BANKING & FINANCE

AN EIGHTH DISTRICT PERSPECTIVE

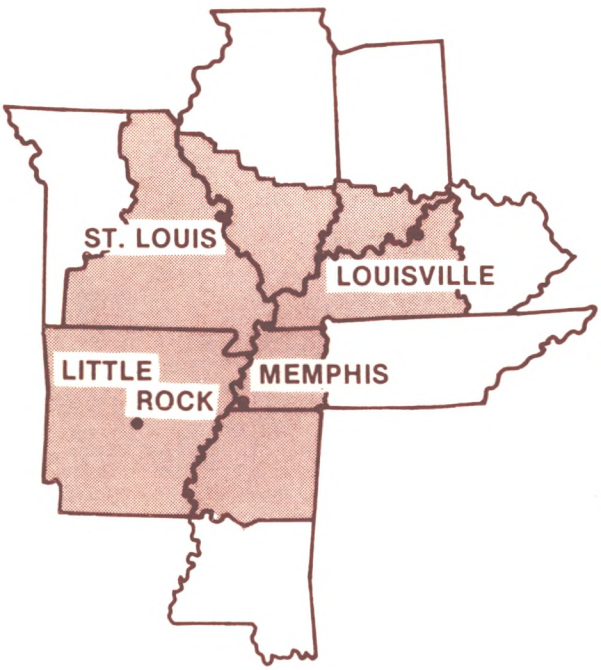
Federal Reserve Bank of St. Louis Fall 1983

Contemporaneous Reserve Requirements To Begin February 1984

Effective February 2, 1984, Eighth District depository institutions that report their deposits to the Federal Reserve each week will be subject to new reserve accounting rules known as contemporaneous reserve requirements (CRR). CRR is intended to improve the implementation of monetary policy by strengthening the link between total reserves and the money supply.

The new requirements are called contemporaneous because the reserve maintenance period and reserve computation period overlap. In Federal Reserve terminology, the reserve maintenance period is the period over which a depository institution's average daily reserves must meet required reserves on its average deposits. The reserve computation period is the period over which its average deposits are calculated. Under CRR, the reserve maintenance period will be a two-week period ending every other Wednesday; the reserve computation period for transaction deposits will be a two-week period ending on Monday, two days before the end of the maintenance period. Hence, 12 days of each 14-day maintenance period will overlap the reserve computation period for transaction deposits. Depository institutions will have the remaining two days of the maintenance period to adjust reserves to required reserves.

Eighth Federal Reserve District



Under the new system, lagged accounting will continue for non-transaction liabilities and vault cash. Required reserves on non-transaction deposits will be based on average deposits over a two-week computation period ending 30 days before the end of the maintenance period. Vault cash counted toward reserves in the maintenance period will also be determined in this computation period.

CRR dictates important changes in the way depository institutions manage their reserve balances with the Federal Reserve. Currently, depository institutions know their required reserves by the beginning of the reserve maintenance period. Under the new rules, the Federal Reserve will notify a depository institution before the beginning of each maintenance period (1) the amount of reserves it is required to hold against non-transaction deposits and (2) the amount of vault cash it may count as reserves. This procedure is not fundamentally different from the current one.

The big change is that the depository institution must monitor its transaction deposits during the reserve computation period and adjust reserves to changes in transaction deposits. Following the maintenance period, the Federal Reserve will determine whether the institution met its required reserves.

CRR may lead to large gaps between reserves and required reserves unless depository institutions monitor transaction deposits and continually adjust reserves to anticipated required reserves. If an institution waits until the end of the maintenance period to adjust reserves, it may have to make up a substantial shortfall in the last two days of the maintenance period. When many institutions are in this situation, the Federal Reserve will have two choices: (1) to allow large increases in the federal funds rate at the end of the maintenance period, which will serve to reduce transaction deposits to the Fed's target levels, or (2) to supply enough reserves to accommodate the level of average deposits in the reserve computation period. If the Federal Reserve chooses the first course, the federal funds rate will become more variable than it is now. Depository institutions will discover that they must monitor deposits and adjust reserves throughout the maintenance period in order to minimize the impact of interest-rate fluctuations.

—Michael E. Trebing

Bank Holding Companies Continue To Increase in District

The number of bank holding companies has grown rapidly in the Eighth District in the past two years (see table). Moreover, it appears that this trend is gaining momentum: the number of applications for bank holding company (BHC) formations and acquisitions received in the first nine months of 1983 was approximately 6 percent above the same period in 1982 and 23 percent above this period in 1981.

Most of these applications are petitions to form one-bank holding companies. In many cases, these are merely reorganizations of ownership from bank to bank holding company, with no change in shareholders. Such reorganizations reap certain tax benefits, aid in estate planning, and enable the holding companies to perform certain activities over a wider geographic area. Applications to form one-bank holding companies accounted for approximately 76 percent of BHC applications received in the first nine months of the year, down from 84 percent last year.

The increase in the number of BHC applications in the past two years is largely accounted for by applications to form multibank holding companies or to add subsidiaries to existing one-bank or multibank holding companies. Multibank holding companies avoid some geographical restrictions that limited branching states—including most states in the Eighth District—impose on banks. The laws in Arkansas and Illinois were changed in the past two years to allow the formation of multibank organizations. This legislation enabled Arkansas and Illinois to join Missouri and Tennessee as the Eighth District states that allow multibank holding companies.

In Missouri and Tennessee, the recent relaxation of branching restrictions will alter the future role of multibank holding companies. Tennessee now permits banks throughout the state to merge with one another, retaining all their offices as branches of the new organization. Missouri now permits banks within a county to do the same. Multibank holding companies in both states are expected to merge banks into branching networks to lower operating costs. In Tennessee, multibank holding companies may evolve into one-bank holding companies that own a large branch bank with offices statewide. In fact, several Tennesee multibank holding companies have applied already to merge all or most of their banks. This can not happen in Missouri, since mergers across county lines are still prohibited. But Missouri multibank holding companies could merge their banks into county-wide branching networks.

—Neil A. Stevens

Bank Holding Companies in the Eighth District

Eighth District	12/31/81	12/31/82	9/30/83
Multibank holding companies	24	34	43
Arkansas	1	1	2
Illinois	1	7	10
Indiana	0	0	0
Kentucky	1	1	1
Mississippi	0	0	0
Missouri	18	22	26
Tennessee	3	3	4
One-bank holding companies[1]	216	308	388
Arkansas	45	68	90
Illinois	36	46	54
Indiana	7	20	28
Kentucky	27	48	68
Mississippi	9	17	23
Missouri	74	84	94
Tennessee	13	20	26
TOTAL	240	342	431

[1] The totals do not balance because five one-bank holding companies located in other states have banking subsidiaries in the Eighth District.

Banking & Finance—An Eighth District Perspective is a quarterly summary of business 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. Views expressed are not necessarily official positions of the Federal Reserve Bank of St. Louis or the Federal Reserve System.

EIGHTH DISTRICT BANKING DATA

DISTRICT

Selected Assets (billions of dollars)	Aug. 1983	Sept. 1983	Oct. 1983*	Percent Change Year-to-Date 1983	Percent Change Same Period 1982
Total Loans[1]	$21.31	$21.36	$21.62	5.7%	5.5%
Commercial and Industrial[2]	4.11	4.09	4.19	1.7	11.7
Consumer[2]	2.00	1.98	2.00	16.3	– 5.1
Real Estate[2]	2.12	2.12	2.17	8.5	1.0
Total Investments[1]	11.04	11.15	11.22	14.5	3.9
Selected Liabilities[1] (billions of dollars)					
Total Deposits	$32.63	$32.98	$33.33	6.6%	7.5%
Transaction Accounts	10.60	10.83	11.09	4.9	2.2
Savings Deposits	6.48	6.42	6.47	98.3	3.9
MMDAs	3.95	3.92	3.97	780.5	N.A.
Time Deposits	15.55	15.73	15.78	– 9.5	11.3

Selected Interest Rates[3]	Aug. 1983	Sept. 1983	Oct. 1983
Super NOW Accounts			
St. Louis	7.34%	7.20%	7.17%
Little Rock	7.40	7.25	7.20
Memphis	7.44	7.25	7.37
Louisville	7.78	7.56	7.40
MMDAs			
St. Louis	8.40	8.16	8.20
Little Rock	8.61	8.44	8.41
Memphis	8.41	8.16	8.22
Louisville	8.53	8.45	8.34

REGION I

(eastern Missouri and southern Illinois)

Selected Assets[1] (billions of dollars)	Aug. 1983	Sept. 1983	Oct. 1983*	Percent Change Year-to-Date 1983	Percent Change Same Period 1982
Total Loans	$ 7.85	$ 7.88	$ 7.94	0.0%	4.5%
Total Investments	4.54	4.59	4.57	11.4	1.4
Selected Liabilities[1] (billions of dollars)					
Total Deposits	$12.54	$12.70	$12.83	3.0%	9.3%
Transaction Accounts	3.96	4.05	4.17	3.1	2.0
Savings Deposits	2.09	2.10	2.14	63.2	3.7
MMDAs	1.02	1.05	1.09	741.4	N.A.
Time Deposits	6.49	6.55	6.52	– 8.2	14.7

EIGHTH DISTRICT BANKING DATA

REGION II

(Arkansas, northern Mississippi, western Tennessee)

				Percent Change	
				Year-to-Date	Same Period
Selected Assets[1] (billions of dollars)	Aug. 1983	Sept. 1983	Oct. 1983*	1983	1982
Total Loans	$ 7.34	$ 7.39	$ 7.53	11.1%	6.7%
Total Investments	3.71	3.75	3.82	20.5	2.1
Selected Liabilities[1] (billions of dollars)					
Total Deposits	$11.51	$11.67	$11.80	13.3%	8.0%
Transaction Accounts	3.91	4.02	4.11	10.5	3.7
Savings Deposits	2.73	2.67	2.67	138.0	1.3
MMDAs	1.92	1.86	1.86	808.2	N.A.
Time Deposits	4.88	4.98	5.02	– 9.9	12.2

REGION III

(western Kentucky and southern Indiana)

Selected Assets[1] (billions of dollars)					
Total Loans	$ 6.12	$ 6.10	$ 6.16	7.4%	5.5%
Total Investments	2.79	2.81	2.83	12.0	10.9
Selected Liabilities[1] (billions of dollars)					
Total Deposits	$ 8.58	$ 8.61	$ 8.70	3.7%	4.0%
Transaction Accounts	2.73	2.77	2.81	0.1	0.5
Savings Deposits	1.66	1.65	1.66	100.1	7.8
MMDAs	1.01	1.01	1.02	775.1	N.A.
Time Deposits	4.19	4.20	4.23	– 11.0	5.5

NOTE: Data are not seasonally adjusted.

* Three-week estimates

[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