CBO STAFF MEMORANDUM

REGIONAL ANALYSIS OF BANK LENDING

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CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
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This memorandum responds to a request by the House Committee on Banking, Finance and Urban Affairs for the Congressional Budget Office (CBO) to provide data on the financial condition of banks and recent changes in bank lending by region. It also examines differences in behavior between strong and weak banks with respect to their willingness to increase commercial and industrial lending as opposed to holding other assets, namely U.S. Treasury securities.

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INTRODUCTION AND SUMMARY

The analysis presented in this memorandum supports the conclusion that strong banks as a group continued to make loans throughout the period from the beginning of 1990 through the second quarter of 1992 (1992:ii), while weak banks cut back on lending.[1] To the extent that recent regulation and legislation have strengthened the banking system, they are more likely to have increased the ability of banks to support an economic recovery than to have hampered it.

The analysis in this memorandum focuses on a cohort of institutions operating throughout the 1990-1992:ii period. This cohort, or subset, excludes institutions that were merged or resolved or that entered the industry during the period.[2] The share of weak banks in the cohort varied by region, and regions with high concentrations of weak banks were most likely to experience decreased commercial and industrial lending and total lending (see Table 1). Banks in all regions increased holdings of U.S. Treasury securities during this period and, with the exception of banks in New England, increased real estate lending.

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1. For a definition of strong and weak banks, see page 7.

2. Nationally, 88 percent of all banks insured by the Bank Insurance Fund are included in the cohort. This percentage varies considerably by region and by group (see Tables 2 through 9).

From 1990 through 1992:ii, the average annual rates of growth in total loans were positive for strong banks in the cohort, and negative for weak banks, in all regions. For the nation as a whole, lending by strong banks increased over the period by approximately 3.1 percent a year, on average; lending by weak banks decreased at an average annual rate of 3.6 percent (see Table 2). Although total bank lending from the cohort increased by an average of 1.1 percent per year from 1990 to 1992:ii, lending fell during both the 1991 and 1992:i-1992:ii subperiods because the growth at strong banks was more than offset by substantial declines at weak banks.

Nationwide, the vast majority of banks (about 85 percent) are now financially strong and expanding, but conditions vary considerably by region (see Tables 3 through 9).[3] For example, strong banks account for only 61.5 percent of banks and 59.2 percent of bank assets in New England; but strong banks in the Central United States account for 93.7 percent of all banks and 98.1 percent of bank assets.

Variability in regional concentrations of strong and weak banks within the cohort contributes to variability in the growth of total loans and loan subcategories by region. During some subperiods and in some regions--namely New England, the Mid-Atlantic, the Southwest, and the West--both

3. Regions of the United States are defined in Tables 3 through 9.

strong and weak banks were reducing their lending.[4] In general, however, regions that have a large proportion of weak banks show decreased bank lending, and regions with predominately strong banks show increased lending.

The data on total loans mask changes in banks' portfolios. For the entire United States, the amount of outstanding commercial and industrial (C&I) loans held by both strong and weak banks in the cohort declined from 1991 through 1992:ii. The average annual rate of decline of C&I loans was 7.7 percent at weak banks, compared with 1.4 percent at strong banks. Real estate loans, which sometimes substitute for commercial and industrial loans, from strong banks in the cohort increased by 9.9 percent over the 1990-1992:ii period, although such loans from weak banks in the cohort fell by 1.3 percent.[5] Banks' holdings of U.S. Treasury securities increased substantially at both strong and weak banks in all regions--at an average annual rate of over 25 percent nationally for all banks over the entire period.

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4. Reduced lending was accompanied by banks either shrinking total assets or switching from lending to investing in government securities.

5. Many banks have changed their lending practices so that commercial and industrial loans are required to be collateralized by real estate. Because loans are classified according to their collateral rather than their use, some of the decline in C&I loans, and the increase in real estate loans, is attributable to the change in lending practice.

INTERPRETING THE RESULTS

The existence of reduced bank lending and its causes are hotly debated topics among bank analysts. The data presented here tell very little, if anything, about the causes of decreased lending. These data confirm, however, that bank lending, particularly C&I lending, has declined in some regions of the United States during some periods over the past four years. In general, regions with a high proportion of weak banks show overall declines in bank lending; regions with a very small proportion of weak banks show increased bank lending.

Decreased lending can occur for a variety of reasons. It can reflect a reduction in the demand for bank loans that typically occurs during a recession. Reduced lending in regions that have suffered economic reverses over the past few years may be a result of such reduced demand for bank loans. Reduced bank lending, however, can also reflect a contraction in the supply of bank lending. This can result from normal market incentives or from tighter government regulation and supervision that would lead undercapitalized banks to rebuild capitalization by downsizing.[6] It could also result from tighter regulation and supervision--designed to protect the Bank

6. A weakly capitalized institution can increase capitalization by either increasing capital or downsizing assets. Downsizing does not require that the bank add to its capital. The bank can either sell some assets or not make new loans as maturing loans are paid off. It then uses the cash to pay off some of its liabilities.

Insurance Fund (BIF) from losses resulting from failures of weak institutions--that cause banks to switch from lending to holding less risky government securities. Holding such securities not only improves a bank's capital position but, with the current low interest rates, also provides significant income.

The financial and economic literature generally concludes that bank loans appear to have fallen by an unusual amount in the past two years or so. Survey data suggest that small businesses, which depend on bank financing, have had some trouble securing credit in recent years, despite the availability of nonbank sources of credit. The data presented in this memorandum indicate that the availability of bank loans in any region of the country is likely to be associated with the number and size of weak banks in that region. Specifically, those areas containing a large percentage of weak banks, particularly New England, the Mid-Atlantic, and the Southwest, probably suffered the most from the financial problems of the banking industry. Conversely, regions with a proportionally large number of strong banks, such as the Central and Midwest regions, are less affected by reduced bank lending.

A significant change in recent years is the substantial increase in banks' holdings of Treasury securities. The data on growth rates for such holdings for the cohort of both strong and weak institutions are consistent with other reports that show a large increase in the share of Treasury securities in banks' portfolios. No clear pattern emerges to distinguish between the holdings of weak and strong banks across regions. Furthermore, it is unclear how much of the increase in government securities held by banks is attributable to the current wide gap between borrowing and lending rates, and how much to efforts by banks to meet anticipated risk-based capital requirements.[7] Nonbank financial institutions have also increased their holdings of government securities during this period, suggesting that the yield spread and not government regulation and supervision plays the major role in the desire of financial institutions to hold these securities.

Finally, financial analysis suggests that relaxing capitalization standards for strong institutions would have little effect on their lending. These institutions are not now constrained by capital standards; loosening standards would not be likely to affect their levels or proportion of lending. The opposite is true for capitally constrained banks. These institutions would increase their lending if regulators relaxed their capital constraints and other safety and soundness regulations that may impede their making loans. Lacking firm, prudent supervision, however, weak banks might have an incentive to

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7. Because government securities are deemed to have less risk of default than other types of bank investments, banks with greater proportions of investment in government securities are considered less risky. Although this assumption ignores interest rate risk, newly implemented risk-based capital requirements for banks require less capital to be held against investment in government securities than against investment in lending.

undertake riskier lending, which could result in more costly bank failures and create additional claims on the Bank Insurance Fund.

ANALYTIC METHOD AND REGIONAL DATA

To comply with the committee's request, the Congressional Budget Office (CBO) divided all BIF-insured commercial and savings banks into two groups (strong and weak) based on several criteria as reported at the end of the second quarter of 1992. Banks that met the following criteria were labeled strong:

- o nonperforming loans and other real estate (ORE) held composing less than 8 percent of total loans and ORE;
- o a primary capital ratio of more than 5.5 percent; and
- o positive earnings for the first two quarters of 1992.

All other banks were labeled weak. Interestingly, this breakdown roughly approximates the number of banks and the associated assets of categories used by the Federal Deposit Insurance Corporation for financially sound banks (CAMELs 1 and 2) and weaker banks (CAMELs 3, 4, and 5).

CBO calculated growth rates for assets, loans, and securities for cohorts of institutions that exclude resolved and merged banks and banks that entered the industry after 1989. Calculations based on these cohorts allow a clearer interpretation of changes and differences in growth rates.

New England Region

The New England region has a relatively large number of weak banks (see Table 3). Approximately 39 percent of the banks--holding 41 percent of the region's banking assets--fell into the weak category as of 1992:ii. Banks in the weak cohort decreased their total loans by an average of 4.6 percent a year and decreased their commercial and industrial loans by an average of 6.9 percent a year during the 1990-1992:ii period. The cohort of strong banks showed no net change in total loans over the period, but C&I loans decreased at an average annual rate of 4.4 percent.

Total loans in the region declined at an average annual rate of 2.4 percent during the period; C&I loans declined at an average annual rate of 5.6 percent. Both strong and weak New England banks increased their purchases of U.S. Treasury securities during this period, with strong banks increasing their holdings slightly less than weak banks. Strong banks, however, decreased Treasury holdings during the first half of 1992.

Mid-Atlantic Region

The Mid-Atlantic region has percentages of strong and weak banks (84.5 percent and 15.5 percent, respectively) that are close to the national average (see Table 4). However, the assets held by weak banks in the Mid-Atlantic are a much larger share of the total: overall, weak banks hold 22.4 percent of bank assets and 22.6 percent of total bank loans in the region.[8] The assets of weak banks contracted at an average annual rate of 3.2 percent during the period; those of strong banks expanded at an average annual rate of 5.3 percent.

8. These results are dominated primarily by a few money-center banks in New York.

The strong bank cohort increased lending by an average of 1.7 percent a year, and the weak bank cohort reduced loans by an average of 5.7 percent a year. C&I loans declined for all banks and declined substantially for banks in the weak cohort, decreasing at an average annual rate of 13.9 percent. Real estate loans continued to grow for strong banks, but such growth was slight for weak banks. All banks increased their holdings of Treasury securities, although there were substantial differences between banks in the strong and weak cohorts. Holdings of Treasury securities increased at an annual average rate of 36.6 percent at strong banks and 69.3 percent at weak banks.

Southeastern Region

Banks in the Southeastern region are considerably stronger than the U.S. average (see Table 5). Weak banks in the Southeast held only 5 percent of the region's bank assets. Strong banks made about 95 percent of total loans, 96 percent of C&I loans, and 95 percent of real estate loans. Overall bank lending increased during the 1990-1992:ii period because growth in lending from the strong banks heavily outweighed declines in lending from the weak ones. Both groups of banks increased their holdings of government securities:

banks in the strong cohort increased Treasury holdings by 44.5 percent, and banks in the weak cohort increased holdings by 10.8 percent.

Central Region

Only 6.3 percent of banks in the Central region are weak; they hold 1.9 percent of the region's bank assets (see Table 6). The strong-bank cohort increased total lending, C&I lending, and real estate lending for the 1990-1992:ii period, and the weak-bank cohort decreased total lending and C&I lending. Weak banks modestly increased real estate lending during this period. Both types of banks increased their holdings of Treasury securities.

Because the Central region is predominately composed of strong banks, total lending and C&I lending generally increased over the period, except during 1991, when C&I lending dropped for both strong and weak banks. This drop accounts for the total decline in C&I lending by the end of the period.

Midwestern Region

The Midwestern region comprises mostly strong banks, which account for 92.3 percent of the banks in the cohort and 94.7 percent of bank assets (see Table 7). Strong banks hold 94.5 percent of total bank loans. Total bank lending from the cohort of strong and weak banks increased for the region at an average annual rate of 2.9 percent. The strong-bank cohort increased total lending at an average rate of 3.4 percent annually, and the weak-bank cohort decreased total lending at an average rate of 4.5 percent a year. Strong banks in the region began to increase C&I lending during the first half of 1992 after decreasing their holdings of C&I loans during the peak of the recession in 1991. Real estate lending from the strong banks has continued to grow at an average annual rate of more than 14 percent, although real estate lending from the weak-bank cohort contracted at an annual rate of 2.8 percent. Both strong and weak banks have expanded their holdings of Treasury securities.

Southwestern Region

The Southwestern region bears a closer resemblance to the New England and Mid-Atlantic regions in terms of the proportion of strong and weak banks in the cohort than it does to other regions (see Table 8). Weak banks account for 23.2 percent of all banks and hold 37.3 percent of bank assets.

The cohort of strong banks in the Southwestern region increased total loans by an average of 0.9 percent a year, but the weak-bank cohort decreased total lending by 3.3 percent, resulting in an overall decrease in lending of 0.8 percent a year, on average, throughout the period. The amount of C&I loans held by strong and weak banks decreased throughout the 1990-1992:ii period. Both strong and weak banks increased Treasury acquisitions between 1990 and 1992:ii. Over the first half of 1992, strong banks increased U.S. Treasury acquisitions by 23 percent, and weak banks decreased their Treasury holdings.

Western Region

Weak banks account for 22.8 percent of all banks in the Western region (see Table 9). The assets held by these banks, however, represent a disproportionately large share of the region's bank assets--40 percent. The pattern of growth in total loans and other assets among the strong and weak cohorts is similar to that of other regions. But major mergers in the past two years have substantially reduced the number of banks in the weak cohort and may affect the calculated growth rates shown in Table 9.

The strong-bank cohort increased total loans at an average annual rate of 3.0 percent; the weak-bank cohort decreased loans at an average annual rate of 2.8 percent. Both groups combined to increase total loans by nearly 2.0 percent. Both groups, however, continue to decrease their holdings of C&I loans--though more so for the weak cohort than the strong. The drop in C&I loans for the region as a whole was very large for the first half of 1992--more than 8.3 percent. This reduction exceeds the percentage declines in the New England, Mid-Atlantic, and Southwestern regions and may indicate that banking problems in the Western region are not yet over.

TABLE 1. CHANGES IN THE GROWTH OF BANK LENDING AND TREASURY SECURITIES HELD, BY REGION[a]

	Percentage of Banks Classified as Weak[b]		Average Annual Growth Rates, 1990-1992:ii			
	By Number of Institutions	By Value of Assets	Total Loans	C&I Loans	Real Estate Loans	U.S. Treasury Securities
Regions with High Concentrations of Weak Banks						
New England	38.5	40.8	-2.4	-5.6	-0.2	17.9
Mid-Atlantic	15.5	22.4	-0.3	-6.2	7.4	42.3
Southwest	23.2	37.3	-0.8	-5.3	3.2	24.8
West	22.8	40.0	1.9	-2.9	8.7	24.8
Regions with Low Concentrations of Weak Banks						
Southeast	13.4	4.8	4.9	1.4	9.6	42.5
Central	6.3	1.9	4.5	-0.3	12.8	7.2
Midwest	7.7	5.3	2.9	-1.5	12.7	13.0
Total United States	14.7	29.9	1.1	-3.1	6.6	25.7

SOURCE: Congressional Budget Office based on data from Ferguson and Company.

NOTES: Minus sign (-) indicates a decrease in the category. C&I = commercial and industrial.

a. For a cohort of banks operating as of June 30, 1992, excluding banks that merged with other banks and those that were newly chartered between the end of 1989 and June 30, 1992.

b. Weak banks are defined as those banks that fail any of the following criteria: nonperforming loans and other real estate (ORE) held are less than 8 percent of total loans and ORE; the primary capital ratio is more than 5.5 percent; and earnings for the first two quarters of 1992 are positive.

TABLE 2. DATA ON ALL U.S. BANKS (As of the second quarter of 1992)[a]

	Strong	Weak	Total[b]
Levels and Shares			
Number of Institutions	10,358	1,786	12,144
Share of Region (Percent)	85.3	14.7	100.0
Value of Assets (Billions of dollars)	2,564	1,095	3,658
Share of Region (Percent)	70.1	29.9	100.0
Cohort's Share of Total (Percent)[c]	93.8	74.2	87.9
Total Loans (Billions of dollars)	1,495	679	2,174
Share of Region (Percent)	68.8	31.2	100.0
Cohort's Share of Total (Percent)[c]	93.5	71.8	86.7
Commercial and Industrial Loans (Billions of dollars)	326	128	454
Share of Region (Percent)	71.8	28.2	100.0
Cohort's Share of Total (Percent)[c]	95.6	77.7	90.6
Real Estate Loans (Billions of dollars)	685	276	961
Share of Region (Percent)	71.2	28.8	100.0
Cohort's Share of Total (Percent)[c]	92.7	75.1	87.6
U.S. Treasury Securities (Billions of dollars)	197	45	242
Share of Region (Percent)	81.3	18.7	100.0
Cohort's Share of Total (Percent)[c]	93.3	88.7	92.4
Annual Growth Rates for Cohort of Banks (In percent)[c]			
Assets[d]			
1990	5.8	-0.6	4.0
1991	5.3	-1.9	3.3
1992:i-1992:ii	3.1	-1.4	1.9
1990-1992:ii	5.3	-1.3	3.4

(Continued)

TABLE 2. CONTINUED

	Strong	Weak	Total[b]
Total Loans[d]			
1990	5.6	-0.7	3.8
1991	1.4	-5.5	-0.6
1992:i-1992:ii	1.2	-5.8	-0.7
1990-1992:ii	3.1	-3.6	1.1
Commercial and Industrial Loans[d]			
1990	3.1	-2.9	1.4
1991	-5.7	-12.6	-7.5
1992:i-1992:ii	-1.3	-9.8	-3.4
1990-1992:ii	-1.4	-7.7	-3.1
Real Estate Loans[d]			
1990	12.1	2.5	9.2
1991	8.0	-1.9	5.2
1992:i-1992:ii	6.0	-7.4	2.5
1990-1992:ii	9.9	-1.3	6.6
U.S. Treasury Securities[d]			
1990	5.0	12.0	6.1
1991	32.1	39.4	33.3
1992:i-1992:ii	32.7	30.2	32.3
1990-1992:ii	24.5	31.9	25.7

SOURCE: Congressional Budget Office based on data from Ferguson and Company.

NOTE: Minus sign (-) indicates a decrease in the category.

a. Includes all commercial and savings banks insured by the Bank Insurance Fund.

b. Strong banks meet the following criteria: nonperforming loans and other real estate (ORE) held are less than 8 percent of total loans and ORE; the primary capital ratio is more than 5.5 percent; and earnings for the first two quarters of 1992 are positive. All other banks are classified as weak.

c. The cohort of banks includes only those banks operating as of June 30, 1992, excluding banks that merged with other banks and banks that were newly chartered during the period from the end of 1989 to June 30, 1992.

d. Calculated as a percentage change year over year, annualized for the half year 1992:i-1992:ii, and calculated for the two-and-a-half-year period 1990-1992:ii by dividing the total percentage change by 2.5.

TABLE 3. DATA ON NEW ENGLAND BANKS (As of the second quarter of 1992)[a]

	Strong	Weak	Total[b]
Levels and Shares			
Number of Institutions	318	199	517
Share of Region (Percent)	61.5	38.5	100.0
Value of Assets (Billions of dollars)	155	107	262
Share of Region (Percent)	59.2	40.8	100.0
Cohort's Share of Total (Percent)[c]	85.1	99.6	91.0
Total Loans (Billions of dollars)	89	73	162
Share of Region (Percent)	55.2	44.8	100.0
Cohort's Share of Total (Percent)[c]	85.0	99.5	91.5
Commercial and Industrial Loans (Billions of dollars)	17	13	30
Share of Region (Percent)	57.6	42.4	100.0
Cohort's Share of Total (Percent)[c]	82.4	99.9	89.8
Real Estate Loans (Billions of dollars)	57	51	108
Share of Region (Percent)	52.8	47.2	100.0
Cohort's Share of Total (Percent)[c]	85.3	99.9	92.2
U.S. Treasury Securities (Billions of dollars)	12	4	16
Share of Region (Percent)	73.1	26.9	100.0
Cohort's Share of Total (Percent)[c]	70.1	99.8	78.1
Annual Growth Rates for Cohort of Banks (In percent)[c]			
Assets[d]			
1990	-0.8	-0.6	-0.7
1991	10.0	-0.8	4.8
1992:i-1992:ii	4.8	-4.9	0.4
1990-1992:ii	4.7	-1.5	1.7

(Continued)

TABLE 3. CONTINUED

	Strong	Weak	Total[b]
Total Loans[d]			
1990	-2.0	-4.1	-3.1
1991	1.2	-3.1	-1.0
1992:i-1992:ii	1.7	-9.5	-3.9
1990-1992:ii	0	-4.6	-2.4
Commercial and Industrial Loans[d]			
1990	-2.5	-5.7	-4.1
1991	-8.6	-10.4	-9.5
1992:i-1992:ii	-0.1	-4.0	-1.9
1990-1992:ii	-4.4	-6.9	-5.6
Real Estate Loans[d]			
1990	-0.1	-2.6	-1.4
1991	3.7	1.3	2.4
1992:i-1992:ii	3.7	-9.1	-3.1
1990-1992:ii	2.2	-2.3	-0.2
U.S. Treasury Securities[d]			
1990	19.5	0.7	13.5
1991	31.7	36.7	33.1
1992:i-1992:ii	-23.0	27.2	-8.5
1990-1992:ii	15.7	22.6	17.9

SOURCE: Congressional Budget Office based on data from Ferguson and Company.

NOTE: Minus sign (-) indicates a decrease in the category.

a. Includes all commercial and savings banks insured by the Bank Insurance Fund. The states covered include Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont.

b. Strong banks meet the following criteria: nonperforming loans and other real estate (ORE) held are less than 8 percent of total loans and ORE; the primary capital ratio is more than 5.5 percent; and earnings for the first two quarters of 1992 are positive. All other banks are classified as weak.

c. The cohort of banks includes only those banks operating as of June 30, 1992, excluding banks that merged with other banks and banks that were newly chartered during the period from the end of 1989 to June 30, 1992.

d. Calculated as a percentage change year over year, annualized for the half year 1992:i-1992:ii, and calculated for the two-and-a-half-year period 1990-1992:ii by dividing the total percentage change by 2.5.

TABLE 4. DATA ON MID-ATLANTIC BANKS (As of the second quarter of 1992)[a]

	Strong	Weak	Total[b]
Levels and Shares			
Number of Institutions	802	147	949
Share of Region (Percent)	84.5	15.5	100.0
Value of Assets (Billions of dollars)	407	118	525
Share of Region (Percent)	77.6	22.4	100.0
Cohort's Share of Total (Percent)[c]	94.3	98.8	95.3
Total Loans (Billions of dollars)	250	73	323
Share of Region (Percent)	77.4	22.6	100.0
Cohort's Share of Total (Percent)[c]	93.8	98.9	95.0
Commercial and Industrial Loans (Billions of dollars)	47	16	63
Share of Region (Percent)	74.3	25.7	100.0
Cohort's Share of Total (Percent)[c]	98.7	98.9	98.8
Real Estate Loans (Billions of dollars)	103	43	146
Share of Region (Percent)	70.7	29.3	100.0
Cohort's Share of Total (Percent)[c]	94.4	98.7	95.6
U.S. Treasury Securities (Billions of dollars)	33	10	42
Share of Region (Percent)	77.4	22.6	100.0
Cohort's Share of Total (Percent)[c]	96.0	98.9	96.6
Annual Growth Rates for Cohort of Banks[c]			
Assets[d]			
1990	4.9	1.7	4.0
1991	7.2	-5.0	4.0
1992:i-1992:ii	1.3	-9.7	-1.3
1990-1992:ii	5.3	-3.2	3.0

(Continued)

TABLE 4. CONTINUED

	Strong	Weak	Total[b]
Total Loans[d]			
1990	4.5	-0.3	3.2
1991	2.0	-6.3	-0.2
1992:i-1992:ii	-4.2	-16.5	-7.3
1990-1992:ii	1.7	-5.7	-0.3
Commercial and Industrial Loans[d]			
1990	2.4	-8.7	-1.3
1991	-4.5	-19.8	-9.2
1992:i-1992:ii	-7.6	-21.7	-11.4
1990-1992:ii	-2.4	-13.9	-6.2
Real Estate Loans[d]			
1990	10.8	5.7	9.0
1991	12.2	1.0	8.4
1992:i-1992:ii	5.3	-9.2	0.6
1990-1992:ii	11.0	0.7	7.4
U.S. Treasury Securities[d]			
1990	3.9	29.3	8.3
1991	44.6	53.1	46.3
1992:i-1992:ii	55.1	76.2	59.6
1990-1992:ii	36.6	69.3	42.3

SOURCE: Congressional Budget Office based on data from Ferguson and Company.

NOTE: Minus sign (-) indicates a decrease in the category.

a. Includes all commercial and savings banks insured by the Bank Insurance Fund. The states covered include New York, Delaware, Washington, D.C., Maryland, New Jersey, Pennsylvania, Virginia, and West Virginia.

b. Strong banks meet the following criteria: nonperforming loans and other real estate (ORE) held are less than 8 percent of total loans and ORE; the primary capital ratio is more than 5.5 percent; and earnings for the first two quarters of 1992 are positive. All other banks are classified as weak.

c. The cohort of banks includes only those banks operating as of June 30, 1992, excluding banks that merged with other banks and banks that were newly chartered during the period from the end of 1989 to June 30, 1992.

d. Calculated as a percentage change year over year, annualized for the half year 1992:i-1992:ii, and calculated for the two-and-a-half-year period 1990-1992:ii by dividing the total percentage change by 2.5.

TABLE 5. DATA ON SOUTHEASTERN BANKS (As of the second quarter of 1992)[a]

	Strong	Weak	Total[b]
Levels and Shares			
Number of Institutions	1,361	210	1,571
Share of Region (Percent)	86.6	13.4	100.0
Value of Assets (Billions of dollars)	416	21	437
Share of Region (Percent)	95.2	4.8	100.0
Cohort's Share of Total (Percent)[c]	91.9	92.3	91.9
Total Loans (Billions of dollars)	251	12	263
Share of Region (Percent)	95.3	4.7	100.0
Cohort's Share of Total (Percent)[c]	91.2	93.0	91.3
Commercial and Industrial Loans (Billions of dollars)	53	2	55
Share of Region (Percent)	95.5	4.5	100.0
Cohort's Share of Total (Percent)[c]	94.0	93.5	94.0
Real Estate Loans (Billions of dollars)	131	8	139
Share of Region (Percent)	94.6	5.4	100.0
Cohort's Share of Total (Percent)[c]	90.4	92.7	90.5
U.S. Treasury Securities (Billions of dollars)	37	1	38
Share of Region (Percent)	96.2	3.8	100.0
Cohort's Share of Total (Percent)[c]	90.2	85.3	90.0
Annual Growth Rates for Cohort of Banks[c]			
Assets[d]			
1990	9.9	-1.8	9.2
1991	6.1	1.6	5.8
1992:i-1992:ii	3.1	-13.0	2.2
1990-1992:ii	7.3	-2.7	6.7

(Continued)

TABLE 5. CONTINUED

	Strong	Weak	Total[b]
Total Loans[d]			
1990	9.7	-3.6	8.9
1991	3.6	-5.8	3.1
1992:i-1992:ii	0.3	-10.8	-0.2
1990-1992:ii	5.6	-5.6	4.9
Commercial and Industrial Loans[d]			
1990	8.6	0.3	8.1
1991	-3.2	-13.5	-3.8
1992:i-1992:ii	0.2	-20.0	-0.8
1990-1992:ii	2.1	-8.8	1.4
Real Estate Loans[d]			
1990	13.7	-8.2	12.1
1991	9.5	-1.0	8.9
1992:i-1992:ii	3.5	-1.0	3.2
1990-1992:ii	10.7	-3.8	9.6
U.S. Treasury Securities[d]			
1990	17.3	2.9	16.5
1991	46.7	25.1	45.6
1992:i-1992:ii	45.4	-2.6	43.3
1990-1992:ii	44.5	10.8	42.5

SOURCE: Congressional Budget Office based on data from Ferguson and Company.

NOTE: Minus sign (-) indicates a decrease in the category.

a. Includes all commercial and savings banks insured by the Bank Insurance Fund. The states covered include Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee.

b. Strong banks meet the following criteria: nonperforming loans and other real estate (ORE) held are less than 8 percent of total loans and ORE; the primary capital ratio is more than 5.5 percent; and earnings for the first two quarters of 1992 are positive. All other banks are classified as weak.

c. The cohort of banks includes only those banks operating as of June 30, 1992, excluding banks that merged with other banks and banks that were newly chartered during the period from the end of 1989 to June 30, 1992.

d. Calculated as a percentage change year over year, annualized for the half year 1992:i-1992:ii, and calculated for the two-and-a-half-year period 1990-1992:ii by dividing the total percentage change by 2.5.

TABLE 6. DATA ON CENTRAL REGION BANKS (As of the second quarter of 1992)[a]

	Strong	Weak	Total[b]
Levels and Shares			
Number of Institutions	2,425	164	2,589
Share of Region (Percent)	93.7	6.3	100.0
Value of Assets (Billions of dollars)	555	11	566
Share of Region (Percent)	98.1	1.9	100.0
Cohort's Share of Total (Percent)[c]	96.1	94.6	96.1
Total Loans (Billions of dollars)	334	6	340
Share of Region (Percent)	98.2	1.8	100.0
Cohort's Share of Total (Percent)[c]	95.7	94.6	95.7
Commercial and Industrial Loans (Billions of dollars)	91	1	92
Share of Region (Percent)	98.4	1.6	100.0
Cohort's Share of Total (Percent)[c]	97.5	93.6	97.5
Real Estate Loans (Billions of dollars)	142	3	145
Share of Region (Percent)	97.9	2.1	100.0
Cohort's Share of Total (Percent)[c]	94.8	93.1	94.7
U.S. Treasury Securities (Billions of dollars)	34	1	35
Share of Region (Percent)	97.8	2.2	100.0
Cohort's Share of Total (Percent)[c]	96.1	91.3	96.0
Annual Growth Rates for Cohort of Banks[c]			
Assets[d]			
1990	5.2	1.2	5.1
1991	4.5	-3.3	4.4
1992:i-1992:ii	2.0	-8.0	1.8
1990-1992:ii	4.4	-2.4	4.3

(Continued)

TABLE 6. CONTINUED

	Strong	Weak	Total[b]
Total Loans[d]			
1990	6.8	2.0	6.7
1991	2.6	-8.6	2.3
1992:i-1992:ii	4.0	-9.3	3.7
1990-1992:ii	4.7	-4.4	4.5
Commercial and Industrial Loans[d]			
1990	4.2	-2.0	4.0
1991	-4.8	-23.7	-5.2
1992:i-1992:ii	1.8	-18.3	1.5
1990-1992:ii	0	-12.8	-0.3
Real Estate Loans[d]			
1990	13.5	8.7	13.4
1991	12.2	1.4	11.9
1992:i-1992:ii	8.4	-7.1	8.1
1990-1992:ii	13.1	2.5	12.8
U.S. Treasury Securities[d]			
1990	-8.6	-3.9	-8.5
1991	16.4	20.4	16.5
1992:i-1992:ii	21.9	-2.8	21.3
1990-1992:ii	7.2	5.7	7.2

SOURCE: Congressional Budget Office based on data from Ferguson and Company.

NOTE: Minus sign (-) indicates a decrease in the category.

a. Includes all commercial and savings banks insured by the Bank Insurance Fund. The states covered include Illinois, Indiana, Kentucky, Michigan, Ohio, and Wisconsin.

b. Strong banks meet the following criteria: nonperforming loans and other real estate (ORE) held are less than 8 percent of total loans and ORE; the primary capital ratio is more than 5.5 percent; and earnings for the first two quarters of 1992 are positive. All other banks are classified as weak.

c. The cohort of banks includes only those banks operating as of June 30, 1992, excluding banks that merged with other banks and banks that were newly chartered during the period from the end of 1989 to June 30, 1992.

d. Calculated as a percentage change year over year, annualized for the half year 1992:i-1992:ii, and calculated for the two-and-a-half-year period 1990-1992:ii by dividing the total percentage change by 2.5.

TABLE 7. DATA ON MIDWESTERN BANKS (As of the second quarter of 1992)[a]

	Strong	Weak	Total[b]
Levels and Shares			
Number of Institutions	2,614	217	2,831
Share of Region (Percent)	92.3	7.7	100.0
Value of Assets (Billions of dollars)	221	12	233
Share of Region (Percent)	94.7	5.3	100.0
Cohort's Share of Total (Percent)[c]	94.3	97.8	94.5
Total Loans (Billions of dollars)	124	7	131
Share of Region (Percent)	94.5	5.5	100.0
Cohort's Share of Total (Percent)[c]	95.1	98.6	95.3
Commercial and Industrial Loans (Billions of dollars)	27	2	29
Share of Region (Percent)	93.5	6.5	100.0
Cohort's Share of Total (Percent)[c]	94.5	99.0	94.8
Real Estate Loans (Billions of dollars)	51	4	55
Share of Region (Percent)	93.5	6.5	100.0
Cohort's Share of Total (Percent)[c]	95.3	98.8	95.5
U.S. Treasury Securities (Billions of dollars)	22	1	23
Share of Region (Percent)	94.6	5.4	100.0
Cohort's Share of Total (Percent)[c]	97.6	95.8	97.5
Annual Growth Rates for Cohort of Banks (In percent)[c]			
Assets[d]			
1990	8.6	2.6	8.3
1991	2.1	-3.3	1.8
1992:i-1992:ii	0.7	-5.7	0.3
1990-1992:ii	4.5	-1.4	4.1

(Continued)

TABLE 7. CONTINUED

	Strong	Weak	Total[b]
Total Loans[d]			
1990	5.4	-1.8	4.9
1991	0.6	-6.6	0.1
1992:i-1992:ii	4.9	-6.6	4.3
1990-1992:ii	3.4	-4.5	2.9
Commercial and Industrial Loans[d]			
1990	2.4	-2.0	2.0
1991	-5.2	-9.8	-5.6
1992:i-1992:ii	0.5	-11.9	-0.4
1990-1992:ii	-1.1	-6.7	-1.5
Real Estate Loans[d]			
1990	14.2	-2.9	12.6
1991	10.1	-2.6	9.0
1992:i-1992:ii	16.0	-3.0	14.6
1990-1992:ii	14.3	-2.8	12.7
U.S. Treasury Securities[d]			
1990	8.8	30.3	9.8
1991	12.0	6.1	11.6
1992:i-1992:ii	16.1	21.2	16.4
1990-1992:ii	12.6	21.2	13.0

SOURCE: Congressional Budget Office based on data from Ferguson and Company.

NOTE: Minus sign (-) indicates a decrease in the category.

a. Includes all commercial and savings banks insured by the Bank Insurance Fund. The states covered include Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota.

b. Strong banks meet the following criteria: nonperforming loans and other real estate (ORE) held are less than 8 percent of total loans and ORE; the primary capital ratio is more than 5.5 percent; and earnings for the first two quarters of 1992 are positive. All other banks are classified as weak.

c. The cohort of banks includes only those banks operating as of June 30, 1992, excluding banks that merged with other banks and banks that were newly chartered during the period from the end of 1989 to June 30, 1992.

d. Calculated as a percentage change year over year, annualized for the half year 1992:i-1992:ii, and calculated for the two-and-a-half-year period 1990-1992:ii by dividing the total percentage change by 2.5.

TABLE 8. DATA ON SOUTHWESTERN BANKS (As of the second quarter of 1992)[a]

	Strong	Weak	Total[b]
Levels and Shares			
Number of Institutions	1,625	490	2,115
Share of Region (Percent)	76.8	23.2	100.0
Value of Assets (Billions of dollars)	193	115	307
Share of Region (Percent)	62.7	37.3	100.0
Cohort's Share of Total (Percent)[c]	91.4	86.1	89.5
Total Loans (Billions of dollars)	89	57	145
Share of Region (Percent)	61.0	39.0	100.0
Cohort's Share of Total (Percent)[c]	91.3	86.1	89.3
Commercial and Industrial Loans (Billions of dollars)	19	17	36
Share of Region (Percent)	52.6	47.4	100.0
Cohort's Share of Total (Percent)[c]	93.1	96.4	94.7
Real Estate Loans (Billions of dollars)	39	21	61
Share of Region (Percent)	64.7	35.3	100.0
Cohort's Share of Total (Percent)[c]	92.2	90.9	91.8
U.S. Treasury Securities (Billions of dollars)	23	13	36
Share of Region (Percent)	64.3	35.7	100.0
Cohort's Share of Total (Percent)[c]	93.3	87.6	91.3
Annual Growth Rates for Cohort of Banks (In percent)[c]			
Assets[d]			
1990	5.9	-2.7	2.3
1991	5.0	-5.1	1.0
1992:i-1992:ii	3.8	-5.6	0.3
1990-1992:ii	5.3	-4.1	1.4

(Continued)

TABLE 8. CONTINUED

	Strong	Weak	Total[b]
Total Loans[d]			
1990	0.9	-1.9	-0.2
1991	-0.7	-6.1	-2.8
1992:i-1992:ii	4.1	-0.9	2.2
1990-1992:ii	0.9	-3.3	-0.8
Commercial and Industrial Loans[d]			
1990	-5.6	-2.7	-4.2
1991	-4.9	-8.3	-6.6
1992:i-1992:ii	-2.6	-9.6	-6.0
1990-1992:ii	-4.5	-6.0	-5.3
Real Estate Loans[d]			
1990	0.6	-0.7	0.1
1991	3.7	-0.6	2.2
1992:i-1992:ii	10.5	12.0	11.0
1990-1992:ii	3.9	1.9	3.2
U.S. Treasury Securities[d]			
1990	14.7	9.4	12.8
1991	28.8	45.6	34.5
1992:i-1992:ii	23.0	-2.9	13.4
1990-1992:ii	25.9	22.8	24.8

SOURCE: Congressional Budget Office based on data from Ferguson and Company.

NOTE: Minus sign (-) indicates a decrease in the category.

a. Includes all commercial and savings banks insured by the Bank Insurance Fund. The states covered include Arizona, Arkansas, Louisiana, New Mexico, Oklahoma, and Texas.

b. Strong banks meet the following criteria: nonperforming loans and other real estate (ORE) held are less than 8 percent of total loans and ORE; the primary capital ratio is more than 5.5 percent; and earnings for the first two quarters of 1992 are positive. All other banks are classified as weak.

c. The cohort of banks includes only those banks operating as of June 30, 1992, excluding banks that merged with other banks and banks that were newly chartered during the period from the end of 1989 to June 30, 1992.

d. Calculated as a percentage change year over year, annualized for the half year 1992:i-1992:ii, and calculated for the two-and-a-half-year period 1990-1992:ii by dividing the total percentage change by 2.5.

TABLE 9. DATA ON WESTERN BANKS (As of the second quarter of 1992)[a]

	Strong	Weak	Total[b]
Levels and Shares			
Number of Institutions	1,015	299	1,314
Share of Region (Percent)	77.2	22.8	100.0
Value of Assets (Billions of dollars)	312	208	520
Share of Region (Percent)	60.0	40.0	100.0
Cohort's Share of Total (Percent)[c]	95.8	29.5	69.3
Total Loans (Billions of dollars)	208	148	356
Share of Region (Percent)	58.5	41.5	100.0
Cohort's Share of Total (Percent)[c]	96.1	26.5	67.2
Commercial and Industrial Loans (Billions of dollars)	47	20	67
Share of Region (Percent)	69.6	30.4	100.0
Cohort's Share of Total (Percent)[c]	98.1	46.2	82.3
Real Estate Loans (Billions of dollars)	105	73	178
Share of Region (Percent)	59.1	40.9	100.0
Cohort's Share of Total (Percent)[c]	95.1	29.0	68.1
U.S. Treasury Securities (Billions of dollars)	17	5	22
Share of Region (Percent)	78.4	21.6	100.0
Cohort's Share of Total (Percent)[c]	96.0	71.8	90.8
Annual Growth Rates for Cohort of Banks (In percent)[c]			
Assets[d]			
1990	6.2	1.6	5.4
1991	4.2	1.9	3.8
1992:i-1992:ii	1.3	-7.8	-0.3
1990-1992:ii	4.6	-0.2	3.7

(Continued)

TABLE 9. CONTINUED

	Strong	Weak	Total[b]
Total Loans[d]			
1990	9.2	8.5	9.0
1991	0.1	-6.9	-1.2
1992:i-1992:ii	-3.4	-16.1	-5.6
1990-1992:ii	3.0	-2.8	1.9
Commercial and Industrial Loans[d]			
1990	6.2	7.8	6.5
1991	-8.7	-10.8	-9.1
1992:i-1992:ii	-6.8	-15.1	-8.3
1990-1992:ii	-2.6	-4.4	-2.9
Real Estate Loans[d]			
1990	20.6	19.9	20.5
1991	3.3	-2.1	2.3
1992:i-1992:ii	-0.3	-13.1	-2.7
1990-1992:ii	9.8	3.9	8.7
U.S. Treasury Securities[d]			
1990	1.0	19.3	2.8
1991	31.2	80.2	36.9
1992:i-1992:ii	25.2	57.8	30.2
1990-1992:ii	19.7	70.9	24.8

SOURCE: Congressional Budget Office based on data from Ferguson and Company.

NOTE: Minus sign (-) indicates a decrease in the category.

a. Includes all commercial and savings banks insured by the Bank Insurance Fund. The states covered include Alaska, California, Colorado, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, Washington, and Wyoming.

b. Strong banks meet the following criteria: nonperforming loans and other real estate (ORE) held are less than 8 percent of total loans and ORE; the primary capital ratio is more than 5.5 percent; and earnings for the first two quarters of 1992 are positive. All other banks are classified as weak.

c. The cohort of banks includes only those banks operating as of June 30, 1992, excluding banks that merged with other banks and banks that were newly chartered during the period from the end of 1989 to June 30, 1992.

d. Calculated as a percentage change year over year, annualized for the half year 1992:i-1992:ii, and calculated for the two-and-a-half-year period 1990-1992:ii by dividing the total percentage change by 2.5.