BANKING POLICY IN RELATION TO SMALL COMMUNITY DEVELOPMENT

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INTRODUCTION

Small community growth or decline is largely the result of economic conditions over which local leaders can exert influence. Some have argued that economic dominants tend to guide local affairs by proxy (Schulze 1958). However there is increasing empirical support for the rather intensive involvement of local elites in the everyday concerns of both large and small communities (Ratcliffe 1979). Particularly in small communities, economic control of community development may be concentrated in the hands of a few powerful leaders, and those leaders are often bankers. Their commitment of scarce developmental resources is a key factor in the success or failure of community development goals.

Bankers have received little explicit attention in the sociology of community and community development literature. This is strange, since bankers are generally regarded by the public as powerful influentials in the structure of the American community. Sociologists generally have failed to examine the extent of control over resources that bankers can exercise, and have overlooked the significance of the banker's role in community development. This is unfortunate, since bankers have more reason to be involved in such activities than many local leaders which sociologists have assumed to be important community decision makers (A Schaffer, R Schaffer 1970; Walton 1970; Molotch 1976).

CONCEPTUAL FRAMEWORK

Bankers are not simply business men. It is the banker's job to represent the bank's investors and shareholders when making investment decisions which affect the uses to which the capital and real estate owned by those investors and shareholders may be put. In this sense, bankers hold tremendous potential power in community political issues which involve the community's growth and stability, because these issues affect the community's property owners. Bankers must not only be good business operators, adept at turning a profit on investments and the redistribution of the community's wealth. They must also play a gatekeeping role, using their influence and the bank resources to manipulate outcomes in ways which accommodate those who have invested their wealth, trust, and influence with the banker.

Banks are an integral part of the local community economy, and bankers often find themselves involved in matters not usually acknowledged as banking concerns. It is not unusual to find local bankers wearing many civic hats, particularly in smaller communities where the number of potential civic leaders is limited. In small communities, local bankers are key participants in shaping the developmental destiny of the community.

Communities may have both growth and nongrowth coalitions of interest attempting to determine the development of the area. Despite their growth or nongrowth goals, these leader groups depend on banks for the kind of resource mobilization needed to secure growth or to prevent growth. Such development goals result from conscious decisions made by community leaders in determining economic issues in the local setting. Small communities can be conceptualized as types which can be classified by developmental goals, and developmental outcomes as shown in Figure 1.

FIGURE 1: COMMUNITY DEVELOPMENT TYPES

Type	Goal	Outcome
A	Growth	Successful
B	Nongrowth	Unsuccessful
C	Growth	Unsuccessful
D	Nongrowth	Successful

We would expect that bankers as key leaders in community growth or nongrowth coalitions shape banking policy to reflect their developmental commitment. Examination of three measures of banking policy toward growth will reveal the extent to which such indicators predict resource mobilization by bankers to promote or inhibit growth.

METHODS

Four communities were selected for study according to typology dimesions in Figure 1. Successful growth was determined by increase in population and jobs added through industrial development. Successful nongrowth was determined by a stable population and absence of industrial development. A purposive sample of strategic informants consisted of bank directors and bank presidents in the four communities. Published banking data provided a secondary source of information to infer banking policy. Bankers were asked as part of the interview schedule a series of questions concerning their growth or nongrowth community orientation. Bankers' commitment to developmental goals are shown in Table 1.

In this analysis three commonly used measures of banking policy were assessed: 1) growth in deposits; 2) growth in loans; and 3) the ratio of loans to deposits. The empirically constructed typology of growth and nongrowth communities suggests that community types A and B, which experienced substantial growth, should rank higher on these banking measures than community types C and D, which did not experience growth. The expected rankings and the observed rankings are shown in Table 2, based on the assessment of banking policy measures.

TABLE 1: BANKERS GROWTH COMMITMENT LEVEL BY COMMUNITY TYPE

Type	Growth			Nongrowth		
	Low	Mid	High	Low	Mid	High
A		1	7		1	1
B		2		6	2	1
C	3	3	1			
D	1				1	2

TABLE 2: COMMUNITY RANK IN BANK GROWTH MEASURES BY TYPE

Rank	Expected Ranking	Observed Ranking		
		Deposit	Loan	L-D Ratio
High	A	B	D	D
	B	A	A	A
				B
Low	C	C	B	
	D	D	C	C

GROWTH IN DEPOSITS

The growth in deposits measure reflects the amount of capital that patrons hve placed on deposit. Although generally cited as an indicator of banking growth policy, it may also indicate banking nongrowth policy. The profitability of a bank does not appear to rest on the rate of growth in deposits in an absolute sense. For communities experiencing growth, bank deposits may indeed reflect a particular financial institution's ability to garner its share of money in the local economy, and thereby its ability to profit from access to this capital. But in small communities served by just one bank, growth in deposits may actually reduce profitability.

In communities served by only one bank, the monopoly itself may be quite profitable. Growth in deposits might be viewed as a threat, since state banking officials may interpret growth in deposits to warrant the issuing a charter for a second bank in such a community. Sharing a small but expanding resource is perhaps less desirable than monopolizing a stable and stationary resource.

Table 3 displays the growth in deposits for each type of community in the seven banks over the ten year period, 1968-1978. Some growth in deposits is expected due to inflation. Assuming an average inflation rate of 6 percent yields a 79.1 percent increase in that period, and all seven banks showed some real growth. On this measure, the expected rankings were observed. Growth in deposits in Community B occurred mainly from the oil boom which began in 1974 and continued through 1981. Despite the nongrowth goal of local bankers and other community leaders, Community B was engulfed by the oil boom conditions which produced population growth from 2800 in 1960 to over 4000 in 1978. Bank deposits soared. Oilfield workers and the oil revenues and royalty checks were largely responsible for the fact that this community led in the growth of deposits. Communites C and D were low on this measure, as expected. Increasing deposit figures will create growth conditions throughout the community as more capital is pumped into the local economy. The

TABLE 3: MEASURES OF BANKING POLICY BY COMMUNITY TYPE
January 1, 1968 – January 1, 1978

Growth & Percentage Change, $ Millions

Type	Growth in Deposits			Growth in Loans			Loan-Deposit Ratio		
	1968	1978	Change	1968	1978	Change	1968	1978	Change
A	9.8	28.0	186	4.6	15.3	233	47	55	16
B	12.4	42.1	240	7.7	20.7	169	62	49	-20
C	22.0	47.6	116	11.2	21.5	92	51	45	-11
D	2.7	5.6	107	.8	4.3	438	30	77	160

Source: ***Texas Banking Redbook*** **Redbook Division, Bankers' Digest, Dallas.**

magnitude of the deposit increase will be further reflected in business and industrial development, and employment opportunities.

GROWTH IN LOANS

Loan figures also indicate banking policy progressiveness or conservatism. The growth in loans measure indicates the bank's willingness to invest risk capital in the local economy. All other banks in the three communities loaned out more money than the bank in Community D. Therefore, aside from the anomaly presented by Community D, community rankings on the growth in loans measure are consistent with the hypothesized relation between banking policy and community growth. Community D was by far the leader in loan growth during the period with a 438 percent increase. This was clearly inconsistent with the expected pattern. Since Community D had only one bank, higher demands were placed on the one bank to serve local needs for capital. During this period, Community D's bank did not offer interest on time deposits. This kept capital supply low, which kept lending funds proportionately small. With nongrowth banking policy, the meager capital available in Community D made a small absolute increase in loans yield a very large percentage increase. All other banks in the study communities loaned out much more money than Community D's bank.

LOANS TO DEPOSITS RATIO

The loans to deposits ratio expresses loans as a proportion of a bank's deposits. This is an indicator of banking policy toward local development. A figure of 40 percent or less may signal a bank's unwillingness to serve local needs, and may effectively inhibit growth opportunities. A ratio of 67 percent or more of loans to deposits may indicate poor fiscal policy and unwise loan practices. The ratio figure is also subject to wide fluctuation within the fiscal year. Banks that wish to satisfy state regulators that they are serving local needs may purchase a number of loan accounts from remote corresponding financial institutions. After auditors' and examiners' reports, those loans may then be resold to the corresponding banks, which produces a sharp decrease in the loans to deposits ratio.

Clearly, the practice of purchasing corresponding bank loans points out the caution that must be exercised when interpreting this measure. It is not enough to know loan figures alone. One must also know the extent to which the loans are made in the local economy. This does not invalidate the measure, but it does mean that the proportion of loans made locally are more likely to affect the growth than the sheer magnitude of the loan figures.

CONCLUSION

The analysis tends to affirm that banking policy does affect community growth with increases in the banking policy measures leading to growth opportunities in business and industry. Decreases on these measures would likely result in declining population and job opportunities, since this would signal a local economic recession. The three measures do support the general pattern of banking policy aggressiveness and community growth conditions. But caution is necessary when interpreting the loan measuers which are so deeply affected by factors external to the community though intimately tied to bank-

ing policy.

No conceptual schema is perfect. Two of the four study communities, B and D confounded the basic conceptual frame of this study. Community B did not become an oil boomtown until after its selection for study as a nongowth community type. The ability of bankers and other local leaders to guide the development destiny of the community was greatly reduced when the massive oil industry investments engulfed Community B. Community D had only one bank, compared to two banks in each of the other communities, which confounded the schema and made comparison with the other communities questionable. Finally, banking policy measures need further study. The flow of scarce developmental resources in small communities is a key component of the community development process. Especially in times of national economic recession, a greater understanding of local growth and nongrowth conditions is needed.

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