MONTHLY REVIEW

COLONIAL STUDIOS

Foreign lending of District banks has been affected by balance of payments policies and strong domestic loan demand.

FEDERAL RESERVE BANK OF RICHMOND OCTOBER 1966

FOREIGN LENDING BY BANKS

THE IMPACT OF RECENT POLICIES

Foreign lending operations of United States commercial banks expanded greatly in the last ten years, following a long period of relative inactivity during the depressed 1930's and the war-torn 1940's. Between 1955 and 1965, total claims on foreigners reported by these banks increased fivefold, reaching a total of more than $12 billion in the latter year.

This growth in the international activities of U. S. commercial banks was greatly influenced by a number of developments in the postwar period. One of these, of course, was the emergence of the dollar as the keystone of the international financial system. Even more important was the freeing of international trade and payments from the numerous controls and restraints of the 1930's and the 1940's, a movement that culminated in the return to currency convertibility by the major trading countries in the late 1950's. Other important changes included the creation of the Common Market in Europe and the emergence and drive toward economic development of many new nations in Asia and Africa. Indicative of the rapid growth in international transactions was the threefold expansion in world trade between 1950 and 1965.

The growth in the volume of international transactions of U. S. commercial banks was accompanied by a growth in the number of banks participating in such operations. At one time a handful of banks located in a few cities accounted for almost all international banking in the United States, with the New York City banks playing a dominant role. International operations of U. S. banks are still highly concentrated, and New York banks still account for a large part of total credit to foreigners, particularly of term loans. Seven banks hold two-thirds of the foreign credits covered by the Voluntary Foreign Credit Restraint Program, and 16 banks hold over 80% of the total. Nevertheless, banks throughout the country are assuming an increasingly important role in this growing area of banking. A number of banks have established international departments in recent years and the number of subsidiary corporations formed to engage in international banking or finance (Edge Act or Agreement corporations) has more than doubled in the last five years.

Fifth District banks, although accounting for a very small part of total foreign lending by U. S. banks, nevertheless have shown considerable interest in this type of lending in recent years. But the expansion of foreign activity of District banks, like that of banks throughout the country, has been slowed in the last two years, first, by policies designed to improve our balance of payments position, and second, by the increasingly tight monetary conditions in this country.

Balance of Payments Policy The deficit in our international balance of payments has constituted a serious problem since 1958. In the first three years of this period, the deficit measured on a liquidity basis averaged about $3.7 billion per year. From 1961 through 1964 it ranged between $2.2 and $2.8 billion, and would have been larger each year but for special government transactions, such as prepayment of debt by foreign governments. From 1958 through 1963 the United States gold stock declined more than $7 billion.

As it became increasingly apparent that action was required to reduce the size of these deficits and to curtail our gold losses, an attempt was made to reduce overseas military expenditures and government grants and loans to foreigners. But the size of these items was dictated primarily by military and political considerations, and significant reductions proved difficult to achieve. Military expenditures remained almost unchanged from 1959 through 1963, while U. S. Government grants and capital outflows rose from $3.1 billion in 1958 to $4.5 billion in 1963. Consequently, the program to eliminate the deficit was aimed at reducing the outflow of private capital.

The initial phase of this program involved the imposition of what was called an "interest equalization tax" on the sale of securities to Americans by foreigners. The quarterly outflow of private capital exceeded $1 billion in the fourth quarter of 1962 and the first quarter of 1963, and it jumped to $1.7 billion in the second quarter of the latter year. Although direct investment was the most important single item in this flow, new issues of foreign securities in this country totaled around $500 million in each of the three quarters. In an effort to halt this large and apparently growing outflow of capital, President Kennedy proposed a tax on purchases of foreign securities by residents of the United States, to be effective July 19, 1963.

Although more than a year passed before the proposal became law, the fact that the provisions of the law were to be retroactive to July 19, 1963, combined with uncertainity as to the final provisions of the legislation caused it to have an immediate impact on capital flows. The net outflow of private capital was sharply reduced in the third quarter of 1963, and the volume of foreign securities newly issued in the United States fell by two-thirds. Sales of foreign securities declined still further in the fourth quarter, but outflows of other forms of private capital rose sharply, with bank claims on foreigners increasing by more than $1 billion. Part of the increase in bank credit was seasonal, but there is reason to believe that a substantial portion of it represented a substitution of bank credit for bond financing.

The effect of the proposed tax in reducing sales of foreign securities in the United States continued throughout the first three quarters of 1964, and the apparent substitution of bank credit for other types of financing also continued. The bill which finally became law in early September, 1964, required Americans buying securities from foreigners to pay a tax equal to 15% of the purchase price of stocks and a tax ranging up to 15% of the price of debt securities with maturities in excess of three years. Securities of underdeveloped countries were not subject to the tax and those of countries heavily dependent upon United States capital could be exempted by the President. Bank loans were also exempt, but the President was given the authority to make the tax applicable to bank loans with maturities in excess of one year if in his judgment bank credit was being substituted for security issues that would have been subject to the tax.

With passage of the legislation, most of the uncertainties surrounding it were removed and further changes in capital flows resulted. In the fourth quarter of 1964, there were almost no new issues of securities subject to the tax, but issues exempt from the tax rose sharply, reflecting the backlog that had built up during the period Congress was considering the legislation. Bank loans and acceptance credits also rose sharply, especially to Japan and the industrialized countries of western Europe.

The outflow of capital abated somewhat in the early months of 1965, but it was still high in comparison with comparable periods of earlier years. The build-up in long-term bank loans to countries whose securities were subject to the interest equalization tax was especially rapid. On February 10, President Johnson sent a special message to Congress in which he outlined a program to deal with the increasingly serious balance of payments problem. Among other things, this program extended the interest equalization tax to bank loans having maturities in excess of one year, but bank loans to borrowers in less developed countries as well as loans to finance exports were exempted from the tax. The tax on securities was broadened to include those with maturities of more than one year. In addition to these measures, the President proposed the inauguration of the voluntary foreign credit restraint program.

Voluntary Foreign Credit Restraint Program This program was aimed at reducing the outflow of capital by enlisting the voluntary cooperation of commercial banks, nonbank financial institutions, and nonfinancial business concerns. The Federal Reserve System was assigned responsibility for supervising that part of the program relating to banks and other financial institutions, while the Department of Commerce was given responsibility for the program for non-financial businesses.

Under guidelines issued by the Federal Reserve System, each bank was requested to keep its outstanding credits to foreigners in 1965 below 105% of the amount outstanding at the end of 1964 (the ceiling figure for 1966 was arrived at by adding 1% each quarter to the 1965 target). Within these overall limits a system of priorities was established. Export credits were given absolute priority, while among nonexport credits banks were requested to give priority to less developed countries. Finally, banks were advised to use caution in cutting back credit to developed countries that were highly dependent upon United States capital or that were themselves experiencing acute balance of payments problems.

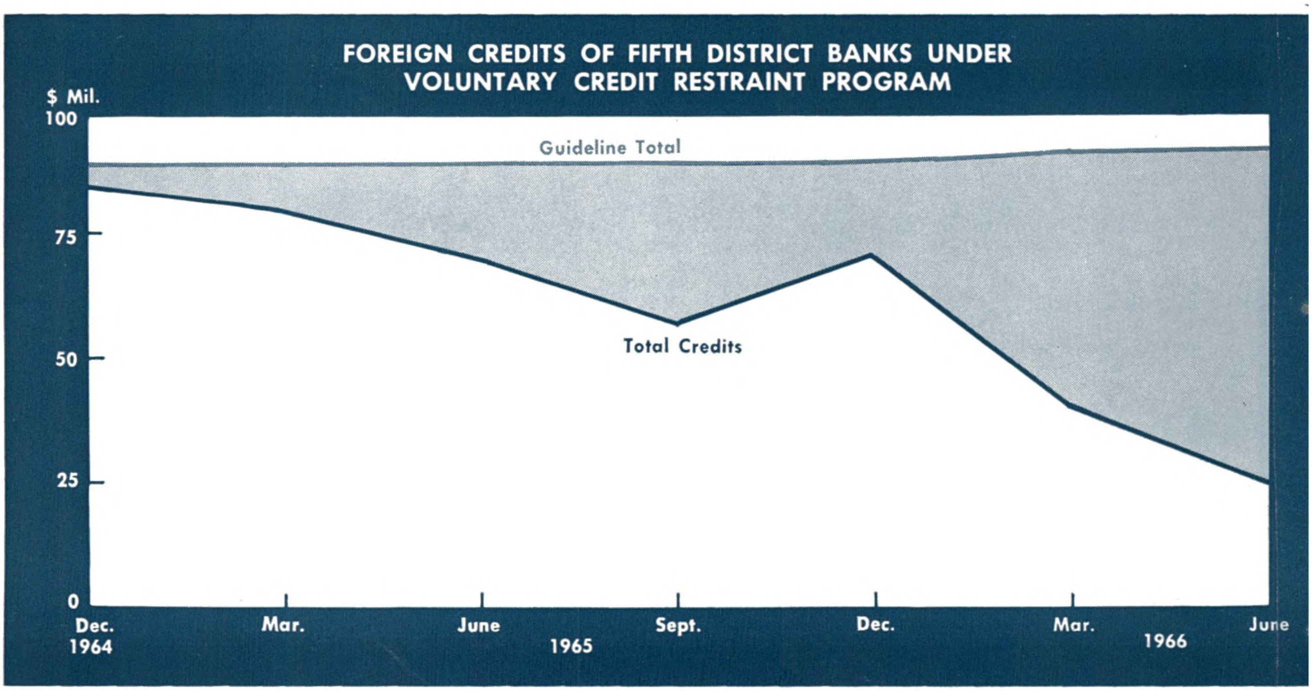
Monetary Restraint Throughout much of the expansion that began in 1961, the development of monetary policy was influenced by conflicting objectives. The relatively high levels of unemployment and unused capacity that characterized the first several years of this period called for monetary ease with credit readily available at low interest rates, while the traditional prescription for a persistent balance of payments deficit called for tight money and high interest rates. An effort was made to reconcile these conflicting goals by keeping short term interest rates up for balance of payments purposes and keeping long term rates down to avoid harmful effects on the domestic economy.

Although the importance of the international payments deficit was clearly recognized, throughout the period of expansion the domestic economy was accorded top priority by monetary policymakers. The discount rate was raised in July 1963 as a part of President Kennedy's balance of payments program, and again in November 1964 in response to a 2% boost in the British bank rate. Although these moves resulted in higher money market rates and reduced marginal reserve availability, there was little indication of reduced willingness or ability to lend on the part of banks. Throughout 1963 and 1964, member banks' excess reserves exceeded their borrowings from Federal Reserve Banks and they expanded their total loans at a rapid rate.

Following the announcement of President Johnson's balance of payments program in early 1965, the Federal Reserve moved to support this program through reducing further the availability of loanable funds to the banking system. Loan demand remained strong, however, and in the second half of 1965 the intensified war effort in Viet Nam together with a very high level of business investment put increased pressures on the banking system. The accompanying chart showing selected interest rate series suggests that the economy first began to feel the pinch of tight money in the third quarter of 1965, although the liquidity of the banking system had been declining for some time prior to that.

To dampen inflationary pressures and correct distortions in the structure of interest rates, the Federal Reserve raised the discount rate by one-half percentage point in early December 1965, and at the same time the rate ceiling on time deposits was raised to 5½%. Total reserves of the banking system have continued to grow since that time, but the continued strong loan demand has steadily reduced the liquidity of the banking system. This has been reflected in sharply rising interest rates and reduced availability of credit. The bank prime rate has been raised four times in the last year, for example, with the present 6% rate being the highest since this rate came into use in the 1930's. Rates on money market instruments have risen correspondingly, with the three month Treasury bill yield at more than 5%.

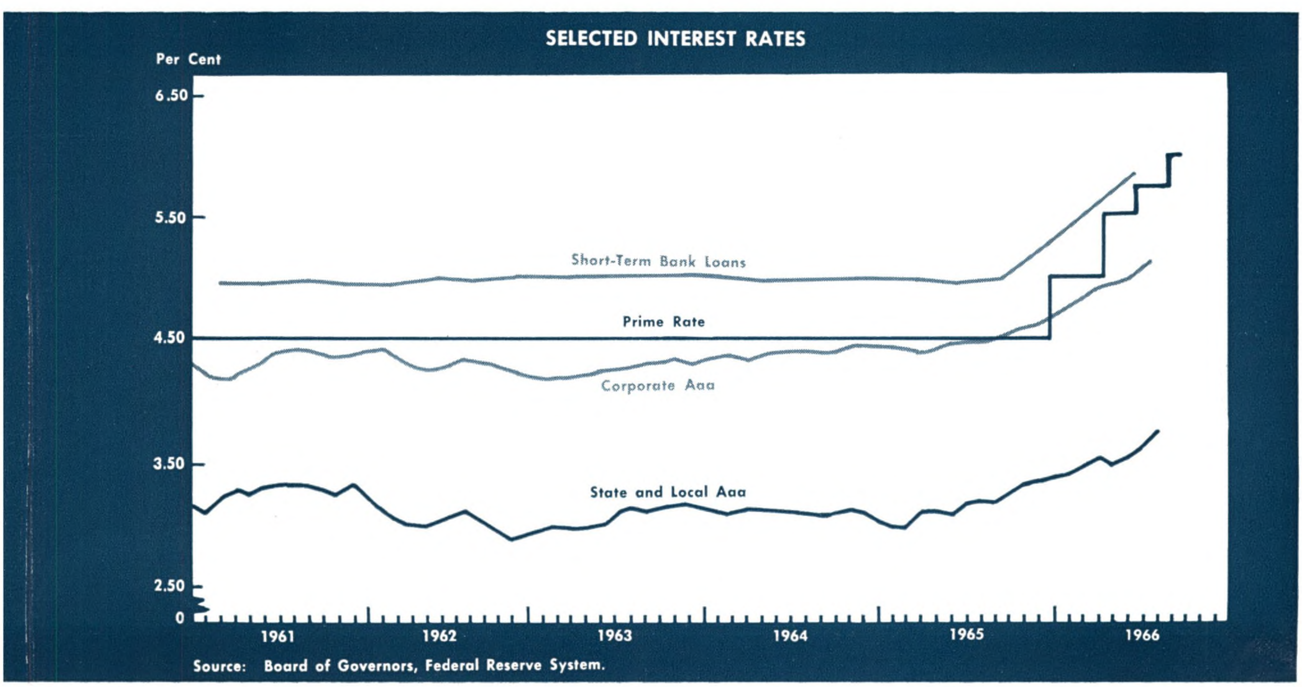
Effects on Foreign Lending The pronounced impact of the balance of payments program and the reduced availability of loanable funds on the foreign lending of commercial banks is clearly shown in the accompanying chart which is based on data supplied by Fifth District banks reporting under the voluntary

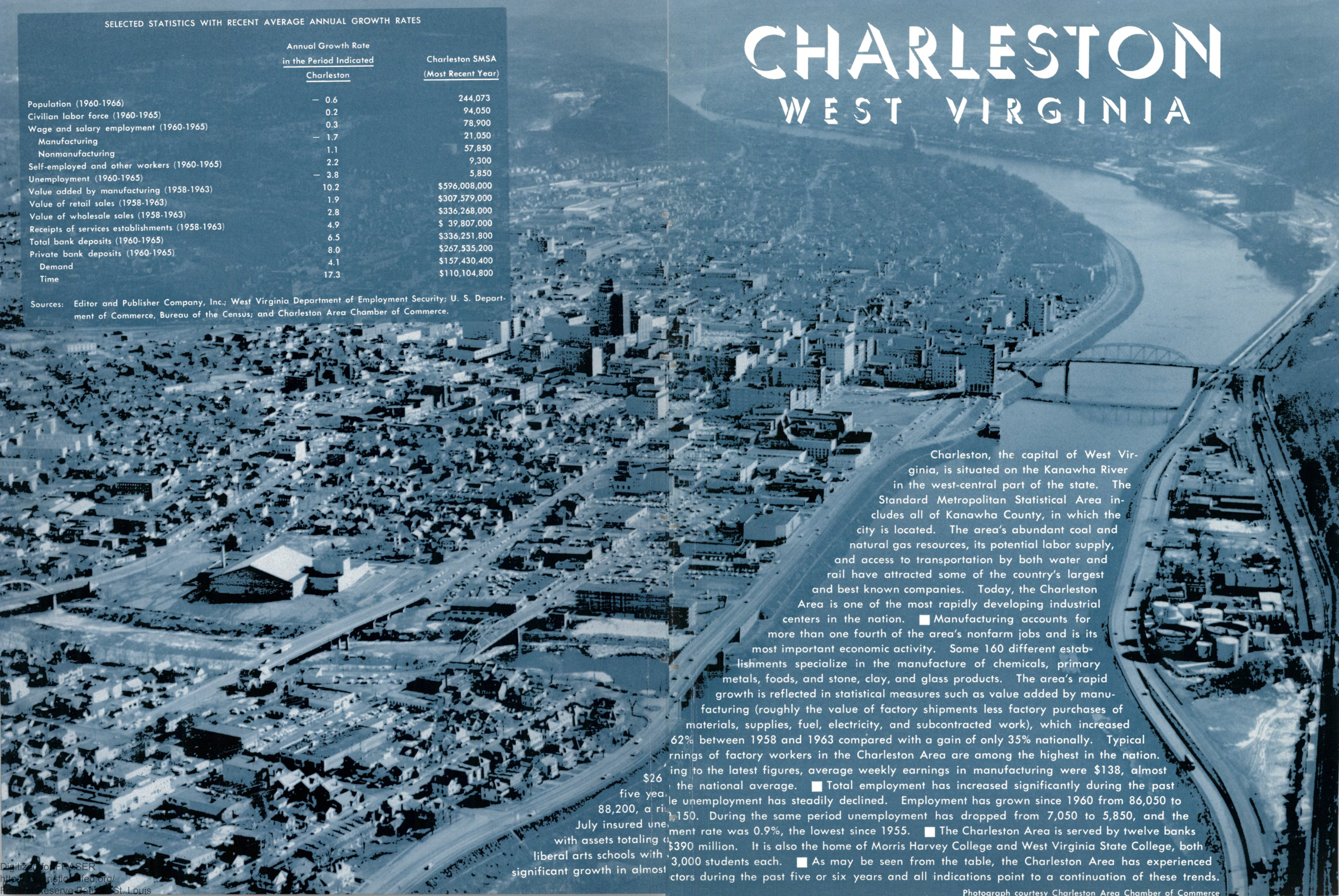


foreign credit restraint program. Foreign credits of these 17 banks fell by more than 30% in the first three quarters of 1965, and although there was an increase in the final quarter, the decline in the first half of 1966 was even sharper than that of the year before. As a result, at the end of June 1966, foreign credits falling under the voluntary credit restraint program totaled less than a third of the amount outstanding at the end of December 1964. Most of the decline in the first three quarters of 1965 may be attributed to the voluntary credit restraint program. But although the even sharper drop in the first half of 1966 reflects the continued efforts of banks to comply with the spirit of this program, the increasingly large gap between the guideline ceiling and actual credits outstanding suggests that the growing scarcity of loanable funds was the dominant factor. Banks that are most likely to be interested in expanding their foreign operations are those that have felt the credit pinch most severely. In performing the necessary rationing of bank credit, these banks have in some instances turned down foreign borrowers in favor of domestic clients and perhaps in many instances they have failed to pursue overseas opportunities as aggressively as they would in a period of easy money.

Foreign lending constitutes only a small part of the total lending of Fifth District banks and the foreign loans of these banks account for only a small fraction of the national total. It is not surprising, therefore, to find that the decline in this type of lending for Fifth District banks was much more dramatic than for the banking system as a whole. Nevertheless, foreign loans for all U. S. commercial banks have declined significantly since December 1964, and total credits subject to the voluntary restraint program are approximately $1 billion below the target ceiling.

Outlook for the Future Foreign operations of Fifth District banks are likely to continue to be dominated in the near future by the balance of payments program and by the continuing need to meet credit demands of domestic customers. No one can foresee how long these factors will be dominant. The voluntary credit restraint program was designed as a temporary measure to provide time for more basic adjustments to be made, but the payments problem is still far from being solved. Conditions in domestic money and capital markets reflect the high level of economic activity and the existing monetary-fiscal policy mix. It must be assumed, however, that we will eventually balance our external accounts without the aid of measures such as the voluntary credit restraint program and that the intense demand for loanable funds will abate. When these things occur, the outlook for the renewed development of foreign operations by Fifth District banks appears very favorable. The rapid industrial development of the area and the growing resources of District banks, combined with an expanding flow of foreign commerce through excellent port facilities, provide the basis for a sound expansion of foreign lending by District banks.





CHARLESTON
WEST VIRGINIA

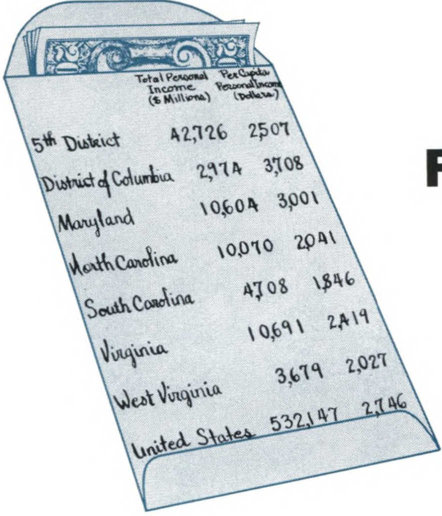
SELECTED STATISTICS WITH RECENT AVERAGE ANNUAL GROWTH RATES

	Annual Growth Rate in the Period Indicated Charleston	Charleston SMSA (Most Recent Year)
Population (1960-1966)	− 0.6	244,073
Civilian labor force (1960-1965)	0.2	94,050
Wage and salary employment (1960-1965)	0.3	78,900
Manufacturing	− 1.7	21,050
Nonmanufacturing	1.1	57,850
Self-employed and other workers (1960-1965)	2.2	9,300
Unemployment (1960-1965)	− 3.8	5,850
Value added by manufacturing (1958-1963)	10.2	$596,008,000
Value of retail sales (1958-1963)	1.9	$307,579,000
Value of wholesale sales (1958-1963)	2.8	$336,268,000
Receipts of services establishments (1958-1963)	4.9	$ 39,807,000
Total bank deposits (1960-1965)	6.5	$336,251,800
Private bank deposits (1960-1965)	8.0	$267,535,200
Demand	4.1	$157,430,400
Time	17.3	$110,104,800

Sources: Editor and Publisher Company, Inc.; West Virginia Department of Employment Security; U. S. Department of Commerce, Bureau of the Census; and Charleston Area Chamber of Commerce.

Charleston, the capital of West Virginia, is situated on the Kanawha River in the west-central part of the state. The Standard Metropolitan Statistical Area includes all of Kanawha County, in which the city is located. The area's abundant coal and natural gas resources, its potential labor supply, and access to transportation by both water and rail have attracted some of the country's largest and best known companies. Today, the Charleston Area is one of the most rapidly developing industrial centers in the nation. ■ Manufacturing accounts for more than one fourth of the area's nonfarm jobs and is its most important economic activity. Some 160 different establishments specialize in the manufacture of chemicals, primary metals, foods, and stone, clay, and glass products. The area's rapid growth is reflected in statistical measures such as value added by manufacturing (roughly the value of factory shipments less factory purchases of materials, supplies, fuel, electricity, and subcontracted work), which increased
62% between 1958 and 1963 compared with a gain of only 35% nationally. Typical
rnings of factory workers in the Charleston Area are among the highest in the nation.
ing to the latest figures, average weekly earnings in manufacturing were $138, almost
$26 the national average. ■ Total employment has increased significantly during the past
five yea le unemployment has steadily declined. Employment has grown since 1960 from 86,050 to
88,200, a ri 150. During the same period unemployment has dropped from 7,050 to 5,850, and the
July insured une ment rate was 0.9%, the lowest since 1955. ■ The Charleston Area is served by twelve banks
with assets totaling c $390 million. It is also the home of Morris Harvey College and West Virginia State College, both
liberal arts schools with 3,000 students each. ■ As may be seen from the table, the Charleston Area has experienced
significant growth in almost ctors during the past five or six years and all indications point to a continuation of these trends.

Photograph courtesy Charleston Area Chamber of Commerce



PERSONAL INCOME FIFTH DISTRICT 1965

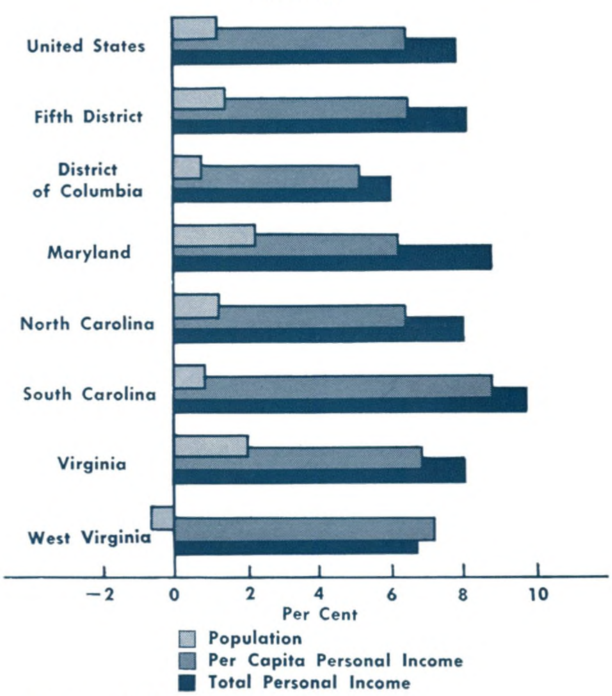
Personal income continued its rise to new record highs in 1965, reaching $42.7 billion in the Fifth District and $532 billion in the nation as a whole. These represented annual gains of 8.2% for the District and 7.9% for the nation. Per capita income also reached new highs, but due to population growth the percentage gains were somewhat smaller. In the Fifth District, per capita income rose from $2,354 to $2,507, an increase of 6.5%. The increase at the national level was also 6.5%, from $2,579 to $2,746.

Fifth District Developments With the exception of the District of Columbia and West Virginia, the growth rate of personal income exceeded the national rate in all District states. South Carolina was the leader with a rate of 9.8%. Other states showing greater relative increases than the average for the nation were Maryland with 8.9%, and North Carolina and Virginia, both of which showed gains of 8.0%. The rate of increase was 6.7% in West Virginia, only slightly below the rate for the nation as a whole, and 6.1% for the District of Columbia. In absolute terms Maryland led the Fifth District with a growth in total personal income of $870 million. The increases in Virginia and North Carolina were only slightly lower at $796 million and $749 million respectively. Personal income in South Carolina rose $421 million, in West Virginia $232 million, and in the District of Columbia $170 million.

Although the Fifth District population increased substantially in 1965, per capita income reached a record level of $2,507, compared to $2,354 in 1964. Income per person exceeded $2,000 in all states except South Carolina, and reached $3,708 in the District of Columbia and $3,001 in Maryland, well above the national average of $2,746. The figure of $3,708 in the District of Columbia was $307 above that of Connecticut, which had the highest of any of the fifty states. Income in urban areas is generally higher than in areas including rural populations, however. South Carolina had the lowest per capita income in the District at $1,846, but it showed the most rapid rate of increase, rising 8.8% over the preceding year. Increases in 1965 brought the average in Virginia to $2,419, and to $2,041 in North Carolina. In West Virginia it rose to $2,027; however, this growth exceeded the rate of increase in total income because population declined 0.7%.

Sources of District Income An analysis of income by major sources shows that in most areas, the Fifth District compares very favorably with the nation as a whole. The wage and salary statistics

CHANGES IN INCOME AND POPULATION
1964-1965



Source: U. S. Department of Commerce.

FIFTH DISTRICT INCOME BY MAJOR SOURCES 1964-1965

Source	Amount 1964	Amount 1965	Change, 1964-1965		Distribution Of Total Personal Income	Distribution Of Wages and Salaries
	$ Million	$ Million	$ Million	Per Cent	Per Cent	Per Cent
PERSONAL INCOME	39,488	42,726	3,238	8.2	100	
WAGES AND SALARIES	27,770	30,191	2,421	8.7	70.7	100
Farms	207	200	— 7	— 3.4	0.5	0.7
Mining	393	426	33	8.4	1.0	1.4
Contract Construction	1,558	1,767	209	13.4	4.1	5.9
Manufacturing	7,533	8,200	667	8.9	19.2	27.2
Trade	3,945	4,298	353	8.9	10.1	14.2
Finance, Insurance, and Real Estate	1,068	1,157	89	8.3	2.7	3.8
Transportation	1,230	1,304	74	6.0	3.1	4.3
Communication and Public Utility	741	792	51	6.9	1.9	2.6
Services	3,021	3,271	250	8.3	7.7	10.8
Government	8,014	8,717	703	8.8	20.4	28.9
Federal, civilian	3,567	3,897	330	9.3	9.1	12.9
Federal, military	1,811	1,890	79	4.4	4.4	6.3
State and local	2,637	2,929	292	11.1	6.9	9.7
Other Industry	59	62	3	5.1	0.1	0.2
OTHER LABOR INCOME	1,231	1,387	156	12.7	3.3	
PROPRIETORS' INCOME	3,887	3,905	18	0.5	9.1	
Farm	1,171	1,136	— 35	— 3.0		
Nonfarm	2,717	2,769	52	1.9		
PROPERTY INCOME	4,734	5,174	440	9.3	12.1	
TRANSFER PAYMENTS	2,919	3,182	263	9.0	7.4	
LESS: CONTRIBUTIONS FOR SOCIAL INSURANCE	1,055	1,114	59	5.6	2.6	

Details may not add to totals due to rounding.
Source: U. S. Department of Commerce.

for the 1964-1965 period, shown in the table above, indicate that the importance of the various sources is shifting. A growing proportion of income is coming from government, construction, manufacturing, and trade. Income arising in the government sector showed the greatest dollar gain, with an increase of $703 million. Much of the increase was due to expanded employment, but some of it was due to pay raises. Wages and salaries in manufacturing increased $667 million, as sales of manufactured goods reached record levels. For 1965 manufacturing income totaled $8,200 million and was 19.4% of aggregate personal income in the District.

The District experienced a decline in farm income, with a loss of 3.4% as opposed to a national gain of 1.6%. This is attributable in part to decreased farm acreage as well as to lower receipts from sales of livestock.

Income earned in finance, insurance and real estate showed gains in the District in excess of those for the nation, on a percentage basis, as most states within the District increased employment in this sector. Earnings from these sources increased 8.3% in the District as compared with 6.1% nationally.

In the growth of proprietors' income, the variation between the District and the nation became more pronounced in 1965. The District's 0.5% increase lagged far behind the nation's 7.4% gain. Much of the difference was due to a 3.0% drop in the income of farm proprietors, defined as the difference between gross farm income and farm production costs. For the District this 3.0% loss in proprietors' income was accompanied by a 3.4% loss experienced in personal income derived from farm wages and salaries. In the nonfarm area, proprietors' income from business ownership and professional services, increased 1.9% in both the District and the nation.

Contributions for social insurance, which are deducted from the income statistics in calculating personal income, were up 5.6% in the District and 5.4%

in the country as a whole, reflecting the increased cost due to added benefits of these programs.

Sources of Income by State Contract construction accounted for sizable gains in income in all states in the District except the District of Columbia where income from this source declined 2.7%. The Carolinas showed the largest percentage increase, with 20.6% for North Carolina and 26.4% for South Carolina. Elsewhere in the District, West Virginia showed a gain of 16.2%, and increases in Virginia and Maryland were 10.5% and 9.6% respectively.

Government activity resulted in large income gains in all areas of the District, especially in Maryland, Virginia, and the District of Columbia. Government wage and salary disbursements rose $247 million in Maryland and $192 million in Virginia. In the District of Columbia, they increased by $61 million to a total of $1,070 million, or 36% of total personal income.

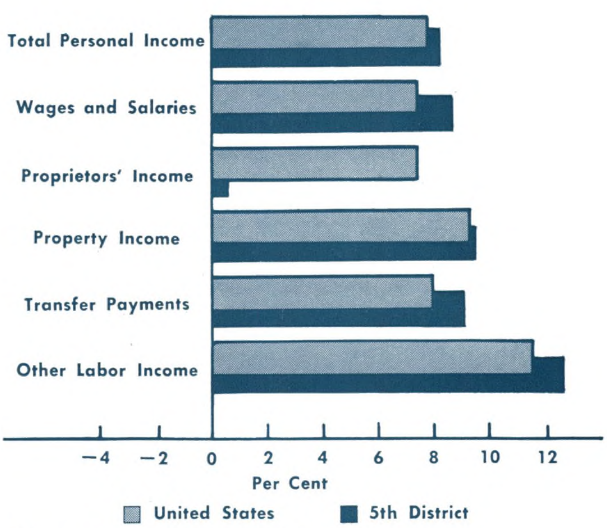
Farm wage and salary income decreased in all Fifth District states except West Virginia, where it remained stationary. Declines in the Carolinas of over 3% reflected reduced tobacco acreage and a corresponding drop in receipts from sale of crops. Maryland and Virginia experienced greater percentage decreases of 4.0% and 3.9% respectively.

Income gains from manufacturing were significant in all states in the District. In North Carolina, larger factory payrolls due to increased wages, new jobs, and more man-hours provided an increase of $262 million, a gain of 11.2%. In South Carolina these factors injected $136 million more into personal income, raising the total 11.5%. West Virginia had an increase of 4.6%; Virginia, 8.2%; and Maryland, 6.4%.

Income derived from mining was up in the District with all states exceeding the national growth rate. West Virginia, the most important mining region in the Fifth District, led with a gain of $24 million, up 8.4% over 1964. This growth stemmed from a 7% increase in coal production and increased wages even though employment remained stationary. This growth compares to a 4.8% increase for the nation.

CHANGES IN INCOME BY MAJOR SOURCES

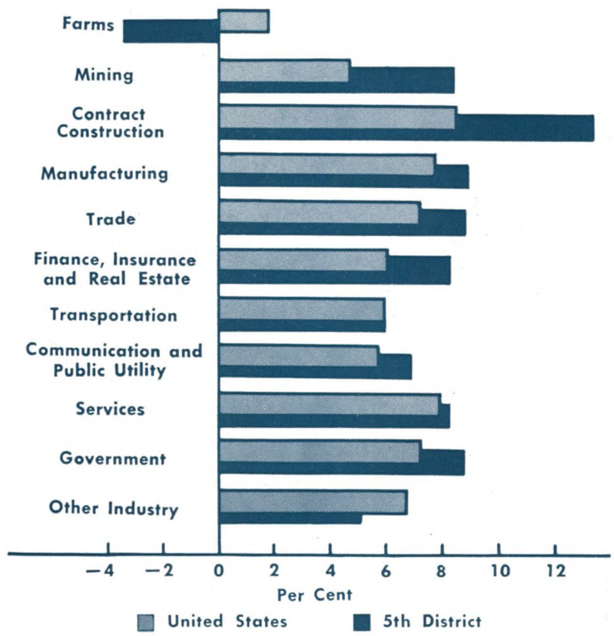
1964-1965



Source: U. S. Department of Commerce.

CHANGES IN WAGE AND SALARY INCOME

1964-1965



Source: U. S. Department of Commerce.

Income from property also rose substantially in the Fifth District. Gains for the individual states were 10.7% in the District of Columbia, 8.9% in Maryland, 9.6% in North Carolina, 9.7% in South Carolina, 9.0% in Virginia, and 8.5% in West Virginia, compared with the national rise of 9.1%.

Summary Total and per capita personal income were at record highs in the Fifth District in 1965. Several of the states recorded notable gains. As can be seen in the charts, the pattern of growth in the District was about the same as in the country as a whole with the District doing better in some areas. Although growth was not even, all states recorded significant gains.

THE FIFTH DISTRICT

TIME AND SAVINGS DEPOSITS

Never before have time and savings deposits and nonbank savings been as important in the financial structure of the nation as in the past two years. As demands for credit have surged ahead, the competition for savings to help meet those demands has become more intense. Interest rates have risen and new types of deposit instruments have been created. Total personal and corporate savings have increased substantially in the past few years, but they have risen at a slower pace in 1966 than in 1965. At member banks, total time and savings deposits rose 8.8% in the first six months of 1965, but only 6% in the first half of this year. At savings and loan associations, the rate of growth of savings shares has fallen considerably more.

As part of a national survey to learn more about recent rapid changes in interest rates and flows of savings, the Federal Reserve Bank of Richmond recently sent questionnaires to all member banks in the Fifth District. The banks were asked to provide information on their time and savings deposits as of December 3, 1965, March 2, 1966, and May 11, 1966. Reports were received from 406 of the 435 member banks, and this article briefly summarizes the information received.

Deposit Changes The most notable change in the composition of deposits between December 3, 1965 and May 11, 1966, was a marked increase in consumer-type time deposits—savings certificates and bonds, and certificates of deposit of less than $100,000. During that period, they rose 38%, while savings deposits rose only 3% and all other time deposits, including certificates of deposit in denominations over $100,000, fell 9%. Among consumer-type time deposits, the greatest dollar increase occurred in savings certificates, which rose from $278 million to $417 million, a gain of 50%. Small denomination nonnegotiable certificates of deposit also rose sharply, from $176 million to $266 million.

Savings Deposits On December 6, 1965, the Board of Governors amended Regulation Q raising the maximum interest rate payable on time deposits to 5½%. In the next five and a half months, the general structure of interest rates on time and savings deposits rose substantially. Most of the increase in the Fifth District occurred between the survey dates of December 3 and March 2.

Although the maximum legal rate was not raised for savings deposits, the number of banks paying the maximum of 4% rose from 242 in December to 290 the following May. The number paying a maximum of 3.5% fell from 74 to 53, and those paying 3% or less dropped from 87 to 62. Most of the larger banks, holding the largest amounts of deposits, had already been paying 4%, but the amount of deposits on which 4% was paid rose from $2,777 million to $3,479 million.

SAVINGS DEPOSITS

Maximum Interest Rate Paid by Fifth District Member Banks on Survey Dates

Per Cent Paid	Dec. 3, 1965		Mar. 2, 1966		May 11, 1966	
	Number of Banks	Amounts ($ Mil.)	Number of Banks	Amounts ($ Mil.)	Number of Banks	Amounts ($ Mil.)
3.00 or less	87	275	68	228	62	163
3.50	74	689	71	670	53	198
4.00	242	2,777	266	2,927	290	3,479
Total	403	3,741	405	3,825	405	3,840

Consumer-Type Time Deposits Rates were raised more on consumer-type time deposits than on savings deposits, and the pace of increase in the volume of these deposits was far greater. Of course, higher interest rates were not the only reason for the sharp increase. Faced with rapidly growing loan demand, banks stepped up their advertising and marketed consumer-type savings certificates, bonds, and certificates of deposit very aggressively. The substantial upward shift in the rate structure, however, was no doubt the most important factor in the deposit expansion.

Savings Certificates Between December 3 and May 11, the number of banks paying 4% or less on savings certificates fell from 130 to 81, and the amount of deposits at those rates dropped from $123 million to $56 million. In the same period, the number of banks paying 4.5% or more rose from 69 to 138, with seven of those paying 5% and two paying as much as 5.5%. The volume of certificates

SAVINGS CERTIFICATES

Maximum Interest Rate Paid by Fifth District Member Banks on Survey Dates

Per Cent Paid	Dec. 3, 1965		Mar. 2, 1966		May 11, 1966	
	Number of Banks	Amounts ($ Mil.)	Number of Banks	Amounts ($ Mil.)	Number of Banks	Amounts ($ Mil.)
3.50 or less	18	6	9	2	8	1
4.00	112	117	82	73	73	55
4.50	69	155	114	265	122	276
4.75	—	—	6	19	7	35
5.00	—	—	—	7	7	32
5.25	—	—	—	—	—	—
5.50	—	—	—	*	2	*
Total	199	278	216	367	219	417

*Omitted to avoid individual bank disclosure.

yielding 4.5% or more rose from $155 million on December 3 to over $343 million on May 11.

Savings Bonds Bank savings bonds are issued by few District member banks and account for only a small fraction of the District's time deposits. Although they have been very popular in some parts of the country, only ten District member banks had such bonds outstanding on May 11. The dollar volume fell from $31 million in December to $19 million in May, although three of the ten issuing banks were paying a maximum of 5% on bonds.

SAVINGS BONDS
Maximum Interest Rate Paid by
Fifth District Member Banks on Survey Dates

Per Cent Paid	Dec. 3, 1965 Number of Banks	Dec. 3, 1965 Amounts ($ Mil.)	Mar. 2, 1966 Number of Banks	Mar. 2, 1966 Amounts ($ Mil.)	May 11, 1966 Number of Banks	May 11, 1966 Amounts ($ Mil.)
3.50 or less	—	—	—	—	—	—
4.00	3	*	3	*	3	*
4.50	3	30	4	22	4	18
4.75	—	—	—	—	—	—
5.00	—	—	3	*	3	1
5.25	—	—	—	—	—	—
5.50	—	—	—	—	—	—
Total	6	31	10	22	10	19

*Less than $500,000.

Nonnegotiable Certificates The volume of other nonnegotiable certificates of deposit outstanding rose 51% during the period covered by the survey from $176 million to $266 million. The gain probably was stimulated considerably by interest rate increases. The number of banks paying a maximum of 4% or lower fell from 53 in December to 35 in May, while the number paying a maximum of 4.5% or higher rose from 32 to 54, with nine banks paying 5% or more.

OTHER NONNEGOTIABLE CERTIFICATES OF DEPOSIT
Maximum Interest Rate Paid by
Fifth District Member Banks on Survey Dates

Per Cent Paid	Dec. 3, 1965 Number of Banks	Dec. 3, 1965 Amounts ($ Mil.)	Mar. 2, 1966 Number of Banks	Mar. 2, 1966 Amounts ($ Mil.)	May 11, 1966 Number of Banks	May 11, 1966 Amounts ($ Mil.)
3.50 or less	12	2	9	1	7	1
4.00	41	38	27	20	28	19
4.50	32	137	41	62	42	65
4.75	—	—	4	63	3	13
5.00	—	—	4	91	6	80
5.25	—	—	—	—	2	*
5.50	—	—	—	—	1	*
Total	85	176	85	237	89	266

*Omitted to avoid individual bank disclosure.

Negotiable Certificates Under $100,000 Small CD's are considered consumer-type debt instruments, and interest rate changes on these certificates were similar to those on nonnegotiable CD's. The increase in volume was much smaller, however. The number of banks paying a maximum of 4% or less fell from 66 to 39, while those paying 4.5% or more rose from 40 to 69, but the total dollar volume outstanding rose only about 10%, from $124 million to $137 million.

NEGOTIABLE CD'S IN DENOMINATIONS OF LESS THAN $100,000
Maximum Interest Rate Paid by
Fifth District Member Banks on Survey Dates

Per Cent Paid	Dec. 3, 1965 Number of Banks	Dec. 3, 1965 Amounts ($ Mil.)	Mar. 2, 1966 Number of Banks	Mar. 2, 1966 Amounts ($ Mil.)	May 11, 1966 Number of Banks	May 11, 1966 Amounts ($ Mil.)
3.50 or less	11	4	8	4	7	1
4.00	55	54	33	26	32	25
4.50	40	65	62	84	56	81
4.75	—	—	2	*	7	4
5.00	—	—	2	*	5	25
5.25	—	—	—	—	1	*
5.50	—	—	—	—	—	—
Total	106	124	107	134	108	137

*Omitted to avoid individual bank disclosure.

Negotiable Certificates Over $100,000 By March 2, ten banks had raised maximum rates on large negotiable CD's above the 4.5% ceiling prevailing before December 6. By May 11, the number had grown to 13, while the number of banks paying 4.5% or less fell from 47 in December to 34 in May. The dollar volume of these certificates fell, however, from a total of $224 million in December to $222 million on March 2 and $203 million May 11.

NEGOTIABLE CD'S IN DENOMINATIONS OF $100,000 OR MORE
Maximum Interest Rate Paid by
Fifth District Member Banks on Survey Dates

Per Cent Paid	Dec. 3, 1965 Number of Banks	Dec. 3, 1965 Amounts ($ Mil.)	Mar. 2, 1966 Number of Banks	Mar. 2, 1966 Amounts ($ Mil.)	May 11, 1966 Number of Banks	May 11, 1966 Amounts ($ Mil.)
3.50 or less	7	4	6	4	5	3
4.00	17	16	10	6	9	8
4.50	23	204	24	30	20	20
4.75	—	—	6	137	4	86
5.00	—	—	3	42	5	53
5.25	—	—	1	*	4	34
5.50	—	—	—	—	—	—
Total	47	224	50	222	47	203

*Omitted to avoid individual bank disclosure.

Time Deposits, Open Account The number of Fifth District banks increasing rates on time deposits, open account, excluding Christmas savings and other special funds, was smaller than for any other type. Nineteen banks were paying 3.5% or less on December 3 and on March 2. The number dropped to 15 by May 11. In December, all of the 93 banks reporting such deposits were paying 4.5%, the legal maximum, or less, but on March 2, only four banks had gone above that level, and on May 11, only seven. The amount of deposits on which the higher rates were paid was substantial, however, and stood at $50 million on May 11.

TIME DEPOSITS, OPEN ACCOUNT
Maximum Interest Rate Paid by
Fifth District Member Banks on Survey Dates

Per Cent Paid	Dec. 3, 1965 Number of Banks	Dec. 3, 1965 Amounts ($ Mil.)	Mar. 2, 1966 Number of Banks	Mar. 2, 1966 Amounts ($ Mil.)	May 11, 1966 Number of Banks	May 11, 1966 Amounts ($ Mil.)
3.50 or less	19	5	19	4	15	1
4.00	53	28	41	20	46	20
4.50	21	80	30	40	27	30
4.75	—	—	3	53	3	16
5 00	—	—	1	*	3	34
5.25	—	—	—	—	1	**
5.50	—	—	—	—	—	—
Total	93	113	94	118	95	103

*Less than $500,000.
**Omitted to avoid individual bank disclosure.

Cover Photo Courtesy State Planters Bank of Commerce and Trusts