
FRBSF WEEKLY LETTER

July 28, 1989

Deposits Patterns at Western Banks and Thrifts

In the past few years, publicity surrounding the thrift industry's troubles has grown, and many now wonder whether these institutions will be able to maintain their nearly \$1 trillion deposit base, of which over ninety percent is insured by the Federal Savings and Loan Insurance Corporation (FSLIC). From January to May 1989, thrift institutions (including savings and loan associations and savings banks) nationwide suffered a \$12.6 billion decline in deposits, while banks enjoyed a \$10.5 billion increase. Many observers suggest that this decline is the result of increased concern about the safety of deposits placed in FSLIC-insured institutions.

In contrast to the national figures, in the nine westernmost states, there was little evidence of actual deposit runoff at thrift institutions, although deposit growth stalled. Closer examination of deposit flows into and out of various account categories at western banks and thrifts suggests that changes in the interest rates paid on these accounts, rather than safety and soundness concerns, account for western deposit growth patterns in recent months.

No runoff in the West

A number of thrift institutions in the West have experienced unfavorable publicity regarding their financial health recently. Some even may have experienced depositor runs. However, for the thrift industry in the West as a whole, concerns about the safety of depositors' funds do not appear to have been a significant factor in determining thrift deposit patterns. Several recent developments point to this conclusion.

First, total deposits at thrifts in the West remained essentially unchanged at around \$326 billion from January to May, in contrast to the decline in

thrift deposits for the nation as a whole. Moreover, this development is in keeping with the experience of commercial banks in the region, which actually recorded a slight decline in total domestic deposits over the same period (from \$298 billion to \$296 billion). These patterns are not consistent with a significant loss in confidence in the safety of western thrifts, particularly since there is evidence that the spread between deposit rates paid by major S&Ls in the region and those paid by leading commercial banks narrowed in the first half of the year.

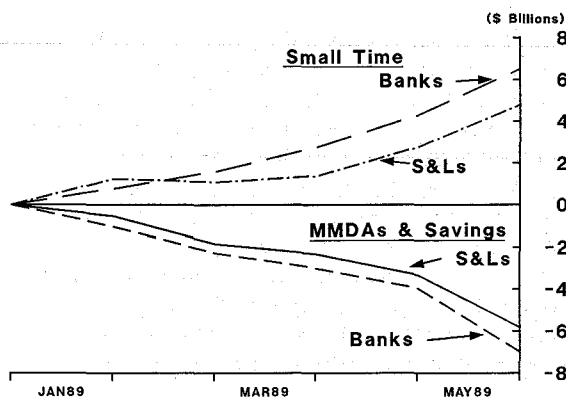
Second, S&Ls in the West have not experienced a runoff of large time certificates of deposit ("CDs" in denominations of \$100,000 or more). Because deposit insurance coverage is limited to \$100,000, a significant portion of the interest and principal in these CDs is at risk. Consequently, depositors with jumbo CDs are likely to be particularly sensitive to any signal that their investments might be in jeopardy. If concerns about safety had increased, these deposits would have been the first to run off. Yet western S&Ls recorded a \$3 billion increase in jumbo CDs outstanding from late January through May.

Third, and most telling, deposit growth patterns for various types of accounts at S&Ls are similar to those for the same types of accounts at commercial banks in the West. If depositors considered S&Ls less safe than banks, we would have expected a divergence in these growth patterns, as depositors transferred funds from accounts at thrifts to similar accounts at banks. As shown in the Chart, banks and S&Ls experienced similar declines in MMDAs and savings deposits. Both types of institutions recorded increases in small time deposits. And both increased their large CDs by similar amounts over

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the period. These developments suggest that bank and thrift deposit flows were the result of common influences, rather than a specific concern for the safety of deposits at thrifts.

Chart 1
Cumulative Changes in Deposits



Interest rate incentives

These movements of funds appear largely to have been due to changes in interest rate differentials across account types. Variations in service and maturity characteristics give rise to these differentials. Accounts which combine savings with transaction features, like MMDAs and NOWs, for example, typically offer lower interest rates than do certificates of deposit that do not offer such transactions services.

Moreover, MMDAs and NOWs are relatively interest-rate insensitive in the short run, in the sense that a substantial proportion of the funds in these accounts remains even when higher rates become available elsewhere. Because of this rate insensitivity, depository institutions (in the West and the nation) typically allow rates to adjust only partially to upward and downward movements in market interest rates. Statistical analysis indicates that a month after a 100 basis point change in the three-month Treasury bill rate, MMDA rates paid by banks in the West have tended to move only 24 basis points.

In contrast, rates on one-year time certificates, which are primarily a savings vehicle and are therefore much more interest-rate sensitive, are much more closely linked to changes in market interest rates. A month after a 100 basis point change in the one-year T-bill rate, these rates move an estimated 80 basis points.

Because of these differences in rate sensitivity, sizeable interest rate movements in 1988 and 1989 have caused the rates paid on small time certificates to rise well above the rates paid on MMDAs and savings accounts. In California, for example, the rate paid on 2½ year certificates rose to 9.3 percent in May 1989, nearly 350 basis points above the MMDA rate. As recently as July 1988, the difference was only 200 basis points.

At the margin, wider differentials, in turn, have led depositors to adjust their asset portfolios by shifting funds to higher-return instruments like time certificates. This effect can clearly be seen in the Chart, where declines in MMDAs and savings have been offset by increases in small time deposit balances.

Interest rate differentials also may partially explain the slower overall growth of deposits in the region. The large differential between rates paid on MMDAs (under six percent) and on money market mutual funds (over nine percent) may have encouraged funds to shift from depository institutions to the money funds, which have grown rapidly in 1989. Higher rates on Treasury securities also may have attracted funds.

The difference

Although S&Ls in the West are affected by the thrift industry's problems, most observers believe that the West's large, publicly-traded S&Ls which dominate this region's thrift industry, generally remain healthy. Most are relatively well capitalized and profitable. Their strength is underscored by their ability to issue large CDs. They account for well over half of the industry's large CDs nationwide, even though the region accounts for only about one-third of total S&L deposits. Thus, it appears that, despite the industry's problems, as a group, S&Ls in the western region have been able to retain both customer confidence and deposits.

In sum, recent deposit patterns in the West appear to be based more on interest rate differentials than on concerns about safety and soundness. Depositors merely are responding to market incentives as they allocate funds among various savings instruments.

Gary C. Zimmerman
Economist

REGIONAL BANKING DATA

MARCH 31, 1989

(Not Seasonally Adjusted, Preliminary Data)

DISTRICT	ALASKA	ARIZ.	CALIF.	HAWAII	IDAHO	NEVADA	OREGON	UTAH	WASH.	
ASSETS AND LIABILITIES -- \$ MILLION (ALL COMMERCIAL BANKS)										
ASSETS										
TOTAL	432,356	3,711	28,073	302,775	13,078	7,340	13,332	20,090	10,528	33,429
FOREIGN	41,270	1	N/A	39,264	1,314	N/A	N/A	N/A	114	577
DOMESTIC	391,086	3,711	28,073	263,510	11,764	7,340	13,332	20,090	10,415	32,852
LOANS										
TOTAL	298,461	1,730	20,265	209,341	7,756	4,874	10,356	12,840	6,736	24,564
FOREIGN	31,956	1	N/A	31,010	753	N/A	N/A	N/A	N/A	191
DOMESTIC	266,506	1,730	20,265	178,331	7,003	4,874	10,356	12,840	6,736	24,372
REAL ESTATE	114,226	700	8,676	82,142	3,306	1,258	1,745	4,110	2,839	9,451
COMMERCIAL	73,865	646	4,946	50,343	2,049	1,330	1,504	4,796	1,728	6,521
CONSUMER	54,438	174	4,684	30,184	1,195	1,326	6,819	2,830	1,555	5,672
AGRICULTURE	4,704	7	486	2,410	24	482	18	307	110	860
INTERNATIONAL	226	N/A	32	190	0	N/A	N/A	0	2	1
SECURITIES										
TOTAL	44,085	1,410	3,852	24,296	2,401	1,398	1,924	3,517	1,781	3,505
U.S.T.S.	13,974	1,019	1,604	6,696	771	462	604	1,069	394	1,355
SECONDARY MARKET	16,986	164	675	12,051	632	509	360	800	854	939
OTHER SEC.	13,125	228	1,573	5,549	998	428	960	1,647	533	1,210
LIABILITIES										
TOTAL	406,611	3,308	26,295	285,729	12,272	6,817	12,473	18,730	9,826	31,160
DOMESTIC	365,341	3,307	26,295	246,465	10,957	6,817	12,473	18,730	9,713	30,583
DEPOSITS										
TOTAL	341,785	2,838	23,109	239,623	11,629	6,105	6,558	15,442	8,561	27,920
FOREIGN	36,145	1	N/A	32,438	1,065	N/A	N/A	N/A	114	528
DOMESTIC	307,639	2,837	23,109	207,185	10,565	6,105	6,558	15,442	8,448	27,392
DEMAND	77,284	798	4,539	56,502	2,083	950	1,791	3,096	1,526	5,998
TIME AND SAVINGS	230,355	2,039	18,570	150,682	8,482	5,155	4,767	12,346	6,921	21,393
OTHER BORROWINGS	41,988	426	2,735	26,999	114	632	5,344	2,452	1,071	2,215
EQUITY CAPITAL	25,745	404	1,778	17,046	807	523	858	1,359	702	2,269
LOAN LOSS RESERVE	7,931	39	421	6,349	123	89	232	170	129	379
STANDBY LETTERS OF CREDIT	32,760	25	671	28,612	492	109	157	552	277	1,864
LOAN COMMITMENTS	138,476	277	5,043	110,942	3,561	1,025	1,514	4,641	1,595	9,879
LOANS SOLD	114,843	12	176	113,898	103	22	58	116	29	430
ASSET QUALITY -- PERCENT OF LOANS (LARGE COMMERCIAL BANKS)										
LOAN LOSS RESERVE (ALL BANKS)	2.66	2.23	2.08	3.03	1.59	1.83	2.24	1.32	1.92	1.54
NET CHARGEOFFS, TOTAL	0.90	0.92	1.45	0.92	0.05	0.33	1.54	0.88	0.80	0.38
REAL ESTATE	0.28	0.64	1.96	0.06	0.08	0.15	0.16	0.84	0.67	0.39
COMMERCIAL	0.45	1.33	0.94	0.47	-0.14	0.11	0.01	0.97	0.97	-0.27
CONSUMER	1.77	0.57	1.57	2.01	0.33	0.88	2.22	0.98	1.15	1.26
AGRICULTURE	0.12	N/A	0.91	-0.18	-2.80	0.10	-0.02	1.73	0.38	0.07
PAST DUE & NON-ACCRAUAL, TOTAL	5.43	10.70	10.40	5.63	1.77	1.84	2.14	3.28	4.29	3.80
REAL ESTATE	6.00	16.00	18.10	4.95	1.66	1.80	4.56	6.22	5.56	5.27
COMMERCIAL	5.84	9.32	7.87	6.43	1.94	2.51	4.57	2.16	3.98	3.27
CONSUMER	2.40	2.72	2.14	2.86	2.39	1.67	1.08	1.92	3.24	2.08
AGRICULTURE	11.20	N/A	4.18	16.50	11.50	2.66	0.68	4.04	3.82	7.02
EARNINGS AND RETURNS -- \$ MILLION (ALL COMMERCIAL BANKS)										
INCOME										
TOTAL	12,286	91	746	8,663	332	203	500	513	286	951
INTEREST	10,346	79	651	7,191	292	182	447	450	254	800
FEES & CHARGES	501	4	38	337	8	10	12	28	15	50
EXPENSES										
TOTAL	10,477	80	737	7,315	275	170	391	431	265	814
INTEREST	5,487	42	369	3,830	159	102	199	232	146	408
SALARIES	2,005	17	140	1,415	58	28	45	90	40	172
LOAN LOSS PROVISION	625	4	85	387	9	5	46	27	18	42
OTHER	2,360	17	142	1,683	49	35	101	82	61	191
INCOME BEFORE TAXES	1,798	12	10	1,342	56	31	109	82	20	137
TAXES	647	2	-2	500	19	10	47	25	5	41
NET INCOME	1,274	10	12	932	37	21	87	56	15	103
ROA (%)	1.21	1.09	0.17	1.26	1.17	1.14	2.58	1.18	0.59	1.26
ROE (%)	19.80	9.80	2.73	21.90	18.10	16.20	40.40	16.60	8.73	18.20
NET INTEREST MARGIN (%)	4.60	4.15	4.04	4.56	4.27	4.30	7.37	4.55	4.12	4.78

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MARKET SHARE STATISTICS

PERCENT OF TOTAL DEPOSITS, FOR MAY 1989, BY REGION

DEPOSIT TYPE	DISTRICT			ALASKA			ARIZONA			CALIF			HAWAII			IDAHO			NEVADA			OREGON			UTAH			WASH		
	CB	SL	CU	CB	SL	CU	CB	SL	CU	CB	SL	CU	CB	SL	CU	CB	SL	CU	CB	SL	CU	CB	SL	CU	CB	SL	CU	CB	SL	CU
TOTAL DEPOSITS	46	50	4	72	9	19	53	43	4	41	55	3	65	30	5	87	10	3	66	31	3	66	29	5	67	23	10	54	39	7
DEMAND	94	4	2	98	1	1	93	4	3	94	4	2	94	3	3	96	1	3	100	0	0	97	1	2	93	4	3	96	3	1
NOW	61	32	7	49	15	37	67	25	8	57	37	6	72	25	3	88	8	4	77	16	7	76	18	6	73	16	11	65	24	12
SAVINGS & MMDA	58	33	9	49	8	42	68	23	8	56	37	7	60	29	10	88	8	4	73	21	5	68	22	9	67	12	21	57	28	15
SMALL TIME	27	70	3	71	18	11	40	58	2	21	77	3	40	57	3	83	15	2	41	57	2	52	44	4	55	39	7	41	55	4
LARGE TIME	32	67	1	95	3	1	35	64	1	28	70	1	79	18	3	86	10	4	57	43	0	67	31	2	74	23	4	45	54	1

CB = COMMERCIAL BANKS; SL = SAVINGS & LOANS AND MUTUAL SAVINGS BANKS; CU = CREDIT UNIONS; MAY NOT SUM TO 100% DUE TO ROUNDING

INTEREST RATES ON DEPOSITS AND LOANS (%)

TYPE OF ACCOUNT OR LOAN	DATE	US	DISTRICT	ARIZONA	CALIF	HAWAII	IDAHO	OREGON	UTAH	WASH
MONEY MARKET DEPOSIT ACCOUNTS	MAR89	6.29	5.94	5.81	6.16	5.99	5.73	5.23	6.34	5.09
	APR89	6.37	6.02	5.81	6.27	6.05	5.73	5.20	6.47	5.09
	MAY89	6.37	6.00	5.81	6.26	6.05	5.55	5.25	6.33	5.09
6-MONTH CERTIFICATES	MAR89	8.66	8.23	7.66	8.42	7.71	8.99	8.58	9.03	7.38
	APR89	8.77	8.38	7.66	8.70	8.00	9.02	8.81	9.09	7.27
	MAY89	8.66	8.31	7.76	8.61	7.86	8.77	8.55	8.96	7.26
2-1/2 YEAR CERTIFICATES	MAR89	8.84	8.78	8.40	8.93	8.98	9.19	8.89	9.14	8.21
	APR89	8.86	8.89	8.40	9.02	9.24	9.31	8.93	9.20	8.28
	MAY89	8.77	8.81	8.36	8.92	8.91	8.92	8.71	9.21	8.29
COMMERCIAL, SHORT-TERM*	MAY89	11.89	11.58	11.86	11.20	12.25	13.36	11.84	12.77	12.37
AVERAGE MATURITY (DAYS)		57	84	113	71	97	116	87	186	97
COMMERCIAL, LONG-TERM*	MAY89	12.76	12.69	11.64	12.43	13.15	13.09	12.78	13.38	12.27
AVERAGE MATURITY (MONTHS)		46	44	21	31	26	37	56	51	42
CONSTRUCTION LOANS*	MAY89	12.60	12.15	12.97	12.05	N/A	N/A	12.13	N/A	N/A
AVERAGE MATURITY (MONTHS)		7	6	3	6	N/A	N/A	10	N/A	N/A
LOANS TO FARMERS*	MAY89	12.86	11.95	12.34	12.05	10.72	12.76	12.37	10.61	12.63
AVERAGE MATURITY (MONTHS)		9	9	17	7	3	7	28	2	13
CONSUMER LOANS, AUTOMOBILE	MAY89	12.44	12.84	N/A	13.94	N/A	14.50	11.76	12.34	12.18
CONSUMER LOANS, PERSONAL	MAY89	15.65	16.13	N/A	18.05	N/A	14.50	14.31	17.84	14.89
CONSUMER LOANS, CREDIT CARDS	MAY89	18.11	18.56	N/A	19.48	N/A	N/A	19.24	20.28	15.75

SOURCES: SURVEY OF TERMS OF BANK LENDING & TERMS OF CONSUMER CREDIT; MOST COMMON INTEREST RATES ON SELECTED ACCOUNTS
* U.S. DATA ARE COMPOUNDED ANNUAL RATES, DISTRICT AND STATE DATA ARE SIMPLE ANNUAL RATES.