BANKING & FINANCE

AN EIGHTH DISTRICT PERSPECTIVE

Federal Reserve Bank of St. Louis Summer 1983

A Year of Rapid Change for District Banks

Eighth District banks are experiencing an eventful year. New deposit accounts have dramatically altered bank balance sheets. New reporting requirements will increase public scrutiny of banks' financial conditions. Meanwhile, bankers are showing increased optimism about loan demand, but maintaining tight credit standards. A closer look at these events follows.

MMDAs and Super NOWS— The First Six Months

The pace of financial deregulation increased with the authorization last year of the money market deposit account (MMDA) and the Super NOW account. Freed from interest-rate ceilings, banks faced unprecedented challenges and opportunities. Over the last six months, the banking industry has regained funds previously lost to unregulated financial intermediaries and has experienced dramatic shifts in the composition of deposit liabilities.

Eighth Federal Reserve District

From their authorization in December 1982 to the end of June 1983, MMDAs have grown nationwide to almost $370 billion. Super NOW accounts, introduced in January, have grown less dramatically to $32 billion. Of the total of MMDA funds, the majority (58 percent) has been gained by commercial banks. The remaining funds have found their way to savings and loans (31 percent), mutual savings banks (10 percent) and credit unions (1 percent).

An analysis of national data suggests that some funds have been shifted to MMDAs from money market mutual funds (MMMFs). The shift from MMMFs explains only a small fraction of the $370 billion increase in MMDAs, however, as shares in MMMFs declined only $51 billion between December 1982 and June of this year. The majority of funds in MMDAs apparently have been shifted from savings and time deposits.

These new instruments have had a dramatic impact on the distribution of deposits of Eighth District member banks. Since December 1982, MMDAs have grown to just over 12 percent of total bank deposits and Super NOW accounts to about 2.5 percent. Over the same period, traditional savings deposits (those excluding MMDAs) declined 8.2 percent, while time deposits declined 12.7 percent.

In 1983, the changing composition of deposits has been related to a bank's size. Since January, MMDAs have grown much faster at the District's smallest member banks (196 percent) than at the largest banks (137 percent). During the same period, the savings deposits of the smallest banks declined much more than the average for all District banks (−12.1 percent

vs. −7.5 percent), while the time deposits of the largest banks declined much more than the average (−13.6 percent vs. −8.5 percent). The smallest banks in the District are defined as those with $15 million or less in total domestic assets, and the largest are those with $750 million or more.

Increased Financial Disclosure Began June 30

With the June 30, 1983 Call Report, banks began telling the public more about their financial condition. The variability of interest rates on certain assets and liabilities, commitments and contingent liabilities, and loans that banks originate and sell to other banks are now reported on two new schedules. In addition, most information on the Past Due Loan Report is no longer confidential.

Banks now report information about the maturities of fixed-rate loans, securities, time deposits and other interest-bearing assets and non-deposit liabilities. For those same assets and liabilities with adjustable interest rates, banks must report the period until interest rates can be changed. This information is intended to help the public assess a bank's ability to react to changes in market interest rates. Banks must report the amounts of assets and liabilities that have fixed rates of interest over different periods: one day or less, one day to three months, three to six months, six months to one year, one to five years, and over five years. In addition, the amount of fixed-rate securities with maturities over 10 years are reported as a memorandum.

Banks have also begun reporting the amounts of their commitments and contingencies. Commitments are a bank's obligations to extend credit and to satisfy futures, forward, option and currency exchange contracts. Contingencies are a bank's potential liabilities for letters of indemnity and guarantee, letters of credit, and participations in bankers acceptances. Since they are only potential obligations of the bank, these items do not appear on its balance sheet. If the obligations must be met, however, the financial condition of the bank can change substantially. Predicting this is difficult, of course, since the information reported will not tell how likely a bank is to be called on its contractual obligations.

Reported as well is the volume of loans that a bank originates, then sells to other banks. Bank regulators apparently were led to request this information by the losses of several large money center banks on loan participations they had purchased.

The amount of a bank's loans 90 days or more past due and still accruing, non-accruing loans and renegotiated loans now become public information. Renegotiated loans include only those restructured because the borrower was unable to pay under the loan's original terms. The amount of loans past due 30 to 89 days and still accruing must be reported, but will remain confidential.

District Bankers Are More Optimistic About Near-Term Loan Demand

The demand for commercial and industrial loans at the District's five largest banks will stay about the same this summer, but credit standards will not loosen despite large inflows of MMDAs since December of last year. This is the prognosis of senior loan officers at those institutions, who were interviewed in mid-May.

A majority of the loan officers interviewed expected commercial and industrial loan demand to be essentially unchanged over the next three months. This was unchanged from February's survey, but considerably more optimistic than December's, when a majority of respondents projected a quarter of moderately weaker loan demand. Compared with a national panel of 60 large banks, the responses from Eighth District banks in May were similar to those of other banks with under $5 billion in assets, but more optimistic than those of banks with over $5 billion in assets. Fully 56 percent of the over-$5 billion group expected moderately weaker demand for commercial and industrial loans.

In May, all Eighth District respondents reported large inflows of funds into MMDAs. None of the banks had become more aggressive in seeking out new business loan customers at the date of the earlier survey, but a majority had by mid-May.

The new funds and increased aggressiveness apparently have not caused the District's banks to ease their lending practices. A majority reported either essentially unchanged or moderately stronger standards to qualify for its lowest lending rate or a given spread above that rate, for lending to new and non-local customers, and for setting compensating balances or fees on business loans. Banks in the national panel reported a similar stance on lending.

—Donald M. Brown and
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Banking & Finance—An Eighth District Perspective is a quarterly summary of financial conditions in the area served by the Federal Reserve Bank of St. Louis. Single subscriptions are available free of charge by writing: Research and Public Information Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, Missouri 63166.

EIGHTH DISTRICT BANKING DATA

DISTRICT

Selected Assets (billions of dollars)	April 1983	May 1983	June 1983	Percent Change Year-to-Date 1983	Percent Change Same Period 1982
Total Loans[1]	$20.90	$20.89	$20.94	2.4%	3.6%
Commercial and Industrial[2]	4.14	4.12	4.01	– 2.7	7.3
Consumer[2]	1.77	1.80	1.90	10.5	3.4
Real Estate[2]	2.12	2.16	2.11	5.5	0.5
Total Investments[1]	10.48	10.66	10.86	10.9	3.3
Selected Liabilities[1] (billions of dollars)					
Total Deposits	$32.46	$32.26	$32.39	3.6%	3.6%
Transaction Accounts	10.92	10.51	10.64	0.7	– 2.8
Savings Deposits	6.24	6.58	6.53	100.3	2.1
MMDAs	3.65	4.01	3.95	775.9	N.A.
Time Deposits	15.30	15.15	15.22	– 12.7	7.8

Selected Interest Rates[3] (billions of dollars)	April 1983	May 1983	June 1983
Super NOW Accounts			
St. Louis	7.00%	6.81%	7.06%
Little Rock	6.94	6.94	7.13
Memphis	7.00	7.13	7.25
Louisville	7.22	7.69	8.00
MMDAs			
St. Louis	7.76	7.77	8.12
Little Rock	8.00	8.00	8.19
Memphis	8.38	8.00	8.12
Louisville	8.11	8.01	9.00

REGION I

(eastern Missouri and southern Illinois)

Selected Assets[1] (billions of dollars)	April 1983	May 1983	June 1983	Percent Change Year-to-Date 1983	Percent Change Same Period 1982
Total Loans	$ 7.97	$ 7.86	$ 7.82	– 1.5%	3.7%
Total Investments	4.32	4.41	4.47	9.0	1.0
Selected Liabilities[1] (billions of dollars)					
Total Deposits	$12.61	$12.40	$12.44	0.1%	2.8%
Transaction Accounts	4.07	3.94	4.01	– 0.9	– 4.1
Savings Deposits	2.05	2.07	2.10	60.5	1.3
MMDAs	0.96	0.98	1.02	686.7	N.A.
Time Deposits	6.49	6.39	6.33	– 10.8	7.1

EIGHTH DISTRICT BANKING DATA

REGION II

(Arkansas, northern Mississippi, western Tennessee)

				Percent Change	
	April 1983	May 1983	June 1983	Year-to-Date 1983	Same Period 1982
Selected Assets[1] (billions of dollars)					
Total Loans	$ 7.05	$ 7.11	$ 7.18	5.9%	4.8%
Total Investments	3.46	3.51	3.62	14.4	1.9
Selected Liabilities[1] (billions of dollars)					
Total Deposits	$11.27	$11.38	$11.43	9.8%	4.7%
Transaction Accounts	4.07	3.88	3.93	5.8	−1.2
Savings Deposits	2.68	2.98	2.83	152.9	0.2
MMDAs	1.84	2.14	2.00	874.8	N.A.
Time Deposits	4.51	4.53	4.67	−16.3	9.5

REGION III

(western Kentucky and southern Indiana)

Selected Assets[1] (billions of dollars)					
Total Loans	$ 5.89	$ 5.91	$ 5.94	3.6%	2.1%
Total Investments	2.70	2.73	2.76	9.5	9.3
Selected Liabilities[1] (billions of dollars)					
Total Deposits	$ 8.58	$ 8.48	$ 8.51	1.4%	3.5%
Transaction Accounts	2.77	2.70	2.70	−3.7	−3.2
Savings Deposits	1.52	1.55	1.60	92.2	5.9
MMDAs	0.85	0.88	0.93	700.5	N.A.
Time Deposits	4.30	4.24	4.21	−11.4	7.0

NOTE: Data are not seasonally adjusted.

[1] A sample of weekly reporting member banks

[2] Large weekly reporting member banks

[3] Most common interest rate paid by a sample of banks as of the last week of each month

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