FRBSF Weekly Letter

July 28, 1989

# Deposits Patterns at Western Banks and Thrifts

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

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

**No runoff in the West**

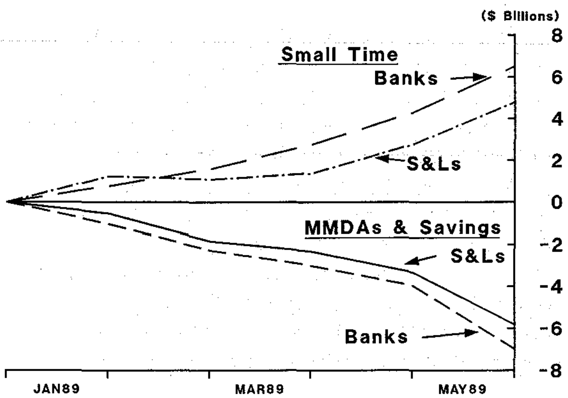
A number of thrift institutions in the West have experienced unfavorable publicity regarding their financial health recently. Some even may have experienced depositor runs. However, for the thrift industry in the West as a whole, concerns about the safety of depositors' funds do not appear to have been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

First, total deposits at thrifts in the West remained essentially unchanged at around $326 billion from January to May, in contrast to the decline in thrift deposits for the nation as a whole. Moreover, this development is in keeping with the experience of commercial banks in the region, which actually recorded a slight decline in total domestic deposits over the same period (from $298 billion to $296 billion). These patterns are not consistent with a significant loss in confidence in the safety of western thrifts, particularly since there is evidence that the spread between deposit rates paid by major S&Ls in the region and those paid by leading commercial banks narrowed in the first half of the year.

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

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

**Chart 1**
**Cumulative Changes in Deposits**




### Interest rate incentives

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

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

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

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

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

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

### The difference

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

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

**Gary C. Zimmerman**
**Economist**

# REGIONAL BANKING DATA

MARCH 31, 1989

(Not Seasonally Adjusted, Preliminary Data)

| | | DISTRICT | ALASKA | ARIZ. | CALIF. | HAWAII | IDAHO | NEVADA | OREGON | UTAH | WASH. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **ASSETS AND LIABILITIES -- $ MILLION (ALL COMMERCIAL BANKS)** | | | | | | | | | | | |
| ASSETS | TOTAL | 432,356 | 3,711 | 28,073 | 302,775 | 13,078 | 7,340 | 13,332 | 20,090 | 10,528 | 33,429 |
| | FOREIGN | 41,270 | 1 | N/A | 39,264 | 1,314 | N/A | N/A | N/A | 114 | 577 |
| | DOMESTIC | 391,086 | 3,711 | 28,073 | 263,510 | 11,764 | 7,340 | 13,332 | 20,090 | 10,415 | 32,852 |
| LOANS | TOTAL | 298,461 | 1,730 | 20,265 | 209,341 | 7,756 | 4,874 | 10,356 | 12,840 | 6,736 | 24,564 |
| | FOREIGN | 31,956 | 1 | N/A | 31,010 | 753 | N/A | N/A | N/A | N/A | 191 |
| | DOMESTIC | 266,506 | 1,730 | 20,265 | 178,331 | 7,003 | 4,874 | 10,356 | 12,840 | 6,736 | 24,372 |
| | REAL ESTATE | 114,226 | 700 | 8,676 | 82,142 | 3,306 | 1,258 | 1,745 | 4,110 | 2,839 | 9,451 |
| | COMMERCIAL | 73,865 | 646 | 4,946 | 50,343 | 2,049 | 1,330 | 1,504 | 4,796 | 1,728 | 6,521 |
| | CONSUMER | 54,438 | 174 | 4,684 | 30,184 | 1,195 | 1,326 | 6,819 | 2,830 | 1,555 | 5,672 |
| | AGRICULTURE | 4,704 | 7 | 486 | 2,410 | 24 | 482 | 18 | 307 | 110 | 860 |
| | INTERNATIONAL | 226 | N/A | 32 | 190 | 0 | N/A | N/A | 0 | 2 | 1 |
| SECURITIES | TOTAL | 44,085 | 1,410 | 3,852 | 24,296 | 2,401 | 1,398 | 1,924 | 3,517 | 1,781 | 3,505 |
| | U.S.T.S. | 13,974 | 1,019 | 1,604 | 6,696 | 771 | 462 | 604 | 1,069 | 394 | 1,355 |
| | SECONDARY MARKET | 16,986 | 164 | 675 | 12,051 | 632 | 509 | 360 | 800 | 854 | 939 |
| | OTHER SEC. | 13,125 | 228 | 1,573 | 5,549 | 998 | 428 | 960 | 1,647 | 533 | 1,210 |
| LIABILITIES | TOTAL | 406,611 | 3,308 | 26,295 | 285,729 | 12,272 | 6,817 | 12,473 | 18,730 | 9,826 | 31,160 |
| | DOMESTIC | 365,341 | 3,307 | 26,295 | 246,465 | 10,957 | 6,817 | 12,473 | 18,730 | 9,713 | 30,583 |
| DEPOSITS | TOTAL | 341,785 | 2,838 | 23,109 | 239,623 | 11,629 | 6,105 | 6,558 | 15,442 | 8,561 | 27,920 |
| | FOREIGN | 34,145 | 1 | N/A | 32,438 | 1,065 | N/A | N/A | N/A | 114 | 528 |
| | DOMESTIC | 307,639 | 2,837 | 23,109 | 207,185 | 10,565 | 6,105 | 6,558 | 15,442 | 8,448 | 27,392 |
| | DEMAND | 77,284 | 798 | 4,539 | 56,502 | 2,083 | 950 | 1,791 | 3,096 | 1,526 | 5,998 |
| | TIME AND SAVINGS | 230,355 | 2,039 | 18,570 | 150,682 | 8,482 | 5,155 | 4,767 | 12,346 | 6,921 | 21,393 |
| OTHER BORROWINGS | | 41,988 | 426 | 2,735 | 26,999 | 114 | 632 | 5,344 | 2,452 | 1,071 | 2,215 |
| EQUITY CAPITAL | | 25,745 | 404 | 1,778 | 17,046 | 807 | 523 | 858 | 1,359 | 702 | 2,269 |
| LOAN LOSS RESERVE | | 7,931 | 39 | 421 | 6,349 | 123 | 89 | 232 | 170 | 129 | 379 |
| STANDBY LETTERS OF CREDIT | | 32,760 | 25 | 671 | 28,612 | 492 | 109 | 157 | 552 | 277 | 1,864 |
| LOAN COMMITMENTS | | 138,476 | 277 | 5,043 | 110,942 | 3,561 | 1,025 | 1,514 | 4,641 | 1,595 | 9,879 |
| LOANS SOLD | | 114,843 | 12 | 176 | 113,898 | 103 | 22 | 58 | 116 | 29 | 430 |
| **ASSET QUALITY -- PERCENT OF LOANS (LARGE COMMERCIAL BANKS)** | | | | | | | | | | | |
| LOAN LOSS RESERVE (ALL BANKS) | | 2.66 | 2.23 | 2.08 | 3.03 | 1.59 | 1.83 | 2.24 | 1.32 | 1.92 | 1.54 |
| NET CHARGEOFFS, TOTAL | | 0.90 | 0.92 | 1.45 | 0.92 | 0.05 | 0.33 | 1.54 | 0.88 | 0.80 | 0.38 |
| | REAL ESTATE | 0.28 | 0.64 | 1.96 | 0.06 | 0.08 | 0.15 | 0.16 | 0.84 | 0.67 | 0.39 |
| | COMMERCIAL | 0.45 | 1.33 | 0.94 | 0.47 | -.14 | 0.11 | 0.01 | 0.97 | 0.97 | -.27 |
| | CONSUMER | 1.77 | 0.57 | 1.57 | 2.01 | 0.33 | 0.88 | 2.22 | 0.98 | 1.15 | 1.26 |
| | AGRICULTURE | 0.12 | N/A | 0.91 | -.18 | -2.80 | 0.10 | -.02 | 1.73 | 0.38 | 0.07 |
| PAST DUE & NON-ACCRUAL, TOTAL | | 5.43 | 10.70 | 10.40 | 5.63 | 1.77 | 1.84 | 2.14 | 3.28 | 4.29 | 3.80 |
| | REAL ESTATE | 6.00 | 16.00 | 18.10 | 4.95 | 1.66 | 1.80 | 4.56 | 6.22 | 5.56 | 5.27 |
| | COMMERCIAL | 5.84 | 9.32 | 7.87 | 6.43 | 1.94 | 2.51 | 4.57 | 2.16 | 3.98 | 3.27 |
| | CONSUMER | 2.40 | 2.72 | 2.14 | 2.86 | 2.39 | 1.67 | 1.08 | 1.92 | 3.24 | 2.08 |
| | AGRICULTURE | 11.20 | N/A | 4.18 | 16.50 | 11.50 | 2.66 | 0.68 | 4.04 | 3.82 | 7.02 |
| **EARNINGS AND RETURNS -- $ MILLION (ALL COMMERCIAL BANKS)** | | | | | | | | | | | |
| INCOME | TOTAL | 12,286 | 91 | 746 | 8,663 | 332 | 203 | 500 | 513 | 286 | 951 |
| | INTEREST | 10,346 | 79 | 651 | 7,191 | 292 | 182 | 447 | 450 | 254 | 800 |
| | FEES & CHARGES | 501 | 4 | 38 | 337 | 8 | 10 | 12 | 28 | 15 | 50 |
| EXPENSES | TOTAL | 10,477 | 80 | 737 | 7,315 | 275 | 170 | 391 | 431 | 265 | 814 |
| | INTEREST | 5,487 | 42 | 369 | 3,830 | 159 | 102 | 199 | 232 | 146 | 408 |
| | SALARIES | 2,005 | 17 | 140 | 1,415 | 58 | 28 | 45 | 90 | 40 | 172 |
| | LOAN LOSS PROVISION | 625 | 4 | 85 | 387 | 9 | 5 | 46 | 27 | 18 | 42 |
| | OTHER | 2,360 | 17 | 142 | 1,683 | 49 | 35 | 101 | 82 | 61 | 191 |
| INCOME BEFORE TAXES | | 1,798 | 12 | 10 | 1,342 | 56 | 31 | 109 | 82 | 20 | 137 |
| TAXES | | 647 | 2 | -2 | 500 | 19 | 10 | 47 | 25 | 5 | 41 |
| NET INCOME | | 1,274 | 10 | 12 | 932 | 37 | 21 | 87 | 56 | 15 | 103 |
| ROA (%) | | 1.21 | 1.09 | 0.17 | 1.26 | 1.17 | 1.14 | 2.58 | 1.18 | 0.59 | 1.26 |
| ROE (%) | | 19.80 | 9.80 | 2.73 | 21.90 | 18.10 | 16.20 | 40.40 | 16.60 | 8.73 | 18.20 |
| NET INTEREST MARGIN (%) | | 4.60 | 4.15 | 4.04 | 4.56 | 4.27 | 4.30 | 7.37 | 4.55 | 4.12 | 4.78 |

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## MARKET SHARE STATISTICS

PERCENT OF TOTAL DEPOSITS, FOR MAY 1989, BY REGION

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

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

## INTEREST RATES ON DEPOSITS AND LOANS (%)

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

SOURCES: SURVEY OF TERMS OF BANK LENDING & TERMS OF CONSUMER CREDIT; MOST COMMON INTEREST RATES ON SELECTED ACCOUNTS

* U.S. DATA ARE COMPOUNDED ANNUAL RATES, DISTRICT AND STATE DATA ARE SIMPLE ANNUAL RATES.