia's 12 largest banks, which account for only 3 percent of all

²The states and number of banks as of December 31, 1994 were: California (404), Illinois (906), Iowa (517), Kansas (458), Minnesota (563), Missouri (473), Texas (980), and Wisconsin (399). Source of the data is *Statistics on Banking*, 1994, FDIC, Washington, D.C.

Georgia as in non-urban Georgia, while the population per office is not quite one and a half times as great as in non-urban Georgia. The result is not surprising given that non-urban counties have only a bank office every 28 square miles compared to one per quarter mile in the ten urban counties.

One possible explanation for the more modest variation in population per office may be that there is a threshold population level below which a banking facility is not economical, but above which some banking facility will appear. Whether the facility is a new branch of an existing bank or a new bank would appear to depend mainly upon the legal and regulatory environment. This question will be addressed more rigorously in the study of the relationships between banking and general economic activity.

Table 1-5 reveals that in Georgia, the "average" non-urban bank has 2.51 offices, each of which serves a population between four and five thousand, and serves an area of about 28 square miles (if square, the area would be roughly 5.3 miles on each side). Of the 159 counties in Georgia, 146 have at least one bank headquarters. Of the 13 counties that do not have a headquarters bank, 11 are served by a branch of a bank headquartered in another county. Two counties (Echols and Quitman) had no banking office at all as of June 30, 1994. Twenty eight counties had only one bank, and of these 28 banks, 19 had no office other than their home office.

TABLE 1-6
HOLDING COMPANY AFFILIATION OF
GEORGIA BANKS BY SIZE
JUNE 30, 1994

Total Assets (\$ Millions)	Number Owned by Multi-Bank HC	Number Owned by Single Bank HC	Number Not Owned by HC
0 - 25	8	7	31
25 - 50	25	54	45
50 - 100	29	61	28
100 - 500	40	42	8
> 500	3	5	1

Source: Georgia Financial Institutions Directory, Fall 1994. Atlanta, Community Bankers Association.

SELECTED OPERATING RESULTS OF GEORGIA BANKS BY SIZE CLASS

At a high level of aggregation, it appears that size is a significant influence on some important operating results.

Capitalization. Assets must, of course, be matched by the sum of liabilities and capital. For some purposes it is convenient to think of liabilities and capital as alternative sources of the funds used to acquire assets. Capital, of course, represents resources of the bank's owners while liabilities represent borrowed resources. For this reason, the ratio of capital to assets is sometimes used as an indicator of the riskiness. The higher the ratio, the greater the share of risk borne by a bank's owners relative to its depositors and other creditors.

Many studies of banking in the United States have concluded that large banks, on average, take more risk than smaller banks. Georgia data for June 1994, shown in Table 1-7, show capital- to- asset ratios that appear systematically higher for smaller banks than for larger ones. Over the same 5 asset size classes used in Table 1-6, there is a steady drop in the capital/asset ratio as size increases. The three smallest classes (0 - 25, 25 - 50, and 50 - 100 million dollars) had capital/asset ratios of 13, 11, and 10 percent respectively, while the two largest classes' (100 - 500 and over 500 million dollars) ratios were 9 and 8 percent respectively.

in any of the smaller size classes.

Balance Sheet Structure and Lending Patterns. Another operating ratio that is often consulted is the ratio of loans to total assets. Differences among size classes are much more modest for the loans/assets ratios than for other balance sheet ratios we have considered. As of June 1994 the four largest classes of banks in Georgia had an average of between 59 and 61 percent loans in their portfolios while the smallest banks had only 55 percent. It is probably safe to attribute the smaller banks' lower loan ratio to prudence. Small banks are less able to dampen risk by way of diversification than are larger banks. Instead they do so by holding relatively more cash and liquid securities, relative to loans. However it should also be remembered that the ratios presented are averages. Banks in more economically active areas will lend more than those in more stagnant areas, regardless of size.

It is important to be aware of the pitfalls of drawing inferences from highly aggregated data without a good sense of the uniformity, or lack of it, among the members of a class. The point is well illustrated in Table 1-8. This table presents balance sheet ratios (again, as of June 1994) for each of Georgia's 10 largest banks. Each of these banks falls in the largest size class we have used (over \$500 million). Yet the variations from one bank to the next are great in many important categories. This should not be very surprising, since the largest of these 10 banks had 34 times the asset volume and 23 times the deposits, of the smallest.⁵

Banks and Georgia's Public Finances. Banks are important to the finances of Georgia's state and local governments. These governments, in turn, are important "customers" of many Georgia banks. A summary of the main dimensions of the relationship between banks and the public finances is presented in Table 1-9.

In general, it appears that increasing size is associated with increasing effective tax rates (both state and federal), increased lending to state and local governments and decreasing relative importance of state and local government deposits as sources of funds. However, there is also some preliminary evidence of differences in tax treatment from one state to another. This evidence is shown in Table 1-10. Of particular note is North Carolina's lower effective tax rate in each of three broad size classes compared to Georgia banks. This

⁵Many studies are organized in such a manner that a \$500 million bank is considered medium sized. Depending on the purpose at hand, this may be quite appropriate.

TABLE 1-9
BANKS AND PUBLIC FINANCE BY BANK SIZE
GEORGIA: 1994

Size Class (Total in Millions of \$)	Federal Taxes Paid (% of Net Income)	State and Local Taxes Paid (% of Net Income)	Total Taxes Paid (% of Net Income)	Loans to State and Local Govts. (% of Assets)	State and Local Govt. Securities Held (% of Assets)	Deposits of State and Local Govts. (% of Total Deposits)	Average Total Assets Per Bank (Millions of \$)
0 - 10	32.82	2.05	34.87	0.03	2.74	4.72	6.40
10 - 25	31.05	6.62	37.67	0.34	3.44	3.90	16.05
25 - 50	37.66	1.02	38.68	0.38	4.59	4.11	38.37
50 - 100	37.97	1.21	39.18	0.37	4.8	4.06	68.9
300 - 500	45.01	3.00	48.01	0.58	2.51	4.21	399.52
500 - 1,000	31.06	3.71	34.77	0.88	4.11	2.49	673.19
1,000-5,000	54.97	8.21	63.19	0.21	0.21	3.55	2257.77
5,000-10,000	31.06	3.71	34.77	1.01	4.15	1.97	7978.14
> 10,000	48.42	2.49	50.92	1.11	0.90	2.88	14,100.30

Source: Compiled from data provided by Sheshunoff Information Services, taken from Call Reports of Banks submitted to FDIC

requires much more careful analysis before any conclusions can be drawn. Nevertheless, it raises a question that demands attention: does Georgia tax law place Georgia banks at a competitive disadvantage *vis a vis* their North Carolina rivals?

In the study of the fiscal relationships between the banks and the state and local Governments of Georgia, a detailed examination of the taxation of banks and other important fiscal flows will be presented.

that relatively "weak" borrowers with projects with an expected return (after allowing for risk) of, say, "r", may be denied credit while "strong" borrowers get credit for projects with returns yielding less than "r". Another theme has been that some borrowers may be totally dependent on bank financing, while others can turn to alternative sources of funding. Thus, in a period of "tight" monetary policy the former are unable to get credit at all, while the latter simply pay somewhat higher rates.

During the 1980s, bank portfolios in the United States showed significant reductions in the share of lending going to commercial and industrial borrowers (C&I loans). The C&I share dropped from 22.5 percent of assets in 1984 to 14.7 percent in 1994. In Georgia banks, in contrast, C&I loans drifted up from 17 percent to 18 percent of total assets over the same period. In the six-state southeastern area we have been considering, these loans dropped from 15 to 13 percent of total assets in this period.

Real estate lending, on the other hand, has jumped from 15 percent to 25 percent of the assets of banks in the United States as a whole. Similar percentage increases in the share of this class of loans occurred in the southeast and in Georgia.

For several decades, the share of agricultural loans in bank portfolios has also been declining (from about 2 percent to 1 percent of total assets at all United States banks).⁶ Do these trends reflect anything different from a natural, market-directed, reallocation of bank credit? What are the implications for the structure and pace of real economic activity in Georgia and its communities? Is banking structure an influence on these trends? These questions constitute the main thrust of the research into banking and real economic activity.

In this research we will seek statistical evidence on hypotheses that both the absolute pace of economic activity and its structure is systematically related to bank lending practices. County level data will be used for this purpose. The tests will be structured to attempt to capture the influence on such relationships of the structure of banking in the geographic areas. Do branches of large national (in scope, not necessarily charter) banks exhibit different lending preferences than local banks? Is bank size or organization systematically related to pricing of financial services? Are bank lending decisions in a given community influenced by the location of the home office of the bank or banks that serve the community? Does banking structure systematically influence the relationship between the geographic origin of deposits and the geographic destination of loans? These questions also fortify the research agenda under this heading.

⁶The president of a relatively small bank outside of urban Georgia told the author that since the 1980s bank examiners take an extremely dim view of loans with farm equipment or future crop proceeds as collateral. The effect has been that his bank has virtually ceased lending to small scale, modestly endowed farmers, even if they are well known to him and have outstanding track records.

THE RELATIONSHIPS BETWEEN STRUCTURE, COSTS AND EFFICIENCY

This is one of the most studied areas in banking. For many years it appeared that a consensus was forming on this subject matter. However at the present, previous research is the subject of widespread criticism on two main grounds, one theoretical and the other statistical.

Theoretical issues. A plethora of studies have been conducted in an effort to determine what the long-run average cost curve looks like for banks of different sizes. Virtually all studies have found that banking costs per unit of assets declined as one moved from smaller to larger banks, up to some point. Where that point was, was very much in disagreement (along with what it meant). A 1987 study (Berger, Hanweck and Humphrey, 1987) found that for banks with less than \$1 billion in total assets, the efficient scale was between \$75 and \$300 million. Larger banks experienced increasing average costs. In 1991, a study (Berger and Humphrey, 1991) concluded that scale efficiency peaks at \$100 million in assets, and declines thereafter. McAllister and McManus (1993) found that costs decrease (actually, that returns increase) as banks get larger, up to \$500 million in assets. Thereafter, the results suggested, returns to scale are not influenced by volume of total assets. There are more, but these make the point. Mergers seem to lower average cost for many banks, but not for the megabanks. Recently, some researchers have suggested that the size classes within which mergers result in cost savings are below the sizes of banks most often involved in mergers.

A major problem with these studies is that the economic concept of average cost relates current production cost to current production, i.e. a production flow to a cost flow. The foregoing studies and many, many others relate current production cost to a balance sheet entry (usually total assets, but sometimes total deposits), i.e. they relate a flow to a stock. To see the problem more clearly, imagine two banks. One has, say, 10 loans of \$10 million each. The other has fifty loans of \$ 1 million each. Will their costs be the same? Probably not. The bank with more loans but less dollar volume probably would have higher costs. But the one with only ten loans and lower costs will be deemed to be producing double the output of the one with fifty loans. And it will be deemed to be a "more efficient" size by the total assets measure. In the research undertaken under this project, a measure will be constructed of physical output so that "average cost" will be more faithful to its theoretical definition. That measure will then be examined for relationships with the elements of banking structure.

A second important problem is that the largest banks produce a significantly different mix of services and financial products than the mix produced by the smallest banks. Because of these differences, it is a theoretical stretch to compare costs incurred by them to reach any conclusion with respect to their relative "efficiencies". Nevertheless, several scholars have examined the question of the influence of product mix on costs, under the heading of "economies of scope". This research will be reviewed and we will seek further evidence on the issue through our own research.

enough to warrant legislative action to "level the playing field".

THE SOUNDNESS OF GEORGIA'S BANKS

As noted above, Georgia's banking system came through the wave of bank failures of the 1980s with an admirable record. While there were some failures in the 1970s, Georgia's system still looked quite strong. What is the reason for this? Is the number of failures an accurate measure of the strength of the system? How did earnings of Georgia's banks compare with earnings in other parts of the region and the nation? Can valid generalizations be made about the ability of banks of different sizes in Georgia to weather tough economic times?

The foregoing questions just scratch the surface of the interesting and relevant issues. As we have noted, despite a relatively conservative historical stance toward branch banking, Georgia has also joined the trend toward consolidation. One of the principal arguments of those who favor consolidation has been that it strengthens the banking system by permitting more diversification of loan portfolios. Taking this line of argument some authors have compared the relative instability of the United States' banking system with the much greater historic stability of the Canadian system, and concluded that the United States would do well to emulate Canada. (See, for example, Bordo, Rockoff and Redish, 1993).

A significant quantity of recent research, on the other hand, points out certain aspects of the consolidation trend that undermine the soundness of the system. One of these factors is the use by the largest banks of large denomination certificates of deposit (CD's) and non-deposit liabilities as a source of funds for lending. These funds tend to be appreciably more volatile than deposits. Consequently, a bank that relies heavily on such sources is in greater danger of experiencing large, unanticipated, losses of funds.

A theme that has been raised by some authors suggests that the consolidation trend has gone beyond the point that would be dictated by economic factors. Policy attitudes labeled "too big to fail" attitudes of regulators, and "moral hazard" issues relating to bank officers, have been singled out for attention. Georgia's large banks tend to have lower ratios of capital to assets and higher ratios of commercial mortgages to assets, compared to smaller banks. Both ratios are considered proxy measures of risk, and both suggest greater risk associated with the largest banks. As with most "rule of thumb" indicators, much more information is required in order to come up with a plausible interpretation of these ratios. They do, however, suggest that there is merit in collecting the required additional information. Again, if it turns out that the consolidation trend lowers the degree of safety of the Georgia banking system, then an appropriate follow-on question would be whether it is desirable and/or possible to intervene legislatively in a constructive manner.

To summarize, this research component inquires into the size, predictability and speed of reaction of Georgia banks in different size and organizational categories, to monetary policy actions of the Federal Reserve System, and the implications for the Georgia economy.

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Dr. Samuel Skogstad received his undergraduate and master's level education in economics from Florida State University and his Ph.D. from Washington University. He has had a distinguished career both in higher education and in federal government service. In 1994, Dr. Skogstad rejoined the economics faculty at Georgia State University following a fourteen year career with the United States Agency for International Development (USAID). During his tenure with USAID he served in posts throughout the world beginning as the Chief Economist for Chile. Other positions held include Chief Economist in the Bureau for the Near East, Director of the Office of Economic Policy for Guatemala, and Director of the Office of Economic Restructuring in the Task Force on the Former Soviet Union. Immediately prior to returning to GSU, Dr. Skogstad was the Director of Economics in the Bureau for Europe and the Former Soviet Union in Washington, D.C. Throughout his career he has maintained an academic and professional interest in the role of banking in the economy at both the national and subnational levels. The responsiveness of the banking system to changes in monetary policy and the linkage of the structure to the banking system on capital creation and availability have been of particular interest. This series of papers on Georgia Banking allows Dr. Skogstad to renew in his longstanding interest and expertise on this topic which dates to 1969 with his publication of Banking Structure and Bank Performance: The Georgia Situation.

Document Metadata

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Georgia Banking: An Overview

Publisher(s): Fiscal Research Center of the Andrew Young School of Policy Studies

Author(s): Samuel Skogstad

Date Published: 1996-05-01

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Subject(s): Government Reform