The Effect of Interstate Banking on Farm Lender Market Shares in New York State

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Commercial bank loans to New York farmers are significantly overestimated in the reported USDA statistics due to out-of-state lending and reporting of some agribusiness loans as agricultural loans by New York State banks. Correcting for this distortion lowers the 1978–84 average New York agricultural credit market share held by banks from 36 to 24 percent. As deregulation allows more interstate banking activity, the overestimate of agricultural loan volume in states with money center banks and the corresponding underestimate of loan levels and market shares in nonmoney center states could cause increased distortion of state level farm debt statistics.

A bank's ability to geographically expand its market has long been restricted by state banking laws which prohibit interstate branching. In spite of these prohibitions, which keep banks from establishing offices that accept deposits, service checking accounts and physically disburse loan funds in other states, major banks have been actively pursuing out-of-state as well as international lending opportunities through wide ranging networks of loan production offices, correspondent bank relationships, and bank subsidiaries. A study by the Federal Reserve Bank of Atlanta estimates that U.S. banks had more than 7,000 interstate lending facilities in 1985 (Whitehead). Due partly to this de facto form of interstate banking, legislators in states throughout the country have begun to establish a variety of forms of regional interstate banking zones.

Because of their size, the large money center banks of New York City have long been active in developing interstate lending as an important avenue of expansion. One facet of such lending has been to the agricultural sector of the economy. Some of the large New York City banks have been involved in agricultural lending for many years while others only recently have significantly increased their farm and agribusiness loan portfolios.

The large increase in out-of-state lending distorts reported bank loan volume statistics for individual states. The implicit assumption of the bank loan volume data now reported by the USDA (Amols and Kaiser) is that all bank activity occurs in the state where the main office is located. As the volume of out-of-state lending expands, the distortions contained in these data result in misleading market share performance statistics by overestimating agricultural loan volume in the state where the bank is located and underestimating it in the state where the loan recipient does business. For example, during the late 1970s and early 1980s, commercial bank market shares at the national level were declining. At the same time reported New York bank market shares were increasing (Table 1). Speculation about the causes of the higher market penetration of New York banks focused on such issues as nearness to a large money center, the character of New York agriculture, structure of New York banking, and the changing competitive nature of the Farm Credit System. In this paper we show that the apparent increased market share of banks can be explained by increased out-of-state lending by large New York City banks. We first present the results of a mail and phone survey of large New York banks. This is followed by a recalculation of New York farm debt levels and lender market shares based on the survey data.

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Table 1. Market Shares of Institutional Agricultural Lenders,[a] United States and New York State, January 1, 1977–83

	Commercial Banks		Farm Credit[b]		U.S. Government[c]		Insurers	
Year	N.Y.	U.S.	N.Y.	U.S.	N.Y.	U.S.	N.Y.	U.S.
	Percent of Institutional Debt							
1984	42	30	35	41	22	21	1	8
1983	34	27	39	41	25	24	1	8
1982	31	27	41	43	27	21	1	9
1981	37	30	36	42	25	18	1	10
1980	36	33	38	40	26	17	1	10
1979	34	36	43	39	22	15	1	10
1978	36	38	51	39	12	13	1	9

[a] Includes real estate and nonreal estate debt; including farm households.
[b] Includes PCA, FLB and other FICB loans.
[c] Includes FmHA and CCC loans.
Source: Economic Indicators of the Farm Sector: State Income and Balance Sheet Statistics, 1983, ECIFS 3-4. January 1985; Amcis, George and Wilson Kaiser. Agricultural Finance Statistics, 1960–83, Statistical Bulletin No. 706, ERS, USDA. April 1984; Economic Indicators of the Farm Sector: Income and Balance Sheet Statistics, 1983, ECIFS 3-3.

The Survey

December 1983 Call Reports[1] indicate that six New York City banks each reported more than one million dollars in outstanding agricultural loans. These six banks were surveyed by mail with telephone follow-up. Two sets of data were requested. First, they were asked to list the percentage of their reported agricultural lending that went to New York State borrowers for each of the past seven years. The second question asked the banks to estimate the percentage of their New York State agricultural loans that were in fact agribusiness loans rather than "traditional" farm loans. The latter question was asked because such banks often do not make a distinction between agriculture and agribusiness in reporting agricultural loans. Three large upstate New York State banks were also surveyed to determine if non-New York State lending constitutes an important part of their agricultural loan portfolios. The nine banks and their volume of outstanding agricultural loans, as reported in the December 1983 Call Reports, are listed in Table 2.

Responses were received from eight of the nine banks. The ninth bank stated that it was unable to determine its approximate volume of agricultural loan activity in New York State but, in any case, New York State loans were a very small part of its total agricultural portfolio. Given this response, it was assumed that none of this bank's loans went to New York State farmers.

It was clear from the character of the responses to the two questions that the data provided were estimates based on the knowledge of the respondent. The banks did not have readily available data that would allow direct calculation of the ratios requested. In all cases, however, the respondent was a person with agricultural or agribusiness lending responsibilities. Hence, their responses were believed to be relatively accurate.

Table 2. Outstanding Agricultural Loans at Selected Banks, January 1, 1984

Bank	Ag Loan Volume $ Million
New York City	
Chemical Bank	243
Citibank, N.A.	197
Morgan Guaranty	86
Manufacturers Hanover	63
Bankers Trust	36
Chase Manhattan	25
Upstate New York	
Marine Midland, Buffalo	43
Manufacturers and Traders Trust, Buffalo	13
Lincoln First, Rochester	4

Source: December 1983 Call Report data.

[1] Call Report is the name commonly used for the reports banks file regularly with federal regulators. Call Reports include the Report of Condition and Report of Income. These reports are made by the national banks to the Office of the Comptroller of the Currency, by State chartered member banks to the Federal Reserve Board, and by State chartered banks that are not members of the Federal Reserve System to the Federal Deposit Insurance Corporation.

Survey Results

The results of the survey indicate that for the six large money center banks, only about 10 percent of the total reported agricultural loan volume was for use in New York State (Table 3). The remainder presumably represents loans made in other states.

Further, a large proportion of the agricultural loans made in New York State by the six large money center banks were made for agribusiness rather than commercial agriculture purposes. This error in reporting appears to represent confusion or disagreement about the definition of production agriculture as outlined for the Call Reports.

As it turns out, only about five percent of the reported agricultural loan volume of the six money center banks actually represents loans to New York farmers. Except for 1982, this percentage was quite consistent throughout the seven year period. Given the changes taking place in banking, the fact that this percentage is not declining is somewhat surprising. The agricultural loan volume of the upstate branches of those banks with upstate presence is apparently expanding quite rapidly. Since the responses from the individual banks were frequently based primarily on recall by the respondent, there may also be some tendency for the reported percentages for past years to be more like the current situation than actually existed.

Agricultural loans reported by the three large upstate banks were practically all made to New York State farmers (Table 4). These banks generally did not report agribusiness loans under agriculture and all of their agricultural volume is in New York State. It appears that most of the current upward bias in New York State farm debt levels, resulting from inclusion of all loans to agriculture made by New York State banks, results from the activities of the large New York City banks.

Revised Debt Levels and Market Shares

Adjusting the reported bank agricultural loan volume to remove loans made outside of New York or to agribusiness indicates a much lower level of bank activity in New York commercial agriculture than implied by published statistics (Table 5). Reported statistics overestimated commercial bank loans to New York farmers by $140 million in 1978 and that bias increased to $618 million in 1984. Reported New York State bank farm loan volume for 1984 was 131 percent above the actual level of banks loans to New York farmers. The largest overestimation occurred during the last three years.

When total New York State farm debt is adjusted to reflect only bank loans to New York farmers, a considerable portion of the precipitous decline in equity that had been observed over the 1978–84 period disappears (Table 6). The corrected debt levels indicate a decline in equity for New York farmers from 82 to 78 percent. These levels are consistent with the 83 to 79 percent decline experienced nationwide (USDA, 1984).

The revised market share data (Table 7) show two basic differences from market shares based on reported data (Table 1). First, the commercial bank market share is considerably below the level implied by reported data. Market share percentage drops from the 30s and 40s, based on reported data, to the 20s, based on adjusted data. In 1984, commercial banks had only about 24 percent of New York institutional debt rather than the reported 42 percent. The adjusted data indicate a very high level of market penetration by the Farm

Table 3. Agricultural Loans at Six New York City Banks, January 1, 1978–84

Year	Total Reported ($ Mil)	Amount in New York State		Amount to NYS Farmers[a]	
		$ Million	% of Total Reported	$ Million	% of Total Reported
1984	650	56	9	32	5
1983	433	40	9	24	6
1982	276	41	15	28	10
1981	425	34	8	15	4
1980	292	33	11	11	4
1979	189	24	13	9	5

[a] Differs from "amount in New York State" due to agribusiness loans.

Table 4. Agricultural Loans at Three Large Upstate Banks, January 1, 1978–84

Year	Total Reported	Amount in New York State	Amount to NYS Farmers: Total[a]	Amount to NYS Farmers: % of Total Reported
	Million Dollars			
1984	60	60	59	98
1983	47	47	45	96
1982	46	46	45	98
1981	58	58	57	98
1980	58	58	57	98
1979	52	52	51	98
1978	53	53	52	98

[a] Differs from "amount in New York State" due to agribusiness loans.

Table 5. Agricultural Loans Made to New York Farmers by Commercial Banks, January 1, 1978–84

Year	Total Agricultural Loans Reported by Banks[a]	Bank Agricultural Loans Made to New York Farmers[b]
1984	1,090	472
1983	829	420
1982	680	432
1981	792	382
1980	645	364
1979	526	346
1978	484	344

[a] Economic Indicators of the Farm Sector: State Income and Balance Sheet Statistics, 1983, ECIFS 3-4. January 1985; Amols, George and Wilson Kaiser. Agricultural Finance Statistics, 1960–83, Statistical Bulletin No. 706, ERS, USDA. April 1984.
[b] Excludes reported loans by New York City banks to farmers outside New York State and agribusiness loans.

Credit System and a strong presence of the Farmers Home Administration.

Second, the market share of commercial banks experienced a decline, rather than an increase during the 1978–83 period. Thus, the New York experience during that period was similar to that of all U.S. bankers. Both New York and the U.S. showed relatively consistent bank market share declines over the six-year period. The low and declining market penetration of commercial banks indicates that banks are losing the competitive battle to other lenders.

Conclusions

Commercial bank loans to New York farmers are significantly overestimated in reported USDA statistics due to out-of-state lending and reporting of some agribusiness loans as agricultural loans by large New York City banks. Correcting for this distortion lowers the 1978–84 average New York bank market share from 36 to 24 percent. The resulting data also indicate a declining bank market share over the 1978–83 period, consistent with national trends, instead of the rising share implied by published statistics.

The corollary of the New York State experience is that agricultural loans in some other states must be underestimated, resulting in similar distortion, though in the opposite direction, of market share and leverage data. Further, other states with large banking cen-

Table 6. New York State Farm Assets, Debt and Percent Equity, January 1, 1978–84

Year	Total Assets[a]	Reported Debt[a]	Percent Equity	Adjusted Debt[b]	Percent Equity
1984	$12,991	$3,495	73	$2,877	78
1983	13,029	3,247	75	2,837	78
1982	13,026	2,995	77	2,747	79
1981	12,726	2,905	77	2,495	80
1980	11,698	2,528	78	2,247	81
1979	10,759	2,126	80	1,946	82
1978	9,646	1,863	81	1,723	82

[a] Economic Indicators of the Farm Sector: State Income and Balance Sheet Statistics, 1983, ECIFS 3-4. January 1985; Amols, George and Wilson Kaiser. Agricultural Finance Statistics, 1960–83, Statistical Bulletin No. 706, ERS, USDA. April 1984.
[b] Reported debt minus loans made outside of New York State or made for other than farming but reported as agricultural loans by large New York City Banks.

Table 7. Revised Market Shares of Institutional Agricultural Lenders, New York State Total Farm Debt, January 1, 1978–84

Year	Banks	Farm Credit	U.S. Gov't	Insurers
	Percent of Total			
1984	24	46	29	1
1983	21	47	31	1
1982	23	46	30	2
1981	22	45	31	2
1980	24	44	30	2
1979	26	48	25	1
1978	29	56	13	1

ters are likely experiencing the same distortions as New York with compounding effects on states where the loan funds are used.

Since about 90 percent of the overestimation is due to lending in other states, more accurate reporting by banks, to include only loans for production agriculture, will do little to correct the problem. Modification of bank reporting on Call Reports to require identification of the states in which loan funds are used, or the state of residence of the borrowing entity, would allow accurate determination of the level of bank lending within individual states. The current movement towards more interstate banking implies that reported data will become increasingly inaccurate unless changes are made. State identification of loan volumes would also allow the Federal Reserve System to monitor the interstate flow of funds for both agricultural and nonagricultural lending. Interstate flows could be an important indicator of the efficiency of the U.S. financial system for many economic sectors in addition to agriculture during and following the likely irregular adoption of interstate banking by various states. If a change is not made in bank reporting, the USDA will need to develop procedures for modifying reported data in estimating state farm debt levels.

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