

AN ANALYSIS OF COMMERCIAL LOAN PRACTICES IN THE  
YOUNGSTOWN-WARREN SMSA AND THE COMMERCIAL BANKS'  
ABILITY TO FOSTER GROWTH

by

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## ABSTRACT

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This study attempts to give insight into the Commercial Loan Practices of the Youngstown-Warren area banks, and in the process, raises some questions about their risk aversion. Secondary data was collected from various bank and bank regulatory sources which tends to support a very conservative attitude among bankers regarding commercial lending in the Youngstown - Warren Standard Metropolitan Statistical Area comprised of Mahoning and Trumbull Counties. If this geographical area is going to grow economically, then the degree of availability of funds for investment becomes a critical growth factor. The traditional philosophies held by bankers in this area exhibit a cautious attitude toward lending.

The research design used in the study compares the lending practices of the Youngstown-Warren SMSA banks to the lending practices of the banks in the Cleveland Federal Reserve District 4 and to the Federal Reserve System. An analogous geographical area was sought to be used as a basis for comparison. However, varying branch banking laws, industrial make up, growth patterns, and population size were important socio-economic inconsistencies which could not be resolved in the identification of a reference SMSA. The Cleveland Federal Reserve District was used as the base in measuring the Youngstown-Warren SMSA loan practices.

The results of the statistical tests performed on the loan to deposit ratios and commercial loan to deposit ratios from the Youngstown-Warren SMSA banks, the Federal Reserve District of Cleveland, and the Federal Reserve System for all Commercial Banks in the U.S. indicate that most of the lending practices by the banks in the Youngstown-Warren SMSA do not conform to either national or district trends. The results support the conservative, cautious philosophy in lending to area firms.

President of the Lowellville Savings and Banking Company, along with Diane Smith and Tom Bynak of the Federal Reserve Bank of Cleveland, this study would have lost much of its relevance. The Federal Deposit Insurance Corporation was also cooperative in gathering and sending needed information.

Acknowledgements are also due for the time spent with me by Robert Dix from Dollar Savings and Trust Company and Dix Fisher from Union National Bank who talked to me at length about banking in Youngstown. The accounting knowledge of Joyce Sealand from Mellon Bank in Pittsburgh made it possible to fully understand the relevance of loan accounts. Also, the writing advice of Paul Bucciarelli is appreciated.

I would also like to thank Dr. Hawkins and Dr. Hilley for being on my reviewing committee and for taking their time to read and comment on this study. My sincere appreciation goes to Mrs. Anna Mae Serrocchio, for typing this thesis.

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## CHAPTER I

### INTRODUCTION

#### Purpose of the Study

Many economic and natural factors affect the economic growth of a geographical area, including labor, location to markets and natural resources. Another factor that can also affect growth of an area is a bank's ability and willingness to lend money to business (i.e. the availability of short-term and long-term capital). Availability of a source of money in an area plays a key role in the growth of industry.

On February 9, 1978, after the Campbell Works of Youngstown Sheet and Tube shutdown, Earl W. Brauninger, President of Union National Bank of Youngstown indicated the effect a bank can have on the growth of industry. He said, "Union Bank's strong position provides us with the resources so necessary if local industry is to fill the current economic void. These funds will enable local firms to expand to add new lines to provide new jobs, and to diversify for the future. There is still much strength in Youngstown. The people want to stay; they want to work. But they are looking to industry, labor, government and their banks for the kind of leadership that will get Youngstown growing again."<sup>1</sup>

From this statement, one would conclude that the Union National Bank is willing and able to provide industry with funds to help promote growth in the area. Yet, the Youngstown Vindicator printed on April 30, 1978, "Union Bank, which is surely among the most conservative banks in

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<sup>1</sup>"Union Bank Sets Records in 1977," The Youngstown Vindicator, Feb. 9, 1978, p. 34.

the nation, holds steady at a ratio (loan to deposit) of .36."<sup>2</sup> There are other references to the conservatism practiced in lending by the Youngstown banks which are "... among the most conservative in the Midwest ..."<sup>3</sup> James Toncie, executive vice president of Peoples Bank discusses "... the conservatism that has made Youngstown Banks the most staid institutions in town."<sup>4</sup> He told The Youngstown Vindicator, "The swinging banks are the ones that get themselves into trouble," he says, "All of our banks know that we are the guardians of the people's deposits, and that's never going to change here."<sup>5</sup> Apparently, the self image of local bankers differs from that of outside bank analysts. This study attempts to investigate the extent of risk aversion on the part of Youngstown-Warren banks compared to Cleveland District Banks and the Federal Reserve System. When loans grow faster than deposits, most bankers feel this is a sign of a healthy local economy.<sup>6</sup> Granting loans increases economic activity in a community which, in turn, will result in higher deposit levels for the bank in the long run.<sup>7</sup> Why then have the banks in the Youngstown-Warren SMSA been conservative in granting of loans? Evidence shows that most of the Youngstown-Warren Banks have had steady growth

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<sup>2</sup>"Business Beat, A Survey of Business News and Views," The Youngstown Vindicator, Apr. 30, 1978, p. B-23.

<sup>3</sup>Petzinger, T.V., "City's Four Banks Top \$1 Billion in Assets," The Youngstown Vindicator, Jan 29, 1978, p. A-1.

<sup>4</sup>Ibid., p. A-14.

<sup>5</sup>Ibid., p. A-14.

<sup>6</sup>Ibid., p. A-14.

<sup>7</sup>Howard D. Crosse and George H. Hempel, Management Policies for Commercial Banks, (Englewood Cliffs, NJ: Prentice-Hall, 1973), p. 191.

rates in deposit over the past decade and only about three years ago did some of the banks begin to slowly loosen up the money available for loans. In fact, the savings rate of Youngstown area residents are among the highest in this part of the country. If residents bank the money in the form of time deposits and demand deposits in local banks, where does it go?<sup>8</sup>

It is important to realize that there are many factors affecting the granting of commercial loans over which the banks have little or no control.

To overview the study, there will follow a more in-depth analysis of loans, and their relation to growth will be presented in the following pages. The economy of the Youngstown-Warren, OH SMSA will be discussed, along with area bank philosophies. Balance sheet data was evaluated and from this a more complete picture will be formed about the ability of banks to foster economic growth in the area.

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<sup>8</sup>Time Deposits are monetary deposits that require the depositor to allow the money to remain in the bank's possession for a specified periods of time. The bank sometimes must be notified in writing of a withdrawal and often a penalty is issued to the depositor for early withdrawal of the money. Demand Deposits are monetary deposits that can be withdrawn from the bank without notifying the bank of the withdrawal.

## CHAPTER II

THE IMPORTANCE OF HAVING MONEY AVAILABLE TO LEND FOR INVESTMENT

Businesses have been increasing their reliance on banks to supply them with capital since 1945, and the forecasters suggest that the dependence on banks for short-term and long-term funds will continue to grow.<sup>9</sup> Commercial banks have continued their historical role as the most important financial intermediaries in the U.S. monetary system.<sup>10</sup> Banks acquire most of their funds to loan to businesses from deposits. Specifically, about 83% of a bank's earnings are the result of investing funds secured from deposits: it follows, then, that banks are concerned with deposit levels and they seek ways to increase their deposit base.<sup>11</sup>

Community Reinvestment Act

The federal government has taken action to encourage banks to meet the credit needs of their local communities by passing the Community Reinvestment Act (CRA). Banks are now required to adopt CRA statements outlining the total community area served by the bank, and to specify the types of credit the bank offers to its community. Banks are required to have on display a notice informing customers that the CRA is available for inspection. The Federal Reserve System, Federal Deposit Insurance

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<sup>9</sup>Arlene Hershman, "How to Close the Capital Gap," Dun's Review, July, 1976, p. 31.

<sup>10</sup>Dwight M. Jaffee, Credit Rationing and the Commercial Loan Market, (New York: John Wiley & Sons, Inc., 1971), p.2.

<sup>11</sup>Richard G. Lipsey, and Peter O. Steine, Economics 3rd ed., (New York: Harper and Row Publishers, 1972, p. 627.

Corporation, and The Federal Home Loan Bank Board have written and approved final uniform regulations for this act and, furthermore, the regulatory agencies assess bank records during annual examinations to determine the extent of their serving of community needs. Noncompliance with this act may lead to denial of permission to establish a new branch.<sup>12</sup>

Tom Buynak, Economic Analyst for the Federal Reserve Bank of Cleveland, said that the Act has really been in effect only two years and that it is too early to observe its effects. However, the Act is vague, and during a bank examination it would be difficult to accurately assess the extent of bank compliance. Since a variety of assessment factors are appraised, including the amount of mortgage and home improvement lending and the amount of small business loans, the CRA compliance evaluation would have to analyze each case separately.<sup>13</sup>

#### Government Bias Against Saving

Some economists now believe that a government bias against saving has existed since the 1930's. This bias has been reflected in government policies which stimulate consumer spending and business investment to lift the economic troughs of the business cycle. This bias against saving may have contributed to high inflation, a weak dollar, a slow growth rate of the economy, and declining productivity. Two conditions which appear to discourage public saving are the taxation of interest

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<sup>12</sup>Interview with Joyce E. Sealand, Assistant Accounting Officer, Mellon Bank Headquarters, Pittsburgh, PA, December 15, 1980.

<sup>13</sup>Telephone conversation with Thomas M. Buynak, Economic Analyst, Federal Reserve Bank of Cleveland, December 22, 1980.

income and sharp increases in Social Security contribution to compensate for corresponding increases in those benefits. Also, since the Regulation Q ceiling is below that of the inflation rate, little incentive is provided for individuals to save rather than spend.<sup>14</sup> As inflation increased, consumers reduced their savings from 4.2% of disposable income in the first quarter of 1977 to 3.7% in the first quarter of 1980.<sup>15</sup> The aggregate middle income individual's savings are important because personal saving for the past 30 years has accounted for 65% of the nation's net private saving. It is the availability of this net saving pool that allows business the opportunity to borrow capital at reasonable rates of interest and it encourages capital formation.<sup>16</sup>

#### Cost of Deposits for Commercial Banks

The cost of deposits for commercial banks has risen dramatically in the last few years, prompted by increases in the market rates of interest. Increases in the market rates of interest on financial instruments such as, Money Market Funds, Certificates of Deposits, and Treasury Bills, and also, the new regulations on variable ceiling time deposits, caused depositors to shift their funds from savings accounts to these other investments. The decline of saving deposits as a source of bank funds has been partially caused by the restrictions on interest rates

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<sup>14</sup>"The U.S. Bias Against Savings Leads to High Inflation, Weak Dollar, Slow Growth, Declining Productivity," Business Week, Dec. 11, 1978, pp. 90, 92.

<sup>15</sup>Mary G. Grandstaff, "Savings Deposits: A Diminishing Source of Bank Funds," Voice of the Federal Reserve Bank of Dallas, June, 1980, p. 4.

<sup>16</sup>"The U.S. Bias Against Savings," Business Week, p. 92.

that banks can pay depositors.<sup>17</sup> The high rate of inflation has made savers increasingly aware of the differentials in the interest rates paid by banks relative to other savings modes, such as, Money Market Instruments.

### Credit Rationing Among Borrowers

Typically, a firm experiencing increased sales will need external financing because of the adverse effect of the cash flow cycle. If a bank refuses to provide the funds in the form of a loan, the firm may have to cutback operations which, in turn, will slow the growth rate of the company.

When money is "scarce," bankers will tend to ration the available funds among its best customers. The lenders prefer applicants with the lowest expected riskiness. In recent years there have been times when there exists only a small group of profitable companies that can raise new equity capital from investors. These firms must rely on bonds for expansion capital, but there is a large group of marginal companies that can not even raise money from the sale of bonds. It is no wonder that banks are the primary source of financing for risky new business.<sup>18</sup>

Extensive theories have been developed to explain credit rationing. Economist Donald P. Tucker, developed a model that explains how credit rationing develops in the loan market as a result of the adjustment of the commercial loan rate to the desired level. He felt that firms respond faster and to a greater extent to credit rationing than to

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<sup>17</sup>"Savings Deposits," Voice of the Federal Reserve Bank of Dallas, p. 4.

<sup>18</sup>Petzinger, T., "Tight Credit Policy Bars Many Who Wish to Open Businesses," The Wall Street Journal, January 22, 1980, p. 1.

a change in the interest rate of funds and called this phenomenon a credit contraction multiplier. The main idea of Tucker's model is that by rationing credit to a firm, sales of investment goods will immediately be reduced, but investment goods manufacturers will lag in cutting their production. As a result, the inventory of investment goods will increase and producers then must rely on their working capital to finance the unexpected accumulation of inventory. In the aggregate, cancelled investment expenditures typically causes a multiple contraction of expenditures in the short-run. In the long-run, the buildup of inventory can be liquidated to provide the firm with more working capital.

The contraction multiplier effect offers a plausible explanation for the unstabilizing effect of credit squeezes, but the model neglects to consider other means of financing available to a firm.<sup>19</sup> Even if financing is available in other markets, the terms of the loan may not be acceptable to the borrowing firm.

It is quite possible to assume that the manner in which a firm intends to acquire money may be altered when bank rationing is present. The large, low-risk firms may acquire more funds through commercial loans as interest rates increase in the capital market, and the smaller, riskier firms may be forced into capital markets for their external capital. The net effect of higher interest rates appear to cause a redistribution of funds in which the larger firms obtain funds in the commercial loan market and the smaller, riskier firms obtain them at a greater cost in the capital market.

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<sup>19</sup>Jaffee, Credit Rationing, pp. 149-150.



Because loan rationing has a direct and important effect on the investment expenditures of the applicant firm, a question arises whether the rationing can be offset by the available capital in other financial markets. But, if the firm is faced with rationing in one capital market, the firm is likely to be rationed in other markets as well. Sometimes, if a firm is not in a liquid position and can not obtain short-term funds to satisfy its present liquidity needs, it may issue long-term debt in the form of bonds. Of course, using long-term debt to fulfill short-term credit needs is not advisable in most cases according to traditional financial theory.

One means of acquiring short-term funds is through the use of trade credit. It is generally more readily available, but the cost is high when compared to commercial loans or capital market funds. Trade credit is important to small firms because if they suddenly face rationed credit from banks, they can, in effect, borrow from large firms in the form of trade credit extensions. In turn, large firms can often extend trade credit to their customers because large firms have access to commercial loans and/or the capital market. The net effect is a flow of funds from the markets through the large firms to the small firms with the large firms taking on the task of financing risk.

The flow of trade credit from large to small firms may significantly dampen the effect of credit rationing on real expenditures since small firms will change their expenditure decisions only to the extent that the cost of trade credit is substantially higher than the cost of commercial loans, assuming that trade credit is available. The large firms will change their investment behavior once the cost of lending exceeds the cost of borrowing from the banks.

Dwight M. Jaffee, an economist, conducted a test of direct credit rationing and the redistribution of trade credit. He concluded that credit rationing causes trade credit to be given by large firms to small firms. Several other studies by economists, Alan H. Meltzer, F.P.R. Brechling, and R.G. Lipsey agree with the results of Jaffee's test.<sup>20</sup>

The Office of Business Economics of the Department of Commerce conducted a survey and reported that 60 - 90% of the firms showing a decrease in investment expenditures during 1966 and 1967 indicated that one of the reasons for the decrease in investment expenditures was the high interest rates in the financial market at that time. Between 30 and 40 percent of the participants in the survey revealed that credit rationing was part of the cause for the decline in investment expenditures. The firms indicated that the stock market and capital market rationing were a very small cause of their difficulty in securing the needed funds for investment expenditures. Between 57% and 100% (percentages vary because of asset size of reporting firms) of firms participating in the survey felt that interest costs were a factor in inventory investment reduction, and 21% to 51% thought credit rationing was a factor in the decline in inventory investment. Only a small percentage of participants in this survey felt that the stock market or capital markets were reasons for the decline in inventory investment.<sup>21</sup> Jaffee feels that the major effect of credit rationing is its adverse impact on the investment expenditures on small firms.<sup>22</sup>

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<sup>20</sup>Ibid., pp. 151-153, 159.

<sup>21</sup>Ibid., pp. 164-165.

<sup>22</sup>Ibid., p. 166.

If credit is tight, the rate of formation of new business units will suffer. In the past year, the business community has watched interest rates rise to record levels. Bank rates on short-term business loans were 6.61% in November, 1968,<sup>23</sup> and as of January, 1981, bank rates on short-term business loans were 15.71%.<sup>24</sup> Even before the Federal Reserve's move to restrain credit in October, 1979, it was difficult for first-time applicants to obtain a commercial loan for a new business.<sup>25</sup>

Bankers are reluctant to lend money at high interest rates to a new business unless evidence shows that it is a good possibility the borrower will succeed and prosper. It is a known fact that 55% of new businesses fail within 5 years, but at high interest rates its chances of surviving are even lower because the increased interest rates result in an increase in the firm's cost of capital.<sup>26</sup> Craig Ford, senior vice-president of Pittsburgh's Mellon Bank summed the feeling this way, "It's no favor to lend someone money he can't afford to repay."<sup>27</sup>

#### Cost of Borrowed Funds

One of the main factors affecting business borrowing, besides availability of money, is the cost of the borrowed funds. When interest rates rise, those companies that can not pay the costs of borrowed funds

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<sup>23</sup>U.S. Department of Commerce, Bureau of Economic Analysis, Business Conditions Digest, December, 1970, p. 77.

<sup>24</sup>U.S. Department of Commerce, Bureau of Economic Analysis, Business Conditions Digest, January, 1981, p. 73.

<sup>25</sup>Petzinger, "Tight Credit Policy," p. 1.

<sup>26</sup>Ibid.

<sup>27</sup>Ibid.

postpone or cancel their proposed capital expenditures. As the economy heads into a recession a bank will hold large reserves of funds because the demand for loans is low and interest rates are low. In an economic upswing the opposite occurs. Demand for loans will be high in order to finance inventories and expansion, the interest rates will increase, and banks will deplete their reserves in order to lend money. Therefore, interest rates will vary according to the point that the economy is on the business cycle.

Interest rates on commercial loans will also be dependent on the Federal Reserve discount rate, commercial paper, the interest rates in the Money Markets, and the interest rates on Certificates of Deposits. All these instruments affect the interest rate on commercial loans since this is the cost to the bank if it has to attract funds in the market-place. Competition is also a factor in determining interest rates because a bank will price its loans in the range of its competitors. In fact, the main reason that rates differ in a competitive market is the result of differences in the quality of supporting services or conditions of the lending arrangement.<sup>28</sup>

There are no aggregate data on interest rate levels for the Youngstown-Warren area according to John Starkey, President of the Lowellville Savings and Banking Company. He said historically, the general policy in the area was that the banks gave a fixed rate, but now most area banks are on a floating rate system which is based on the prime rate a few percentage points. For example, he said that if the prime rate is 11.5%, then the interest rate on the loan might be 13.5%. The

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<sup>28</sup>Crosse and Hempel, Management Policies, p. 197.

rate would be lower if a compensating balance is given.<sup>29</sup>

WHY INVESTMENT IN THE YOUNGSTOWN-WARREN AREA IS NEEDED

History of Manufacturing Employment in the  
Youngstown-Warren SMSA

The Youngstown-Warren SMSA is dependent on the primary and fabricated metals industry. These industries accounted for 61% of manufacturing employment in the Youngstown-Warren SMSA in 1975, in contrast to the diversified and more stable manufacturing sector of Ohio in general, which saw only 23% of its manufacturing employees working in the primary and fabricated metals industry. Tables 1 and 2 show that for the years 1975-1978, the manufacturing sector in the Youngstown-Warren SMSA employed 39% of the Non-Agricultural work force, a much higher average than for the state as a whole.

All Non-Agricultural employment averages for the Youngstown-Warren SMSA, except for manufacturing for the years 1975-1978 are lower than the state averages for Non-Agricultural employment for this period, indicating that more diversity in the region's economic base is needed.

When a manufacturing activity declines in an area, this can be an indicator of a decrease in future economic activity. For instance, in the 1960's, Boeing expanded its aircraft operations considerably. When a decline in aerospace orders occurred in the late 1960's, Boeing was forced to reduce employment from 100,000 employees in 1969 to 38,000 employees in 1970. As many as 100,000 people left Seattle after the layoffs at

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<sup>29</sup>Interview with John Starkey, President of the Lowellville Savings and Banking Company, Lowellville, OH, October 18, 1980.

## CHAPTER III

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TABLE 1

YOUNGSTOWN-WARREN SMSA EMPLOYMENT STATISTICS FOR NON-AGRICULTURAL EMPLOYMENT FOR THE YEARS 1975-1979.  
(in thousands)

Non-Agricultural Employment	1975 <sup>a</sup>	1976 <sup>a</sup>	1977 <sup>a</sup>	1978 <sup>a</sup>	1979 <sup>b</sup>	1975-1978 Average
Manufacturing	80.6	79.6	80.8	79.7	80.2	39.0%
Construction	7.3	5.7	6.3	8.1	7.4	3.3%
Transportation and Utilities	11.3	9.9	9.3	10.2	10.1	4.9%
Wholesale, Retail Trade	42.9	41.4	44.8	45.6	45.9	21.2%
Finance, Insurance, Real Estate	6.7	6.6	6.6	7.0	6.7	3.3%
Service and Miscellaneous	32.9	34.8	33.8	35.1	35.4	16.6%
Government	23.3	23.2	24.3	25.3	26.0	11.7%

<sup>a</sup>These numbers are a 12 month average

<sup>b</sup>These numbers are an average of the months of January to April, 1979

<sup>c</sup>These statistics were compiled from EDATA Economic Trends, published by the Eastgate Development and Transportation Agency for the years 1976-1979.

TABLE 2

THE STATE OF OHIO EMPLOYMENT STATISTICS FOR NON-AGRICULTURAL EMPLOYMENT FOR THE YEARS 1975-1979<sup>C</sup>  
(in thousands)

Non-Agricultural Employment	1975 <sup>a</sup>	1976 <sup>a</sup>	1977 <sup>a</sup>	1978 <sup>a</sup>	1979 <sup>b</sup>	1975-1979 Average
Manufacturing	1,273	1,273	1,333	1,369	1,396	31.6%
Constuction	167	144	156	174	160	4.8%
Transportation and Utilities	225	209	214	224	228	5.7%
Wholesale, Retail Trade	895	878	921	949	954	21.9%
Finance, Insurance, Real Estate	180	179	181	191	196	4.4%
Service and Miscellaneous	702	722	742	761	789	17.6%
Government	627	626	638	645	662	15.3%

<sup>a</sup>These numbers are a 12 month average

<sup>b</sup>These numbers are an average of the months of January to April, 1979

<sup>c</sup>These statistics were compiled from EDATA Economic Trends, published by the Eastgate Development and Transportation Agency for the years 1976-1979.



became economically depressed.<sup>30</sup> A dramatic fluctuation in manufacturing, such as the closing of the Youngstown Sheet and Tube Campbell Works, can foretell an economic downturn in an area, if no industries are available in that locale to reverse the decline in economic growth.

### The Decline of Steel

One of the biggest blows to the Youngstown-Warren economy in recent years was the 1977 shutdown of the Campbell Works of the Youngstown Sheet and Tube Company, a subsidiary of the LTV Corporation. The discontinued production of hot rolled sheets and plates, cold rolled sheets, some bar type products, and continuous weld pipe was initially projected to affect 4,000 to 5,000 jobs or about 2% of the total employment in the Youngstown-Warren SMSA.<sup>31</sup> Even before the shutdown the number of manufacturing employees working in the Youngstown-Warren SMSA had decreased from 1969 - 1976 by 8,700 total manufacturing workers and 8,300 production workers. This decrease was equal to 9.7% of the total manufacturing employment and 11.6% of the production workers since 1969 (See Table 3).<sup>32</sup>

Tables 4 and 5 reveal that unemployment for January, 1981, was at its highest levels for the past 5 years in Trumbull and Mahoning

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<sup>30</sup>Phil A. Andrus, et al, Seattle, (Cambridge, Mass: Ballinger Publishing, 1976), p. 12.

<sup>31</sup>Michael L. Bagshaw and Robert H. Schnorbus, "The Local Labor-Market Response to a Plant Shutdown," Economic Review, January, 1980, p. 16.

<sup>32</sup>U.S. Department of Commerce, Bureau of the Census, Annual Survey of Manufacturers 1975 - 1976, May, 1979, p. 6-59.

TABLE 3

HISTORICAL MANUFACTURING STATISTICS FOR THE YOUNGSTOWN-WARREN SMSA:  
1965-1976<sup>a</sup>

Year	All Employees Number (1000's)	Production Workers Number (1000's)
1976	80.6	63.4
1975	77.2	60.9
1974	90.0	73.2
1973	92.3	74.9
1972	86.6	69.2
1971	83.1	65.7
1970	82.0	64.5
1969	89.3	71.7
1968	84.5	68.1
1967	82.9	66.5
1966	83.2	67.3
1965	79.2	64.3

<sup>a</sup>This table was taken from the Bureau of the Census, Annual Survey of Manufacturers 1975-1976, printed in May, 1979.

TABLE 4<sup>a</sup>

LABOR FORCE SIZE, EMPLOYMENT, UNEMPLOYMENT STATISTICS AND UNEMPLOYMENT RATES FOR MAHONING COUNTY  
 COMPARED WITH THE UNEMPLOYMENT RATES FOR THE STATE OF OHIO AND THE NATION

Year	Labor Force Size	Employed	Unemployed	Unemployment Rate	Unemployment Rate for the State of Ohio	Unemployment Rate for the U.S.
January, 1977	126,829	114,094	12,735	10.0	7.5	8.3
January, 1978	129,099	116,539	12,560	9.7	6.1	7.0
January, 1979	132,050	121,025	11,025	8.4	6.6	6.4
January, 1980	129,636	118,045	11,591	8.9	6.8	7.0
January, 1981	128,072	107,671	20,401	15.9	10.4	8.2

<sup>a</sup>This table was derived from the Ohio Bureau of Employment Services, Ohio Labor Market Information for January, 1980 and 1981, Mahoning County, Ohio Labor Force Estimates by Month 1975-1978, Ohio Labor Market Information, Mahoning County, Ohio for January, 1979, and Ohio Labor Market Information, Employment, Hours, and Earnings in Ohio for January, 1978, December, 1978, and January, 1980.

TABLE 5<sup>a</sup>

LABOR FORCE SIZE, EMPLOYMENT, UNEMPLOYMENT STATISTICS AND UNEMPLOYMENT RATES FOR TRUMBULL COUNTY COMPARED WITH THE UNEMPLOYMENT RATES FOR THE STATE OF OHIO AND THE NATION

Year	Labor Force Size	Employed	Unemployed	Unemployment Rate	Unemployment Rate for the State of Ohio	Unemployment Rate for the U.S.
January, 1977	99,731	90,675	9,056	9.1%	7.5%	8.3%
January, 1978	99,763	93,426	6,337	6.4%	6.1%	7.0%
January, 1979	104,425	97,025	7,400	7.1%	6.6%	6.4%
January, 1980	106,884	96,718	10,166	9.5%	6.8%	7.0%
January, 1981	103,381	88,219	15,162	14.7%	10.4%	8.2%

<sup>a</sup>This table was derived from the Ohio Bureau of Employment Services, Ohio Labor Market Information for January, 1980 and 1981, Trumbull County, Ohio Labor Force Estimates by Month 1975-1978, Ohio Market Information Trumbull County, Ohio for January, 1979 and Ohio Labor Market Information Employment, Hours, and Earnings in Ohio for January, 1978, December, 1978, and January, 1980.

counties. In fact, the unemployment rate for both counties did not drop below the unemployment rate for Ohio during this 5 year period. Only once, according to the data in Table 4, did the unemployment rate for either county drop below the nation's unemployment rate (Trumbull County fell below the nation's unemployment rate in January, 1978). An unfortunate consequence, however, is that although the labor force has increased by 4,893 workers since 1977, the number of workers employed declined by 8,879 in 1981. This indicates a real need for increased industrial growth in this area.

Table 6 and 7 show the income of the Youngstown-Warren for three different categories: Effective Buying Income (similar to disposable income), Average Household Effective Buying Income, and Retail Sales. These categories were developed by Sales and Marketing Management Magazine in their publication, Survey of Buying Power Forecaster's Handbook for 1979 and 1980. The data taken from this handbook disclosed that the average yearly increases in each category for Mahoning and Trumbull counties have not been able to keep pace with the double digit inflation experienced by the entire country in the past few years. The handbook indicated that, when the effect of inflation is removed from the data, the Effective Buying Income decreased 2.9% since 1978 and Retail Sales decreased 3.6% since 1978 for Mahoning County.<sup>33</sup> Trumbull County did not fare much better. The Effective Buying Income for Trumbull County decreased 2.4% since 1978 and Retail Sales fell 3.5% during the period

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<sup>33</sup>Survey of Buying Power Forecaster's Handbook 1980, (New York: Bill Communications, 1980), p. 3-247.

when the effect of inflation was removed from the data.<sup>34</sup> When Sales and Marketing Management Magazine ranked the Youngstown-Warren SMSA with 300 areas on Average Household Effective Buying Income (Highest income to lowest income), it fell from a rank of 62 in 1979<sup>35</sup> to a rank of 80 in 1980, further indicating the decrease of income in this area.<sup>36</sup>

An increase in population of an area implies that the area is experiencing an economic expansion. Conversely, a decline in population is usually associated with the economic dislocation or stagnation. The Youngstown-Warren SMSA showed little change in the total population from 1970-1977. The April, 1970, census indicated that 537,124 persons lived in the Youngstown-Warren SMSA compared to the provisional July 1, 1977, estimate of 540,600, which is only a .6% increase.<sup>37</sup> The 1980 Census of Population and Housing Preliminary Count states the population for 1980 is 529,887 which is a 1.3% decrease from the 1980 census of 537,124.<sup>38</sup> The breakdown of population in Mahoning and Trumbull counties is listed in Table 8.

These statistics indicate that even before the shut down of the Campbell Works of the Youngstown Sheet and Tube Company, the area was not growing in either industrial employment or any large extent in total population. These statistics suggest that the Youngs-

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<sup>34</sup>Ibid., p. 3-249.

<sup>35</sup>Survey of Buying Power Forecaster's Handbook 1979, (New York Bill Communications, 1979), p. 2-26.

<sup>36</sup>Forecaster's Handbook 1980, p. 2-26.

<sup>37</sup>U.S. Department of Commerce, Current Population Reports, p. 23.

<sup>38</sup>1980 Census of Population and Housing, Preliminary Count, U.S. Department of Commerce, Bureau of the Census, February 1981, p. 37-22.

TABLE 6<sup>c</sup>

DISPOSABLE INCOME OF MAHONING COUNTY, MEASURED BY EFFECTIVE BUYING INCOME<sup>a</sup>, AVERAGE HOUSEHOLD EFFECTIVE BUYING INCOME<sup>b</sup>, AND RETAIL SALES FOR THE YEARS 1977-1980

Year	Effective Buying Income (Amounts in Thousands)	Average Household Effective Buying Income	Retail Sales (Amounts in Thousands)
1977	\$1,710,323	\$17,928	\$ 994,814
1978	1,884,818	19,331	1,062,891
1979	2,056,338	21,199	1,173,581
1980	2,388,192	22,315	1,237,226

<sup>a</sup>Effective Buying Income is personal income less personal tax and nontax payments. It is equivalent to disposable personal income less military and diplomatic personnel's compensation who are stationed overseas.

<sup>b</sup>A household is defined as all people occupying a single housing unit under the 1970 census rules.

<sup>c</sup>This table was derived from statistics published in Survey of Buying Power Forecaster's Handbook for 1979 and 1980 by Sales and Marketing Magazine (Used by Permission)

TABLE 7<sup>c</sup>

DISPOSABLE INCOME OF TRUMBULL COUNTY, MEASURED BY EFFECTIVE BUYING INCOME<sup>a</sup>, AVERAGE HOUSEHOLD EFFECTIVE BUYING INCOME<sup>b</sup>, AND RETAIL SALES FOR THE YEARS 1977-1980

Year	Effective Buying Income (Amounts in Thousands)	Average Household Effective Buying Income	Retail Sales (Amounts in Thousands)
1977	\$1,505,245	\$19,298	\$ 801,523
1978	1,635,872	20,839	909,997
1979	1,817,118	22,886	939,950
1980	1,926,918	24,147	1,060,470

<sup>a</sup>Effective Buying Income is personal income less personal tax and nontax payments. It is equivalent to disposable personal income less military and diplomatic personnel's compensation who are stationed overseas.

<sup>b</sup>A household is defined as all people occupying a single housing unit under the 1970 census rules.

<sup>c</sup>This table was derived from statistics published in Survey of Buying Power Forecaster's Handbook for 1979 and 1980 by Sales and Marketing Magazine (Used by Permission)



TABLE 8<sup>a</sup>

## ESTIMATES OF POPULATION OF THE YOUNGSTOWN-WARREN SMSA BY COUNTY AND THE PERCENTAGE CHANGES FROM 1970-1977

County	April 1, 1970	July 1, 1976 (estimate)	July 1, 1977 (Provisional estimate)	% Change from 1970-1977
Mahoning	304,545	300,700	300,000	-1.5%
Trumbull	232,579	239,700	240,500	3.4%
Total for the Youngstown- Warren SMSA	537,124	540,600	540,600	.6%

<sup>a</sup>Statistics for this table were derived from U.S. Department of Commerce, Bureau of the Census, Current Population Reports - Population Estimates and Projections, Series P-25, No. 810, September, 1979, p. 23.

town-Warren SMSA economy has been sluggish for quite some time.

In the two year period following the shutdown of the Campbell Works of the Youngstown and Tube Company, the employment/unemployment figures returned to pre-shutdown levels. Although this may sound like a remarkable recovery, one should remember that the unemployment in this area during the past five years remained above the unemployment rates for Ohio and the United States. One of the reasons for this recovery was that most of the displaced Campbell Works employees either found new jobs or accepted early retirement benefits. Their exclusion from local jobless figures ameliorated the serious unemployment problem in the local economy that some people predicted.<sup>39</sup>

However, the permanent loss of jobs from the shutdown has resulted in some laid-off workers leaving the labor force and either retiring or relocating.<sup>40</sup> This tends to be true of declining economies because they experience a loss of skilled professional and white collar workers. The length of time a worker has been unemployed can be important since the skill levels of workers are frequently transcended by increasing industry requirements. What eventually happens to these workers is that they drop out of the labor force. If a worker leaves the labor force, he is not counted in the unemployment figures. Laid-off workers who find new employment in the local area may have accepted a job with lower skill requirements and/or lower pay. As these unemployed Youngstown Sheet and Tube workers entered the labor force once again, they may have displaced workers holding jobs.

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<sup>39</sup>Bagshaw, p. 17.

<sup>40</sup>Ibid., p. 18.

About six months after the shutdown of the Campbell Works of the Youngstown Sheet and Tube Company, about one-third, or between 1300 and 1500 workers, were re-employed elsewhere in the area. About 400 to 600 relocated to a different SMSA and about 1000 retired early. About 1200 to 1500 remained unemployed and these unemployed workers accounted for less than one half of the total rise in unemployment. As of the fall of 1979, about 600 laid-off workers remained unemployed.<sup>41</sup>

The slight increase in employment (3.6%) between April, 1977, and April, 1979, was primarily due to growth of the non-manufacturing sector and to the expansion at the General Motors plant in Lordstown, which was increasing production of small cars. This expansion of the Transportation Sector accounted for the employment of many laid-off Campbell Works employees and was the only manufacturing sector to exceed the national rate of increase in employment.<sup>42</sup>

In November, 1979, the United States Steel Corporation closed its McDonald and Ohio Works which idled about 3500 workers and managers. This action further emphasized the fact that the Youngstown-Warren SMSA should insulate itself from the unemployment created by plant closings through a concerted effort to diversify the SMSA's industrial base.<sup>43</sup>

It is evident that the Youngstown-Warren SMSA did not experience a total collapse of its economy, but evidence shows that the local economy, as measured by the labor employment statistics, has shrunk. But, even-

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<sup>41</sup> Ibid.

<sup>42</sup> Ibid., pp. 19, 20.

<sup>43</sup> Ibid., p. 16

though a collapse did not occur, unemployment levels have consistently been above the unemployment rates for the state of Ohio and the nation. "Unless new sources of industrial growth can be found to replace the jobs lost to permanent shutdowns, the economy of the Youngstown-Warren SMSA will adjust by continuing to fall behind the national economy, both in employment and labor force growth," according to Michael L. Bagshaw and Robert H. Schnorbus in their article, "The Local Labor-Market Response to a Plant Shutdown," which appeared in Economic Review.<sup>44</sup>

Based on interviews with bank personnel concerning their perceptions of their loan philosophy and after a thorough literature search and review, there seems to be conflicting philosophies present in the banking community. "Some feel, "... a bank has an obligation to meet the credit demands of its community, and this involves making loans when the local people want them."<sup>45</sup>

However, according to six Youngstown commercial bank officers, the philosophy of Youngstown banks is that they are the guardians of the peoples' deposits and they have an obligation to their shareholders; therefore, they exhibit conservative banking policies, sound principles, and caution.<sup>46</sup>

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<sup>44</sup>Crosse and Hempel, p. 168.

<sup>45</sup>Ibid., p. 176.

<sup>46</sup>Paul S. Hadler, "Should Bank Annual Reports be in the Fiction", The Bankers Magazine, May-June, p. 54.

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<sup>44</sup>Bagshaw, p. 24.

## CHAPTER IV

BANK PHILOSOPHIES IN THE YOUNGSTOWN-WARREN AREA

One general view of the role of a bank is that it should stand to serve the credit needs of its community or service area.<sup>45</sup> Crosse and Hempel state in their book, Management Policies for Commercial Banks, "Traditionally and practically, the foremost obligation of a commercial bank is to supply the credit needs of business enterprises, including farm operations, in its community. Loans that accomplish this general purpose, whatever form they take, are essentially commercial loans."<sup>46</sup>

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<sup>45</sup>Crosse and Hempel, p. 168.

<sup>46</sup>Ibid., p. 176.

<sup>47</sup>Paul S. Nadler, "Should Bank Annual Reports be in the Fiction Section of the Library?", The Bankers Magazine, May-June, p. 64.

<sup>48</sup>Petzinger, "City Four Banks", p. A-14.

The loan to deposit ratio is one of the criteria for determining how conservative a bank is. A good benchmark figure established by most American banks is a ratio of 0.65. A deposit ratio of 0.50 is considered very low.<sup>49</sup> Over the past 8 years, (1972-1979), the four largest banks, according to asset size, in Youngstown averaged a loan to deposit ratio of 0.56.

Thomas Lowry, vice president of The Dollar Savings and Trust Company, indicated that the low loan to deposit ratio of Youngstown Banks is partially due to the way banking policies in Youngstown were shaped by the presence of the steel industry. The huge deposits made by the steel firms gave the local banks a large deposit base, but the local banks were never big enough to give them the loans they needed.<sup>50</sup>

The problem of low loan to deposit ratios is not unique to the Youngstown area. Many banks in the United States still have relatively low loan to deposit ratios and these are partly due to the bank's failure to seek out and service potential, worthy borrowers that exist in their community.<sup>51</sup> Crosse and Hempel believe, "The essence of loan development lies in a willingness first to examine carefully every request for credit and try conscientiously to make it 'bankable' and, second to search actively for opportunities to promote the growth of the individual business therein with sound credit."<sup>52</sup>

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<sup>49</sup>Ibid.

<sup>50</sup>Ibid.

<sup>51</sup>Crosse and Hempel, p. 207.

<sup>52</sup>Ibid., p. 208.

John Starkey, commented on the Youngstown area's banking's philosophy. He said that the reason Youngstown banks have low loan to deposit ratios is the volatility of the deposit rate over time. The deposits may not necessarily be in the bank ready to be lent to borrowers. He said there has been a recent influx of deposits into his Lowellville bank, but the deposits are for six month money market deposits, not indicative of permanent bank deposits.

In granting a loan, John Starkey stated that a banker will generally check the applicant's financial statements, and for a small company, an analysis will be made on their shop statements. Starkey commented that in authorizing a loan, it would be futile to charge a company 13% interest rate on a loan for which the firm can only pay 10% because a loan at a higher rate than the company can afford would only hurt the company, and the possibility of the firm repaying the loan is less. An alternative exists to the banker lending the money to a firm that could not afford the high interest rate. That is, the money would be invested outside the area by the bank, or investments such as, government bonds.

Banks in Youngstown are very conservative because their primary concern are the banks' survival and the rate of return to its shareholders. Because of this conservatism, the Youngstown banks are slow to react to financial market conditions. Starkey says that one of the reasons the loan to deposit ratio of Warren banks is higher than those of Youngstown is because Warren banks are more aggressive. Youngstown banks are not going to change their operating strategy unless they are forced to do it.

Starkey believes that the psychology of the area people has an effect on the banking system. He feels that even if the national economy

goes into a recession the attitudes held by area people will have more of an affect on Youngstown banks than the actual status of the economy. Starkey feels that another contributing factor to the conservatism of the Youngstown banks is the high cost of regulation. In contrast to the past practices, he says that it now takes up to three times as long to process a loan application because the bank is subject to increased consumer liability. Time is needed to process required interest rate disclosure statements on the loans and store pertinent information concerning borrowers past and present financial status.<sup>53</sup>

However, Robert Dicks of The Dollar Savings and Trust Company, indicated that Dollar Bank is more lenient in lending than other banks in outside areas and that a company could obtain better financing here than in other areas.<sup>54</sup>

Dix Fisher, of Union National Bank uses the five C's: character, capacity, capital, collateral, and conditions, as guidelines in granting a loan to an applicant. He said evaluating the borrower's risk is a major factor in making a loan. He affirmed that Union National Bank has an obligation to its stockholders to be profitable and this philosophy is remembered when granting a loan.<sup>55</sup>

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<sup>53</sup>Starkey, Interview on October 18, 1980.

<sup>54</sup>Interview with Robert F. Dicks, Assistant Vice President, The Dollar Savings and Trust Company, Youngstown, OH, September 3, 1980.

<sup>55</sup>Interview with Dix Fisher, Loan Department, Union National Bank, Youngstown, OH, September 3, 1980.



Earl Brauniger, President of Union National Bank of Youngstown, feels that a high capital-to-funds deposit ratio yields a higher equity for shareholders, and provides more security for depositors than low capital-to-funds deposit ratio.<sup>56</sup>

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<sup>56</sup>"Union Bank Tops in Ohio with Funds/Deposit Ratio," The Youngstown Vindicator, October 20, 1974, p. B-19.

## CHAPTER V

EVALUATING CREDIT RISK

One of the main concerns of bankers is the risk they must take when lending money. Evaluating the creditor's risk is a major problem since so many factors can influence the timely repayment of the loan. But, a bank must be willing to add some risky loans in its total investment portfolio or else it will become a stagnant institution and will not adequately serve the credit needs of the community. Crosse and Hempel state, "Through lending, bank management strives to satisfy the legitimate credit needs of the community or credit markets that the bank serves or intends to serve."<sup>57</sup> They define legitimate credit needs as the use of bank credit to further stabilize and/or increase growth of the community and, the well-being of its citizens.

The uncertainty surrounding a loan applicant evaluation exists because a banker can not accurately predict the economic conditions, changes in consumer demand, or even the business future of the entire community in a word, bankers cannot accurately determine risk. Banks minimize this type of creditor risk by requiring loan fees, collection stipulations, high business standards, a good knowledge of the borrower's business philosophy, the nature of his business, and collateral. Besides the risk of non-payment of a loan, a bank needs accurate insight into its own portfolio liquidity. To adequately serve the community, the bank must be able to lend funds in times of high economic activity and be able to meet the demands of its depositors. If the bank can not satisfy

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<sup>57</sup>Crosse and Hempel, p. 168.

customer withdrawals, then it must sell assets from its portfolio, even if they are sold at a loss. Therefore, a bank must maintain adequate liquidity in order to avoid being caught in a condition where it must raise cash immediately to meet depositor withdrawals through a liquidation of part of its portfolio or to maintain free reserves required by State or Federal regulations. It can maintain adequate liquidity by purchasing assets that can be converted to cash with a minimum risk of loss if they need to be sold quickly.<sup>58</sup>

How bank management handles load risk evaluation implies an important element in their quality of the bank's management. Both depositors and borrowers want to have confidence that their money is safe, and equally important, that the bank they patronize will lend money in good economic times as well as in bad economic times.

Regular large business customers of a bank tend to have a more consistent, regular need to borrow funds than small infrequent business customers. These large regular customers are valuable to the bank because they provide steady and large revenues. Usually large business borrowers tend to be large depositors, and consequently, credit is least likely to be rationed to them.

Risky borrowers hold a tenuous relationship with banks, and in times of a credit crunch, will be denied a loan. Thus, credit is rationed to these high risk borrowers.

Banks want to satisfy their large borrowers because if these borrowers lose confidence in the bank, they will withdraw some of their

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<sup>58</sup>Ibid., pp. 61-62.

loan demand. However, banks set lending limits so as not to run into liquidity problems as prescribed by their regulatory agency.

Banks develop criteria for a loan, such as the five C's, in granting a loan to an applicant, suitability of arrangements for repayment, if it is for a valid purpose, and the collectability of the loan. These criteria help determine whether a loan would be unsafe or if the risk would be too high.

Banks should make decisions about the size of the local loan portfolio based on an assessment of the legitimate credit needs of the community or the credit markets that the bank has the intention of or is already serving. The bank should also know its own capability in satisfying that demand. This may be difficult, and therefore, a subjective element must enter into assessing credit needs of a community. Banks should not flounder into the preconceived notion of overall safety due to the laws of statistical averages because some communities will have a higher demand for loans than others.<sup>59</sup>

If a bank has adequate capital and an acceptable liquidity position, there is no reason why it should not make as many sound loans as possible and should lend to the limits imposed by the volume of stable deposits. Even if the bank's resources are not sufficient to supply the community with credit, it should make an effort to participate with correspondent banks or other financial institutions in providing funds to lend in the local area.<sup>60</sup>

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<sup>59</sup>Ibid., p. 190.

<sup>60</sup>Ibid., p. 191.

Previously, some bankers were concerned with lending in a local area that was dependent on the manufacturing sector to provide income and jobs and this local economic characteristic maybe one factor in the reluctance by local banks to grant loans in this area. The notion was to lend to diversified economies, but if selecting diversified economies for loaning funds meant rejecting legitimate loans, then a principal function of commercial banking was violated. A bank should look for diversification and if it does not exist, it should not deny local credit needs, but it should look for ways to diversify the banking structure by developing a more extensive branching network or by forming a holding company.<sup>61</sup>

In reality, a bank's lending policies are built upon loan applicant's screening processes to identify and exclude the unsound borrowers from among all applicants. The first objective in evaluating a potential borrower is to determine the credit worthiness of the borrower and the type of loan needed. A creative loan officer should evaluate the customer's needs and demands. However, this may be especially difficult when lending to small businesses. Unless a bank lends funds to small businesses on a seasonal basis, problems may arise since many small businesses are closely held and sometimes show minimum profits for tax purposes. For these and other reasons, a small business loan applicant is difficult to evaluate as a borrower.<sup>62</sup> A complete analysis of the borrower will protect the bank, earn a higher return on the loan, and allow the loan officer to help the customer solve his problem.

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<sup>61</sup>Ibid.

<sup>62</sup>Ibid., p. 192.

Pricing the loan and allocating loan costs are important steps in preventing a good, creditworthy customer from appearing to be a poor risk; and a mediocre, creditworthy customer from appearing to be a good risk.

Creditworthiness of a borrower is determined by several factors. It is partially determined by judging the background and personality of the borrower. A banker must evaluate the riskiness of the industry in which the borrower is competing. A national firm will probably obtain better loan terms than a local firm with the same credit rating because the national firm has a more elastic demand for funds and also has more alternative sources of funds.<sup>63</sup> The bank must examine the immediate industrial environment of the firm, the management capabilities, the firm's general economic environment, and then set a price on the loan so that it contributes to the profitability of the bank. Evaluating the loan profitability is a difficult task because if the customer services are not itemized, it is difficult to determine the cost of making the loan.<sup>64</sup>

Loans are the largest risk assets and also the largest earning assets in the bank portfolio, but commercial banks try to prevent firms

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<sup>63</sup>A loan maybe considered elastic if the cost of borrowing funds increases by a lesser proportion than the increase in the amount of borrowed funds. In other words, with a decrease in the cost of borrowed funds, a national firm will want substantially more loans than a local firm. For example, farmers and construction companies have an inelastic demand for loans because they need loans at the same time each year regardless of the cost of the loan at that time.

<sup>64</sup>John M. Mason, Financial Management of Commercial Banks, (New York: Warren, Gotham, and Lamont, 1979), pp. 280, 281, 319, 320.

from using bank credit for permanent financing. In fact, two-thirds of commercial bank dollars used for loans are for short-term loans.<sup>65</sup>

THE DEMAND FOR CREDIT IN THE YOUNGSTOWN-WARREN AREA

... demand for loan demand in the Youngstown-Warren area... it may be that the observed low... due to slack loan demand... data available for constructing... Youngstown-Warren area, a review... will help to better understand... for this geographical area.

... Credit Rationing and the Commercial Loan... demand for loans based on the... before the financing... amount of financing... production inputs... net liquid assets... amount of funds needed to... to this rule would be when... high.

... the ratio between a commercial loan... assets... long term... gradually in the... commercial loans... a function of the price... these assets being inventory stock, plant and

<sup>65</sup>J. Fred Weston and Eugene F. Brigham, Managerial Finance Sixth ed., (Hindsdale: Dryden Press, 1978), p. 226.

## CHAPTER VI

DEMAND FOR LOANS IN THE YOUNGSTOWN-WARREN AREA

There are no published data for loan demand in the Youngstown-Warren area according to John Starkey.<sup>66</sup> It may be that the observed low loan to deposit ratios in previous years were due to slack loan demand. Even though data for this ratio are not available for constructing a demand for commercial loans in the Youngstown-Warren area, a review of one of several commercial loan models developed will help to better understand how one could be constructed for this geographical area.

D.M. Jaffee in his book, Credit Rationing and the Commercial Loan Market, developed a model of demand for commercial loans based on the assumption that a company decides on real expenditures before the financing decisions are made. The firm decides on the amount of financing needed by determining the desired level of sales and production inputs, such as inventory stock, fixed capital stock, and net liquid assets. From this information, the firm computes the amount of funds needed to complete the project. The only exception to this rule would be when commercial loan credit rationing is unexpectedly high.

The model stresses the firm's choice between a commercial loan and long term debt and equity to finance its net assets. Long term liabilities are considered by Jaffee to adjust only gradually in the short run to the desired level of financing, with commercial loans acting as a buffer. Demand for loans is calculated as a function of the principal assets of the firm; these assets being inventory stock, plant and

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<sup>66</sup>Starkey, Interview on October 18, 1980.



equipment, other liquid assets, and the relative cost of commercial loan financing.

The model is based on the firm's total need for financing, the proportion of total need for funds that will be financed by commercial loans, and the fact that commercial loans serve an important buffer function. The total need for financing, which is dependent on the production forecasts and the fixed and working capital requirements, must be obtained through equity capital, long term debt, or short term loans the majority of which are commercial loans. The amount of commercial loans needed for financing will depend on the nature of the assets and the availability and the cost of funds available for loans compared to other sources of financing. As a buffer function, commercial loans may supply a larger than normal proportion of a firm's new capital requirement in the short run until long term debt or equity can be obtained.

Results of testing this model support its general structure and show that a significant substitution between commercial loans and long term financing exists. After testing the model, Jaffee concluded that the main determinants of long run equilibrium loan demand are inventory investment and trade credit.<sup>67</sup>

In trying to formulate some type of loan demand, a review of past attempts to start business in the Youngstown-Warren SMSA give an indication of the need for loans. Several organizations started in the Youngstown area are dealing with economic development. Perhaps the best known is CASTLO.<sup>68</sup>

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<sup>67</sup>Jaffee, pp. 12-13, 124, 133, 145.

<sup>68</sup>CASTLO is an acronym for the communities of Campbell, Struthers, and Lowellville.

CASTLO was formed in March, 1978, to advance commercial, industrial, economic, and civic development for the communities of Campbell, Struthers, and Lowellville. Poland and Coitsville later joined CASTLO. CASTLO is interested in creating jobs and leasing space to job intensive industries in the CASTLO Industrial Park (formerly the Struthers Works of Youngstown Sheet and Tube).<sup>69</sup> The organization is emphasizing the advantages of the Youngstown area to attract manufacturing businesses: availability of water, sewers, and transportation.<sup>70</sup> Youngstown Steel Corporation is the first company to locate in the CASTLO Industrial Park after the company acquired a \$10 million government loan and a \$4 million loan from a Pittsburgh bank to purchase equipment. A total of \$20.8 million was initially needed to finance the Youngstown Steel Corporation. According to a May 22, 1980, Youngstown Vindicator article there was no evidence of local bank involvement.<sup>71</sup>

In December, 1978, the Niles Bank Co./BancOhio lent \$2.5 million to refinance Jones & Laughlin conduit plants in Niles, OH, and New Kensington, PA. It was the largest loan package the local bank had ever arranged. Previously, local industries had to obtain funds outside the area for major expansion or remodeling. Also, new industries locating in the Youngstown-Warren area obtained funds outside the area.<sup>72</sup>

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<sup>69</sup>"Rotary Hears DeCicco on Future of CASTLO," The Youngstown Vindicator, August 7, 1980, p. 10.

<sup>70</sup>"DeCicco Named CASTLO Chief," The Youngstown Vindicator, January 14, 1980, p.2.

<sup>71</sup>"CASTLO Industrial Park, Youngstown Steel are Dedicated," The Youngstown Vindicator, May 22, 1980, p. 37.

<sup>72</sup>"Bank Sets Mark with J & L Loan," The Youngstown Vindicator, December 31, 1978, pp. A-1, A-10.

For instance, on October 3, 1975, Dollar Bank restated its commitment to the area via full-page promotional spreads which appeared in The Youngstown Vindicator. According to Dollar Bank, funds of their bank are loaned when possible to support and stimulate the local economy.<sup>73</sup> Union National Bank's Earl Brauninger told The Youngstown Vindicator, "... our bank by virtue of its sound and liquid condition is capable and eager to help supply the capital needs of Youngstown and the Mahoning Valley during 1977."<sup>74</sup> Mr. McGowan from Dollar Bank said, "Dollar Bank has continued its active role in the community, helping to bring to the area Willow Molded Plastics, Inc. and also provided private sector financing along with government loan guarantees and grants to reopen the Aeroquip Corporation under the new name of Republic Rubber of Youngstown."<sup>75</sup>

Of course, these are just two cases and a generalization of loan demand or banker conservatism in lending can not be made. It can be stated that in reviewing business related news articles in The Youngstown Vindicator for the years 1975-1980, few articles were found to either support or disprove demand for loans. It can only be assumed that with the efforts of CASTLO, the attempts of workers to buy the closed steel plants, and the "Save Our Valley Campaign" there must exist a sizable demand for commercial loans.

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<sup>73</sup>"Commercial Loan Department," The Youngstown Vindicator, October 3, 1975, p. 56.

<sup>74</sup>"Union National Reports Gains," The Youngstown Vindicator, January 23, 1977, p. B-13.

<sup>75</sup>"Dollar Reports Four Records," The Youngstown Vindicator, February 18, 1979, p. B-19.

Tables 9 and 10 indicate the market share of loans each of the 10 largest commercial banks (classified by deposit size) have in the Youngstown-Warren SMSA at the close of 1979. Also, Table 11 reveals the loan growth trend of each bank for the past five years and the bank's percentile rank when compared to banks of similar size. If a five year average yearly percentiles is calculated, the only banks in the Youngstown-Warren SMSA, whose loan growth is less than comparative banks in its size class are Second National Bank of Warren (42.6%), Peoples(Society) Bank (41.4%) (Mahoning County), and Farmer's National Bank of Canfield (42.6%) (Mahoning County).

Since these three banks only comprise 14.94% of the market share of loans in Mahoning County, and 35.34% of the market share of loans in Trumbull County, it seems that most banks are keeping pace with the rest of the banks in the state. However, this is total loan growth and only gives a general picture of the loans given in the area. It is necessary to analyze loan data more closely to discover how much of this growth is due to commercial loans.

It can be seen in Table 12 and 13, that the ranking of banks by loan share of market within a country do not entirely correlate with a ranking of commercial and industry loan to deposit ratios. For example, Mahoning National Bank, which ranks second in Mahoning County with a loan share of market of 27.32%, ranks fifth (out of five banks), in terms of commercial and industrial loan to deposit ratios. This relatively poor showing by a major Mahoning County Bank is illustrative of the chronic problem of not granting its relative share of commercial and industrial loans, i.e., reinvestment in the community.

TABLE 9<sup>a</sup>

MARKET SHARE OF LOANS FOR THE FIVE LARGEST COMMERCIAL BANKS RANKED BY DEPOSIT SIZE (LARGEST TO SMALLEST) FOR MAHONING COUNTY, FOR 1979

Bank	Loan Share of Market Within County
Dollar Savings and Trust Company	37.4%
Mahoning National Bank	27.3%
Union National Bank	18.1%
Peoples (Society) Bank	6.9%
Farmer's National Bank	8.0%
Other Banks	2.3%
Total	100.0%

<sup>a</sup>Data for this table was taken from Sheshunoff Banks of Ohio 1980, (Austin, Texas: Sheshunoff and Company, Inc.), Section XVI, pp. 15, 25.

TABLE 10<sup>a</sup>

MARKET SHARE OF LOANS FOR THE FOUR LARGEST COMMERCIAL BANKS (EXCLUDING BANCOHIO NATIONAL BANK) RANKED BY DEPOSIT SIZE (LARGEST TO SMALLEST) FOR TRUMBULL COUNTY FOR 1979

Bank	Loan Share of Market Within the County
Union Savings and Trust Company	41.7%
Second National Bank of Warren	35.3%
Cortland Savings and Banking Company	19.4%
Dollar Savings Bank Company	3.6%
Total	100.0%

<sup>a</sup>Data for this table was taken from Sheshunoff Banks of Ohio, 1980, (Austin, Texas: Sheshunoff and Company, Inc.), Section XVI, pp. 15, 25.

TABLE 11<sup>a</sup>

LOAN GROWTH TREND FOR THE TEN LARGEST BANKS RANKED BY ASSET SIZE (LARGEST TO SMALLEST) FOR THE YOUNGSTOWN-WARREN SMSA FOR THE YEARS 1975 - 1979.

Bank	Year	Loan Growth in Percent	Percentile <sup>b</sup>
BancOhio National Bank	1979	14.3%	85%
	1978	17.6	16
	1977	27.2	100
	1976	6.7	83
	1975	- 4.5	79
Dollar Savings and Trust Company	1979	12.6	76
	1978	19.4	82
	1977	12.9	30
	1976	4.6	51
	1975	8.8	93
Mahoning National Bank	1979	22.6	96
	1978	32.8	97
	1977	15.5	48
	1976	2.0	32
	1975	- 0.8	54
Union National Bank	1979	16.6	86
	1978	24.0	93
	1977	6.4	11
	1976	5.0	56
	1975	- 4.4	27

Union Savings and Trust	1979	4.7	37
	1978	5.5	8
	1977	15.7	51
	1976	9.6	91
	1975	2.8	75
Second National Bank of Warren	1979	9.8	66
	1978	14.2	50
	1977	11.1	20
	1976	1.2	29
	1975	- 0.9	48
Cortland Savings and Banking	1979	23.5	98
	1978	3.0	3
	1977	17.1	48
	1976	13.4	70
	1975	9.6	71
Peoples (Society) Bank	1979	- 4.9	6
	1978	10.6	27
	1977	42.2	99
	1976	1.7	20
	1975	4.7	55
Farmer's National Bank of Canfield	1979	6.3	45
	1978	30.1	97
	1977	10.7	16
	1976	5.4	32
	1975	3.4	41



Dollar Savings Bank	1979	7.9	53
	1978	19.7	71
	1977	15.4	35
	1976	9.2	48
	1975	16.7	75

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<sup>a</sup>This table was constructed from data published in Sheshunoff Banks of Ohio 1980, (Austin, Texas: Sheshunoff and Company, Inc.) Section XIV, pp. 6, 10, 11, 29, 38, 39, 41.

<sup>b</sup>Percentile is the percentile of the bank in the State of Ohio within each bank's respective size group according to deposit size, 100% = Best, 0% = Worst.

TABLE 12

EIGHT YEAR AVERAGE OF LOAN TO DEPOSIT RATIOS AND COMMERCIAL AND INDUSTRIAL LOAN TO DEPOSIT RATIOS OF THE FIVE LARGEST COMMERCIAL BANKS (CLASSIFIED BY ASSET SIZE) IN MAHONING COUNTY (RANKED BY LOAN TO DEPOSIT RATIOS)

Bank	The Average Loan to Deposit Ratio for the Years 1972 - 1979	The Average Commercial and Industrial Loan to Deposit Ratio for the Years 1972 - 1979
Dollar Savings and Trust Company	0.559	0.131
Mahoning National Bank	0.534	0.082
Union National Bank	0.456	0.111
Peoples (Society) Bank	0.694	0.107
Farmer's National Bank	0.617	0.110

TABLE 13

EIGHT YEAR AVERAGE OF LOAN TO DEPOSIT RATIOS AND COMMERCIAL AND INDUSTRIAL LOAN TO DEPOSIT RATIOS OF THE FOUR LARGEST COMMERCIAL BANKS (CLASSIFIED BY ASSET SIZE, EXCLUDING BANCOHIO NATIONAL BANK) IN TRUMBULL COUNTY (RANKED BY LOAN TO DEPOSIT RATIOS)

Banks	The Average Loan to Deposit Ratio for the Years 1972 - 1979	The Average Commercial and Industrial Loan to Deposit Ratio for the Years 1972 - 1979
Union Savings and Trust	0.770	0.130
Second National Bank	0.703	0.136
Cortland Savings and Banking Company	0.761	0.047
Dollar Savings Bank	0.604	0.113

## CHAPTER VII

ANALYSIS OF THE DATA

In order to determine whether the banks in the Youngstown-Warren SMSA are granting commercial loans in the proportions that reflect a norm among similar banks, data was collected from Call Reports of Condition for each of the ten banks in the Youngstown-Warren SMSA, from the Federal Reserve Bank of Cleveland FR-40 reports and Reports of Condition Summary Data for the Federal Reserve District 4, and from the Federal Reserve Bulletin. The ten Youngstown-Warren SMSA banks' loan to deposit (LTD)<sup>76</sup> ratios and commercial and industrial loan to deposit (CILTD)<sup>77</sup> ratios will be compared to the loan to deposit ratios and commercial and industrial loan to deposit ratios of the Federal Reserve System and the Federal Reserve District 4 (Cleveland District, see Tables 14 and 15). By comparing these groups of data, a generalization can be made about whether or not the LTD ratios and CILTD ratios conform to the statistical means of the LTD ratios and/or the CILTD ratios for the Cleveland District of the Federal Reserve System and the Federal Reserve System. Both the Federal Reserve System and the Federal Reserve Bank of Cleveland compile aggregate balance sheets from which the data was obtained. The Federal Reserve System uses data from all commercial banks in the United States and the Federal Reserve Bank of Cleveland uses data from all commercial

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<sup>76</sup>LTD will be used as an acronym for loan to deposit for this chapter.

<sup>77</sup>CILTD will be used as an acronym for commercial and industrial loan to deposit for this chapter.

TABLE 14<sup>1</sup>

LOAN TO DEPOSIT RATIOS FOR THE TEN LARGEST COMMERCIAL BANKS (CLASSIFIED BY ASSET SIZE) IN THE YOUNGSTOWN-WARREN SMSA, THE CLEVELAND DISTRICT OF THE FEDERAL RESERVE SYSTEM, AND THE FEDERAL RESERVE SYSTEM FOR THE YEARS 1969 - 1979.

Year	a	b	c	d	e	f	g	h	i	j	k	l
Dec. 31, 1969	0.636	m	0.452	0.519	m	0.547	m	0.531	0.565	m	0.658	0.640
Dec. 31, 1970	0.524	m	0.438	0.506	m	0.585	m	0.575	0.587	m	0.640	0.595
Dec. 31, 1971	0.468	m	0.454	0.524	m	0.640	m	0.552	0.611	m	0.609	0.588
Dec. 31, 1972	0.534	0.469	0.451	0.475	0.728	0.681	0.721	0.624	0.647	0.559	0.631	0.604
Dec. 31, 1973	0.580	0.498	0.506	0.476	0.747	0.703	0.781	0.703	0.722	0.598	0.725	0.646
Dec. 31, 1974	0.617	0.562	0.576	0.513	0.791	0.782	0.784	0.677	0.725	0.528	0.734	0.663
Dec. 31, 1975	0.520	0.570	0.521	0.403	0.746	0.676	0.768	0.678	0.678	0.601	0.694	0.622
Dec. 31, 1976	0.518	0.562	0.475	0.397	0.744	0.672	0.779	0.653	0.672	0.613	0.656	0.623
Dec. 31, 1977	0.647	0.571	0.506	0.382	0.802 <sup>n</sup>	0.660	0.751	0.790	0.630	0.636	0.669	0.644
Dec. 31, 1978	0.644	0.623	0.570	0.462	0.789	0.705	0.708	0.812	0.754	0.680	0.726 <sup>o</sup>	0.713
Dec. 31, 1979	0.730	0.619	0.666	0.542	0.811	0.747	0.794	0.615	0.757	0.621	0.876 <sup>p</sup>	0.723

<sup>a</sup>BancOhio National Bank

<sup>b</sup>The Dollar Savings & Trust Company

<sup>c</sup>Mahoning National Bank

<sup>d</sup>Union National Bank

<sup>e</sup>Union Savings and Trust

<sup>f</sup>Second National Bank of Warren

<sup>g</sup>Cortland Savings and Banking Company

<sup>h</sup>Peoples (Society) Bank of Youngstown

<sup>i</sup>Farmer's National Bank of Youngstown

<sup>j</sup>The Dollar Savings Bank Company

<sup>k</sup>The ratios in this column are averages calculated from Federal Reserve Data for all Commercial Banks. The assets and liabilities of all commercial banking institutions in the United States were in the formula of q.

<sup>l</sup>The ratios in this column are averages calculated from Federal Reserve Bank of Cleveland data for District 4 of the Federal Reserve System. The appropriate numbers were substituted into the formula of q.

<sup>m</sup>Data for these years was not available.

<sup>n</sup>Ratios calculated from balance sheet figures from Dec. 30, 1977 balance sheet for Union Savings and Trust.

<sup>o</sup>Balance sheet as of Dec. 26, 1978 for all commercial banks and figure reduced \$10 million because of reclassification of some loans.

<sup>p</sup>Balance sheet as of Dec. 27, 1979 for all commercial banks and figures were increased by \$600 million because of reclassification of some loans.

<sup>q</sup>All ratios except where noted were derived from the Call Report of Condition for each commercial bank on Dec. 31st of each year using this formula:

$$\frac{\text{Gross Total Loans}}{\text{Total Deposits}} = \text{Loan to Deposit Ratio}$$

TABLE 15<sup>4</sup>

COMMERCIAL AND INDUSTRIAL LOANS TO DEPOSIT RATIOS FOR THE TEN LARGEST COMMERCIAL BANKS (CLASSIFIED BY ASSET SIZE) IN THE YOUNGSTOWN WARREN SMSA, THE CLEVELAND DISTRICT OF THE FEDERAL RESERVE SYSTEM AND THE FEDERAL SYSTEM FOR DECEMBER 31 FOR THE YEARS 1969 - 1979

Year	a	b	c	d	e	f	g	h	i	j	k	l
1969	0.240	m	0.091	0.167	m	0.177	m	0.068	0.096	m	0.249	0.216
1979	0.199	m	0.078	0.179	m	0.185	m	0.087	0.111	m	0.238	0.197
1971	0.194	m	0.059	0.150	m	0.166	m	0.111	0.153	m	0.220	0.185
1972	0.255	0.129	0.050	0.128	0.130	0.173	0.080	0.157	0.134	0.079	0.215	0.183
1973	0.273	0.136	0.068	0.117	0.119	0.082	0.040	0.148	0.149	0.114	0.234	0.198
1974	0.288	0.150	0.093	0.135	0.145	0.180	0.043	0.130	0.138	0.090	0.250	0.216
1975	0.219	0.143	0.084	0.100	0.134	0.143	0.035	0.111	0.096	0.111	0.228	0.187
1976	0.202	0.133	0.069	0.085	0.146	0.154	0.041	0.088	0.091	0.136	0.217	0.179
1977	0.268	0.094	0.080	0.085	0.120 <sup>n</sup>	0.115	0.047	0.090	0.077	0.124	0.218	0.176
1978	0.251	0.117	0.094	0.115	0.107	0.124	0.040	0.085	0.083	0.122	0.234 <sup>o</sup>	0.183
1979	0.220	0.114	0.144	0.120	0.135	0.116	0.056	0.045	0.108	0.129	0.247 <sup>p</sup>	0.195

<sup>a</sup>BancOhio National Bank

<sup>b</sup>The Dollar Savings & Trust Company

<sup>c</sup>Mahoning National Bank

<sup>d</sup>Union National Bank

<sup>e</sup>Union Savings and Trust

<sup>f</sup>Second National Bank of Warren

<sup>g</sup>Cortland Savings and Banking Company

<sup>h</sup>Peoples (Society) Bank of Youngstown

<sup>i</sup>Farmer's National Bank of Canfield

<sup>j</sup>The Dollar Savings Bank Company

<sup>k</sup>These ratios are averages calculated from the Federal Reserve Data for all commercial banking institutions in the United States.

<sup>l</sup>These ratios are averages of calculated from the Federal Reserve Bank of Cleveland data for all commercial banks in Federal Reserve District 4.

<sup>m</sup>Data for these years was not available.

<sup>n</sup>Ratios calculated from balance sheet figures from Dec. 30, 1977 balance sheet for Union Savings and Trust.

<sup>o</sup>Balance sheet as of Dec. 26, 1978 for all commercial banks and the commercial and industrial loan figure was reduced \$10 million because of reclassification of some loans.

<sup>p</sup>Balance sheet as of Dec. 27, 1979 for all commercial banks and the commercial and industrial loan figure was increased by \$600 million because of reclassification of some loans.

<sup>q</sup>All ratios except where noted, were derived from the Call Report of Condition for each commercial bank on Dec. 31st of each year using this formula:

$$\frac{\text{Commercial and Industrial Loans}}{\text{Total Deposits}} = \text{Commercial and Industrial Loan to Deposit Ratio}$$



banks in the Cleveland District to compile aggregate balance sheets.

To avoid an invalid comparison of data, LTD ratios were calculated for each of the ten banks in the Youngstown-Warren SMSA instead of using absolute numbers from the balance sheets because each bank has different amounts of assets, deposits, and loans. For instance, deposits for the Youngstown-Warren SMSA ranged from \$3.7 billion (BancOhio) to \$25.6 million (Dollar Savings Bank) for 1979. Although, the LTD ratios are helpful, they can be misleading because a total gross loan amount may equal the national average, but the bank may have an abundance of real estate or other loans and little, if any, commercial or industrial loans.<sup>78</sup> A CILTD ratio was calculated so that an accurate analysis of commercial loan practices could be determined (See Table 14 on page 53). A series of t-tests and percentage calculations comparing the LTD ratios of ten Youngstown-Warren SMSA banks with those of the Federal Reserve System and the Cleveland District of the Federal Reserve System will indicate any significant differences between these data sets.

The data used in this study should be valid since each bank must comply with the Federal Financial Institutions Examination Council (FFIEC) instructions for completing the Report of Condition. The FFIEC is an attempt to consolidate separate agency's reporting practices for banks and standardize the instructions.

The instructions for completing the various reports explain in detail what type of loans can be classified as commercial and industrial loans (See Appendix 1). The instructions for "Reports of Condition and

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<sup>78</sup>Commercial and industrial loans are basically loans for commercial and industrial purposes lent by banks to business firms.

Income by State Member Banks of the Federal Reserve System That Have Only Domestic Offices and That Have Less Than \$100 Million in Total Assets (Report Form FR2103)," "Reports of Condition and Income by all Insured Commercial Banks that have Foreign Offices and/or Edge Act or Agreement Subsidiaries (Report Form FFIEC 013 and 014)," and "Reports of Condition and Income by all Insured Commercial Banks that have Only Domestic Offices" (Report Form FFIEC 012) dealing with commercial and industrial loans and deposits have little variation between the reporting procedures. In fact, the only noticeable variation occurred in Report FFIEC 014 which included in its deposit total, "Total Deposits in Foreign Offices and Edge and Agreement Subsidiaries," which was not listed in FFIEC 012 and FR2103, and "cotton overdrafts"<sup>79</sup> was listed in FR2103 and not a FFIEC 012 or FFIEC 014.<sup>80</sup> Although, FR2103 has not been standardized by the FFIEC as of yet, it is the same as the other two reports in terms of content. Thus, there are minor differences that could account for differences in the accounts that are classified under commercial and industrial loans and total deposits. The actual listing of what to be included in commercial and industrial loans is listed in Appendix 1.

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<sup>79</sup>Cotton overdrafts are loans to cotton buyers, but excludes loans to cotton farmers.

<sup>80</sup>Federal Financial Institutions Examination Council, Instructions for Preparation Reports of Condition and Income by all Insured Commercial Banks that have Only Domestic Offices: National Banks, State Member Banks, Insured State Nonmember Banks, July, 1980, Instructions for Preparation Reports of Condition and Income by all Insured Commercial Banks that that have Foreign Offices and/or Edge Act or Agreement Subsidiaries: National Banks, State Member Banks, Insured State Nonmember Banks, September 30, 1980, and also Board of Governors of the Federal Reserve System, Instructions for Preparation Reports of Condition and Income by State Member Banks of the Federal Reserve System That Have Only Domestic Offices and That Have Less Than \$100 Million in Total Assists, March, 1979.

According to Diane Smith from the Federal Reserve Bank of Cleveland, even though the Call Reports of Condition formats have changed since 1969, the instructions and the accounts basically did not change. The changes that were made reduced the burden for small banks and combined items, but the regular report form was left unchanged. She also said that commercial and industrial loans can be compared for small and large banks.<sup>81</sup> Tom Buynak, Economic Analyst from the Federal Reserve Bank of Cleveland, said care should be taken in making bank comparisons because although the bottom line figures are comparable, some are regrouped differently with less detail in certain categories.<sup>82</sup>

### Hypotheses

From reviewing the literature, four hypotheses were developed. They are listed below.

1. LTD ratios for ten Youngstown-Warren SMSA banks will be lower than LTD ratios for the Federal Reserve System.<sup>83</sup>
2. LTD ratios for ten Youngstown Warren SMSA banks will be lower than LTD ratios for the Cleveland District of the Federal Reserve System.

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<sup>81</sup>Telephone conversation with Diane Smith, Department of Data Resources, Federal Reserve Bank of Cleveland, Cleveland, Ohio, December 22, 1980.

<sup>82</sup>Telephone conversation with Thomas Buynak, December 22, 1980.

<sup>83</sup>The ten banks for purposes of this study refer to the ten largest commercial banks, classified by asset size, in the Youngstown-Warren SMSA. They are BancOhio National Bank, Dollar Savings and Trust Company, Mahoning National Bank, Union National Bank, Cortland Savings and Banking Company, People's (Society) Bank, Farmer's National Bank, and Dollar Savings Bank Company.

3. CILTD ratios for ten Youngstown-Warren SMSA banks will be lower than CILTD ratios for the Federal Reserve System.
4. CILTD ratios for ten Youngstown-Warren SMSA banks will be lower than CILTD ratios for the Cleveland District of the Federal Reserve System.

### Test of Hypothesis

Forty-one tailed t-tests were performed on the data (Tables 14 and 15). The t-tests were calculated to determine if relationships existed and if those relationships were significant between:

1. the LTD ratios for the ten banks in the Youngstown-Warren SMSA and risk aversion by local banks.<sup>84</sup>
2. the LTD ratios for the ten banks in the Youngstown-Warren SMSA and risk aversion by local banks.<sup>85</sup>
3. the CILTD ratios for the ten banks in the Youngstown-Warren SMSA and risk aversion by local banks.<sup>86</sup>

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<sup>84</sup>Risk aversion in this series of t-tests is the reluctance to lend money as measured by LTD ratios which are lower in value than Federal Reserve System's LTD ratios implying banker conservatism. Risk aversion is a surrogate for banker conservatism.

<sup>85</sup>Risk aversion in this series of t-tests is the reluctance to lend money as measured by LTD ratios which are lower in value than those of the Cleveland District of the Federal Reserve System implying banker conservatism.

<sup>86</sup>Risk aversion in this series of t-tests is the reluctance to lend money as measured by CILTD ratios which are lower in value than those of the Federal Reserve System implying banker conservatism.

4. the CILTD ratios for the ten banks in the Youngstown-Warren SMSA and risk aversion by local banks.<sup>87</sup>

Also, the LTD ratios and percentages of ten banks in the Youngstown-Warren SMSA that are lower than the LTD for the Federal Reserve System and for the Cleveland District of the Federal Reserve System and the percentage of CILTD ratios for these ten banks that are lower than the CILTD for the Federal Reserve System and for the Cleveland District of the Federal Reserve System were calculated. Because of unobtainable data for four banks for the years 1969-1971, only eight years were used in the calculations for The Dollar Savings and Trust Company, Union Savings and Trust, Cortland Savings and Banking Company, and the Dollar Savings Bank Company.

### Results

The results of the t-tests reveal some support for the hypotheses (Refer to Tables 16 and 17). When t-tests were calculated using LTD ratios from the ten banks in the Youngstown-Warren SMSA and the Federal Reserve System's LTD ratios, six Youngstown-Warren SMSA banks<sup>88</sup> had LTD ratios that were significantly lower than those of the Federal Reserve

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<sup>87</sup>Risk aversion in this series of t-tests is the reluctance to lend money as measured by CILTD ratios which are lower in value than those of the Cleveland District of the Federal Reserve System implying banker conservatism.

<sup>88</sup>These banks were BancOhio National Bank(Trumbull County), Dollar Savings and Trust (Mahoning County), Mahoning National Bank (Mahoning County), Union National Bank (Mahoning County), Cortland Savings and Banking Company (Trumbull County), and the Dollar Savings Bank Company (Trumbull County).

TABLE 16<sup>a</sup>

T-TEST RESULTS FROM COMPARISON OF THE LOAN TO DEPOSIT RATIOS FOR THE TEN LARGEST COMMERCIAL BANKS (ACCORDING TO ASSET SIZE) AND THE LOAN TO DEPOSIT RATIOS FOR THE FEDERAL RESERVE SYSTEM

Bank	Federal Reserve System (FRS)	Degrees of Freedom	t-Value
BancOhio National Bank	< FRS	10	t = - 3.5 <sup>b</sup>
Dollar Savings and Trust Company	< FRS	7	t = - 4.6 <sup>b</sup>
Mahoning National Bank	< FRS	10	t = - 6.0 <sup>b</sup>
Union National Bank	< FRS	10	t = - 7.9 <sup>b</sup>
Union Savings and Trust	> FRS	7	t = 3.13 <sup>b</sup>
Second National Bank	≈ FRS	10	t = - .7
Cortland Savings and Banking Co.	< FRS	7	t = 2.8 <sup>b</sup>
Peoples (Society) Bank	≈ FRS	10	t = - 1.1
Farmer's National Bank	≈ FRS	10	t = - .2 <sup>b</sup>
Dollar Savings Bank	< FRS	7	t = - 3.2 <sup>b</sup>

<sup>a</sup>All t-tests were calculated at the .05 level of significance. In other words, if the t-value is larger than 1.812 (in absolute terms) for 10 degrees of freedom then the difference between the bank's loan to deposit ratio and the loan to deposit ratio for the Federal Reserve System is significant. If the t-value is larger than 1.895 and 7 degrees of freedom, then the difference between the banks's loan to deposit ratio and the loan to deposit ratio for the Federal Reserve System is significant.

<sup>b</sup> $p < .05$ , For these t-values, the probability is less than 5% that this significant difference occurred by chance.

TABLE 17<sup>a</sup>

T TEST RESULTS FROM THE COMPARISON OF THE LOAN TO DEPOSIT RATIOS FOR THE TEN LARGEST COMMERCIAL BANKS (ACCORDING TO ASSET SIZE) AND THE LOAN TO DEPOSIT RATIOS FOR THE CLEVELAND DISTRICT OF THE FEDERAL SYSTEM

Bank	Cleveland District of the Federal Reserve System (CDFRS)	Degrees of Freedom	t-Value
BancOhio National Bank	< CDFRS	10	t = - 2.234 <sup>b</sup>
Dollar Savings and Trust Company	< CDFRS	7	t = - 3.6 <sup>b</sup>
Mahoning National Bank	< CDFRS	10	t = - 5.3 <sup>b</sup>
Union National Bank	< CDFRS	10	t = - 7.9 <sup>b</sup>
Union Savings and Trust	> CDFRS	7	t = - 7.53 <sup>b</sup>
Second National Bank	≈ CDFRS	10	t = 1.3
Cortland Savings and Banking	> CDFRS	7	t = 7.0 <sup>b</sup>
People's (Society) Bank	≈ CDFRS	10	t = .04
Farmer's National Bank	≈ CDFRS	10	t = - 1.1
Dollar Savings Bank	≈ CDFRS	7	t = - 1.8

<sup>a</sup>All t-tests were calculated at the .05 level of significance. In other words, if the t-value is larger than 1.912 (in absolute terms) for 10 degrees of freedom, then the difference between the bank's loan to deposit ratio and the loan to deposit ratio for the Cleveland District of the Federal System is significant. If the t-value is larger than 1.895 (in absolute terms) for 7 degrees of freedom, then the difference between the bank's loan to deposit ratio and the loan to deposit ratio for the Federal Reserve System is significant.

<sup>b</sup> $p < .05$ . For these t-values, the probability is less than 5% that this significant difference occurred by chance.

System. Only one bank, Union Savings and Trust (Trumbull County), had an LTD ratio that was significantly higher than that of the Federal Reserve System. Comparing LTD ratios for the ten banks in the Youngstown-Warren SMSA to those of the Cleveland District of the Federal Reserve System, four banks<sup>89</sup> had LTD ratios significantly lower than those of the Cleveland District of the Federal Reserve System. Only two banks, Union Savings and Trust and Cortland Savings and Trust Company, had significantly higher LTD ratios than those of the Cleveland District of the Federal Reserve System.

T-Tests performed on the CILTS ratios for the ten banks in the Youngstown-Warren SMSA and the Federal Reserve System indicated that the CILTD ratios of nine banks were significantly lower than those of the Federal Reserve System (Refer to Tables 18 and 19). The only bank whose CILTD ratios were not significantly lower than those of the Federal Reserve System was BancOhio National Bank. When the CILTD ratios of the ten Youngstown-Warren SMSA banks were compared to the Cleveland District of the Federal Reserve System's CILTD ratios, nine banks had CILTD ratios that were significantly lower than those of the Cleveland District of the Federal Reserve System. Again, BancOhio National Bank was the only bank whose CILTD ratios were not significantly lower than those of the Cleveland District of the Federal Reserve System.

From 1972-1979, 72.5% of the LTD ratios of the ten banks' in the Youngstown Warren SMSA were lower than those of the Federal Reserve System, When compared to the Cleveland District of the Federal Reserve System, 52.5% of the LTD ratios of the ten banks for the same time period were

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<sup>89</sup>These banks were BancOhio National Bank, Mahoning National Bank, Dollar Savings and Trust Company, and Union National Bank.



below those for the Cleveland District of the Federal Reserve System. It is apparent that Dollar Savings and Trust Company, Mahoning National Bank, and Union National Bank, which are all based in Youngstown, consistently had the lowest LTD ratios.

With the exception of BancOhio National Bank, no bank had a CILTD ratio that approached those of the Federal Reserve System. From 1972-1979, 93.8% of the CILTD ratios for the ten banks in the Youngstown-Warren SMSA were lower than those of the Federal Reserve System. When the CILTD ratios of these ten banks were compared to those of the Cleveland District of the Federal Reserve System, 86.5% fall below the CILTD ratios for the Cleveland District for the same time period. Therefore, risk aversion appears to be an important factor in granting commercial loans in the Youngstown-Warrern SMSA.

#### Data Weaknesses

Although the data used in this study are the best and most accurate available, there are still some problems with it. One major problem is that since BancOhio National Bank is a state-wide bank, its Call Reports of Condition combine all of their branches throughout the state and this state-wide data distort the study somewhat. There is no data required by governmnet agencies to breakdown loan data by SMSA (Refer to Appendix 2 on page 77); therefore, the effect of BancOhio National Bank on the Youngstown-Warren SMSA can not be known. It was included in the study because it is located in Trumbull County and it does have an effect on the area.

People's Bank is now named Society, which is a state-wide banking institution, but until 1980, People's was an affiliate bank and localized

TABLE 18<sup>a</sup>

T-TEST RESULTS FROM THE COMPARISON OF THE COMMERCIAL AND INDUSTRIAL LOAN TO DEPOSIT RATIOS FOR THE TEN LARGEST COMMERCIAL BANKS (ACCORDING TO ASSET SIZE) AND THE COMMERCIAL AND INDUSTRIAL LOAN TO DEPOSIT RATIOS FOR THE FEDERAL RESERVE SYSTEM

Bank	Federal Reserve System (FRS)	Degrees of Freedom	t-Value
BancOhio National Bank	≈ FRS	10	t = .3
Dollar Savings and Trust Company	< FRS	7	t = - 13.2 <sup>b</sup>
Nahoning National Bank	< FRS	10	t = - 21.6 <sup>b</sup>
Union National Bank	< FRS	10	t = - 10.8 <sup>b</sup>
Union Savings and Trust Co.	< FRS	7	t = - 14.8 <sup>b</sup>
Second National Bank	< FRS	10	t = - 7.8 <sup>b</sup>
Cortland Savings and Banking Company	< FRS	10	t = - 26.2 <sup>b</sup>
People's (Society) Bank	< FRS	10	t = - 12.0 <sup>b</sup>
Farmer's National Bank	< FRS	10	t = - 4.5 <sup>b</sup>
Dollar Savings Bank	< FRS	7	t = - 6.1 <sup>b</sup>

<sup>a</sup>All t-tests were calculated at the .05 level of significance. In other words, if the t-value is larger than 1.812 (in absolute terms) for 10 degrees of freedom, then the difference between the bank's commercial and industrial loan to deposit ratio and the commercial and industrial loan to deposit ratio for the Federal Reserve System is significant. If the t-value is larger than 1.895 (in absolute terms) for 7 degrees of freedom, then the difference between the bank's commercial and industrial loan to deposit ratio and the commercial and industrial loan to deposit ratio for the Federal Reserve System is significant.

<sup>b</sup> $p < .05$ . For these t-values, the probability is less than 5% that this significant difference occurred by chance.

TABLE 19<sup>a</sup>

T-TEST RESULTS FROM THE COMPARISON OF THE COMMERCIAL AND INDUSTRIAL LOAN TO DEPOSIT RATIOS FOR THE TEN LARGEST COMMERCIAL BANKS (ACCORDING TO ASSET SIZE) AND THE COMMERCIAL AND INDUSTRIAL LOAN TO DEPOSIT RATIOS FOR THE CLEVELAND DISTRICT OF THE FEDERAL RESERVE SYSTEM

Bank	Cleveland District of the Federal Reserve System (CDFRS)	Degrees of Freedom	t-Value
BancOhio National Bank	> CDFRS	10	t = 4.2 <sup>b</sup>
Dollar Savings and Trust Company	< CDFRS	7	t = - 8.5 <sup>b</sup>
Mahoning National Bank	< CDFRS	10	t = - 15.6 <sup>b</sup>
Union National Bank	< CDFRS	10	t = - 6.7 <sup>b</sup>
Union Savings and Trust Co.	< CDFRS	7	t = - 9.8 <sup>b</sup>
Second National Bank	< CDFRS	10	t = - 4.8 <sup>b</sup>
Cortland Savings and Banking	< CDFRS	7	t = - 22.5 <sup>b</sup>
People's (Society) Bank	< CDFRS	10	t = - 8.41 <sup>b</sup>
Farmer's National Bank	< CDFRS	10	t = - 2.96 <sup>b</sup>
Dollar Savings Bank	< CDFRS	7	t = - 4.0 <sup>b</sup>

<sup>a</sup>All t-tests were calculated at the .05 level of significance. In other words, if the t-value is larger than 1.812 (in absolute terms) for 10 degrees of freedom, then the difference between the bank's commercial and industrial loan to deposit ratio and the commercial and industrial loan to deposit ratio for the Cleveland District of the Federal Reserve System is significant. If the t-value is larger than 1.895 (in absolute terms) for 7 degrees of freedom, then the difference between the bank's commercial and industrial loan to deposit ratio and the commercial and industrial loan to deposit ratio for the Cleveland District of the Federal Reserve System is significant.

<sup>b</sup> $p < .05$ . For these t-values, the probability is less than 5% that this significant difference occurred by chance.

data could be obtained.

The Report of Condition Summary Data for December, 1978 and 1979 supplied for this study by the Federal Reserve Bank of Cleveland has a warning message printed on each page. The message states that the summary balance sheet data for the Federal Reserve Fourth District "... INCLUDES BANKS WITH INVALID OR QUESTIONABLE DATA."<sup>90</sup>

Another problem is the law did not permit disclosure of the loan data from the Federal Reserve state member banks until 1972. This meant a comparison of years 1969-1971 was not possible for four of the ten banks used in the study.

Since yearly averages for deposits and loans are not always readily available, the Call Report of Condition filed by each bank for December 31st of each year was used. The problem with using these reports is that they may not be representative of a bank's real status because balance sheet data is only a measure of financial status at a point in time (Dec. 31st).

Finally, a difficulty exists since all of the banks used in this study are not members of the Federal Reserve System and therefore, may have different requirements concerning loans and deposits. Four of the ten banks analyzed are state members of the Federal Reserve System (Dollar Savings and Trust Company, Dollar Savings Bank, Cortland Savings and Banking Company, and Union Savings and Trust). Five of the banks are National banks, which report to the Comptroller of the Currency (BancOhio National Bank, Mahoning National Bank, Second National Bank

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<sup>90</sup>Federal Reserve Bank of Cleveland, Department of Data Services, Report of Condition Summary Data for 12/78, February 3, 1981, pp. 1, 2.

of Warren, and Farmer's National Bank of Canfield, and Union National Bank of One bank, People's (Society) Bank is state chartered and not a member of the Federal Reserve System as of the end of 1979. Although the Call Reports of Condition for each bank are very similar, some items may have been combined and/or omitted to match the requirement of the Call Report of Condition.

The banks say they are willing and able to provide credit, as evidenced by the ratios, their records show that they are in the granting of commercial loans. The difficulty of a recession has definitely sifted its way into grant

Deposits of the two categories of banks increased steadily over the past few years, and will continue to do so, but the proportions of commercial and industrial loans as a percentage of total assets are falling. The money must be invested in other kinds of securities, such as Treasury bills and other government debt securities.

There seems to be a relationship between investments and loans. As the ratio of loans to total assets falls, investments in other types of securities rise. A general investigation of the balance sheets of the two categories of banks would support this view.

The banks have an obligation to their stockholders, but, if the new regulations become real, further, the banks will have to invest in other securities, so will their deposits. Less money will be available for the bank to invest, which will eventually result in a lower return to stockholders.

The banks are willing to have enough confidence in their ability to invest in other securities, but yet they do not have enough confidence in the local banks to adopt a liberal loan policy.

## CHAPTER VIII

CONCLUSION

It is evident from the results of this study that what is being done regarding Youngstown-Warren SMSA bank loan practices is not what the banker's claim they are doing. The bankers say they are willing and able to supply capital to Youngstown, but, as evidenced by the ratios, their verbal intent does not materialize in the granting of commercial loans. The philosophy of conservatism has definitely sifted its way into granting commercial loans.

Deposits of the Youngstown-Warren SMSA banks increased steadily over the past ten years, along with their loans, but the proportions of commercial and industrial loans to deposits rarely reached 17%. The money must be invested in other kinds of securities, such as Treasury Bills and other safe government debt securities.

There seems to be a relationship between investments and loans. As the dollar amount of loans decrease, investments in other types of earning assets increase. A general observation of the balance sheets of the Youngstown-Warren SMSA banks seem to support this idea.

The banks have an obligation to their stockholders, but, if the area aggregate income declines further, more people will leave. When people emigrate, so will their bank deposits. Less money will be available for the bank to invest which will eventually result in a lower return to stockholders.

The Youngstown-Warren bankers have enough confidence in their ability to make a return on the depositor's money, but yet they do not have enough confidence in the local people to adopt a liberal loan policy

and loan money in the form of business loans for the welfare of local business investment. The long-run economic growth is sacrificed for the short-run stockholder gains.

APPENDIX 1

DEFINITIONS OF COMMERCIAL AND INDUSTRIAL LOANS FOR FFIEC FORM 012

and in the... instructions taken directly from the...  
Federal Reserve Board, Commercial and Industrial Loans, 1963, pp. 49-51.

Report loans for non-merchandise purposes to business enterprises (partnerships, corporations, sole proprietorships, etc.) secured or unsecured, single or joint, or in the form of direct or indirect loans, or bank acceptances.

Exclude the following categories:

- 1) loans secured primarily by real estate, even if for commercial and industrial purposes (to be reported in item 2 of this schedule);
- 2) loans to financial institutions including real estate investment trusts, mortgage companies, and insurance companies (to be reported in item 2 of this schedule);
- 3) loans for the purchase of, or financing and carrying securities (to be reported in item 3 of this schedule);
- 4) loans for the purpose of financing agricultural production which are to be reported in item 4 of this schedule;
- 5) loans to nonprofit organizations, such as, hospitals, educational institutions, etc., except those loans for which all or part of the principal payments serve as collateral (to be



## DEFINITIONS OF COMMERCIAL AND INDUSTRIAL LOANS FOR FFIEC FORM 012

Commercial and Industrial instructions taken directly from the Federal Financial Institutions Examination Council, Reports of Condition and Income by all Insured Commercial Banks that have Only Domestic Offices: National Banks, State Member Banks, Insured State Nonmember Banks (Reporting Form 012 and 013), Revision September, 1980, pp. 49 - 51.

Item 5, Commercial and Industrial Loans. Report loans for commercial and industrial purposes to business enterprises (proprietorships, partnerships, and corporations), whether secured or unsecured, single payment or installment. These loans may take the form of direct or purchased loans, as commercial paper or bankers acceptances.

Exclude the following from this item:

- 1) all loans secured primarily by real estate, even if for commercial and industrial purposes (to be reported in item 1 of this schedule);
- 2) loans to financial institutions including real estate investment trusts, mortgage companies, and insurance companies (to be reported in Item 2 of this schedule);
- 3) loans for the purpose of purchasing and carrying securities (to be reported in Item 3 of this schedule);
- 4) loans for the purpose of financing agricultural production whether made to farmers or to non-agricultural business (to be reported in Item 4 of this schedule);
- 5) loans to nonprofit organizations, such as, hospitals, educational institutions, etc., except those loans for which oil or mining production payments serve as collateral (to be

- reported in Item 7 of this schedule "All other loan");
- 6) dollar exchange acceptances (to be reported in Item 2(b) of this schedule); and debentures").
  - 7) equipment trust certificates (to be reported in Asset Item 5, "Other bonds, notes, and debentures").

With the exceptions noted above, this item should include the transactions which are listed as follows for descriptive purposes and which overlap to a certain extent:

- 1) loans for commercial and industrial purposes to the following industries:
  - a) mining, oil- and gas-producing, and quarrying industries
  - b) manufacturing industries of all kinds, including those which process agricultural commodities
  - c) construction industries
  - d) transportation, communication, and other public utilities
  - e) wholesale and retail trade enterprises and other dealers in commodities
  - f) cooperative associations including farmers' cooperatives
  - g) service industries such as, hotels, motels laundries, and automotive service stations.
  - h) insurance agents
  - i) practitioners of law, medicine, public accounting, etc., which are made for professional purposes.
- 2) loans for the purpose of financing capital expenditures as well as to finance current operations;

- 3) loans supported by letters of commitment from the Agency for International Development;
- 4) loans to commodity dealers, processors, or farmers' cooperatives;
- 5) loans to farmers for commercial and industrial purposes (when farmers operate a business enterprise as well as a farm);
- 6) loans to business enterprises guaranteed by the Small Business Administration;
- 7) loans made to finance construction (other than those included in Item 1 above);
- 8) loans to merchants or dealers on their own promissory notes, secured by the pledge of their own installment paper;
- 9) loans extended under credit card and related plans that are easily indentifiable as being issued in the name of a commercial or industrial enterprise;
- 10) "dealer flooring loans;"
- 11) loans collateralized by production payments (e.g., oil or mining production payments) as a loan to the original seller of the production payment rather than to the holder of the production payment. For example, a loan made to a nonprofit organization collateralized by an oil production payment should be reported here as a loan to the oil company and not in Item 7, "All other loans," as a loan to the nonprofit organization;

- 12) loans and participation in loans secured by conditional sales contracts made for the purpose of financing the purchase of commercial transportation equipment; and
- 13) commercial and industrial loans, such as, those described above, that are guaranteed by foreign government institutions.



## FEDERAL RESERVE BANK OF RICHMOND

RICHMOND, VIRGINIA 23261

Research Department

October 9, 1980

Mr. Lawrence P. Bombara  
7410 West Boulevard  
Apt. 319  
Youngstown, Ohio 44512

Dear Mr. Bombara:

There are several things I need to bring to your attention in answering your September 30 letter. First, South Carolina is a state that allows state-wide branch banking and four of the banks that you listed are a part of state-wide branch banking systems. Since banks file consolidated Reports of Condition it is not possible to say, for instance, what portion of the amounts on the Report of Citizens and Southern National Bank of South Carolina is attributable to the banks located in the Greenville-Spartanburg SMSA. Also, some of the banks headquartered in this SMSA have branches located outside of the SMSA. The only banking data available for the SMSA are deposit data published by the Federal Deposit Insurance Corporation (FDIC) in Summary of Deposits. (Enclosed is a photocopy of a page from the June 1979 issue.) This publication should be available in a large public or university library.

The entire Report of Condition was made available to the public beginning with the December 31, 1972 report, prior to that date only the face of the report could be released. A breakdown of total loans and deposits does not appear on the first page or face of the report.

When the Reports of Condition and Income were made available to the public it was decided that the reports would be released by the responsible supervisory agency. Therefore, the Federal Reserve Banks release data for State member banks, the FDIC for State non-member banks, and the Comptroller of the Currency for National banks. Since March 1979 the FDIC has been handling requests for the Comptroller.

The address for the Federal Deposit Insurance Corporation is:

Data Requests and Survey Section  
Federal Deposit Insurance Corporation  
550 17th Street, N.W.  
Washington, D.C. 20429  
(202-389-4701)

The FDIC does charge for retrieving these reports.

The Southern Bancorporation, Inc., Greenville that was on your list is a one-bank holding company and the bank is Southern Bank and Trust Company in Greenville. All of the banks on your list that are not National banks are State nonmember banks, thus you should contact the FDIC if you decide to go on with this request.

The Federal Reserve Bank of Richmond does not have any information concerning commercial loan practices in either the Greenville-Spartanburg SMSA or the Fifth District. We can give you for the Fifth District a breakdown of holdings of investment securities, by type of security for all commercial banks, but for the reason cited above we do not have information for the SMSA.

Enclosed is a copy of this Bank's March/April 1978 Economic Review which has an article pertaining to banking in the Fifth Federal Reserve District. I am sorry that I could not be of more assistance to you and let me know if you want the investment securities figures for the Fifth District. If you should have any questions my telephone number is (804) 643-1250, ext. 3221.

Sincerely,

*Patricia G. Rhodes*

(Mrs.) Patricia G. Rhodes  
Assistant Economist

Enclosures

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