

I. *Condition of the National Banking System*

The year 1970 saw a transition from drum-tight funds markets early in the year to relative ease in markets later. Balance-sheet changes for National banks reflected that shift; their ability to compete for funds was greatly strengthened by the June suspension of Regulation Q ceilings on single-maturity, large-denomination time deposits with maturities under 90 days.

Total deposits of National banks increased 10.7 percent during 1970; that figure, however, masks the great disparity between growth of time and demand deposits. While demand deposits showed an increase over the year of 2.9 percent, time and savings deposits spurred by 20.2 percent.

The changes in asset composition during 1970

show that the period of relative ease was utilized by National banks to rebuild their liquidity. While total assets grew by 8.6 percent, to \$340.9 billion, total securities held jumped by 20.2 percent. That figure contrasted with the relatively small increase in outstanding loans of 3.2 percent, to a total of \$177.2 billion.

Total capital of National banks increased 7.0 percent during the year, reaching \$24.9 billion at year-end. The states whose National banks led in total assets were New York, with \$1.6 billion at the end of the year; California, with \$45.9 billion; Illinois, with \$27.8 billion; and Texas, with \$22.1 billion.

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The year 1971 was a period of relative ease in the money markets and of declining interest rates. National banks were able to add significantly to their total deposits since they were free to compete vigorously for funds at the lower rate levels. Total resources of National banks reached \$376.5 billion at year-end, a 10.4 percent increase for the year.

Markedly different growth rates for demand deposits and time and savings deposits led to an important first—time and savings deposits of National banks exceeded their demand deposits at the end of 1971. While demand deposits increased by 4.7 percent, from \$145.1 billion to \$152 billion, time and savings deposits spurted 17 percent, from \$138.7 billion to \$162.2 billion. Thus time and savings deposits represented 51.6 percent of the total deposits of National banks on December 31, 1971.

For the second year in a row, total securities held by National banks increased faster than total loans, although the difference in rates of growth was less pronounced than in 1970. Total securities advanced by 14 percent, from \$84.2 billion to \$96 billion. Meanwhile, total loans increased 9.6 percent, from \$177.2 billion to \$194.1 billion. Within the securities category, the holdings of U.S. agency issues vaulted by 29.2 percent, from \$6.7 billion to \$8.6 billion. Municipal holdings also showed a sharp increase, from \$41.5 billion to \$48.6 billion.

The total capital of National banks reached \$27.1 billion at year-end, an increase of 8.8 percent during 1971. Outstanding capital notes and debentures increased by 24.8 percent, from \$1.2 billion to \$1.5 billion.

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The year 1972 saw a rather steady increase in short-term interest rates. Levels were such, however, that banks were able to compete vigorously and successfully for individual savings and for money market funds. That, coupled with a steadily growing demand for loanable funds, led to a 14.4 percent increase in total deposits of National banks. Unlike the situation in 1971, when time deposits grew at a rate almost four times greater than that of demand deposits, the respective rates were more nearly comparable in 1972: demand deposits increased by 13.5 percent and time deposits, 15.2 percent. At the end of 1972, time deposits represented 52.0 percent of total deposits of \$359.4 billion.

Total assets of National banks reached \$434.9 billion on December 31, 1972, a figure higher by 15.5 percent than that for year-end 1971. Total loans stood at \$230.5 billion, reflecting an 18.7 percent increase in 1972. The sharp rise in the demand for bank loans led to a relative shift within banks' asset portfolios

from securities to loans. Holdings of investment securities by National banks showed an 8.0 percent increase, totalling \$103.7 billion at year-end. The proportion of total assets made up of loans increased from 51.6 percent in 1971 to 53.0 percent in 1972, while a similar figure for investment securities declined from 25.5 percent to 23.9 percent.

Within the investment securities category, National bank holdings of agencies and municipals continued to increase relative to U.S. Treasuries. Bank municipal portfolios increased by 8.4 percent, to reach a total of \$52.7 billion, while holdings of Treasuries increased 2.2 percent, to \$37.2 billion.

Total capital accounts of National banks increased by 12.1 percent during 1972, moving from \$27.1 billion to \$30.4 billion. Capital notes and debentures increased by 46.9 percent, from \$1.4 billion to \$2.1 billion. Total reserves on loans and securities advanced by 6.7 percent, from \$3.9 billion to \$4.2 billion.

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National banks' operations in 1973 reflected the strong economic expansion and the pervasive inflationary pressures that marked the year. Loan demand was exceedingly strong, and total loans spurred by 17.8 percent during the year. Deposit growth was not sufficient to provide all the funds needed to support the loan expansion despite spirited bidding for large-denomination certificates of deposit. Time and savings deposits increased by 16.0 percent, while demand deposits experienced only a 3.8 percent rise. As a result, the former accounted for 54.7 percent of total deposits at the end of 1973, compared with 52.0 percent a year earlier.

Holdings of U.S. Treasuries decreased by \$6.2 billion, but that reduction was partially offset by an increase of \$4.4 billion in securities of Government agencies and corporations. Non-deposit liabilities increased substantially, with federal funds purchased and securities sold under agree-

ments to repurchase \$11.6 billion higher than at the beginning of the year.

Total assets of National banks reached \$489.6 billion at year-end, representing a 12.6 percent increase for the year. That compared with a 15.5 percent asset increase in 1972. Again, as in 1972, the loan portfolio grew significantly relative to the securities portfolio. Loans climbed from 53.0 percent of total assets to 55.5 percent during 1973, while the ratio of securities to total assets dropped from 23.9 percent to 21.4 percent.

Total capital of National banks reached \$33.1 billion at year-end 1973, representing an increase of 9.2 percent during the year. Reflecting the high level of interest rates in the bond market, only a nominal increase from \$2.1 billion to \$2.2 billion occurred in the total of outstanding capital notes and debentures in 1973. Total reserves on loans and securities rose 12.8 percent during the year, to a total of \$4.7 billion.

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Recessionary and inflationary factors in the economy during 1974 exerted an important influence on the operations of National banks. In contrast to a 17.8 percent rise in total loans in 1973, the increase registered during 1974 was 9.7 percent. Total securities held, which had grown only 0.9 percent during 1973's strong loan demand, edged upward 2.2 percent in 1974. The major source of new funds for the system during 1974 was a 15.7 percent increase in time and savings deposits, an increase nearly as great as the 16.0 percent figure for 1973. Demand deposits continued to show relatively small increases; 1973's growth rate of 3.8 percent eased to a minuscule 0.8 percent in 1974. In consequence, by the end of 1974, total time and savings deposits accounted for 58.2 percent of total deposits, a proportion that has climbed from 52.0 percent at the end of 1972 and 54.8 percent at the end of 1973.

Within the securities category, the 1974 decline of 6.1 percent in Treasuries held was more than offset by increases of 11.4 percent in securities of Government agencies and corporations and of 3.7 percent in municipals. Federal funds purchased and securities sold under agreement to repurchase grew only a nominal 1.0 percent as a source of funds. Among

the relatively smaller accounts, acceptances outstanding increased sharply, from \$2.9 billion at the end of 1973 to \$7.1 billion at year-end 1974.

For the second consecutive year, the rate of growth in total assets was less than that of the prior year. At year-end 1974, total assets of National banks reached \$534.4 billion, a figure 9.2 percent above the December 1973 amount. The two previous years' rates were 15.5 percent in 1972 and 12.6 percent in 1973.

In the composition of National bank assets, the proportion accounted for by loans increased very slightly in 1974, from 55.5 percent to 55.7 percent, while the proportion represented by securities dropped slightly, from 21.4 percent to 20.0 percent.

Total reserves on loans rose by 10.5 percent, from \$4.6 billion to \$5.1 billion, a slightly higher rate of increase than the 9.7 percent shown by total loans. Total capital of National banks reached \$35.8 billion at year-end 1974, reflecting an 8.1 percent increase over the prior year figure of \$33.1 billion. As in 1973, the capital markets were relatively unreceptive to bank debenture issues during 1974, and the total outstanding only inched upward, from \$2.2 billion to \$2.3 billion.