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APPENDIX

Procedures of the Bank Examination Survey

Loan examiners' records are of two kinds. The first is a summary for every loan examined, whether criticized or not, of the more important data found in the lending bank's credit files on the borrower and the loan agreement, including balance sheets when available. At the Federal Reserve Bank of New York, for example, the examiners prepare a separate card for every loan that exceeds the cut-off amount. Space is provided for five years of information; each card thus provides a five-year history of the fortunes of the particular borrower and loan (presuming, of course, that the loan has been, at least intermittently, on the books for that long).

The second form of the records is the summary report prepared at the close of each examination, for submission to the bank in question, appraising the bank's condition as adjudged by the examiners. In this report most criticized assets are listed individually.

Both these sets of records were made available to the Bank Examination Survey for a sample of sixty state member banks, twenty in each of three Federal Reserve Districts. Careful precautions were, of course, taken to keep the identity of the banks and the borrowers strictly confidential. The sixty banks constitute a broad cross section of banks of all sizes in these three regions (see Table A-1). The sample is, however, neither large enough nor chosen in such a way as to permit the estimation of universe totals for these districts. In order to provide checks and bench marks for the examination data, as well as additional pertinent data, the sample was limited to banks that had participated in the Federal Reserve Commercial Loan Surveys of 1955 and 1957. These surveys included all banks with deposits over \$50 million, but only a sample of smaller banks. The sample, moreover,

Appendix

TABLE A-1

DISTRIBUTION OF COMMERCIAL BANKS BY SIZE, DECEMBER 31, 1957
(per cent)

Deposit Size (\$ million)	<i>United States</i>		<i>Three Districts^a</i>		Bank Examination Sample
	All Insured Banks	All Member Banks	All Member Banks	State Member Banks	
\$100 and over	2	4	5	12	22
50 to 100	2	3	}	6	12
25 to 50	4	6		11 ^b	22
Under 25	93	88	84	70	45
Total	100	100	100	100	100
Number of banks	13,165	6,365	1,476	316	60

NOTE: The bank examination sample was drawn from state member banks only.

SOURCE: *Annual Report of the Federal Deposit Insurance Corporation*, Washington, 1957, p. 115; *Federal Reserve Bulletin*, June 1958, p. 714; *Operating Ratios of Member Banks*, Federal Reserve Bank of Philadelphia, 1957; *Operating Ratios of Member Banks*, Federal Reserve Bank of Atlanta, 1957; and special tabulations.

^a New York, Philadelphia, and Atlanta.

^b Includes banks in the \$20 to 25 million class for Philadelphia.

was chosen only on the basis of size without regard to whether the banks had state or federal charters.¹ The banks in the present study are, in turn, a proportional sample of these Loan Survey banks stratified by size. The net effect of these procedures was that banks with deposits of under \$25 million were substantially underrepresented, as Table A-1 shows.

¹The sampling plan for the 1955 Loan Survey is described in the *Federal Reserve Bulletin*, April 1956, p. 337. The banks asked to report in the 1957 Survey were the same, except for adjustments necessitated by mergers and changes in the structure of the banking industry, such as changes in the size distribution of banks. See George W. Mitchell, "Review of Survey Findings," in *Financing Small Business: Report to the Committees on Banking and Currency and the Select Committees on Small Business by the Federal Reserve System*, 85th Congress, 2nd Session, Washington, 1958, p. 372.

Appendix

Data for these sixty banks were obtained both from the examiners' summary reports and the loan cards. Aggregate data were tabulated from the summary reports for the volume of criticized loans and loan losses for each year for 1947-57. (In the summary reports these aggregates are not broken down into consumer loans, business loans, and so on.) In addition, for 1953-57, criticized loans in the summary reports were enumerated individually, together with any pertinent information on borrower and loan characteristics. From the summary reports, then, two basic sets of data were obtained: aggregate dollar amounts for all criticized loans and losses, annually, 1947-57; and individual data for all loans criticized in 1953-57. Altogether, 2,678 entries for criticized *business* loans were individually enumerated from the summary reports.

In addition, a sample was taken of the individual business loan cards (pertaining to uncriticized as well as criticized loans) compiled for business loans in the 1957 examinations. Criticized loans and large loans were enumerated in full, and one in six of the small loans was listed.² Data were compiled for 4,121 uncriticized business loans; the data for the sampled smaller loans were "blown up" to yield, in combination with the enumerated loans, estimates of various loan aggregates and borrower characteristics for the sixty banks.³

The recorded information mainly comprised the following: industry of borrower, amount of loan outstanding, whether or not the loan was secured, and certain balance sheet items, namely, current assets and liabilities, total assets and liabilities, and net worth. The estimated distribution of loans by industry and size of borrower is given in Table A-2. Of course, not all items were available in all in-

²Fully enumerated loans were those of \$1 million or more at banks with deposits in excess of \$1 billion, those of \$750,000 or more at banks with deposits between \$500 million and \$1 billion, those of \$250,000 or more at banks with deposits between \$100 and \$500 million, and those of \$100,000 or more at banks with deposits of less than \$100 million.

³The definition of a business loan was the same as that then used in Federal Reserve statistics of (nonfarm) business loans, i.e., any loan by a commercial bank the proceeds of which are intended for business purposes. As such, business loans were distinguished from bank loans to acquire securities; loans to finance consumption expenditures; loans to finance the purchase, repair, or maintenance of owner-occupied housing; loans to nonprofit institutions; loans to farmers; and loans to governments and banks. Since 1959, the Federal Reserve has also excluded loans to nonbank financial institutions from the business loan universe, but this was not the case at the time of the Bank Examination Survey.

Appendix

TABLE A-2

ESTIMATED VOLUME OF CRITICIZED AND TOTAL LOANS,
BY INDUSTRY AND SIZE OF BORROWER, 1957

<i>Industry</i>		<i>Size of Borrower</i>			
		Large	Medium	Small	All Firms ^a
THOUSAND DOLLARS					
Utilities and transportation	C	0	310	15	335
	T	198,553	157,145	15	355,713
Wholesale trade	C	350	550	270	1,204
	T	11,885	83,478	12,249	119,538
Services	C	582	1,057	39	1,997
	T	110,789	30,139	1,257	174,310
Finance	C	375	2,725	1,344	8,614
	T	208,754	175,071	82,768	659,250
Construction	C	46	451	0	1,250
	T	43,652	18,562	612	94,357
Nondurables manufacturing	C	0	8,370	836	15,213
	T	278,299	358,775	123,858	800,333
Durables manufacturing	C	4,827	8,460	4,690	19,731
	T	272,317	325,026	101,638	728,241
Retail trade	C	2,635	4,077	584	7,801
	T	149,396	61,904	2,738	230,437
All other and unidentified	C	0	43	75	699
	T	5,353	8,084	411	20,710
All industries	C	8,815	26,043	7,853	56,844
	T	1,278,898	1,218,184	325,546	3,221,070
Memorandum: Sales finance companies	C	0	2,098	1,285	3,383
	T	151,533	154,726	81,593	412,917

(continued)

Appendix

TABLE A-2 (concluded)

<i>Industry</i>		<i>Size of Borrower</i>			
		Large	Medium	Small	All Firms ^a
NUMBER OF BORROWERS					
Utilities and transportation	C	0	16	4	25
	T	152	542	4	970
Wholesale trade	C	1	8	21	32
	T	77	1,021	564	1,775
Services	C	2	43	11	89
	T	277	980	132	2,137
Finance	C	8	25	57	104
	T	262	634	364	2,117
Construction	C	2	27	0	51
	T	248	834	78	1,625
Nondurables manufacturing	C	0	14	34	68
	T	205	869	1,900	3,317
Durables manufacturing	C	3	27	45	88
	T	151	1,001	1,798	3,212
Retail trade	C	12	159	23	214
	T	341	1,983	299	3,187
All other and unidentified	C	0	10	2	45
	T	45	350	38	732
All industries	C	28	329	197	716
	T	1,758	8,214	5,177	19,072
Memorandum:					
Sales finance companies	C	0	5	46	51
	T	51	150	269	545

NOTE: C = criticized loans, T = total loans.

SOURCE: Bank Examination Survey.

^a Includes firms of unknown size.

Appendix

stances. For the New York and Philadelphia Districts, moreover, any historical data on these items that appeared on the loan cards were also tabulated. (For 1957, these two districts accounted for 98 per cent of the business loan volume recorded by the study.)

The resulting historical data for uncriticized loans, it should be noted, unlike those for criticized loans, do not constitute time series in the conventional sense; they represent only such loans as were still outstanding at the time of examination in 1957. That is, they include loans originated in prior years that survived to 1957; but they do not include any loans extinguished before 1957, for example, loans originated in 1955 and paid off in 1956.⁴

The industry and size-of-firm definitions employed in the study corresponded for the most part to those used at the time in Federal Reserve loan statistics. For industry, one consequence was that the demarcation between durable and nondurable goods manufacturing was not entirely "clean." The durable goods classification included "other manufacturing and mining," a group that covered a few nondurable goods industries, notably paper and printing, as well as part of the mining sector. Several mining industries were also included under nondurables manufacturing.⁵

The size-of-firm criterion employed in the study was the total assets of the borrower. Most of the analysis, however, is based not on absolute borrower size but on the size of the borrower relative to other firms in the same industry. Borrowers were classified as "small," "medium," or "large" in accordance with asset-size partitions developed, industry by industry, for the Federal Reserve Commercial Loan Surveys. The effect of this three-way grouping of the borrowers within each industry is to raise the number of observations in most industry and size

⁴Little reference is made in this paper to these historical data. For an analysis of them, see my unpublished Ph.D. dissertation, "Changes in the Quality of Business Loans of Commercial Banks," Columbia University, December 1960, Chapter VIII.

A problem arose about borrowers who had more than one loan (the sample was of loans, not borrowers). In aggregating borrower characteristics (for example, balance sheet items), such borrowers might have been counted more than once. This was avoided where a single borrower appeared repeatedly at the same bank; for such loans, borrower characteristics were included only once. There was no way, however, of identifying borrowers who might have had several loans, but at different banks in the sample. In borrower characteristics, therefore, these borrowers may have been overcounted.

⁵In 1961, the industry classifications for current weekly statistics were revised to conform to those generally in use in government statistics.

Appendix

TABLE A-3

DEFINITIONS OF SIZE OF BORROWER USED IN FEDERAL RESERVE SURVEYS
OF MEMBER BANK LOANS TO BUSINESS AND IN
BANK EXAMINATION SURVEY

INDUSTRY	TOTAL ASSETS, THOUSAND DOLLARS		
	Size of Borrower		
	Small, Less Than	Medium	Large, at Least
Food, liquor, and tobacco	1,000	1,000 to 100,000	100,000
Textiles, apparel, and leather	1,000	1,000 to 25,000	25,000
Petroleum, coal, chemicals, and rubber	5,000	5,000 to 100,000	100,000
Metals and metal products	5,000	5,000 to 100,000	100,000
Other manufacturing and mining	250	250 to 25,000	25,000
Wholesale trade	250	250 to 5,000	5,000
Retail trade	50	50 to 1,000	1,000
Services	50	50 to 1,000	1,000
Real estate	250	250 to 1,000	1,000
Construction	50	50 to 1,000	1,000
Public utilities and transportation	50	50 to 100,000	100,000
Sales finance	5,000	5,000 to 100,000	100,000
Commodity dealers	250	250 to 5,000	5,000
All other	50	50 to 1,000	1,000

SOURCE: Eleanor J. Stockwell, "What Is A 'Small' Business?" in *Financing Small Business*, p. 161.

cells to meaningful levels, and to facilitate interindustry comparison of loan and borrower characteristics.

The actual size limits used to subdivide each industry are given in Table A-3. The general method used by the Federal Reserve to establish these limits—but one that had to be modified in a number of instances for lack of appropriate data—was to include in the "small" group at least 90 per cent of all firms in the industry, and more if necessary up to the point where these firms accounted for 10 per cent of total industry assets. The "large" classification apparently attempted to set off those top firms in each industry that together had roughly a third of the total assets of that industry.⁶

⁶For further details on the methods and sources used in classifying firms by size, see Eleanor J. Stockwell, "What Is a 'Small' Business?" in *Financing Small Business*, p. 150.