

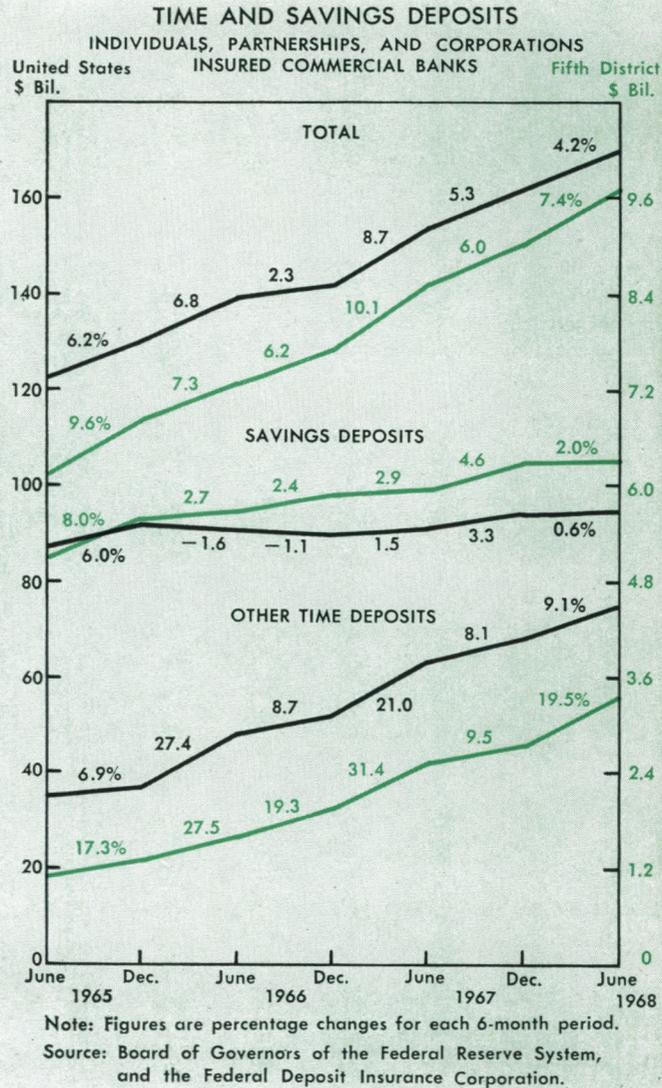
DISTRICT TIME AND SAVINGS DEPOSITS

Time instruments issued by Fifth District banks to individuals and businesses have more than tripled in the past three years, while passbook savings accounts have grown by only 24.7%. At midyear 1968, total time and savings deposits of individuals, partnerships, and corporations (IPC) amounted to \$9.7 billion at District commercial banks. Of this amount \$6.4 billion or 65.8% was in passbook savings accounts, ownership of which is limited to individuals and nonprofit organizations. The remaining portion of time and savings deposits, IPC, consists primarily of certificates of deposit (CD's) and time deposits, open account. These instruments are evidenced by a written contract, the terms of which differ widely in maturity, denomination, and rate of interest paid.

In both major categories of time and savings deposits, IPC, growth at District banks outpaced national rates. On June 29, 1968 outstandings at insured commercial banks in the United States amounted to \$95.0 billion for passbook savings, up 8.7% from mid-1965, and \$74.7 billion in other time deposits, IPC, an increase of 111.2% during the three-year period.

Growth in Time Deposits Growth in commercial bank time deposits depends to a great extent on interest rates paid by banks in relation to rates available to savers in competitive markets. Evidence of this is the tremendous spurt in "other" time deposits following the December 1965 change from 4½% to 5½% in the maximum allowable interest rate that banks could pay under Regulation Q. This strength was caused partly by individuals switching from share capital at savings and loan institutions and bank passbook savings to small denomination savings certificates offered by commercial banks at higher rates. Many businesses also found the instruments offered by commercial banks an attractive investment since short-term market rates were below the 5½% ceiling. Another factor adding to the popularity of the large denomination CD in negotiable form was the development of the secondary CD market.

As may be seen in the accompanying chart, the growth of passbook savings deposits at Fifth Dis-



trict banks slowed markedly, from an 8% increase in the latter half of 1965 to a 3% rise in the first half of 1966. The Regulation Q adjustment had an even greater effect on passbook savings in the country as a whole than in the Fifth District. At all insured commercial banks, passbook savings dropped 2% in the first half of 1966 in contrast to a 6% rise in the previous six-month period. Other time deposits, IPC, which carried a 5½% ceiling compared with the 4% ceiling on savings deposits, jumped 27% in the District as well as in the nation in the six months following the Regulation Q change.

By the fall of 1966, short-term rates caught up and passed the rates banks could offer and there was a general shift of CD money to other financial instruments. As a consequence, other time deposits, IPC, grew at a reduced rate, the level being sustained by the strength of consumer savings.

TYPES OF TIME AND SAVINGS DEPOSITS¹Fifth District Member Banks
October 31, 1968

Yields on competing instruments declined in early 1967 and the growth of commercial bank time deposits picked up tempo. In the first half of 1967 nationwide time deposits, IPC, excluding passbook savings, increased 21%, not far below the rise in the six months following the December 1965 ceiling increase. In the District the 31% growth was greater than that in the first half of 1966.

Beginning around mid-1967, money market rates again moved up sharply, and by spring of 1968 passed the historically high levels of the fall of 1966. On April 19, 1968 the Federal Reserve System adjusted upward the rate ceiling on large denomination time instruments with maturities of two months and longer. Although the competitive position of negotiable CD's was improved, the growth rate for "other" time deposits, IPC, at all commercial banks remained approximately the same as in the preceding six months and in the latter half of 1966. In the District the appreciable slowdown in the growth during the second half of 1967 was followed by a fairly sharp increase during the first half of 1968. The District increase was at the same rate as during the 1966 period of rapidly rising interest rates.

The slowdown in the growth in passbook savings in the District as well as in the rest of the country during the first six months of this year suggests that consumers were transferring these funds to instruments with higher yields. The 2% rise in the first half of 1968 was the District's lowest semi-annual growth rate during the period under study. The less than 1% rise for all commercial banks, however, compares with a decline in the year following the historic December 1965 change in Regulation Q.

Recent Growth by Type of Deposit Recent surveys conducted by this Bank also indicate that the slowdown in the growth of passbook savings may be caused in part by consumers switching these funds to other types of time deposits offered by commercial banks at higher interest rates. Passbook savings held in District member banks increased \$244 million or 5.8% during the year ending October 31, 1968. This compares with a \$523 million, or 35%, rise in time instruments, IPC, of less than \$100,000 for this same time period. The dollar increase in small denomination certificates of deposit was almost twice that of time deposits, open account, of less than \$100,000. The latter instruments, however, almost tripled during the period. This phenomenal growth was caused in part by the popularity of the so-called "golden passbook" accounts which are direct alternatives to regular savings deposits. Separate

	Amount Outstanding (\$ millions)	Change from October 1967 (per cent)
FIFTH DISTRICT		
Total time and savings ²	7,026.5	14.5
Savings deposits	4,435.6	5.8
Certificates of deposit	2,289.4	26.8
Less than \$100,000	1,723.1	24.7
\$100,000 or more	566.3	33.4
Negotiable	285.5	43.8
Nonnegotiable	280.8	24.2
Time deposits, open account ²	301.5	116.8
Less than \$100,000	282.5	180.5
Consumer-type ³	135.6	n.a.
Other	146.9	n.a.
\$100,000 or more	19.0	- 50.5
MARYLAND		
Total time and savings ²	1,000.9	10.9
Savings deposits	890.1	8.1
Certificates of deposit	97.0	34.0
Less than \$100,000	73.1	51.0
\$100,000 or more	23.9	- 0.4
Negotiable	18.1	21.5
Nonnegotiable	5.8	- 36.3
Time deposits, open account ²	13.8	102.9
Less than \$100,000	11.7	138.8
Consumer-type ³	6.1	n.a.
Other	5.6	n.a.
\$100,000 or more	2.1	10.5
DISTRICT OF COLUMBIA		
Total time and savings ²	895.6	6.7
Savings deposits	523.4	- 0.1
Certificates of deposit	337.4	15.7
Less than \$100,000	132.7	14.7
\$100,000 or more	204.7	16.4
Negotiable	101.0	6.9
Nonnegotiable	103.7	27.6
Time deposits, open account ²	34.8	42.0
Less than \$100,000	33.1	55.4
Consumer-type ³	5.5	n.a.
Other	27.6	n.a.
\$100,000 or more	1.7	- 46.9
VIRGINIA		
Total time and savings ²	2,751.8	15.1
Savings deposits	1,637.8	4.7
Certificates of deposit	1,028.4	30.6
Less than \$100,000	926.3	27.2
\$100,000 or more	102.1	72.2
Negotiable	63.3	163.8
Nonnegotiable	38.8	9.9
Time deposits, open account ²	85.6	119.5
Less than \$100,000	78.4	222.6
Consumer-type ³	53.9	n.a.
Other	24.5	n.a.
\$100,000 or more	7.2	- 51.0
WEST VIRGINIA		
Total time and savings ²	679.9	12.2
Savings deposits	544.4	7.5
Certificates of deposit	125.1	32.0
Less than \$100,000	111.7	29.1
\$100,000 or more	13.4	61.4
Negotiable	10.0	69.5
Nonnegotiable	3.4	41.7
Time deposits, open account ²	10.4	126.1
Less than \$100,000	9.6	159.5
Consumer-type ³	1.4	n.a.
Other	8.2	n.a.
\$100,000 or more	0.8	- 11.1
NORTH CAROLINA		
Total time and savings ²	1,421.1	19.6
Savings deposits	663.5	8.3
Certificates of deposit	632.6	23.6
Less than \$100,000	425.3	17.2
\$100,000 or more	207.3	39.2
Negotiable	93.1	57.8
Nonnegotiable	114.2	27.0
Time deposits, open account ²	125.0	95.3
Less than \$100,000	117.8	154.4
Consumer-type ³	48.3	n.a.
Other	69.5	n.a.
\$100,000 or more	7.2	- 59.3
SOUTH CAROLINA		
Total time and savings ²	277.2	32.4
Savings deposits	176.4	9.5
Certificates of deposit	68.9	43.2
Less than \$100,000	54.0	35.3
\$100,000 or more	14.9	81.7
Negotiable	....	....
Nonnegotiable	14.9	81.7
Time deposits, open account ²	31.9	*
Less than \$100,000	31.9	*
Consumer-type ³	20.4	n.a.
Other	11.5	n.a.
\$100,000 or more	....	....

¹Deposits of individuals, partnerships, and corporations. ²Excludes Christmas savings and other special funds. ³Includes accounts in passbook and statement form. n.a. Not available. * Less than \$500,000 in October 1967.

figures were not collected on these accounts in the October 1967 survey.

Negotiable CD's issued in denominations of \$100,000 or more also moved up significantly in the year ending October 31, 1968. Outstandings increased from \$198.5 million to \$285.5 million, a 44% rise. Based on data from the large weekly reporting banks which issue most of these instruments, the gain occurred after the April upward adjustment in ceiling rates. Large denomination CD's in nonnegotiable form increased 24%, to a \$280.8 million level. Large open account time deposits, which play a minor role in the District, halved over the year to a level of \$19 million.

Recent Growth by Area In percentage terms, South Carolina member banks made the most significant gain in attracting the savings dollar of households and businesses. Total time and savings deposits, IPC, rose 32% over the year ending October 31, 1968. The most spectacular gain was in small denomination open account deposits which rose from \$0.2 million to \$31.9 million. Regular savings accounts also increased at a rate higher than those in other District areas. Although only a few banks in South Carolina issue large denomination time instruments, these deposits rose from \$8.2 million to \$14.9 million, a gain of 82%.

North Carolina ranked second among District areas in percentage gain in total time and savings deposits, IPC. The largest dollar gain was in small denomination CD's and open account deposits which amounted to two-fifths of total time and savings, IPC. Less than half of the total was in regular pass-book accounts.

In contrast, approximately nine-tenths of total time and savings, IPC, in Maryland banks was in regular savings accounts and less than one-tenth was in small denomination time instruments. These latter deposits, however, made substantial percentage gains over the year. The increase in regular savings accounts also was above the District rate. The West Virginia story is similar to that in Maryland. A large proportion of the total was in the form of pass-book savings which increased over the year at a higher rate than for the District as a whole.

Banks in the District of Columbia issued a greater proportion of total time and savings in large denomination CD's than banks in other District areas. Outstandings of these instruments, however, increased only 16% from October 1967 to October 1968. Regular savings accounts, which only amount to one-half of total outstandings, remained steady.

Virginia banks, like those in the Carolinas, have

actively promoted savings certificates and "golden passbook" accounts. As a result, time instruments issued in denominations of less than \$100,000 amounted to over a third of total time and savings, IPC, by October 1968. The increase over the year was \$252 million or 34%. Impressive gains were made also in CD's of \$100,000 or more, particularly those in negotiable form.

Rate Structure The accompanying table shows that most savings deposits and time instruments, IPC, in denominations of less than \$100,000 were drawing the Regulation Q ceilings of 4% and 5%, respectively. Rates on both of these types of deposits were adjusted upward during the year. The proportion of the dollar amount of savings deposits at rates over 3½% inched further towards the 100% level, from 94% on October 31, 1967 to 96% in the current survey. The shift to higher rates was highly significant, however, for small denomination time instruments: 94% of outstandings were at banks currently offering rates over 4½%, compared with 85% last year. The rate adjustments were most dramatic in Maryland, South Carolina, and West Virginia.

District banks also made significant upward adjustments on rates paid on large denomination time instruments. In October 1967, over three-fourths of outstandings were at banks offering 5% or less although the ceiling rate was 5½%. In October 1968, 80% of outstandings were at banks paying over 5% and 36% at banks paying over 5½%. Since April 1968, rates permitted under Regulation Q have ranged from 5½% to 6¼%, based upon the maturity of the large denomination instrument.

Elizabeth W. Angle

**MOST COMMON RATES PAID ON NEW DEPOSITS
Fifth District Member Banks**

October 31, 1968

Percentage distribution of dollar amount of deposits

	Dist.	Md.	D.C.	Va.	W.Va.	N.C.	S.C.
Savings deposits	100.0	100.0	100.0	100.0	100.0	100.0	100.0
3.50 or less	3.7	1.1	....	2.7	16.0	0.2	12.1
3.51-4.00	96.3	98.9	100.0	97.3	84.0	99.8	87.7
Time instruments,							
Less than \$100,000	100.0	100.0	100.0	100.0	100.0	100.0	100.0
4.50 or less	5.7	21.7	0.6	1.6	55.2	1.0	7.1
4.51-5.00	94.3	78.3	99.4	98.4	44.8	99.0	92.9
Time instruments,							
\$100,000 or more	100.0	100.0	100.0	100.0	100.0	100.0	100.0
4.50 or less	2.1	18.8	....	1.5	24.6	1.2	...
4.51-5.00	17.6	13.5	3.2	38.0	75.4	17.7	17.1
5.01-5.50	44.1	63.1	93.2	21.1	....	6.5	82.1
5.51 and over	36.2	4.6	3.6	39.4	....	74.6	...