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Reserve Requirements, Nonpar Banks and Membership in the Federal Reserve System

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Reserve Requirements, Nonpar Banks and Membership in the Federal Reserve System

Unlike Mark Anthony, I came to praise membership in the Federal Reserve System and - hopefully - to help bury nonpar banking!

I know that before this audience such a topic is not the most popular one. So I hasten to assure you that by no means was it selected to show ingratitude for your warm invitation to give in Minnesota my maiden speech as a Member of the Board of Governors of the Federal Reserve System. Rather, I selected this topic because here in Minnesota we find:

- One of the smallest representations of Commercial banks in the Federal Reserve System, and
- The largest number of nonpar banks in the country.

The first situation is potentially serious, and the second is a prime example of unnecessary inconvenience and embarrassment in a modern banking system. Since I also know that we share a common desire to strengthen and improve the viability of our monetary system, I gladly grasped the opportunity to visit with you and to examine a topic of such cardinal concern.

Changes in Membership of the Federal Reserve System 1961 - 1965

One of the most salient features of the dual banking system of the United States is the freedom of choice offered banks to organize under either a national or state charter; another is their option to shift charters whenever they find one regime of public supervision too burdensome. State chartered banks have the further option to become members of the Federal Reserve System or to withdraw - depending on their assessments of the benefits and costs of membership. During the last five years, commercial banks have increasingly examined the prospects of System membership and found it advantageous not to belong.

The total number of insured commercial banks rose from 13,126 at the beginning of 1961 to 13,547 at the end of 1965, a gain of 421 banks. (Table 1.) This growth was the result of a substantial increase in the number of national banks and state non-member banks. During the same five years, there was a decline of 236, or nearly 15 per cent, in the number of state member banks.

In any given period, the major sources of change in the total number of insured commercial banks are newly organized institutions and banks which disappear as the result of mergers. Only a very few banks cease operation because of liquidation, either voluntary or involuntary. In addition, substantial changes by class of bank are due to shifts from one class to another.

Only of the 1,052 new insured commercial banks organized in the 1961-65 period, slightly more than one-half were chartered as national banks and the remainder received State charters. Nearly all of the latter were organized as non-member insured banks. The 736 banks lost through mergers were more evenly divided by class of bank. About one-sixth of the merged institutions were state members and the rest were about evenly split between national and state non-member. The other major increment in the total number of insured commercial banks was the transfer of 126 banks from non-insured status - nearly all of which became non-member insured state banks.

Changes by class of bank during the five year period were not all one-way. However, these changes produced a net decline of 236 in the number of State member banks; a net increase of 285 in national banks, and a net increase of 372 in insured non-member State banks.

Several cross-currents are evident behind this outcome. The following profile emerges:

(1) For State Member Banks

Gains:	
Newly organized banks	16
Successors to National banks	1
Conversion of insured non-members	17
Conversion of non-insured banks	3
Gross Increase	37
Losses:	
Absorptions, consolidations and mergers	129
Liquidations and cessation of operations	1
Conversion to national banks	38
Conversion to insured non-members	105
Total	273
Net Loss	236

(2) For National Banks

Gains:	
Newly organized banks	541
Successors to State member banks	38
Successors to insured State non-members	62
Conversion of non-insured banks	3
Gross Increase	644
Losses:	
Absorptions, consolidations and mergers	318
Liquidations and cessation of operations	8
Conversion to State member	1
Conversion to insured non-member	32
Total	359
Net Gain:	285

(3) For Non-Member Insured Banks

Gains:	
Newly organized banks	495
Successors to national banks	32
Successors to State members	105
Conversion of non-insured banks	120
Gross Increase	752

(3) For Non-Member Insured Banks (continued)

Losses:		
Absorptions, consolidations and mergers	289	
Liquidations and cessation of operations	12	
Conversion to national banks	62	
Conversion to State member banks	17	
Total	380	
Net Gain	372	

(4) For Total Federal Reserve Member Banks

Gains:		
Newly Organized banks		
National banks	541	
State Members	16	557
Conversion of insured non-members		
National banks	62	
State members	17	79
Conversion of non-insured banks		
National banks	3	
State members	3	6
		642
Gross Increase		
Losses:		
Absorptions, consolidations and mergers		
National banks	318	
State Members	129	447
Conversion to insured non-members		
National banks	32	
State members	105	137
Liquidations and Cessation of Operations		
National banks	8	
State members	1	9
Total		593
Net Gain		49

A number of conclusions can be drawn from the fore-going analysis:

- Despite the ebb and flow of change in the banking structure of the Nation during the last five years, membership in the Federal Reserve System was virtually stationary.
- Virtually all of the newly organized banks which became members were national banks - which are required by law to join the System.

- Only a modest number of existing banks joined the System, and most of these adopted national charters - rather than entering as State member.
- A sizable number of institutions withdrew from the System - and again the parade was led primarily by State-chartered banks.

The fundamental reasons behind this configuration of withdrawals from the System undoubtedly can be traced to the differential reserve requirements of member banks, compared with State standards. In other words, the vast majority of the banks withdrew because it was profitable to do so. Just how profitable can be seen readily.

Incentives to Withdraw from Federal Reserve Membership

It seems apparent that most state banks believe that the benefits are outweighed by the costs of membership in the Federal Reserve System. Among the more important advantages of membership are:

(1) the nation-wide collection system for checks,

(2) cost-free shipments of currency and coin,

(3) various collection and vault privileges, and

(4) privileges for rediscounting and borrowing from the Federal Reserve Bank.

The chief disadvantage of membership is the requirement of maintaining reserves with the Federal Reserve Bank.

The reserves set by the Federal Reserve System are higher than those set by some of the states, but more important many states permit reserves to be held in the form of deposits with other banks, as well as cash in vault. Since banks need to have some correspondent balances in any event, the permission to count these as part of the reserve requirements frees at least a portion of the required reserve to increase earning assets. Many state banks also believe that they can obtain from their city correspondents, most of the services provided by Federal Reserve Banks - including not only check clearing services but also extensions of credit when needed.

From an examination of the banks which withdrew from the System during the last few years, one can obtain a fairly good indication of the way many banks view the relative advantages and disadvantages of Federal Reserve membership. Of the 133 withdrawals during the period 1960 - 1965, 118, or 89 per cent occurred in 10 states. Among these/ States, the number of withdrawals during the period ranged from 38 in Texas to 3 in Minnesota. (Table 2.) The remaining 15 withdrawals were widely scattered among 11 other states.

Among the ten leading states, reserve requirements ranged from none in Illinois to 23 per cent on demand deposits and 26 per cent of savings deposits in Nebraska. (Table 3.) More important, all of these states permit reserves to be held in deposits with other banks, and all except Wisconsin also allow vault cash to be counted as part of the reserve. Two of these states, Wisconsin and Pennsylvania, permit reserves to be held in U. S. securities.

Since the relative advantages of switching out of Federal Reserve membership tend to be more important for the smaller banks in outlying areas, services offered by city correspondents can more closely substitute for Federal Reserve Bank services for small rural banks than for larger banks. This is borne out by the size distribution of the banks withdrawing during the six year period.(Table 2.) Slightly more than one-half of the banks that withdrew had deposits of less than $5 million. Only 34 of the withdrawing banks had deposits of over $10 million, and only 5 banks had over $100 million of deposits.

Desire to Use Cash Held as Reserves

In withdrawing from the Federal Reserve System, the great majority of banks state that their decision was influenced substantially by the desire to employ more profitably the relatively large amount of cash held as reserves. Thus, once they leave the System, one should expect to observe a decline in the ratio of cash assets to total assets (as a result of easier State reserve requirements) and an accompanying increase in the ratio of earning assets. Cash asset ratios could be calculated for a number of the banks that withdrew from membership in 1962, 1963 and 1964,and the ratios could be compared before and after the change. The results show that in nearly all of the cases there was a sharp reduction in the proportion of cash assets very quickly after the banks withdrew from membership. (Table 4.) Comparisons could be made for 23 of the banks in Texas that withdrew from membership in the three years; these showed an average cash assets ratio of about 24 per cent in the year before withdrawal, and this declined to an average of about 16 per cent in the year after withdrawal. The average ratio for these banks was about the same as for all state member banks in Texas of comparable deposit size in the year before withdrawal, but a little less than the average of 18.5 per cent for nonmember state banks in the year after withdrawal.

The picture is similar for other states with several banks withdrawing in any one year. For the ten banks in Illinois which withdrew in the three year period, the average cash assets ratio declined from about 17 per cent to 11 per cent. The average ratios before withdrawal were a little below the 18 per cent average for state member banks in the comparable size groups and also a little lower than the 12 per cent average ratios for state non-member banks in the year after withdrawal.

In 1962, there were two banks in Minnesota that withdrew from membership. For these banks, the average cash assets ratio declined from 14 per cent the year prior to withdrawal to 8 per cent the year following withdrawal. These ratios were both below the 15 per cent average for state member banks in the 1 to $10 million deposit size group in 1961 - as well as below the 11 per cent average for state nonmember banks in this size group in 1963.

Parallel Increase in Earning Assets

Since the banks that withdrew from Federal Reserve membership generally reduced their cash assets, this should be reflected in an increase in earning assets. An examination of the ratios of earning assets to total assets shows that nearly all of the banks that withdrew in the three years 1962, 1963 and 1964 showed a substantial increase in the proportion of earning assets in the year following withdrawal. Table 5 shows the average ratios of earning assets in the withdrawing banks for those states with more than one withdrawal in the year prior to and the year after withdrawal. Average ratios for state member banks in the comparable size groups in the year before withdrawal and for state nonmember banks in the year after withdrawal are shown for comparison. In each of the states shown, the increase in the proportion of earning assets was several percentage points. The average earning assets for the Texas banks that withdrew in the three years and whose ratios could be studied, rose from 75 per cent before to 81 per cent after withdrawal. For the 10 banks in Illinois, the average earning assets ratio rose from 82 to 88 per cent.

As Table 5 shows, the average ratios for the withdrawing banks tended to be fairly close to the state member bank averages for comparable size banks in the year prior to withdrawal. But in every state they were a little higher than the average for nonmember banks in the year after withdrawal. It must be concluded, therefore, that most of the withdrawing banks were able to shift to earning assets a sizable share of the funds released by the reduction in their reserve requirements.

Growth of Loans

The majority of the banks that withdrew in the three year period showed an increase in their ratios of loans to total assets. This was not, however, as general as the increases in the proportion of earning assets. Twenty-three of the banks which withdrew in 1962 could be studied closely. Of these, 14 showed increases in the ratio of loans to total assets, and 9 showed little change or some decline.

---------- Fourteen of the banks withdrawing in 1963 showed increases in the proportion of loans, and 5 showed little change or moderate declines. For banks withdrawing in 1964, there were 10 increases and 6 with little change or some decline. In general, the tendency was for an increase in the proportion of loans. However, the change was not nearly as consistent nor as strong as the shift toward increased ratios of earning assets. (Table 6.)

Bank Profits vs. Federal Reserve Membership

A reduction in cash assets, a corresponding increase in earning assets and an improvement in the earning picture were the principal objectives of most banks which withdrew from Federal Reserve membership. To determine whether they achieved their goal, the ratio of net current operating earnings to total assets was examined. This is probably the best measure of the result of current operations since it is not affected by transitory changes in gains and losses on assets nor by the differential impact of income taxes.

Of the 57 banks which withdrew during the three year period for which comparable data were available, 33 experienced an improvement in their net current earnings ratio; 13 showed little change, and 11 had a decline in the net earnings ratio. The banks in Texas and Illinois that withdrew in each of the three years showed significant improvement in the net current earnings ratio. (Table 7.)

In both Texas and Illinois in each year after withdrawal (except for 1962 withdrawals in Texas), these banks had a better earnings record than the average for nonmember banks of comparable size. This is rather striking in view of the fact that the banks in the year prior to withdrawal had an earnings performance below the average for State member banks of comparable size - for the Texas banks withdrawing in 1962 and for the Illinois banks withdrawing in 1962 and 1964.

The two Minnesota banks that withdrew from membership in 1962 showed a slight decline in the net current earnings ratio and both the year before and after these two banks had earnings ratios below the average for comparable groups.

Thus, on balance, it seems to have paid the majority of withdrawing banks to leave the System, and to employ in another manner the cash held as reserves.

Underlying Motives for Withdrawal from Membership

Yet, behind the publicly stated reasons for bank withdrawal from membership - among which the heavier burden of reserve requirements is the most frequently mentioned - are many less public and less obvious motives. The officers and staff who carry out the examination and public relations functions in the Federal Reserve Banks are usually thoroughly familiar with the basic factors underlying the withdrawal request. The picture they paint is different from that presented in the withdrawal application in some respects.

The Examination Departments in several Federal Reserve Banks were asked to review a number of withdrawals in their Districts over the last 10 years and to indicate what principal motives seemed to have been at work - on the basis of the information (much of it informal) received by them. On the basis of their observations, at least three interrelated causes can be identified:

- (1) The sale of the State member bank to another controlling interest, with such purchaser borrowing a major portion of the purchase price of the bank stock from a city correspondent at a preferred rate of interest.

  The rate of interest is largely influenced by the amount of compensating balance the new purchaser will maintain with the city correspondent making the loan. In order to maintain such a compensating balance, the State bank gives up its membership so it can transfer the amount represented by its required reserve with the Federal Reserve Bank to the city correspondent bank.

Of about 60 banks around the country that withdrew from membership during the ten-year period ended December 31, 1965, - and whose cases could be studied closely - the sale of controlling interest as outlined above was involved in the judgement of the bank examiners - in just under half the cases.

- (2) The desire of the State member bank to use its required reserve balance with the Federal Reserve Bank as an earning asset.

Country banks usually maintain a sizable deposit with their city correspondent banks in addition to the required reserve balance with the Federal Reserve Bank. Apparently many city correspondent banks encourage such small banks to withdraw from the System and to place the amount required as a reserve balance at the Federal Reserve Bank with the city correspondents in exchange for various services. The country banks are frequently advised that they will receive improved earnings from loans and and loan participations which will be sold to the country banks by the city correspondents.

This reason for withdrawal has become more important as the value of money to the country banks has increased. Faced with rising expenses, country banks seek to increase their income by investment in other assets of funds used to maintain required reserve balances with their Federal Reserve Bank.

- (3) The offer by city correspondent banks to country banks of the same services available from the Reserve Bank, plus immediate credit on cash items, acceptance of unsorted cash letters, the purchase of loan overlines, and buying and selling of loan participations.

This approach offers an attractive inducement to small State member banks. Again, this approach involves freeing the required reserve balances to be used as a source of increased earnings Whether the statements of the city correspondent banks involved are borne out in fact is not the issue. The promises seem to be attractive to many country banks.

The bank examiners concluded that just under one-quarter of the banks withdrew from membership on the belief that their city correspondent banks could furnish all of the services needed.

Of course these services are not provided as a gift. The bank is likely to be asked to increase its correspondent balances to compensate for the additional services. This might be accomplished by drawing down balances with other correspondents In many cases, however, the withdrawing bank would wish to maintain its other correspondent relationships and would increase its total correspondent balances. The fact that such balances can be counted as part of reserves in most states is another factor tending toward an increase in correspondent balances. Some of the withdrawing banks, however, will shift balances and eliminate correspondent accounts which are of little use to them.

Of 88 banks withdrawing from membership in the period 1960-64, for which information was available, 62 banks (or 70 per cent) increased their correspondent balances after withdrawal, and only 26 decreased their balances. And the increase in balances was substantial, since total correspondent balances for all 88 banks rose 45 per cent after withdrawal. (Table 8.)

About two-thirds of the banks retained the same list of correspondents after withdrawal, and about one-fourth of them increased their number of correspondents. Only 9 banks, or about 10 per cent of the withdrawal group, reduced the number of their correspondents. The general pattern of change was similar for those banks that reduced or increased their total correspondent balances.

Naturally, the bank examiners attempted to show that for the typical country bank, all factors considered, the increased earnings resulting from the use of required reserve balances is relatively small. However, they found it difficult to convince many smaller banks of this fact, especially when they were under pressure from city correspondents anxious to obtain additional funds through compensating balances.

In general, it can be pointed out to small country banks that - after considering taxes and free services which they relinquish by giving up membership - the increase in earnings will be insignificant. In addition, the withdrawing banks give up their right to call on the Reserve Bank for assistance in time of adversity. However, these strong and logical reasons are less and less convincing when rates of interest are high and the demand for loans very strong.

Par and Nonpar Banks

Nonpar banks cannot be members of the Federal Reserve System. Nonpar banks derive a significant portion of their income from exchange and collection charges, which usually amount to one-tenth of 1 per cent of the face amount of each check. This revenue is offset at least in part, however, by a lower portion of earnings derived from service charges on deposit accounts.

There has been a steady decline in the number of nonpar banks in the United States in recent years. At the end of 1960 there were 1672 state commercial banks operating on a nonpar basis - about 12.5 per cent of the total of 13,383 commercial banks then operating. (Table 9.) By the end of 1965, the number of nonpar banks had declined to 1,492 which was only 11 per cent of the total of 13,699 commercial banks. The nonpar banks are concentrated in two areas in the country, the South and North Central regions. Minnesota has the largest number with 402 at the end of 1965, over one-fourth of the total. Georgia, Mississippi and South Dakota were the next ranking states in number of nonpar banks. These three states had 473 nonpar banks at the end of 1965, or nearly one-third of the total number. In each of the four states nonpar banks accounted for nearly three-fifths of all of the commercial banks in the state. Minnesota and North Dakota were the only states which showed an increase in the number of nonpar banks over the last five years. These increases were small, 5 in Minnesota and 2 in North Dakota, but represented a sharp contrast to the declines in other states, many of which were substantial.

A comparison of the par with the nonpar nonmember commercial banks in the four states having the most nonpar banks and the next ten states having large numbers of nonpar banks shows some interesting differences in operating characteristics: (Table 10.)

- The nonpar banks derive substantially smaller portions of their operating revenues from service charges on deposit accounts than do par banks. On the other hand, collection and exchange charges bring the ratio of "other revenue" reported by nonpar banks to an average of two to three times the average ratios reported by the par banks.
- When these two ratios are added to net out the differences in operation, the resulting total ratio is still somewhat higher for the nonpar than par banks in most of the states for both 1961 and 1965.
- In Georgia the sum of the two ratios is about the same for par and nonpar banks in 1965 and only a little higher for nonpar banks in 1961.
- In Minnesota the sum of these two ratios is lower for nonpar than for par banks in both years.

Par status appears to have no influence on the proportion of earning assets since par and nonpar banks had similar ratios in both 1961 and 1965. The proportion of total assets invested in loans is also similar for par and nonpar banks in the states in which most of the nonpar banks are located. Such differences as appear show no consistent pattern.

Finally, comparison of the ratio of net current earnings for par and nonpar banks offers no conclusive evidence that nonpar operations result in a higher return from current operations. For the four states with the most nonpar banks, the differences in the net earnings ratio are within one-tenth of one percentage point except for South Dakota where nonpar banks reported a slightly higher ratio than did par banks in both 1961 and 1965. Since there are only a very few non-member par banks in South Dakota the differences cannot be regarded as significant.

In Minnesota, however, the par banks reported a slightly higher ratio of net current earnings in 1961 and a slightly lower ratio in 1965.

Thus, one must necessarily conclude that the collection of exchange charges and the perpetuation of the nonpar legacy is not the life-blood of commercial banking in any state - not even in Minnesota.

Concluding Remarks

The above analysis has demonstrated that the growing reluctance of commercial banks to meet the principal requirement of membership in the Federal Reserve System may become an increasing obstacle to the effective implementation of the Nation's monetary and credit policy. The main source of this reluctance is the heavier burden of member bank reserve requirements compared with those imposed by most States for nonmember banks. In face of this competitive disadvantage, fewer and fewer State-chartered banks have joined the System in recent years, and withdrawals from membership have been frequent.

While the issue of Federal Reserve membership is by no means new, it has generated a new sense of concern about the long-run ability of our central bank to influence effectively the course of monetary and credit developments. Because of this renewed concern, the Board of Governors of the Federal Reserve System recommended to Congress in its Annual Reports for both 1964 and 1965, that legislation be adopted which would:

- Give to the Board authority to set graduated reserve requirements on the basis of the amount of deposits;
- make such reserve requirements applicable to all insured commercial banks,
- and open the Federal Reserve discount facilities to all banks meeting such requirements.

These steps are vitally needed to strengthen the management of monetary policy. Failure to adopt these measures - or others to achieve the same objectives - will continue to place a premium on nonmembership and will add further to the erosion of the structural underpinnings of our central banking system.

While nonmembership in the Federal Reserve System by eligible commercial banks is potentially a source of trouble for monetary policy, the practice of nonpar clearance of checks by more than 10 per cent of the banks in the country is mainly a lingering nuisance from a by-gone era. Yet, because the typical nonpar bank shaves the face amount of each check, it is also an unnecessary hinderance to the efficient use of demand deposits, which are the principal component of our money supply. While the practice is undoubtedly profitable to nonpar banks, it is simultaneously a means of shifting the cost of check collection from the bank's customer to a merchant or private individual who has sold goods and services in good faith with the expectation of full payment. The vast majority of banks, through the application of service charges or similar measures, have managed to cover the cost of check collection without shaving a few pennies from each check presented for payment through the mails.

The Federal Reserve Board has recommended that Congress act to hasten the disappearance of this legacy of an uncertain and underdeveloped system of check collection:

- By requiring all insured banks to pay at par all checks drawn upon them.
- Or by amending the Federal Reserve Act and the Federal Deposit Insurance Act to define specifically the absorption of exchange charges by banks as a payment of interest on demand deposits - and thus prohibited.

In either case, a long-standing difference of opinion between the Board and the FCIC about the treatment of nonpar collection would be resolved, and the relative advantage of nonmember over member banks in this area would be ended.

Table 1

Changes in Number and Classification of Insured Commercial Banks in the United States
(1961 - 1965)

	1961	1962	1963	1964	1965	Total
A. Banks beginning operations						
1. Total insured commercial	+98	+158	+281	+323	+182	1052
2. National	+26	+64	+163	200	+88	541
3. State member	+2	+4	+3	+3	+4	16
4. Non-member insured	+70	+100	+115	+120	+90	495
B. Absorptions, consolidations, and mergers						
1. Total insured commercial	-135	-176	-150	-133	-142	-736
2. National	-49	-80	-63	-66	-60	-318
3. State member	-29	-35	-28	-18	-19	-129
4. Non-member insured	-57	-61	-59	-49	-63	-289
C. Banks liquidating and ceasing operations						
1. Total insured commercial	-5	-2	-3	-8	-3	-21
2. National	-2	-1	-1	-2	-2	-8
3. State member	-1					-1
4. Non-member insured	-2	-1	-2	-6	-1	-12
D. Non-insured banks becoming insured						
1. Total insured commercial	+30	+19	+39	+21	+17	+126
2. National		+2			+1	+3
3. State member	+1		+2			+3
4. Non-member insured	+29	+17	+37	+21	+16	+120
E. National banks succeeding state banks						
2. National	+9	+11	+26	+32	+22	+100
3. State member	-4	-3	-8	-13	-10	-38
4. Non-member insured	-5	-8	-18	-19	-12	-62
F. State banks succeeding national banks						
2. National	-1	-6	-13	-6	-7	-33
3. State member				+1		+1
4. Non-member insured	+1	+6	+13	+5	+7	+32

Table 1 (continued)

	1960	1961	1962	1963	1964	1965	Total
G. Additions to Federal Reserve System							
2. National							
3. State member		+4	+5	+3	+4	+1	+17
4. Non-member insured		-4	-5	-3	+4	-1	-17
H. Withdrawals from Federal Reserve System							
2. National							
3. State member		-16	-26	-22	-19	-22	-105
4. Non-member insured		+16	+26	+22	+19	+22	+105
NET CHANGE							
Total insured commercial		-11	+9	+167	+202	+54	+421
National		-17	-10	+112	+158	+42	+285
State member		-43	-56	-50	-41	-46	-236
Non-member insured		+49	+75	+105	+85	+58	+372
TOTAL BANKS - End of Year							
Total insured commercial	13,126	13,115	13,124	13,291	13,493	13,547	
National	4,530	4,513	4,503	4,615	4,773	4,815	
State member	1,641	1,598	1,542	1,492	1,451	1,405	
Non-member insured	6,955	7,004	7,079	7,184	7,269	7,327	

SUMMARY 1961 - 1965 — NET CHANGE

1. TOTAL INSURED COMMERCIAL BANKS

$A_1 + B_1 + C_1 + D_1 + E_1$

(1052) + (-736) + (-21) + (126) = +421 — NET CHANGE: +421

2. NATIONAL BANKS

$A_2 + B_2 + C_2 + D_2 + E_2 + F_2$

(541) + (-318) + (-8) + (3) + (100) + (-33) = +285 — NET CHANGE: +285

3. STATE MEMBER BANKS

$A_3 + B_3 + C_3 + D_3 + E_3 + F_3 + G_3 + H_3$

(16) + (-129) + (-1) + (+3) + (-38) +(+1) + (17) + (-105) = -236 — NET CHANGE: -236

4. NON-MEMBER INSURED BANKS

$A_4 + B_4 + C_4 + D_4 + E_4 + F_4 + G_4 + H_4$

(495) + (-289) + (-12) + (120) + (-62) +(+32) + (-17) + (105) = +372 — NET CHANGE: +372

Table 2

Number of Banks Withdrawing From
Federal Reserve Membership, 1960 - 1965

States	1960	1961	1962	1963	1964	1965	Total
Texas	6	5	11	9	4	3	38
Illinois	1	2	3	4	3	3	16
Missouri	2	1	2	5	2	3	15
Wisconsin	2	1	2	-	2	4	11
Indiana	3	-	-	-	3	5	11
Iowa	3	2	-	-	1	1	7
Pennsylvania	-	2	2	1	1	3	9
Nebraska	-	1	2	1	1	-	5
Kentucky	2	-	1	-	-	-	3
Minnesota	1	-	2	-	-	-	3
Other states	6	3	1	2	2	1	15
Total	26	17	26	22	19	23	133

Deposit-size classes (in millions)	1960	1961	1962	1963	1964	1965	Total
Under 5	14	11	12	14	7	12	70
5-10	6	3	6	4	7	3	29
10-15	4	2	6	2	1	2	17
15-100	1	1	1	2	3	4	12
Over 100	1	-	1	-	1	2	5
Total	26	17	26	22	19	23	133

Table 3

Reserve Requirements for Country Member Banks and State Nonmember Banks 1965

	Reserve Requirements		Reserves May Be Maintained As:		
	Demand deposits	Time deposits	Vault cash	Deposits with other banks	U.S. securities
State Nonmember Banks					
Texas	15.0	5.0	X	X	-
Illinois (no reserve requirements)	--	--	-	-	-
Missouri *	15.0	3.0	X	X	-
Wisconsin *	12.0	12.0	-	X	X
Indiana	12.5	3.0	X	X	-
Iowa *	7.0	3.0	X	X	-
Pennsylvania	12.0	4.0	X	X	X
Nebraska *	23.0	26.0	X	X	-
Kentucky *	7.0	3.0	X	X	-
Minnesota *	12.0	5.0	X	X	-
Country Member Banks	12.0	4.0	Reserves may be Maintained as Vault Cash or Deposits with Federal Reserve Banks		

* Reserve requirements differ, depending on State laws, for banks designated as Reserve agents or depositories, for banks in designated Reserve cities, or for banks in places with population exceeding stated amounts. Source of information on nonmember bank reserve requirements: National Association of Supervisors of State Banks, A Profile of State Chartered Banking, (August, 1965), p. 41.

Table 4

Comparison of Ratio of Cash
Assets to Total Assets*

	Withdrawals	Banks withdrawing in 1962	
		1961	1963
Texas	11	23.3	15.5
State member banks		26.3	22.2
State nonmember banks		21.6	19.1
Illinois	3	18.7	11.0
State member banks		18.7	16.5
State nonmember banks		14.6	13.0
Minnesota	2	13.8	8.1
State member banks		15.0	13.1
State nonmember banks		12.4	10.9
Nebraska	2	20.0	12.0
State member banks		19.8	17 9
State nonmember banks		16.7	14.7

	Withdrawals	Banks withdrawing in 1963	
		1962	1964
Texas	8	24.1	16.0
State member banks		25.3	21.4
State nonmember banks		20.9	18.4
Illinois	4	18.0	11.8
State member banks		19.0	16.0
State nonmember banks		14.7	11.8
Missouri	3	20.7	12.0
State member banks		19.9	16.5
State nonmember banks		17.8	13.5

* Banks withdrawing include those with less than $15 million of deposits. The groups selected for comparison are the member banks with deposits of $1 to $10 million in the year before withdrawal and the nonmember banks in this deposit group in the year after withdrawal. Information was available for only 43 of the 46 withdrawing banks.

Table 4 (continued)

	Withdrawals	Banks withdrawing in 1964	
		1963	1965
Texas	4	24.8	17.9
State member banks		22.2	21.0
State nonmember banks		19.1	18.4
Illinois	3	14.1	10.3
State member banks		16.5	16.1
State nonmember banks		13.0	12.2
Indiana	3	14.9	8.9
State member banks		15.7	15.1
State nonmember banks		14.2	13.0

Table 5

Comparison of Ratio of Earning
Assets to Total Assets*

	Withdrawals	Banks withdrawing in 1962	
		1961	1963
Texas	11	76	82
State member banks		73	76
State nonmember banks		76	79
Illinois	3	80	88
State member banks		81	83
State nonmember banks		84	86
Minnesota	2	86	91
State member banks		84	85
State nonmember banks		87	88
Nebraska	2	79	87
State member banks		79	81
State nonmember banks		83	85

	Withdrawals	Banks withdrawing in 1963	
		1962	1964
Texas	8	74	81
State member banks		73	77
State nonmember banks		77	79
Illinois	4	81	87
State member banks		80	83
State nonmember banks		84	87
Missouri	3	79	87
State member banks		79	82
State nonmember banks		81	85

* Banks withdrawing include those with less than $15 million of deposits. The groups selected for comparison are the member banks with deposits of $1 to $10 million in the year before withdrawal and the nonmember banks in this deposit group in the year after withdrawal. Information was available for only 43 of the 46 withdrawing banks.

Table 5 (continued)

	Withdrawals	Banks withdrawing in 1964 1963	1965
Texas	4	73	81
State member banks		76	78
State nonmember banks		79	79
Illinois	3	85	89
State member banks		83	83
State nonmember banks		86	86
Indiana	3	84	90
State member banks		83	84
State nonmember banks		85	86

Table 6

Comparison of Ratio of Loans
to Total Assets*

	Withdrawals	Banks withdrawing in 1962	
		1961	1963
Texas	11	42	52
State member banks		36	40
State nonmember banks		42	45
Illinois	3	37	44
State member banks		34	36
State nonmember banks		37	40
Minnesota	2	51	52
State member banks		45	46
State nonmember banks		44	45
Nebraska	2	36	43
State member banks		42	43
State nonmember banks		46	49

	Withdrawals	Banks withdrawing in 1963	
		1962	1964
Texas	8	35	41
State member banks		36	40
State nonmember banks		43	48
Illinois	4	41	40
State member banks		34	35
State nonmember banks		38	41
Missouri	3	41	44
State member banks		38	40
State nonmember banks		42	45

* Banks withdrawing include those with less than $15 million of deposits. The groups selected for comparison are the member banks with deposits of $1 to $10 million in the year before withdrawal and the nonmember banks in this deposit group in the year after withdrawal. Information was available for only 43 of the 46 withdrawing banks.

Table 6 (continued)

	Withdrawals	Banks withdrawing in 1964	
		1963	1965
Texas	4	42	48
State member banks		40	43
State nonmember banks		45	49
Illinois	3	44	50
State member banks		36	36
State nonmember banks		40	41
Indiana	3	42	42
State member banks		37	39
State nonmember banks		39	40

Table 7

Comparison of Ratio of Net Current Earnings
to Total Assets*

	Withdrawals	Banks withdrawing in 1962	
		1961	1963
Texas	11	1.17	1.26
State member banks		1.26	1.25
State nonmember banks		1.27	1.37
Illinois	3	.99	1.16
State member banks		1.17	1.06
State nonmember banks		1.08	1.02
Minnesota	2	.87	.71
State member banks		1.13	.97
State nonmember banks		1.19	1.01
Nebraska	2	1.69	1.69
State member banks		1.31	1.39
State nonmember banks		1.48	1.47

	Withdrawals	Banks withdrawing in 1963	
		1962	1964
Texas	8	1.13	1.70
State member banks		1.12	1.39
State nonmember banks		1.34	1.40
Illinois	4	1.27	1.52
State member banks		1.12	1.14
State nonmember banks		1.10	1.13
Missouri	3	1.36	1.64
State member banks		1.39	1.39
State nonmember banks		1.39	1.39

* Banks withdrawing include those with less than $15 million of deposits. The groups selected for comparison are the member banks with deposits of $1 to $10 million in the year before withdrawal and the nonmember banks in this deposit group in the year after withdrawal. Information was available for only 43 of the 46 withdrawing banks.

Table 7 (continued)

	Withdrawals	Banks withdrawing in 1964	
		1963	1965
Texas	4	1.30	1.55
State member banks		1.25	1.36
State nonmember banks		1.37	1.38
Illinois	3	.99	1.21
State member banks		1.21	1.09
State nonmember banks		1.02	1.14
Indiana	3	1.16	1.26
State member banks		1.15	1.13
State nonmember banks		1.24	1.17

Table 8

Correspondent Relations for Banks Withdrawing from Federal Reserve Membership, 1960 - 64

	Year of Withdrawal					Totals
	1960	1961	1962	1963	1964	1960-64
Total Number of Correspondents						
Before withdrawal	91	40	103	59	56	349
After withdrawal	94	40	116	70	56	376
Average Number of Correspondents						
Before withdrawal	4.6	5.0	4.5	3.1	3.7	4.1
After withdrawal	4.7	5.0	5.0	3.7	3.7	4.4
Number of Withdrawing Banks Which:						
Increased the number of correspondents after withdrawal	4	1	8	5	1	19
Decreased the number of correspondents after withdrawal	2	1	1	4	1	9
Maintained the same number of correspondents after withdrawal	13	7	14	10	13	57
Total Correspondent Balances (in thoudands)						
Before withdrawal	18,381	6,666	16,081	11,648	8,016	60,792
After withdrawal	21,073	8,588	33,436	14,071	11,225	88,393
Average Correspondent Balances (in thousands)						
Before withdrawal	691	606	699	582	534	691
After withdrawal	1,004	781	1,454	704	748	1,004
Number of Withdrawing Banks Which:						
Increased correspondent balances after withdrawal	15	7	18	15	7	62
Decreased correspondent balances after withdrawal	4	4	5	5	8	26

Note: Information on correspondent balances was available on only 88 of the withdrawing

Table 9

Number of Par and Nonpar Banks, 1960 and 1965

1960	Total banks	PAR Member	PAR Nonmember	Nonpar
United States, total	13,383	6,169	5,542	1,672
Minnesota	688	208	83	397
Georgia	421	67	73	281
Mississippi	193	35	19	139
South Dakota	174	59	12	103
Other states	11,907	5,800	5,355	752
1965				
United States, total	13,699	6,219	5,988	1,492
Minnesota	721	221	98	402
Georgia	429	71	104	254
Mississippi	196	43	35	118
South Dakota	170	58	11	101
Other states	12,183	5,826	5,740	617

Source: "Federal Reserve Par List", Federal Reserve Bulletin (February 1961-1966).

Table 10

Comparison of Operating Ratios of Par and Nonpar Banks, 1961 and 1965

	Ratios to total operating revenue			Ratios to total assets		
	Service charges	Other revenue	Sum of 1 + 2	Net earnings	Earnings assets	Loans
1961	(1)	(2)	(3)	(4)	(5)	(6)
Georgia						
Par	10.51	4.80	15.31	1.35	82.16	15.89
Nonpar	4.77	11.40	16.17	1.32	77.86	21.16
Minnesota						
Par	11.52	6.23	17.75	1.24	85.21	12.81
Nonpar	4.00	12.61	16.61	1.16	86.62	12.53
Mississippi						
Par	6.66	5.36	12.02	1.30	79.70	18.95
Nonpar	4.25	9.99	14.24	1.38	79.00	19.83
South Dakota						
Par	6.90	4.05	10.90	1.24	85.53	13.67
Nonpar	3.88	12.00	15.88	1.59	86.24	13.18
10 States Total						
Par	7.30	3.25	10.55	1.30	79.71	18.64
Nonpar	3.89	10.75	14.64	1.48	79.38	19.52

Table 10 (continued)

1965	(1)	(2)	(3)	(4)	(5)	(6)
Georgia						
Par	9.51	5.12	14.63	1.45	82.99	14.59
Nonpar	4.79	10.12	14.81	1.53	81.61	17.13
Minnesota						
Par	10.32	5.15	15.47	.91	86.68	11.41
Nonpar	3.92	10.40	14.32	.99	88.38	10.73
Mississippi						
Par	5.75	4.07	9.82	1.29	82.20	16.04
Nonpar	4.29	9.09	13.38	1.35	79.58	19.05
South Dakota						
Par	5.38	4.55	9.93	1.08	86.28	12.42
Nonpar	3.67	9.36	13.03	1.43	88.44	10.76
10 States Total						
Par	6.51	2.95	9.46	1.35	82.64	15.51
Nonpar	3.27	9.23	12.40	1.44	82.41	16.51