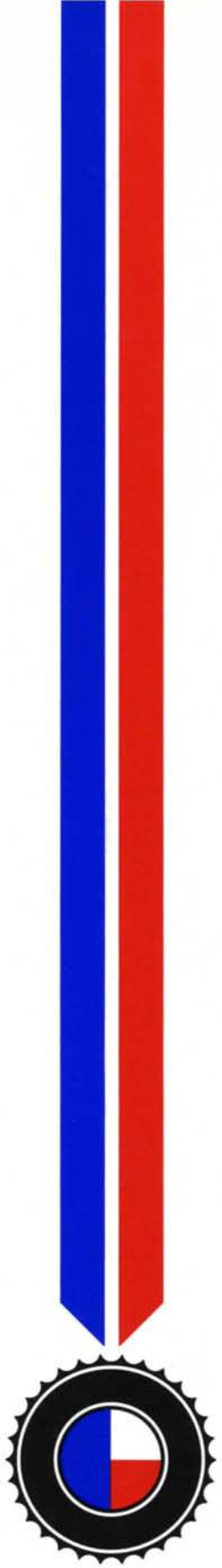
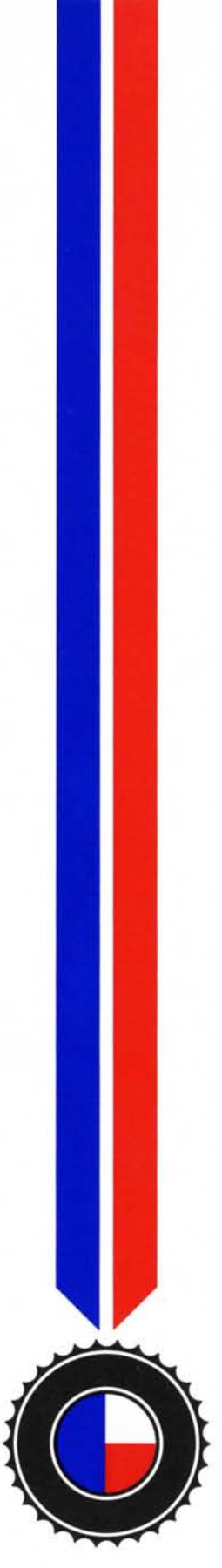


1988 Annual Report

Federal Reserve Bank of Dallas

ABOUT THE COVER

The Federal Reserve Bank of Dallas announced implementation of a new corporate identity program and logo beginning January 1, 1984. The logo incorporates design elements from two primary sources: United States paper currency for the black border, and the flags of the State of Texas and the United States for the interior colors. The design is intended to represent the diverse functions of the Dallas Bank, the region of the country in which it operates and its national heritage.



1983 Annual Report

Federal Reserve Bank of Dallas

The Federal Reserve Bank of Dallas, which is one of 12 regional Federal Reserve Banks in the United States, serves the Eleventh Federal Reserve District. The Eleventh District encompasses approximately 363,000 square miles and is composed of the State of Texas, northern Louisiana, southern New Mexico and, until May 1984, southeastern Oklahoma. There are three branch offices of the Federal Reserve Bank of Dallas located in El Paso, Houston and San Antonio.

The Federal Reserve System is the central banking system of the United States with the basic purpose of providing a flow of money and credit that will foster orderly economic growth and a stable dollar. In addition to this major function, Federal Reserve Banks issue Federal Reserve notes and hold deposits of and make loans to financial institutions. Reserve Banks also perform various services for financial institutions, act as Fiscal Agent for the United States, regulate and supervise banks, and assemble, analyze and distribute economic and banking data.

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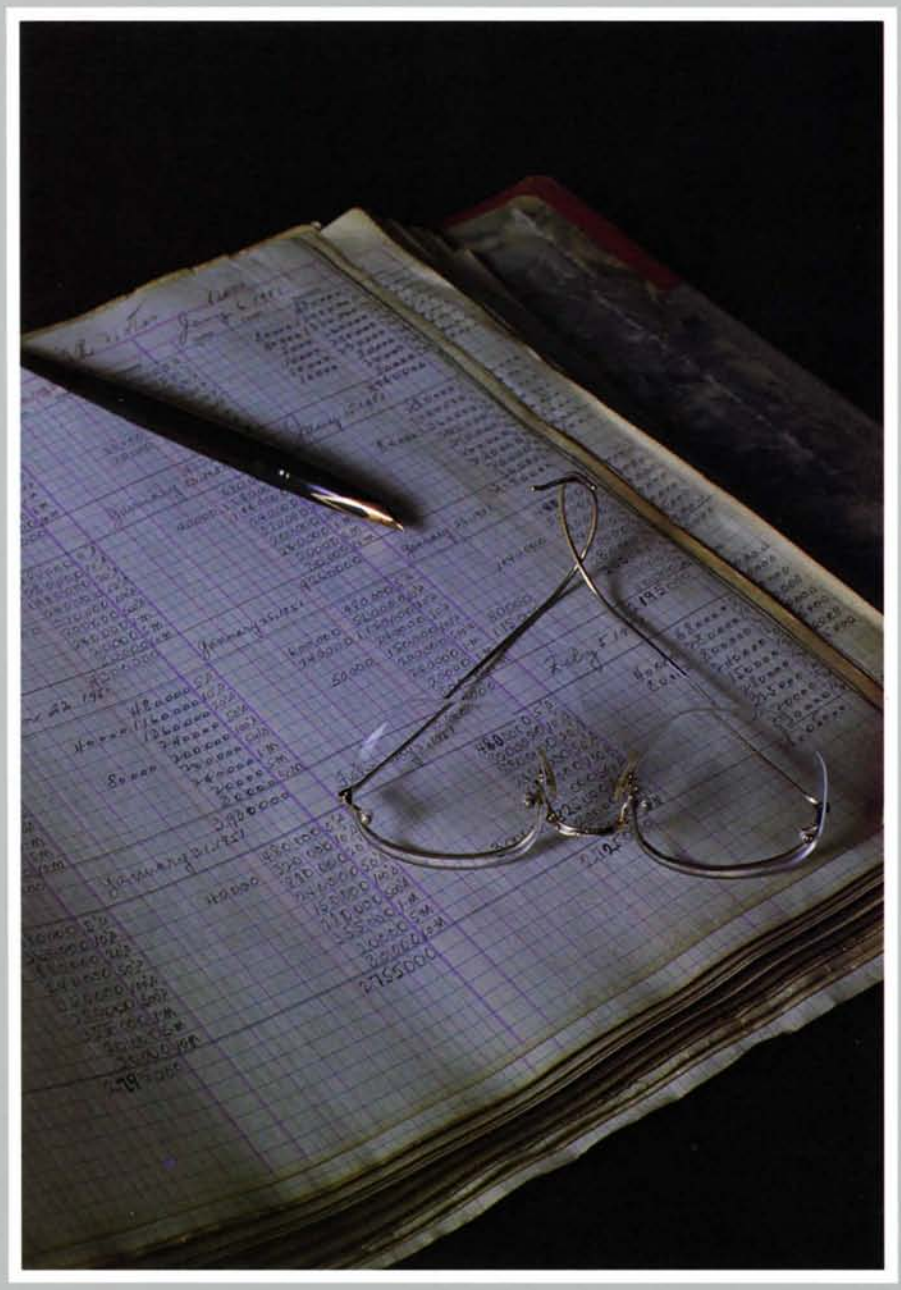


Message From the Chairman and President

Financial institutions in the Eleventh District states of Texas, New Mexico, Louisiana and Oklahoma have undergone a number of changes in the past decade due in part to deregulation and the bank holding company movement. In particular, the structure of our financial system has seen changes regarding the number and size of institutions and the distribution of assets and liabilities. Institutions today use a different set of deposit instruments to attract funds and initiate new uses for funds once they are acquired. Furthermore, the events of the past decade caused some institutions to develop similar strategies for survival and growth while forcing others to diversify. Our 1983 Annual Report features a special article on this topic.

This year the Federal Reserve Bank of Dallas worked toward improving and enhancing the services we provide to financial institutions and toward making certain that these services represent the leading edge of technology. We developed several new applications to some of our services and implemented other new programs on a pilot basis, many of which were unique to this Federal Reserve District. The year also was one of adaptation to accelerated forces of deregulation which affected all of us in one way or another. These developments will be presented in this Annual Report as well.

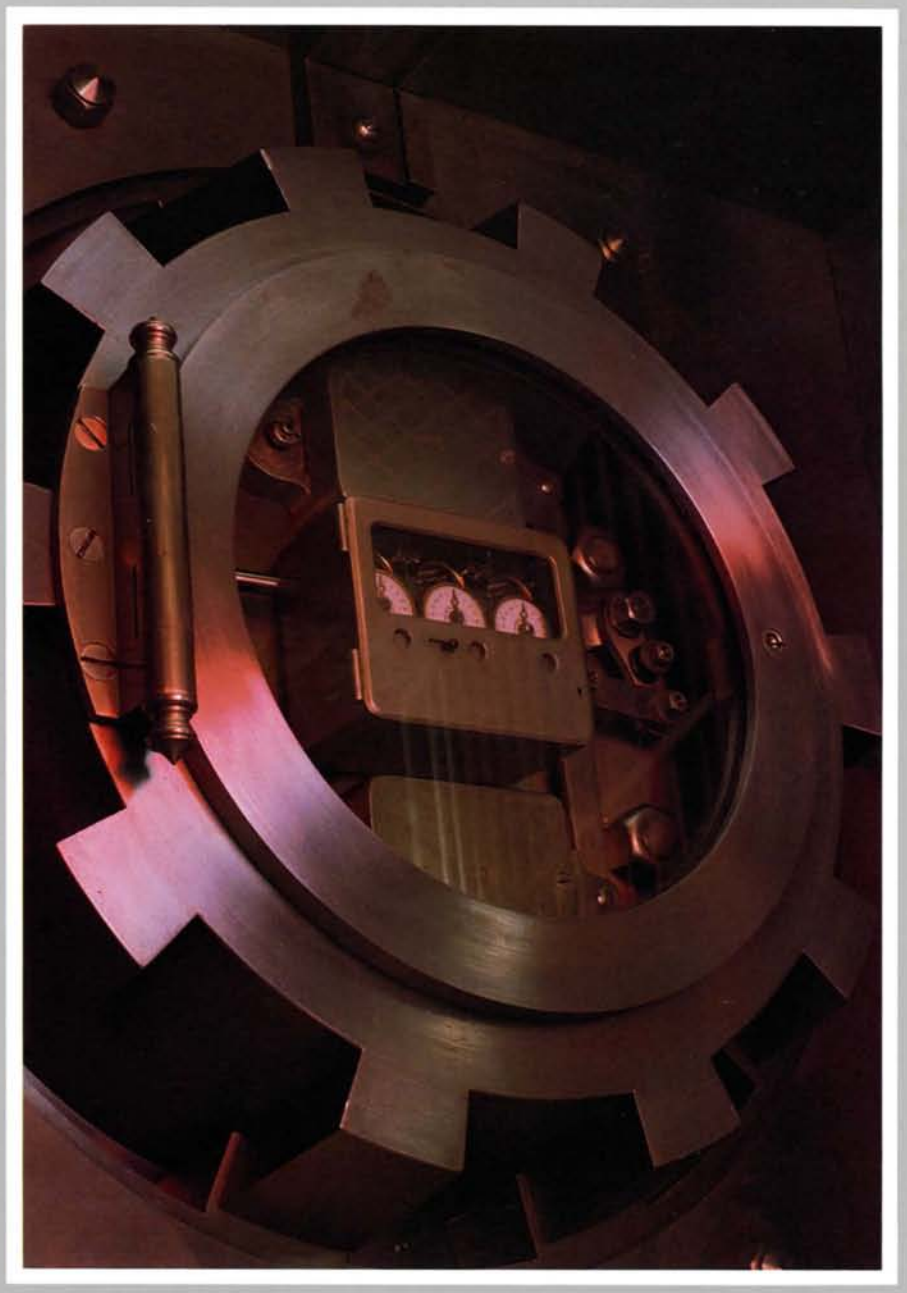
The year 1983 will be remembered as one of recovery for the nation's economy: inflation slowed, business expansion continued, and employment increased. In fact, economic activity advanced at a rate faster than most people were able to predict a year ago. In this region, gains in housing construction, defense contracts and retail sales helped boost the recovery for many of us.

The coming year also will bring a new chairman of the board to the Federal Reserve Bank of Dallas—Bob Rogers, president of Texas Industries in Dallas. The two of us want to wish Bob good luck in this position and thank him for his willingness to serve this institution. We also want to continue to encourage participation in our business from all financial institutions in the Eleventh Federal Reserve District. Your input and feedback always is a great asset to us and helps us keep in touch with developments in the region. We hope the coming year will continue this tradition.

Sincerely,

Gerald D. Hines
Chairman of the Board

Robert H. Boykin
President



Strategies For Survival and Growth

A decade of transition changed the way financial institutions do business

Banks, savings and loan associations and credit unions experienced major changes between 1970 and 1982. In the states of the Eleventh Federal Reserve District—Texas, Oklahoma, Louisiana and New Mexico—changes during this period were brought about by a combination of nationwide forces as well as factors specific to the Southwest. The rising level and variability of interest rates affected the actions of financial institutions everywhere, and many of the responses in this District were similar to those elsewhere. But rapid growth in the economies of the four states produced changes not duplicated in the rest of the nation.

During the 1970–82 period, all financial intermediaries underwent a transition. They moved from an environment in which markets clearly were segmented to one in which markets expanded as a result of the erosion of regulatory and technological barriers. This allowed depository institutions to pursue new activities: they now employ a different set of deposit instruments to attract funds and have more uses for these funds once they have been acquired. Much of the segmentation along traditional lines of business already has weakened—although the transition is not yet complete. Depository institutions now face increased competition from such nondepository sources as securities firms and other financial conglomerates. In addition, geographic barriers already have become less significant, even though formal restrictions on branching across state lines remain in place.

Adaptations to a changing environment caused institutions to develop some common strategies. For example, all three types of depository institutions now offer checkable deposits that pay explicit interest, and all increasingly are making loans whose rates vary automatically with changes in market conditions. But the courses adopted by the various types of institutions differed in many respects. Some became more specialized in lending and accepting deposits over the period as others sought to broaden their portfolios and clientele. In every case, however, directions taken by financial institutions during the past decade can be explained as strategies designed to increase the probability of survival and growth.

The Southwest was influenced by a combination of market transition and the region's exceptional growth. An important catalyst to the switch from a segmented environment to a less restrictive atmosphere was the deregulation of interest rate ceilings on deposits. Interest rate ceilings were removed more slowly from small-denomination household accounts than from other types of deposits. Combined with the upward drift in interest rates that prevailed throughout the 1970s, these factors made small-denomination deposits temporarily less attractive relative to the other nondeposit instruments available for household savings.

The traditionally high rate of economic growth in this region, driven even higher by energy price increases in the 1970s, provided area institutions with the resources to undergo remarkable expansion. Because of interest-rate regulation, wholesale banking—the acquisition of funds from and the making of loans to businesses—was targeted as the activity with the greatest potential. Consequently, growth in this region outpaced the nation's by the widest margin in two areas: large time deposits and business lending. The conditions that produced this phenomenon are losing prominence, however, and growth rates and portfolios of institutions in this region should more closely approximate those of depository institutions across the nation in the future.

STRIKING INCREASES
Business and real estate loans grew 50 percent faster in the District.

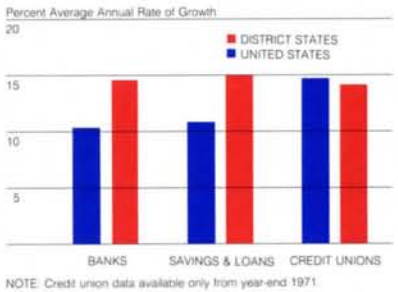
For banks and savings and loan associations, growth in lending after 1970 generally was more rapid in the District than in the nation as a whole. The increase at banks during this period reflects the strength of business loans and real estate loans. The escalation in loan portfolios at savings and loan associations, on the other hand, reflects the relative strength of the housing market in this area. Expansion of loans outstanding at District credit unions was just below the national rate of expansion at similar institutions during the period. Nationally, however, credit unions grew faster than either banks or thrifts.

Bank loan growth in the commercial and industrial category and real estate category was striking. Banks in the District expanded these types of loans more than 50 percent faster than banks across the country. Consumer loans grew at a slower pace than other loans, and their growth in this region was only modestly above national growth. The relatively large increase in commercial and industrial loans and in real estate loans produced a substantial change in loan portfolios in this region. Commercial and industrial loans accounted for about half the growth in total loans. Wholesale real estate loans—those for commercial construction, land development and construction of multifamily residences—represented another 20 percent of growth in total loans. The amount of area loan portfolios allocated to these two categories increased about 10 percentage points between 1970 and 1982. Nationally, bank loan portfolios reflected relatively rapid business loan growth, but this shift was less pronounced. Wholesale real estate loans increased as a share of national portfolios, but commercial and industrial loans did not.

A disproportionate amount of wholesale lending was concentrated in large banks—those with assets of $750 million or more. Texas housed all of the large banks in the four-state area in 1970 and 60 percent in 1982. The concentration of loans in these banks doubled during this period, while the proportion of loans at small banks—those with assets less than $100 million—registered a sharp decline. The rise in the share of loans outstanding at large banks reflects the combination of an increase in the number of banks and expansions in loan portfolios at banks that already were large in 1970. The latter group represented

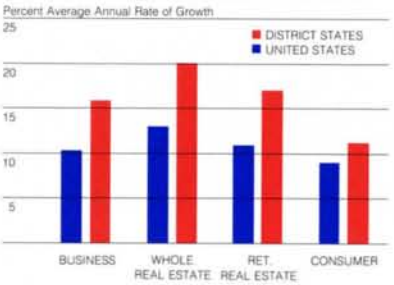
LENDING SURGE
Total loans grew more rapidly at banks and savings and loans in the Eleventh District states than in the nation overall, as did every category of loans at commercial banks. Business and real estate lending in particular grew faster in this area. Much of the activity in District bank lending was concentrated in large banks.

GROWTH IN LOANS OUTSTANDING, 1970–82

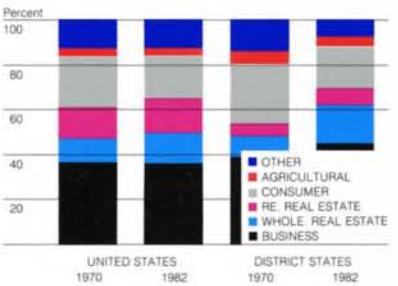


NOTE: Credit union data available only from year-end 1971.

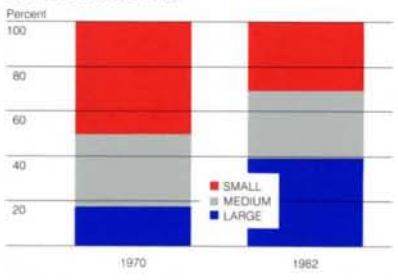
GROWTH IN LOANS OUTSTANDING AT BANKS, 1970–82



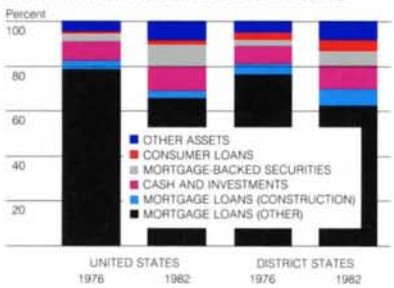
DISTRIBUTION OF TOTAL BANK LOANS



DISTRIBUTION OF TOTAL BANK LOANS
DISTRICT STATES, BY SIZE



DISTRIBUTION OF ASSETS AT SAVINGS AND LOANS



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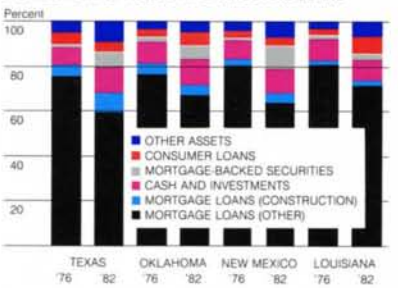


DISTRIBUTION OF BANKS IN ELEVENTH DISTRICT STATES

Number of Banks in Each Size Class
(Percentages in Parentheses)

	1970			1982		
	Small (0-$99m)	Medium ($100-749m)	Large ($750m+)	Small (0-$99m)	Medium ($100-749m)	Large ($750m+)
Oklahoma	428 (98.6)	6 (1.4)	0	466 (91.2)	40 (7.8)	5 (1.0)
New Mexico	63 (95.5)	3 (4.5)	0	73 (79.3)	17 (18.5)	2 (2.2)
Louisiana	214 (92.6)	17 (7.4)	0	220 (79.1)	51 (18.3)	7 (2.5)
Texas	1148 (96.5)	37 (3.1)	5 (0.4)	1373 (85.9)	205 (12.8)	21 (1.3)
Four-State Total	1853 (96.5)	63 (3.3)	5 (0.2)	2132 (86.0)	313 (12.6)	35 (1.4)

over 35 percent of total loan growth in this region.

The new wave in mortgage lending took place in the rest of the country as well. Housing construction and mortgage lending surged in two phases, the first beginning in 1971 and lasting into 1973 and the second beginning in 1976 and lasting into 1979. Mortgage lending was even greater in the District than in the nation—at an average annual rate of 13.4 percent, compared with 10.5 percent—primarily because population growth was faster here.

The period produced a shift in the distribution of lending at savings and loan associations that was different from the redistribution that occurred at banks. Thrifts diversified somewhat, becoming less dependent on home mortgages for their income. Savings and loans made more consumer and construction loans at the end of the period, and they held more mortgage-backed securities while allocating less of their portfolios to primary mortgages themselves. This shift was slightly greater in the District than across the nation.

LIABILITY SHIFT

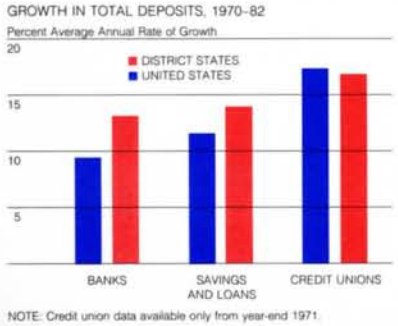
Time deposits and interest-earning accounts achieved new significance as demand deposits lost ground.

Deposits also grew faster in this region than in the nation. However, this growth generally was less than loan growth for banks and thrifts, as these institutions funded an increased share of loans through non-deposit sources in the 1970s. Credit union deposit growth in the four states was just below national growth, but deposits nationwide increased at a faster pace than they did at banks and thrifts. In fact, deposit growth was greater than loan growth at credit unions—largely because high interest rates in the late 1970s and early 1980s weakened consumer loan demand. During this period, credit unions did not diversify beyond their traditional emphasis on consumer lending, so additional deposits were used to purchase investments.

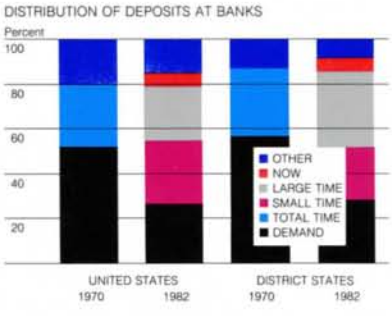
Since 1970 the major change affecting the liability portfolios of intermediaries in the Eleventh District was a shift away from non-interest-bearing demand accounts and fixed-rate passbook savings accounts toward sources of funds whose yields respond quickly to changes in market interest rates. This phenomenon also occurred throughout the nation. The share of demand deposits declined from over half of total bank deposits in

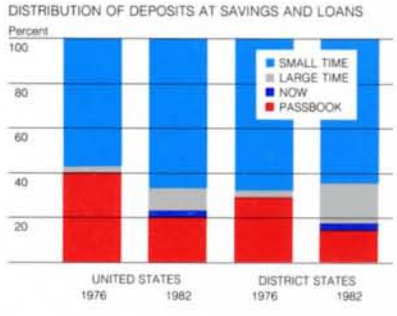
TIME DEPOSITS TAKE OFF

At banks and savings and loan associations, time deposits increased in importance while demand and savings deposits decreased. Total deposits generally grew faster in this region than elsewhere.



NOTE: Credit union data available only from year-end 1971.





1970 to approximately one-quarter of total deposits in 1982 for the four District states. This decrease is slightly greater than that which occurred at banks nationwide. The decline took place steadily through the 1970s but was accelerated in 1979 by a sharp increase in market interest rates.

The waning importance of demand deposits was matched by an increasing reliance on time deposits. In District banks, time deposits grew from approximately 30 percent of total deposits in 1970 to more than half of all bank deposits in 1982. Time deposits also became a significant source of funds for savings and loan associations. Nationally, these deposits represented about half of total savings and loan deposits in 1973 and about three-quarters in 1982. Savings and loans in this District rely somewhat more heavily on time deposits than do savings and loans nationwide.

Increased emphasis on time deposits reflects accelerated competition for business deposits as well as a change in the kinds of services offered household customers. About 60 percent of time deposits outstanding at area banks in 1982 were certificates of deposit of $100,000 or more—including, but not limited to, "jumbo CDs." These large time deposits represent a mixture of funds raised regionally and funds obtained in national money markets and are an important mechanism for transferring funds across state lines. Areas of the country with strong loan demand sell more time deposits to acquire funds from areas with less demand.

Banks in the District had a slightly larger share of deposits acquired in this manner than did banks across the nation. Large banks depended almost entirely on these kinds of instruments for their time deposit funds, whereas small- and medium-sized banks relied more heavily on smaller time deposits marketed to households. Savings and loan associations also sold the majority of their time deposits to households, although by 1982 District thrifts held more large certificates than did their national counterparts.

The other category of bank deposits—often referred to as savings deposits—remained a fairly stable share of total deposits at banks during this period. In the early 1970s, this category contained mostly passbook savings accounts. By the early 1980s, however, these deposits increasingly consisted of more expensive sources of funds, such as NOW accounts and money market deposit accounts (MMDAs). NOW accounts pay essentially the passbook savings rate but are more expensive to offer because checks can be written on them. MMDAs pay market-determined yields. Again, reliance on this category of funds varied by bank size. Savings deposits were relatively unimportant for large banks but accounted for approximately one-sixth of the funds in small- and medium-sized banks. Overall, banks in the District tended to depend less on this category of deposits than did banks elsewhere.

The comparable deposit category for savings and loan associations behaved in a similar manner. As was the case for banks, this category consisted of passbook-type accounts before 1980 but contained NOW accounts and MMDAs after they were authorized. In both the District and the nation, the share of thrift deposits represented by this category was decreased by half between 1976—the first year a breakdown of thrift deposits was published—and 1981. Nationally, thrifts attracted a larger share of their funds through these accounts, so the decline was greater in absolute terms in the nation than in this region. The introduction of the MMDA in December 1982 apparently attracted enough deposits to increase the contribution of "other deposits" to total deposits between 1981 and 1982.

DIFFICULTY IN PREDICTING THE FUTURE

Interest rates increased and became more volatile.

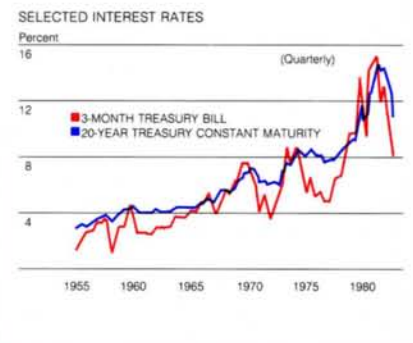
In the 1970s, interest rates continued the steady climb they began after World War II. On a quarterly average basis, the level of short-term interest rates rose from 2¼ percent in the 1950s to 4 percent in the 1960s and 6¼ percent in the 1970s. After 1970, rates never fell near what had been their peaks during the 1945–66 period. For example, the average short-term interest rate between October 1979 and June 1982 was over 12½ percent.

In addition to overall increases, the volatility of short-term interest rates rose dramatically in two primary stages after 1969. Between 1969 and 1978, short-term rates varied between 4 and 12 percent. After that, they fluctuated in a range between 8 and 20 percent. Long-term rates were more stable than short-term rates, but they also experienced increases in volatility. Greater resistance to downward pressure that produced sharp plunges in short-term rates accounted for most of the relative stability of the long-term rates. Nevertheless, variability in these rates increased after 1978.

Both dimensions of interest rate behavior contributed to expansion of

UPWARD TREND

During the 1970s, interest rates still exhibited the gradual increase which had been in place for several decades.



the wholesale side of intermediaries' activities. The rise in volatility made predicting future interest rates more difficult, and this led to greater reliance on short-term and variable-rate loans. In addition, the rising levels of interest rates made regulatory ceilings on deposit yields a recurring problem. Because these ceilings put intermediary institutions at a greater disadvantage in competing for household savings, turning to the large time deposit markets proved to be an increasingly attractive approach to raising funds.

PROFITABILITY SQUEEZE
Due to rising interest rates, savings and loan associations experienced a severe decline in their rate of return.

MISMATCHED MATURITIES
Institutions placed greater emphasis on short-term and variable-rate lending.

In an environment where interest rates are unpredictable, matching maturities of assets and liabilities becomes more important. Depository intermediaries tend to have liabilities with shorter maturities than their assets, so costs tend to rise faster than revenues as interest rates increase. A prolonged climb in interest rates, such as that which occurred in the 1970s, can threaten the solvency of institutions whose portfolios are severely mismatched. Lengthening the maturity of deposits is difficult after a rise in uncertainty. Therefore, an increase in the variability of interest rates encourages institutions to rely more heavily on short-term loans and on loans whose interest rates vary with those in the market.

Under traditional lending practices, a mismatch in maturities of assets and liabilities is likely to be greatest for institutions with heavy concentrations of home mortgages in their portfolios. Conventional mortgages are long-term loans made at fixed interest rates. Maturities of loans to businesses can be matched more easily with maturities of deposits because rates on these loans typically vary with changes in the prime rate. Traditional consumer loans lie somewhere between these extremes, having fixed rates like conventional mortgage loans but shorter maturities.

Because interest rates rose more during the 1970s than had been expected, the profitability of an institution was heavily dependent on the extent to which it could match the maturities of its assets and liabilities. Banks generally make more loans to businesses and fewer mortgage loans than other institutions, so their profitability was relatively high. The national average return on assets for banks was 0.86 percent over the 1970–82 period. The return for banks in this District was 10 basis points higher.

Savings and loan associations, on the other hand, typically have reserved most of their loan portfolios for home mortgages. Thus, as interest rates rose, the profitability of thrifts fell. In fact, the return on assets for thrifts was negative in 1980 and 1981. In the late 1970s and early 1980s, many thrifts were forced to merge with stronger institutions to prevent failure. Savings and loans in this District experienced declines in profitability comparable to those of thrifts in the rest of the country.

CONSTRAINED COMPETITION
A history of interest rate restrictions forced a shift to the money markets for new sources of funds.

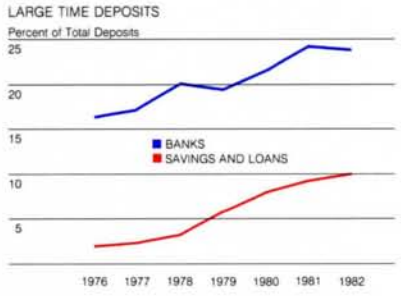
While the variability of interest rates was increasing the risk of some types of loans, the level of interest rates was affecting the distribution of liabilities. Interest rate ceilings on deposits held predominantly by households—which were originally established to limit competition among the various types of depository intermediaries—increasingly undermined the ability of these institutions to compete with Treasury bills and other nondeposit instruments. Intermediaries were considerably less constrained in competing for funds in the large CD markets so, as interest rates increased in the late 1970s, more of their liabilities came from large time deposits and nondeposit sources.

Interest rate ceilings proved to be a greater barrier in attracting household funds because regulators were more reluctant to allow ceiling rates on small-denomination deposits to increase with market rates. Interest rate ceilings on large certificates of deposit (over $100,000) were removed in two stages during the credit crunches of 1970 and 1973. In 1970, restrictions were removed for large CDs with maturities between 30 and 90 days. Ceilings on longer-term CDs were removed in 1973. But restrictions on small-denomination time deposits remained a factor until December 1982.

The history of interest rate restrictions is noteworthy. In the late 1960s and early 1970s, regulation of retail deposits was characterized by a series of upward adjustments to a complex structure of fixed ceiling rates. These adjustments failed to keep up with increases in market rates, however, and periods of high interest rates saw many household savers shifting funds from deposits to Treasury bills. In 1978 the money market certificate—which had a variable ceiling tied to Treasury bill rates—was introduced. This instru-

NEW DEPOSIT SOURCES

An increased share of funds came from large time deposits in the late 1970s, while money market mutual funds skyrocketed.



ment helped depository institutions compete for household funds but did not fully restore their appeal to household savers because of a minimum balance requirement of $10,000. Money market mutual funds continued to attract funds that otherwise would have been placed in banks, savings and loans and credit unions and experienced rapid growth until the money market deposit account was introduced in 1982. This account has been competitive with money market funds largely because its $2,500 minimum balance is in line with amounts required to open money market mutual fund accounts.

The asymmetric treatment of large and small time deposits was a result of forces acting on legislators and regulators during this period. Directing funds to the nation's homebuilding industry while keeping savings and loans solvent was a major concern of Congress. Meanwhile, neither Congress nor the regulators could afford to let this objective curtail the supply of credit to the nation's major businesses during periods of financial stress. Interest rate ceilings quickly were suspended from large certificates of deposit because banks needed unrestricted freedom to compete in the money markets if they were to continue meeting the credit demands of businesses. Large banks contend principally with nondepository intermediaries for funds to finance additional business loans. Because interest rates on business loans could be changed quickly to cover changes in the cost of funds, allowing banks to compete freely did not reduce their profitability. Furthermore, freedom for banks in this arena did not jeopardize savings and loans because those institutions did not rely heavily on large certificates of deposit.

At the same time, funding residential construction without bankrupting savings and loans required limits on yield increases for retail deposits at all depository intermediaries. Portfolios dominated by conventional mortgages left savings and loans unable to match increases in their cost of funds with increases in interest income. To limit cost increases, regulators combined below-market, fixed ceilings on traditional core deposit yields with near-market, sometimes flexible ceilings on time deposit yields. The market for these time deposits was limited to the more aggressive households—those which might tend to put their funds into money market instruments—by imposing high minimum balances. This combination represented a tradeoff between the need to keep costs down and the need to be competitive with nondeposit instruments. In addition, regulations held bank deposit yields that were competitive with yields on thrift instruments below those at savings and loans to prevent funds from flowing into banks. The money market deposit account—which had few unattractive restrictions and gave banks the ability to match the rate paid by thrifts—was not introduced until after federal protection was given to thrifts with large inventories of older mortgages.

DRIVING FORCES

The District's economy generally outpaced the nation's, but ups and downs in the oil industry remained important.

A fast pace of economic growth in the Eleventh District contributed to the large expansion of its loan and deposit portfolios. Between 1970 and 1982, increases in population, employment and personal income were higher in the four states than in the nation. The average annual growth rates for population and employment were twice the comparable national rates. Average growth in real income was 80 percent higher in this region.

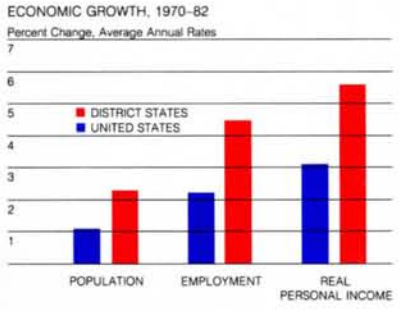
Texas had the highest growth rates of the four states in all three measures. Growth in employment and personal income in the other three states was only a notch below that in Texas, however. Population growth was almost as high in New Mexico but was somewhat lower in Oklahoma and Louisiana. Nevertheless, all of the states experienced higher than national average rates for each measure of economic growth in every year of the 1970–82 period.

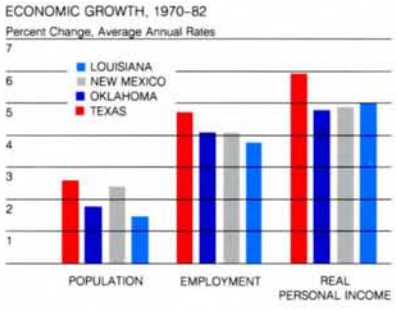
The effect of oil price increases is apparent in all three sets of growth rates. Oil prices quadrupled in 1973 and doubled in 1979. The second price increase had a stronger effect on the region's economy because federal controls were removed entirely from the price of crude oil between 1979 and 1981. Controls on natural gas prices were revised in 1978. In the two years following each of the oil price increases, differences in growth of employment and income between District states and the nation were especially prominent. The District-national gap widened later for population increases, but in each case the bulge in growth lasted about two years. The decline in oil prices that occurred in 1982 is evident in a sharp reduction in the distance between the growth rates for the nation and the four states.

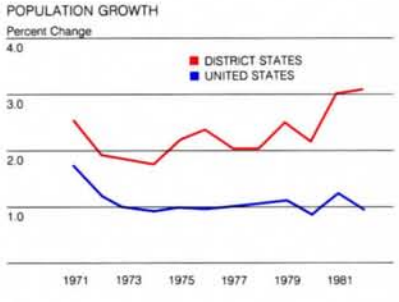
Differences in the effects of oil price increases on the District states and on the nation as a whole are even more evident in paths of growth for manufacturing employment. Employment growth in manufacturing for the states individually indicates that three of the states—Louisiana, Oklahoma and Texas—followed very similar patterns. Distinctly different, however, was employment growth in New Mexico. New Mexico employment expanded much more rapidly in the early 1970s than in the other three

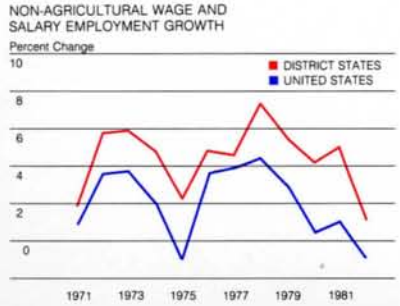
FAST-PACED GROWTH

This region's economic growth in population, employment and personal income outdistanced the nation during the past decade. The four-state average was higher for each measure during every year of the period, with Texas displaying the most pronounced growth.



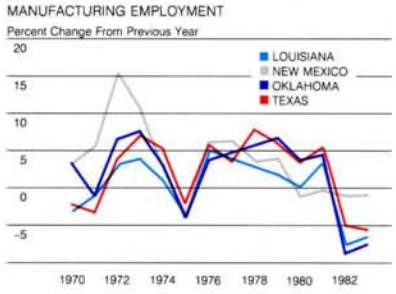


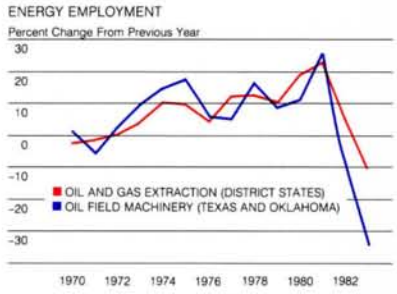


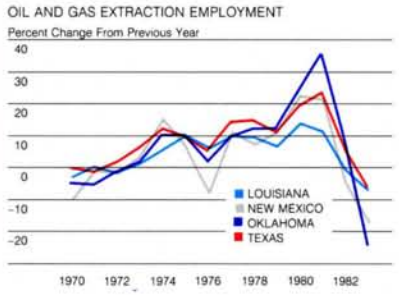


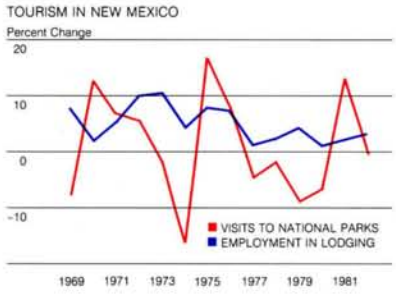
OIL PRICES DRIVE EMPLOYMENT GROWTH

The energy industry was important to this District's economy. Employment in manufacturing and energy-related fields followed ups and downs in oil prices in Texas, Oklahoma and Louisiana. In New Mexico, however, tourism was more important.









states, and it was much more subdued in the late 1970s. On the other hand, New Mexico's manufacturing employment growth did not exhibit the precipitous drop in 1982 that employment growth in the other three states displayed.

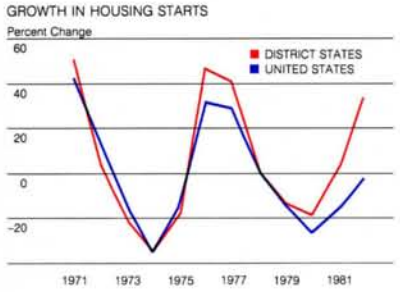
Employment in the oil and gas extraction industry and the oil field equipment manufacturing industry indicates the ups and downs of the energy business very dramatically. This pattern also is reflected in business loan growth for the four states. Employment growth in these two industries reached a peak in 1975, when such growth in the rest of the country was very low. Following a brief drop in 1976, employment in these industries surged to an even higher peak in 1981. The subsequent decline in oil prices sent employment in these two industries into a precipitous decline during 1982 and 1983.

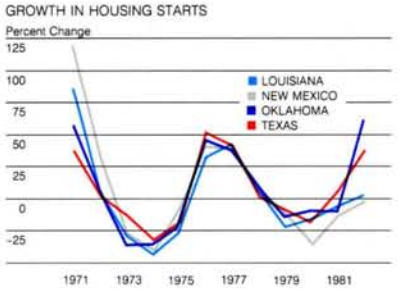
The patterns of employment growth in oil and gas extraction for the four states individually show that the energy cycle was about the same in each state. The principal exceptions were the higher peak and lower trough for New Mexico in the 1974–76 period and the exceptionally large increase for Oklahoma in 1981, followed by a large drop in 1982 and 1983. The distinctive behavior of employment growth in Oklahoma reflects the boom and bust of the market for very deep natural gas, and business loan growth in Oklahoma followed a similar pattern.

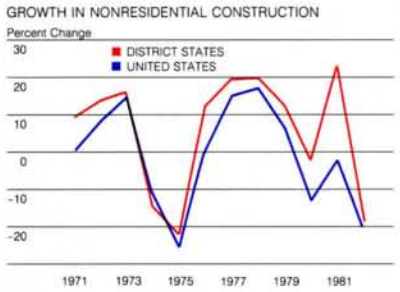
The different pattern of economic growth in New Mexico reflects a lesser importance of oil and gas in that state. Tourism and mining play a larger role in New Mexico's economy. The tourist industry displayed healthy growth in the early 1970s—until the oil embargo late in 1973. Tourism plummeted at that time, but it recovered in the middle of the decade only to slump again between 1977 and 1980. The principal shock to the state's mining industry was the collapse of the uranium market after the incident at Three Mile Island in 1979. The spot price for uranium fell from over $40 to around $20 in the subsequent year, and the economy of New Mexico was weakened slightly by this development. The departure of New Mexico's economic growth from the paths of the other District states is apparent in most loan and deposit trends during this period.

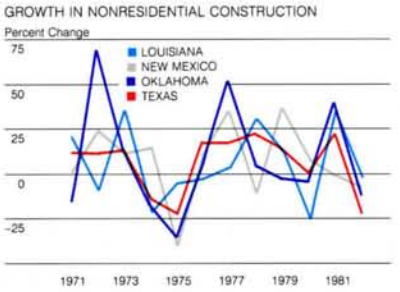
Growth in the Southwest's economy stimulated construction in the region—generally much stronger than construction activity elsewhere. District growth measures for both residential and nonresidential construction were above comparable national figures in years when construction growth was particularly strong. Though growth in the District occasionally lagged growth in the nation—especially before 1975—it never was very far behind. Gaps were widest in the early 1980s, when the difference in population growth also was greatest. In nonresidential construction, the dif-

HIGHER PEAKS FOR DISTRICT CONSTRUCTION
Growth in residential and nonresidential construction in this region, while following closely that of the nation, became stronger during peak periods.









ference between growth in the four states and growth in the nation peaked in 1981 and narrowed sharply in 1982. Growth in housing starts, however, continued to accelerate more here than elsewhere in 1982.

The growth patterns for residential and nonresidential construction in the individual states present quite a contrast. In residential construction, year-to-year growth was very similar in each state, with differences between the states greatest at the beginning and end of the period. New Mexico and Louisiana had sharply higher growth in housing starts in 1971, and Oklahoma and Texas showed much more in 1982. Growth patterns for nonresidential construction are dissimilar. Nearly all states shared the declines in nonresidential construction in 1974 and 1975, and all but New Mexico were relatively active in 1981. During the rest of the period, however, the peaks and troughs of the individual states are not well aligned. New Mexico experienced rapid growth in nonresidential construction until 1979, after which growth slacked off steadily. Overall, nonresidential construction in each state exhibited much more volatility than is reflected in the aggregate.

DEPOSITS PIVOT
Bank demand deposit balances steadily declined as time deposits followed an erratic upward trend.

The lessened dependence on demand deposits as a source of funds for banks resulted from extremely low growth in these deposits rather than from balance declines. During the 1970–82 period, average growth in District demand deposits was nearly double that of the nation, and each of the four states came very near the District average. Texas experienced slightly higher demand deposit growth, while Louisiana had less.

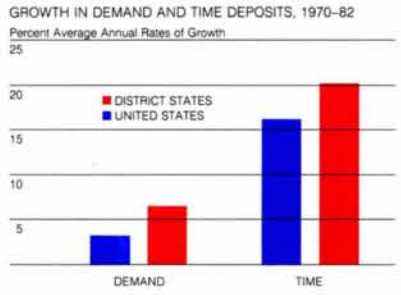
Across the nation, time deposits grew almost five times as fast as demand deposits. Otherwise, the distribution of growth was similar to that for demand deposits. Time deposit growth at banks in the four states averaged a few percentage points above such growth nationally, while growth in the individual states clustered around the District average. Texas banks experienced fewer gains than banks in the other three states.

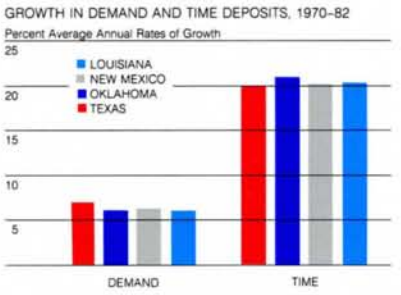
During the 1970–82 period, the lessened significance of demand deposits was a little more apparent in this region, although the year-by-year decline followed the national trend closely. This decline was fairly steady between 1970 and 1979, but the share of deposits in non-interest-bearing demand accounts dropped more sharply after that time. Demand deposits in the four states represented a marginally larger share of total bank deposits than elsewhere. However, the share of these deposits in the District moved closer to the comparable national statistic after 1976.

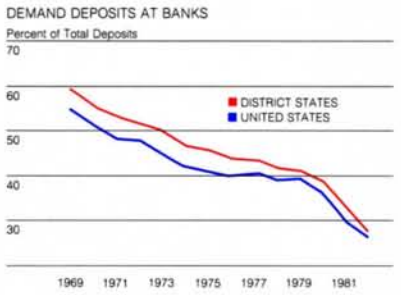
The year-by-year pattern of this demand deposit decline was about the same in each of the District states. The relatively large percentage of total deposits represented by these balances can be explained largely by the high proportion of demand accounts in Texas banks. New Mexico banks had a considerably smaller share, while Oklahoma and Louisiana fell somewhere in be-

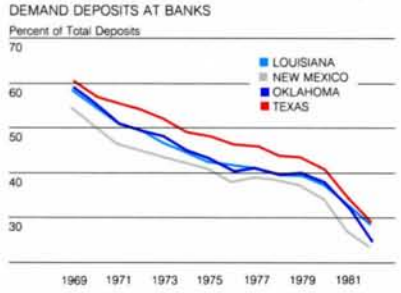
TIME DEPOSITS INCREASE

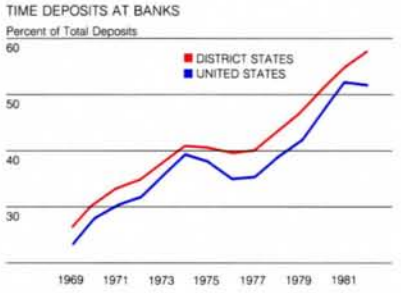
During the 1970–82 period, average growth in District demand deposits was nearly double that of the nation. But time deposits grew much faster and gained prominence throughout the decade.

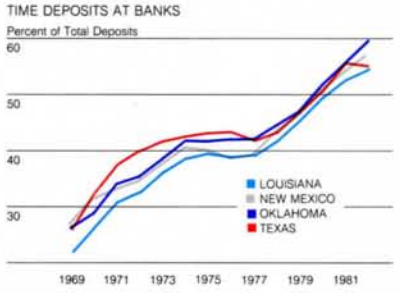












tween. Also, the share for New Mexico banks generally was below the comparable figure for the nation. The gap between the demand deposit shares in Texas and New Mexico was most pronounced in the early 1970s and least in the early 1980s.

The corresponding increase in the prominence of time deposits was more erratic than the shift from demand deposits, but it was steadier in the District than in the nation. For both, time deposits surged between 1972 and 1974, a period of rapid economic growth. After that, they dropped back slightly until 1978, when another period of exceptionally rapid increases began. The bulge in the growth path was less pronounced in the District, however, and an increased emphasis on time deposits continued in the four states during 1982 while leveling off elsewhere. Time deposits generally represented a larger share of total deposits in this region, with the disparity usually greater in the latter half of the 1970–82 period.

At banks in the individual states, the year-by-year rise in the importance of time deposits was similar to the pattern observed elsewhere, with differences between bank time deposit shares generally smaller after 1977 than before. Until 1977, when economic growth in New Mexico was rapid, banks there acquired a greater proportion of deposit funds through time deposits than did banks in the other three states. Louisiana banks acquired a smaller share this way during nearly the entire 1970–82 period. In 1982 the emphasis on time deposits increased in three of the states, while New Mexico registered the slight decline observed in the rest of the nation.

MARKET INSTRUMENTS BUFFET PASSBOOK SAVINGS

Financial institutions began to combat attractive market offerings with nondeposit sources of funds and higher ceilings on passbook accounts.

The nation's depository intermediaries entered 1970 in the middle of a period of disintermediation. During the first half of 1969, interest rates had been in the 6 percent range. In the middle of that year, they rose to the neighborhood of 7 percent, and growth in savings accounts at thrifts gradually declined. Late in 1969, growth in these accounts at commercial banks dropped off sharply. By early 1970, savings and loans were experiencing net outflows of funds.

At this point, several developments occurred that eased the strain on depository intermediaries. Interest rate ceilings on savings accounts were raised, and the minimum purchase of Treasury bills was increased from $1,000 to $10,000. This increase reduced the ability of households to transfer funds from savings accounts to Treasury bills. Finally, interest rates dropped a full percentage point between the beginning of the year and the middle of the summer.

The effect of this episode of disintermediation was nearly identical for intermediaries in the District and the nation. At banks, savings deposits—which at that time consisted almost entirely of passbook-type accounts—were affected the most. In 1969, savings deposits at banks, nationally and in the four District states, fell about 2½ percent. In 1970, growth in this region and elsewhere had recovered to around 5 percent, and by 1971 it was over 10 percent. Data for savings and loan associations during this period do not separate passbook savings deposits from time deposits. However, changes in total deposits suggest that the experience of District savings and loan associations was nearly identical to that of thrifts elsewhere. Growth was near zero in 1969, but it rose moderately in 1970 and was up to approximately 20 percent in 1971.

The next episode of disintermediation, which lasted from 1973 to early 1975, was much more prolonged. Short-term interest rates overtook ceiling rates for passbook savings accounts late in 1972 and stayed very high through early 1975. Ceilings were raised in July 1973, but they remained well below Treasury bill rates, which reached 9 percent in the summer of 1974. Because this period of high interest rates persisted, more alternatives to passbook deposits emerged. For example, household savings went directly to intermediate-term Treasury securities, which could be purchased in minimum denominations of $1,000 to $5,000. Growth in money market mutual funds gathered momentum as well.

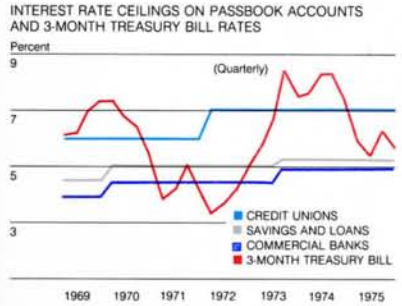
High interest rates had a greater effect on deposit growth at savings and loans than at banks, but intermediaries in the District again fared about the same as their national counterparts. Growth in savings deposits bottomed out in 1973 for commercial banks, whereas total deposits at savings and loans continued to fall in 1974. For both banks and thrifts in the four states, the decline and subsequent rebound in deposit growth was somewhat sharper than for comparable institutions across the nation. Nevertheless, growth remained slightly higher throughout the period in this region.

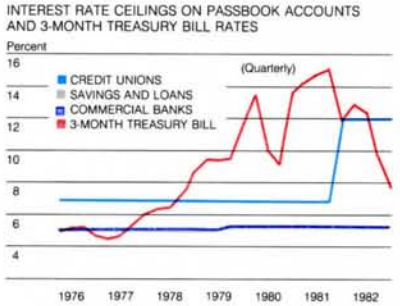
Deposits at credit unions were shielded to a large degree from the effects of high market rates, although deposit growth did subside somewhat in 1973. The principal source of this protection was a higher ceiling on interest rates payable for credit union deposits. Furthermore, when interest rate ceilings were raised, the increases generally were larger for credit unions than for banks or savings and loans.

Patterns of growth for savings-type deposits in the individual District states are much alike. The similarities in bank savings deposit growth particularly are striking for Louisiana, New Mexico and Texas. Savings deposit growth in Oklahoma banks varied more erratically. Growth in deposits at thrifts followed a uniform pattern, although growth

TREASURY BILL RATES IMPORTANT

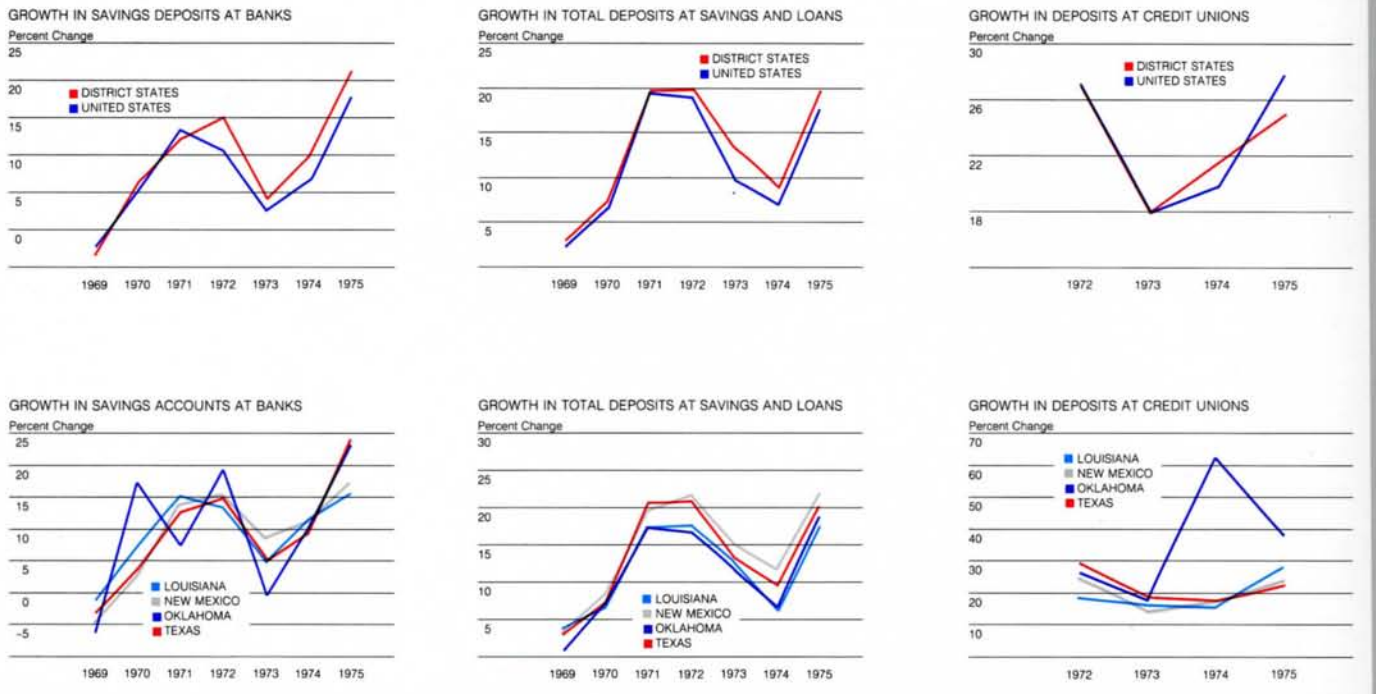
The attractiveness of passbook savings accounts depended primarily on the level of Treasury bill rates.





SAVINGS AFFECTED BY MARKET

In the early 1970s, savings deposits were affected by periods of disintermediation much the same in this region and nationally. Credit unions, however, were shielded. Institutions in the four individual states followed similar patterns of savings deposit growth, although Oklahoma's banks and credit unions were subject to more erratic growth.



in Oklahoma generally was lower and growth in Louisiana failed to match the growth of Texas and New Mexico after 1970.

NEW INSTRUMENTS EMERGE

While the competitive position of fixed-ceiling accounts continued to deteriorate, regulators authorized new accounts in response.

As short-term interest rates declined from early 1975 through early 1977, the competitive position improved for banks and savings and loan associations with respect to attracting household savings. Savings deposits at commercial banks and total deposits at thrifts grew rapidly in 1975 and 1976. The gaps between growth in the four District states and growth in the nation widened a bit. Growth in credit union deposits was very high in 1975 and dropped off somewhat in 1976.

Short-term interest rates began to rise in the spring of 1977, however, and growth in fixed-ceiling deposits at banks and savings and loans began to subside. Credit unions still were not much affected by this development, and growth in area credit union deposits rebounded to 1975 levels. Short-term rates continued to increase until the spring of 1980.

After market rates passed the maximum rates payable on savings accounts at banks and thrifts, it became evident that deterioration in the competitive position of these fixed-ceiling accounts could no longer be treated as a temporary or cyclical phenomenon. A series of new deposit instruments was introduced beginning in 1978 and continuing through the early 1980s. The most successful of the new instruments was the six-month money market certificate of deposit (MMCD), a short-term account whose ceiling varied automatically with changes in 26-week Treasury bill rates. Savings and loans, as well as small- and medium-sized banks, soon began to rely heavily on this instrument as a major weapon in the competition for household savings.

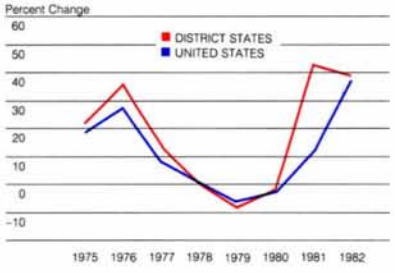
At banks, growth in balances held in the new certificate was similar in the District to growth nationally. Texas banks had a smaller share of deposits in this account in 1982, while banks in Oklahoma had more. Small- and medium-sized banks eventually added MMCDs to the point that they contributed about 20 percent to total deposits. In New Mexico and Louisiana, these certificates became an important source of funds even at large banks.

The authorization of the money market certificate made passbook accounts at banks less attractive, so growth in these accounts continued to decline through 1979. In fact, there was a net outflow of funds from such accounts that year. The

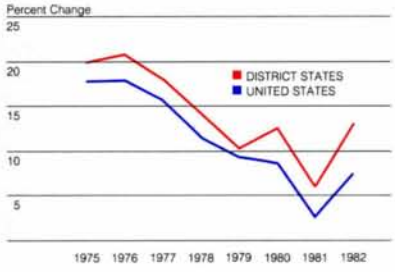
DISINTERMEDIATION SPURS DEREGULATION

After 1975, short-term interest rates declined and savings deposit growth improved. Interest rates began to increase in 1977, however, and growth slowed accordingly. Several new types of deposits were introduced for banks and thrifts, beginning in 1978 with the money market certificate. Credit unions were slower to respond, and growth in accounts of $10,000 or more declined.

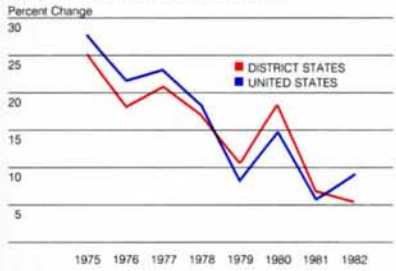
GROWTH IN SAVINGS DEPOSITS AT BANKS



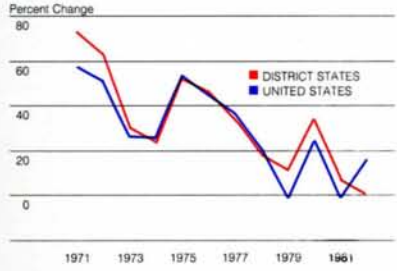
GROWTH IN TOTAL DEPOSITS AT SAVINGS AND LOANS



GROWTH IN DEPOSITS AT CREDIT UNIONS



GROWTH IN LARGE ACCOUNTS AT CREDIT UNIONS



yearly change was about the same in the District and elsewhere. The MMCD helped savings and loans attract funds but not enough to stop the decline in deposit growth. Growth at thrifts in this region remained above national growth, but the distance between the two growth rates narrowed in 1979.

The introduction of the money market certificate at banks and savings and loans was followed by a drop in deposit growth at credit unions. The MMCD was the first retail account with which banks or thrifts could offer a higher interest rate than was available at credit unions. The National Credit Union Administration did not authorize a comparable account until banks and thrifts already had offered the MMCD for five months. In addition, many credit unions were slow to market this new account. Consequently, growth in credit union accounts of $10,000 or more slowed sharply in 1978 and 1979, both nationally and in the District. In 1979, growth in the District fell below national growth. Balances in these larger accounts actually declined in New Mexico and Louisiana, while growth was comparatively strong in Texas. This difference apparently is attributable to prompt marketing of MMCD-type certificates by large credit unions in Texas.

Although the introduction of the money market certificate did strengthen the competitive position of depository intermediaries in attracting household savings, it did not put them on an equal footing with all nondeposit alternatives. The minimum balance for MMCDs was $10,000. This created an attractive alternative to short-term Treasury bills—which also required an initial $10,000 investment—but not a good substitute for money market mutual fund accounts. Minimum balances on these accounts typically were $1,000 to $2,500, and money market fund shares were more liquid than the six-month MMCD. Therefore, savings deposit growth at banks decreased as interest rates rose through early 1979. Growth in total deposits at savings and loan

NEW RETAIL DEPOSIT INSTRUMENTS

Money Market Certificate
Authorized: June 1, 1978
Interest rate ceiling: Auction rate on 26-week Treasury bills*
Minimum maturity: Six months
Minimum denomination: $10,000

Small Saver Certificate
Authorized: July 1, 1979
Interest rate ceiling: 1¼ percentage points less than the yield on 4-year Treasury securities*
Minimum maturity: Four years
Minimum denomination: None

Revision: Effective January 1, 1980, the minimum maturity was reduced to 2½ years and the ceiling interest rate was tied to the 2½ year Treasury yield, less 75 basis points*

NOW Account
Authorized: December 31, 1980
Interest rate ceiling: 5¼ percent
Minimum maturity: None
Minimum denomination: None

All Savers Certificate
Authorized: October 1, 1981
Interest rate ceiling: 70% of the yield on 52-week Treasury bills. However, the interest earned is tax exempt up to $1,000 for an individual and $2,000 for a jointly filed tax return.
Minimum maturity: One year
Minimum deposit: $500

7- to 31-Day Time Deposit
Authorized: September 1, 1982
Interest rate ceiling: Auction rate on 91-day Treasury bills, less 25 basis points*
Minimum maturity: 7 to 31 days
Minimum denomination: $20,000

Money Market Deposit Account
Authorized: December 14, 1982
Interest rate ceiling: None
Minimum maturity: None. Six preauthorized transfers are permitted per month, three of which can be third-party transfers.
Minimum balance: $2,500

Super NOW Account
Authorized: January 5, 1983
Interest rate ceiling: None
Minimum maturity: None
Minimum balance: $2,500

* The interest rate ceilings at thrift institutions were higher on these accounts.

BALANCES IN MONEY MARKET CERTIFICATES
Percent of Bank Deposits

	1978	1980	1982
U.S.			
All Banks	2.2	15.1	16.2
Small	2.7	22.9	25.1
Medium	2.6	17.3	19.1
Large	1.4	9.9	10.8
Four-State			
All Banks	2.4	15.0	15.0
Small	3.1	23.1	23.0
Medium	2.6	13.9	15.0
Large	1.0	6.0	5.1
Texas			
All Banks	2.4	13.8	13.3
Small	3.4	22.8	22.0
Medium	2.6	13.5	14.2
Large	0.8	3.3	3.6
Oklahoma			
All Banks	2.6	18.0	20.0
Small	3.2	26.2	29.8
Medium	2.5	14.1	18.9
Large	1.3	3.5	3.2
New Mexico			
All Banks	2.7	17.4	17.0
Small	2.5	18.0	18.8
Medium	3.0	16.0	15.3
Large	—	19.2	16.5
Louisiana			
All Banks	2.3	16.6	17.4
Small	2.4	21.8	22.8
Medium	2.4	14.8	15.8
Large	1.9	11.9	13.3

associations continued on a downward trend through 1981, although deposit growth at District thrifts always was above such growth nationally. In fact, growth increased in 1980 for the District, but competitive pressures remained a problem.

The increases in savings deposit growth for banks and District savings and loans, plus the flattening of the national downward trend in thrift deposit growth in 1980, probably reflect the decline in interest rates during the short recession that year. Then came the 1981 introduction of NOW accounts nationwide. NOW accounts had been available at some New England institutions since 1974. These accounts enabled competition with money market mutual funds on an additional dimension: transaction capabilities that paid an explicit rate of interest. They also gave thrifts the ability to offer a transaction account for the first time. Credit unions introduced a comparable deposit instrument—the share draft account—at about the same time, and their deposit growth jumped sharply in 1980.

Intermediaries in the four states relied about as heavily on NOW accounts as did their counterparts in the nation. At the end of 1982, the region's banks had about 6 percent of total deposits in NOW accounts, and District savings and loans had about 3 percent, compared with about 2½ percent for banks nationwide. New Mexico banks had about 9 percent of total deposits in NOW accounts.

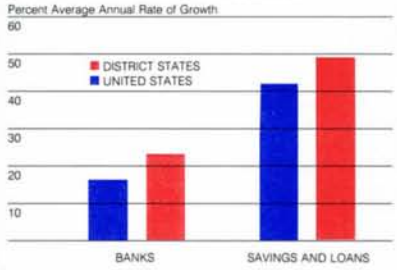
The year 1981 witnessed some of the highest short-term interest rates in history, causing deposit growth at savings and loans and credit unions to slow. Thrifts nationwide were earning a negative rate of return on assets. The nation entered a major recession, but economic growth continued in the four District states. Interest rates were lower the first half of 1982 but remained in the neighborhood of 13 to 15 percent. In this environment, institutions were authorized to begin offering money market deposit accounts late in 1982 and super NOW accounts early in 1983. With these two accounts, intermediaries finally gained deposit instruments that were fully competitive with money market mutual funds. The new accounts have been aggressively marketed by most types of institutions and are becoming an important source of funds in both the District and the nation.

NOW AND ATS BALANCES
Percent of Total Deposits

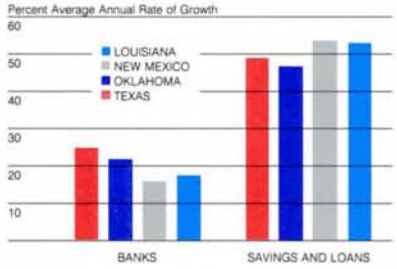
	1981	1982
U.S.		
All Banks	5.2	6.0
Small	6.4	8.0
Medium	5.8	6.8
Large	4.2	4.6
S&Ls	1.5	2.6
Four-State		
All Banks	4.9	5.9
Small	6.2	8.3
Medium	5.0	6.2
Large	3.0	3.2
S&Ls	1.8	1.5
Texas		
All Banks	5.0	5.9
Small	6.7	8.4
Medium	5.3	6.4
Large	2.8	2.8
S&Ls	2.0	2.9
Oklahoma		
All Banks	4.7	6.0
Small	6.1	7.8
Medium	4.8	6.7
Large	2.0	2.2
S&Ls	2.5	4.4
New Mexico		
All Banks	7.5	9.0
Small	6.7	8.2
Medium	7.0	7.6
Large	11.8	12.6
S&Ls	1.4	2.9
Louisiana		
All Banks	3.9	4.9
Small	4.1	5.4
Medium	3.9	4.8
Large	3.8	4.7
S&Ls	1.1	1.6

PRIME AREA FOR GROWTH
Growth in large time deposits was considerably more rapid in this region after 1976, with Texas and Oklahoma banks contributing to much of this growth. Small time deposits increased about the same everywhere.

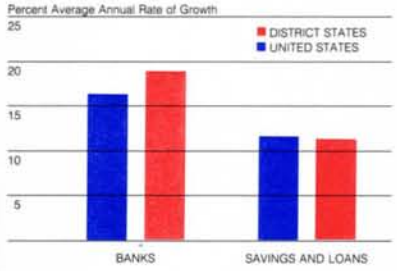
GROWTH IN LARGE TIME DEPOSITS, 1977–82
Percent Average Annual Rate of Growth



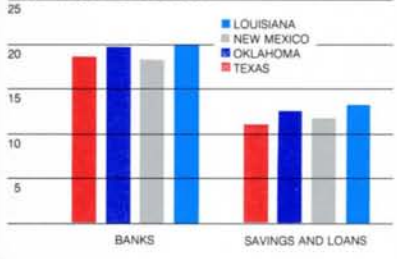
GROWTH IN LARGE TIME DEPOSITS, 1977–82
Percent Average Annual Rate of Growth



GROWTH IN SMALL TIME DEPOSITS, 1977–82
Percent Average Annual Rate of Growth



GROWTH IN SMALL TIME DEPOSITS, 1977–82
Percent Average Annual Rate of Growth



TIME DEPOSIT BOOM
Texas banks and thrifts set the pace toward an emphasis on large accounts.

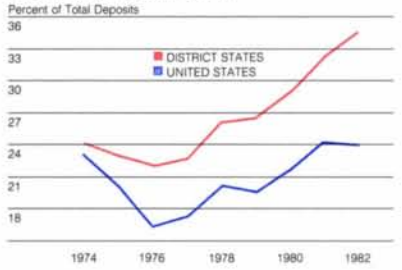
Large time deposits ($100,000 and above) are marketed primarily to businesses, and small-denomination deposits are sold mainly to households. An examination of the emphasis on each type of deposit across various classes of institutions provides some interesting comparisons. In general, banks rely on large time deposits to a greater extent than do savings and loans—large banks more so than small banks. Conversely, small-denomination time deposits are much more important to thrifts than to banks and matter more to small banks than to larger ones. Compared with their national counterparts, District banks and thrifts depend more on large time deposits.

Growth in large time deposits in the four District states has been considerably more rapid than elsewhere in the nation since 1976. Differences in average growth rates reached almost seven percentage points for both banks and thrifts. The exceptionally high rate of growth for savings and loans reflects the very small amount of these deposits outstanding at year-end 1976. Among banks, those in Texas and Oklahoma accounted for the relatively fast growth of large time deposits in the District. Growth in these deposits in New Mexico and Louisiana banks was similar to growth nationally. On the other hand, savings and loans in all four states added large time deposits faster than the national rate. New Mexico and Louisiana exhibited the greatest increases in time deposits, while Oklahoma was behind the District average.

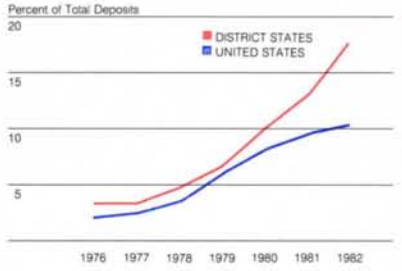
Growth in small time deposits was approximately the same in the District and the nation. Growth at District banks was slightly above, while growth at thrifts was almost identical to, the national figure. The growth rates were greater for banks than for savings and loans and were slightly higher at institutions in

LEADING THE WAY
Heightened reliance on large time deposits at District banks has been evident since 1974, while this region's thrifts began to outpace the nation in 1980. Texas banks and savings and loans were leaders in this trend, and New Mexico thrifts slightly edged out those in Texas.

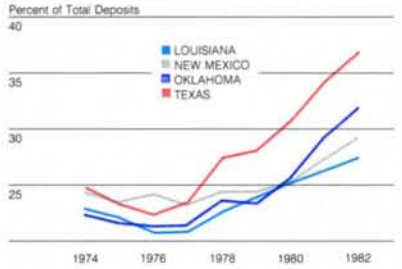
LARGE TIME DEPOSITS AT BANKS
Percent of Total Deposits



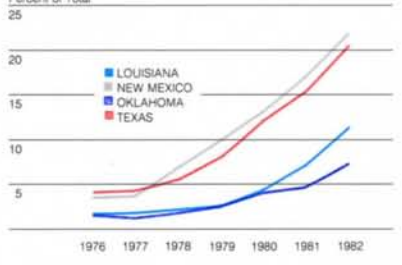
LARGE TIME DEPOSITS AT SAVINGS AND LOANS
Percent of Total Deposits



LARGE TIME DEPOSITS AT BANKS
Percent of Total Deposits



LARGE TIME DEPOSITS AT SAVINGS AND LOANS
Percent of Total



Oklahoma and Louisiana than in Texas or New Mexico.

The rapid growth of large time deposits at institutions in this District led to a situation where these deposits represented an increasing share of total deposits. Heavier reliance on large time deposits at District banks has been evident since 1974. Dependence on these deposits declined both nationally and in this region between 1974 and 1976, but the decline was much larger in the nation. Since then, reliance on these deposits has increased each year, and their importance to institutions in this District has strengthened even more—particularly in 1979 and 1982. At savings and loans, this area's reliance on large time deposits began to outpace the nation's in 1980. By 1982 the share of large time deposits was about seven percentage points higher in the District than elsewhere.

Within the four states, Texas banks and thrifts were leaders in the trend toward a heavier emphasis on large time deposits, and their liability bases became more concentrated in these deposits. Texas banks had no peers among banks in the other three states in this respect. After 1979, Oklahoma followed Texas' lead by increasing the percentage of deposits held in large time deposits—although the Oklahoma proportion remained about five percentage points lower. New Mexico savings and loans slightly outpaced those in Texas in the shift to large time deposits. Reliance on large time deposits by Louisiana thrifts did not increase as much, even though they acquired these deposits at a very rapid pace. The smaller increase in large certificates of deposit as a share of total deposits in Louisiana reflects the rapid growth in other types of deposits there. Thrifts in Oklahoma competed less aggressively in this market.

The relatively substantial increase in importance of large time deposits at banks in the District reflects greater reliance on these in-

LARGE TIME DEPOSITS
Percent of Total Deposits

	1976	1978	1980	1982
U.S.				
All Banks	16.3	20.1	21.5	23.9
Small	8.6	9.9	11.1	12.1
Medium	14.0	16.5	17.6	17.4
Large	22.7	28.1	28.8	32.2
S&Ls	2.1	3.4	8.0	10.1
Four-State				
All Banks	21.9	25.9	28.7	34.4
Small	13.6	15.6	17.3	20.7
Medium	27.2	29.6	31.1	33.0
Large	32.0	40.2	42.4	51.6
S&Ls	3.2	4.5	9.9	17.5
Texas				
All Banks	22.1	27.2	30.5	36.7
Small	12.4	14.3	16.2	19.8
Medium	28.0	31.4	32.2	34.3
Large	32.7	42.6	46.2	55.8
S&Ls	3.9	5.4	12.0	20.4
Oklahoma				
All Banks	21.3	23.6	25.5	31.9
Small	14.1	15.4	16.0	19.1
Medium	31.5	31.3	31.6	31.8
Large	34.4	39.5	40.8	55.2
S&Ls	1.4	1.6	4.0	7.2
New Mexico				
All Banks	24.1	24.4	25.2	29.1
Small	21.2	24.1	26.2	29.7
Medium	28.0	24.7	24.8	31.4
Large	—	—	23.2	24.6
S&Ls	3.5	7.0	13.0	21.9
Louisiana				
All Banks	20.8	22.7	25.4	27.4
Small	16.1	18.7	21.5	24.4
Medium	24.3	25.7	29.0	29.6
Large	22.9	24.1	24.9	27.5
S&Ls	1.7	2.2	4.5	11.4

SMALL TIME DEPOSITS
Percent of Total Deposits

	1976	1978	1980	1982
U.S.				
All Banks	18.9	18.7	25.2	27.8
Small	29.0	30.0	39.7	42.5
Medium	19.5	20.6	28.9	32.4
Large	11.7	10.9	15.9	18.9
S&Ls	57.6	64.7	71.1	66.9
Four-State				
All Banks	17.7	17.5	22.0	22.8
Small	25.4	25.7	33.5	35.0
Medium	13.8	15.1	20.6	23.5
Large	6.3	5.2	7.2	8.0
S&Ls	67.9	72.9	75.2	65.6
Texas				
All Banks	16.8	16.2	20.2	20.5
Small	25.2	25.2	32.6	33.8
Medium	12.9	14.1	19.8	22.1
Large	6.2	4.8	5.3	5.7
S&Ls	68.4	73.1	73.6	62.6
Oklahoma				
All Banks	20.8	21.4	26.8	28.1
Small	28.0	29.0	38.2	40.4
Medium	12.7	15.2	21.4	28.0
Large	6.7	6.0	6.5	6.0
S&Ls	70.2	76.6	81.9	75.4
New Mexico				
All Banks	19.1	18.9	25.4	26.2
Small	20.3	19.2	25.6	26.3
Medium	17.6	18.5	24.6	25.2
Large	—	—	26.6	27.7
S&Ls	65.1	68.5	72.3	61.8
Louisiana				
All Banks	18.1	19.0	24.6	27.5
Small	24.8	26.3	33.3	35.5
Medium	15.4	16.9	21.9	25.5
Large	6.8	7.2	15.9	20.6
S&Ls	65.3	71.2	77.7	72.0

struments by banks of all size classes. The District-national disparity was particularly evident among large banks, with the share of total deposits about nine percentage points higher in the District in 1976 and more than 19 percentage points higher in 1982. Similar changes are observable for small- and medium-sized banks, although the regional differences are less dramatic for these institutions.

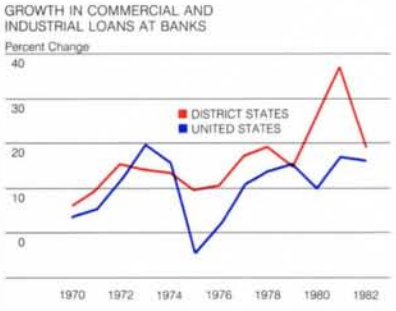
The experience of large banks in the four states was dominated by the behavior of banks in Texas and Oklahoma. The two large banks in New Mexico, for example, acted more like medium-sized banks in the other states. In Louisiana, large banks rely less on large certificates of deposit than do medium-sized banks.

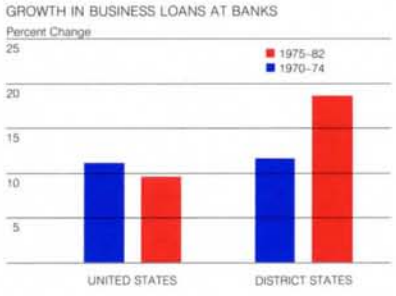
Patterns of reliance on small time deposits are largely a mirror image of those for large time deposits. Small banks generally depended more on small deposits than did large banks, and thrifts acquired more of their funds in this way than did banks. Banks in Texas and Oklahoma stand out against banks in New Mexico and Louisiana—and against banks everywhere—as having lower percentages of small time deposits. Over most of the period, thrifts in this region increased dependence on these deposits more rapidly than savings and loans elsewhere, but national and District totals converged by 1982. The importance of these accounts was remarkably high at thrifts in Louisiana throughout the period. In Texas and New Mexico, however, these institutions relied less heavily on small time deposits by 1982 compared with the national average. A decline in the use of these accounts by thrifts between 1980 and 1982 probably reflects the substitution of large certificates of deposit and money market deposit accounts for small time accounts.

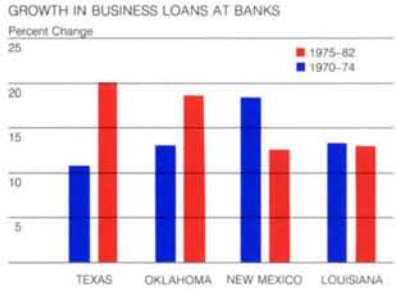
ENERGY IMPACT
Business lending takes off with rising oil prices.

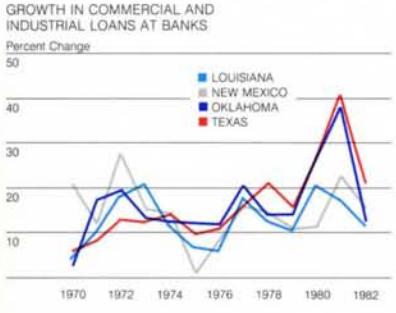
Growth in business loans made by commercial banks in the four District states was greater in nearly every year of the 1970–82 period than growth at banks throughout the country. The principal exceptions were 1973 and 1974, when lending surged more nationally. The pattern

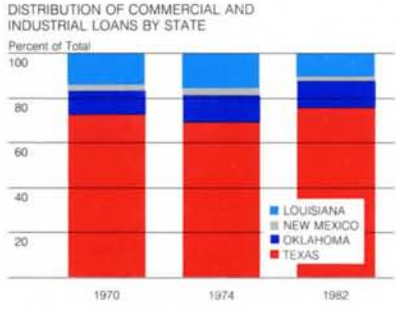
OIL PRICES BOOST COMMERCIAL AND INDUSTRIAL LOANS
Between 1970 and 1982, bank commercial and industrial lending generally was greater in this region than elsewhere. Before 1974, the pattern of lending in the District closely followed that of the nation. After that, however, the effects of oil price increases set the four states apart from the nation. Growth especially was rapid in New Mexico through 1974 and in Texas and Oklahoma afterward, with the rise in lending in Texas concentrated at large banks.

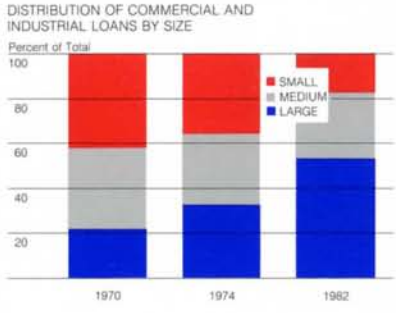












of loan growth was the same in this region and the nation except for the years immediately following dramatic increases in oil and gas prices in 1973 and 1979. In 1975 and 1976, business lending was appreciably stronger in the District than elsewhere, although it fell slightly below growth for the previous three years.

Response to the doubling of oil prices in 1979 produced a much larger divergence between the paths of District and national business loan growth, reflecting the patterns observed for energy industry employment. Lending rose sharply in the four states while it declined for the nation overall. Not until 1982 did growth in the District drop to the national level of business loan growth.

Responses to the two oil price increases can be used to divide the period into two intervals. In the first interval—approximately 1970 through 1974—business loan growth in the Eleventh District was about equal to growth throughout the country. In the second interval, the dramatic growth at area banks clearly sets the four states apart from the nation. For the nation, business loan growth averaged 1½ percentage points lower in the years after 1974 than in the preceding years. Growth at banks in the District, however, was seven percentage points higher in the later period.

The year-by-year growth pattern varied across the District states. Before 1975, growth was relatively low in Texas and was high in New Mexico. After 1974, growth was lowest in New Mexico and was high in Texas and Oklahoma. This reflects differences in the impact of oil price increases in the respective states. Growth in Louisiana remained in an intermediate range, somewhat above national growth.

Growth in commercial and industrial loans after 1974 was the most rapid in Texas banks and in large banks. Through 1974, Texas banks held about 70 percent of these loans in the four-state area. Subsequently, banks in Texas accounted for almost 80 percent of the region's growth in such loans, and the concentration of commercial and industrial loans in Texas rose above 75 percent. Nearly all of a corresponding decline in the share of this business occurred in Louisiana banks.

The increase in the concentration of commercial and industrial loans at large banks was greater. The proportion of area loans outstanding at large banks rose from one-fifth to one-half between 1970 and 1982, with two-thirds of this increase occurring after 1974. The share at small banks declined by more than 50 percent, while the share at medium-sized banks fell about 20 percent. Increases in concentration at large banks reflect growth in the number of banks with assets exceeding $750 million as well as growth in banks that already were large at the beginning of the period. Large banks in 1982 provided 35 percent of commercial and industrial loans in 1970. They also accounted for 38 percent of the growth between 1970 and 1982 and over 46 percent of growth after 1974.

CONSTRUCTION LOANS BUILD
When growth was high nationally, it was higher here.

The pattern of growth in wholesale real estate loans by banks in the District was similar to the pattern for this type of lending by banks everywhere else. The difference is that during periods when growth was high nationwide, it was even higher in this area. The gap between growth in the four states and that in the nation was smallest in the recession years of 1975 and 1980. It was greatest in 1976 and 1982.

Dividing the interval into two subperiods at 1975—the rapid expansion in real estate loans trailed the surge in commercial and industrial loans by a year—allows some interesting comparisons. For the nation the average annual rate of growth in wholesale real estate lending was about the same before and after that year. However, such lending by banks in this District was, on average, nearly seven percentage points higher after 1975. The patterns for the individual states reveal that banks in Texas and Oklahoma were more active in this market, particularly in 1980 and 1981, just as they were in the market for business loans. Louisiana stands out as the state in which the lending pattern more closely resembled that of banks in the rest of the nation than banks in the District. New Mexico's growth set the pace for the District until 1977, after which it weakened until 1982.

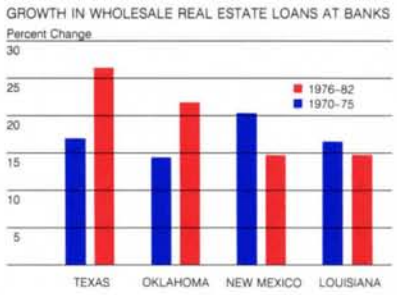
As was the case with commercial and industrial loans, wholesale real estate loans grew fastest in Texas and at large banks. The change in the distribution of these loans, however, was even greater than that for commercial and industrial loans. Almost 80 percent of the increase was concentrated in Texas banks, and Texas' share of these loans rose from about 60 percent through 1975 to over 70 percent in 1982. The share at Louisiana banks fell sharply after 1975.

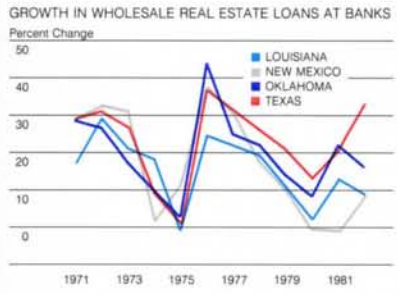
Concentration of wholesale real estate loans at large banks increased from under 10 percent in 1970 to 40 percent in 1982. The portion of this lending provided by small banks dropped from over half to about one-quarter. Banks that were large in 1982 accounted for about one-fourth of wholesale real estate loans in 1970, for 40 percent of the growth from 1970 to 1982, and for nearly 44 percent of the growth after 1975.

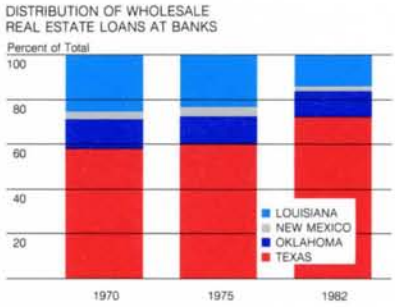
During the 1970s, savings and loan associations increased their activity in the market for wholesale real estate loans, and growth in their construction lending followed a different pattern from the growth experienced by banks. As was true in the case of wholesale real estate loans by banks, growth in construction loans by savings and loans was quite high in the years immediately following the 1973–75 recession. Lending became sluggish in the

REAL ESTATE LENDING TOPS THE NATION

Wholesale real estate lending at banks in this District topped national growth, especially after 1975. Texas and Oklahoma banks were the most active in this market, and the loans became most concentrated in large banks and in Texas banks.







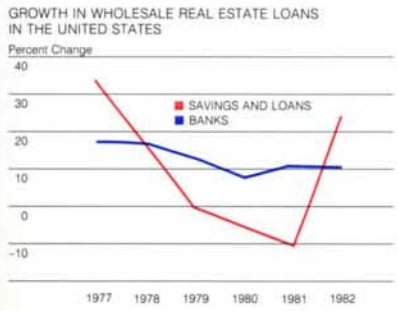
early 1980s for thrifts, however, as high interest rates weakened demand for financing residential construction projects. But construction lending at thrifts increased sharply in 1982. Growth in bank wholesale real estate loans slipped down in 1980, and growth in these loans did not increase between 1981 and 1982.

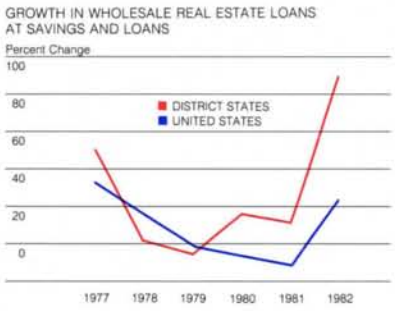
In the four states, growth in construction loans at thrifts generally was above growth in savings and loan construction lending nationally, but the difference was most pronounced in 1982. The sharp pickup that year was in response to an increase in residential construction that occurred as interest rates fell.

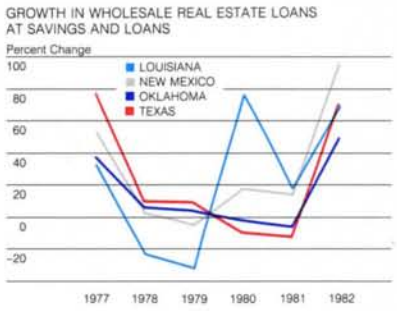
These loans were funded by the issuance of large time deposits. A large portion of thrift construction lending is used to finance residential construction, and faster growth in District construction lending in 1982 reflects the strength of this region's housing market. As a share of total loans at area thrifts, construction

A VERY GOOD YEAR

Savings and loan associations followed a different pattern in wholesale real estate lending than did banks. This region advanced much higher in 1982 than the rest of the nation on the strength of a large increase in housing starts. Texas thrifts increased construction loans 100 percent that year.

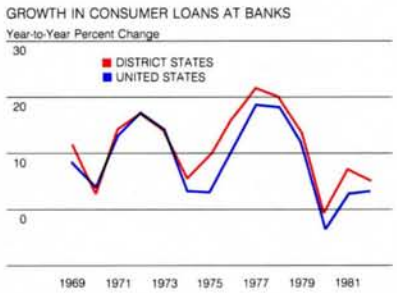


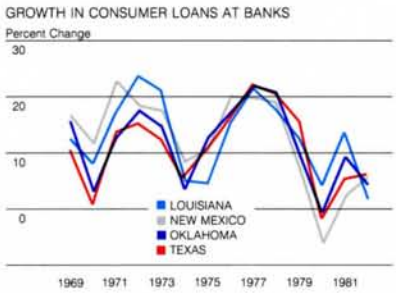


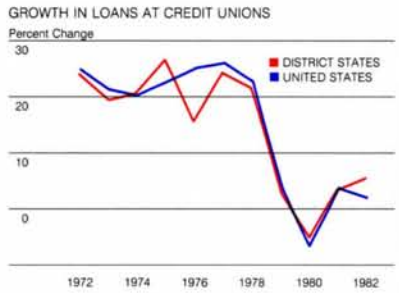


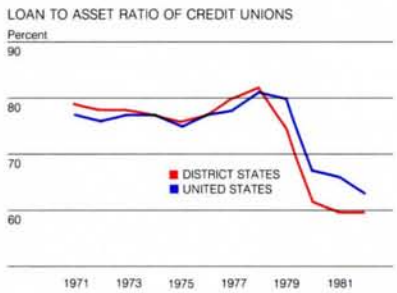
CONSUMER LOANS CONSISTENT

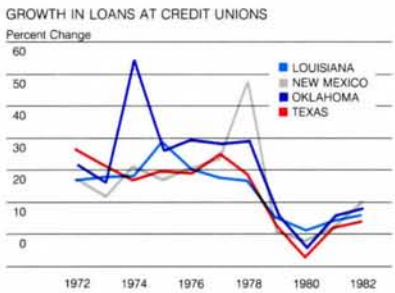
Bank consumer loans grew about the same in the nation, the District and the individual four states. A 1979 federal interest rate ceiling caused a drop in loan-to-asset ratios at credit unions everywhere. Credit union loan growth varied widely in the individual states until 1979 when it dropped significantly in all four.











financing increased from its historic level of 6 percent to about 10 percent in 1982. Nationwide, the portfolio share of construction lending showed little change in 1982.

All four District states registered sharp increases in construction lending in 1982, although growth by Texas savings and loans—at nearly 100 percent—was the highest. Growth in savings and loan construction lending in Oklahoma was the lowest among the four states that year. Since 1976 the patterns of change in growth rates have been about the same for Texas, New Mexico and Oklahoma. In Louisiana, growth was considerably below growth in the other three states in 1978 and 1979 and was much above their growth in 1980. The high 1980 growth presents an interesting contrast to the very low growth in wholesale real estate loans outstanding in Louisiana banks in 1980.

SUPPLY SIDE CONSTRAINTS

Disintermediation and credit control brought instability to mortgage and consumer lending.

Growth in retail loans, which consist largely of consumer loans and loans to purchase homes, followed about the same pattern between 1970 and 1982 in the District and the nation. During the first half of this interval, loan growth was weakened in recession years because the effects of high interest rates and low income growth—which normally reduce the demand for loans—were reinforced on the supply side by constraints arising from disintermediation. These supply constraints tended to limit mortgage lending by savings and loans more than lending by banks. Credit unions largely were insulated from disintermediation, so loan growth at credit unions remained fairly high during the first half of this period.

After the credit crunch of the middle 1970s, acute disintermediation no longer forced sharp drops in lending by depository intermediaries. By the late 1970s, however, the chronic disadvantage of these institutions in competing for household savings—combined with the effect of high, volatile interest rates on consumer loan demand—did depress retail lending. In addition, rising interest rates overtook usury ceilings for particular types of loans. When this occurred, the affected institutions placed fewer funds in loans whose interest rates were capped.

Another factor that generated instability in loan growth was the credit restraint program of 1980. High inflation and rising interest rates prompted the government to

discourage intermediaries from expanding their loan portfolios. This program was short-lived, but the effect on consumer lending was dramatic. It was followed by two years of little or no real economic growth, and consumer loans have yet to recover their former vigor.

Consumer loan growth at commercial banks in the Eleventh District followed a pattern of year-by-year change that was almost identical to that of the rest of the nation. Growth in the four states dropped a little more sharply in 1970 and then tracked growth nationally almost exactly through 1973. After that, growth here moved somewhat above national growth in 1974, as the rebound from the 1973–75 credit crunch began a year earlier in the District than it did elsewhere. This probably reflects the greater strength of this region's economy after the increase in oil prices in 1973. The growth paths diverged slightly in 1981 as well, but the effects of oil price increases were much smaller on consumer lending than on business lending. The sharp drop in 1980 caused by the credit restraint program was of about the same magnitude in the District and the nation.

Year-by-year growth in bank consumer lending in the four individual states followed a pattern very similar to that of the nation and the District total. Growth in New Mexico was comparable to the pattern of that state's growth in manufacturing employment and business lending. It was higher than in other District states during the early 1970s and somewhat lower after that. The 1970 decline in growth was very sharp for Texas and Oklahoma and was milder for New Mexico and Louisiana. Growth in consumer loans for the individual states particularly was consistent at the cyclical peak of 1977, but the drop in 1980 varied considerably across states. This drop was very large for New Mexico and was noticeably smaller for Louisiana. Separation in the growth paths continued in 1981, but the paths converged in 1982.

Credit unions represent the other principal originator of consumer loans. In the four District states, loans outstanding at credit unions ranged from 17.5 percent of bank consumer loans in 1972 to 21 percent in 1982. The year-by-year growth pattern for credit union loans outstanding in this region followed the path for these institutions nationally during most of the 1972–82 period. Variability was higher in 1975 and 1976, but the growth rates otherwise were within a couple of percentage points of one another until 1982. The absence of any effect of disintermediation is apparent in the growth rates through 1978, and the rates remained in the neighborhood of 20 percent.

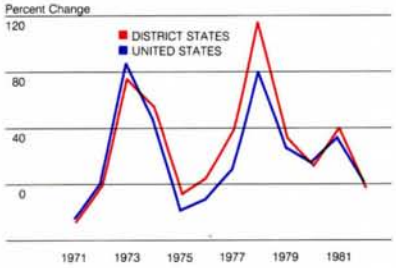
In 1979, however, the interest rate ceiling for loans at all federal credit unions curtailed consumer lending. This ceiling was 15 percent, and credit union loan growth dropped sharply in both the nation and the District. The decline in each case was of about the same magnitude. Credit unions continued to attract deposits, so they began placing funds in investments that were not regulated. Therefore, the loan-to-asset ratio of credit unions fell considerably in 1979. This ratio fell further in the four states than in the nation because the faster deposit growth here gave District credit unions more new funds to invest. Loan growth dropped further in 1980 under the credit restraint program, but this had a lesser effect on credit unions than on other institutions. The drop again was about the same in the District and the nation.

Credit union loan growth varied widely across the individual states until 1979, when it dropped significantly in all four. A 1975 bulge for the four-state total reflects increases in loan growth in Texas and, especially, Louisiana credit unions.

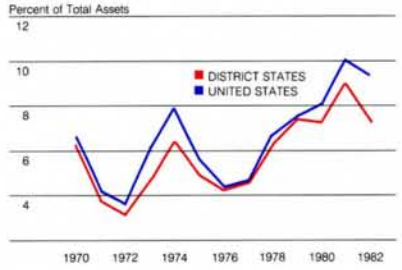
REGULATORY CLIMATE

A combination of events helped support higher growth in mortgage lending in this District during 1973 and 1974. In the recovery from the 1974 slump, both deposits and advances from the Federal Home Loan Bank Board increased more rapidly in this region than in the nation, although advances as a percent of total assets were lower here. In 1979, however, usury ceilings temporarily brought conventional mortgage lending to a halt in Texas.

GROWTH IN FEDERAL HOME LOAN BANK ADVANCES

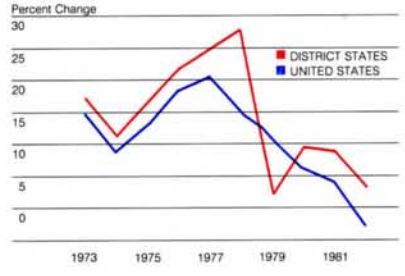


FEDERAL HOME LOAN BANK ADVANCES



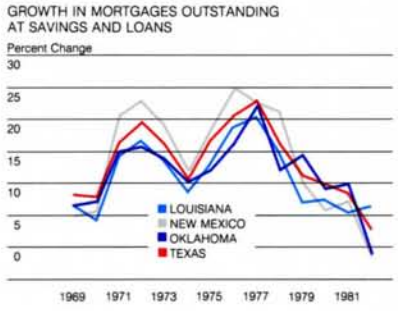
TEXAS USURY CEILING AND CONTRACT INTEREST RATE FOR MORTGAGES IN THE UNITED STATES

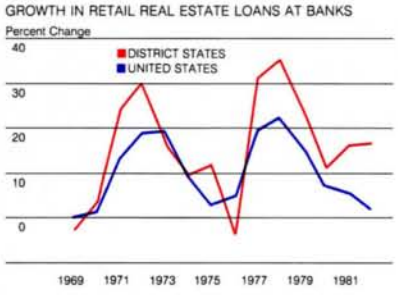
GROWTH IN CONVENTIONAL MORTGAGES AT SAVINGS AND LOANS

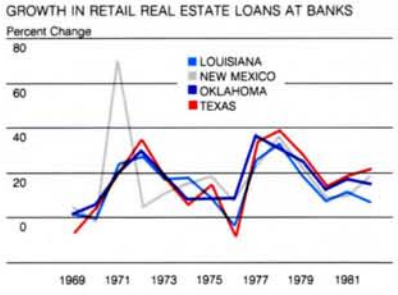


UPS AND DOWNS

Mortgage lending at District savings and loans tracked national growth but generally was higher. The four individual states followed similar growth trends. Retail real estate loans at banks increased faster in this region than elsewhere but were subject to more volatility in growth. The individual state patterns for these loans were not unique, with the exceptions of New Mexico in the early 1970s and Texas-Louisiana in 1976.







Growth in Oklahoma was most pronounced before 1979, and both Oklahoma and New Mexico experienced sharp peaks during this period: Oklahoma's in 1974 and New Mexico's in 1978. Before 1979, growth at Texas and Louisiana credit unions was relatively stable, in the 18 to 25 percent range.

For District savings and loan associations, growth in mortgage lending tracked growth in the nation very closely until 1972. After that, year-by-year growth followed a similar pattern in the nation and the region but was higher here in almost every year. The differences were greater in 1977 and in the 1981–82 period. Mortgage lending was harder hit in the 1969–70 period of disintermediation than in the 1974 episode, and growth in the District in 1974 remained further above growth in the nation than it had in 1970. In part, increased growth during this period reflects the higher deposit growth of this region's savings and loans in 1973 and 1974. It also reflects a more liberal policy of advances by the Federal Home Loan Bank Board. In the recovery from the 1974 slump, both deposits and advances from the Home Loan Bank increased more rapidly in the District than in the nation, although advances as a percentage of total assets were lower in this region. This combination of events helped support higher growth in mortgage lending in the four states over the period. Although growth in deposits leveled off in 1976 and began to decline in 1977, mortgage lending increased in 1977 for both the nation and the District.

Growth in mortgage lending declined after 1977, however, as high interest rates curtailed the demand for mortgages and the profitability of savings and loan associations nationwide. Growth in loans outstanding in the nation and the region converged in 1979 as usury ceilings brought conventional mortgage lending to a halt in Texas. FHA- and VA-insured mortgages offset some of this decline. However, District lending did not again overtake national lending until after passage of federal legislation voiding all state usury ceilings on mortgages. The Texas Legislature subsequently reestablished a ceiling, but this has not been binding.

Except for Texas in 1979, each of the four states followed the national pattern closely for growth in mortgage loans outstanding, although there was some diversity in individual years. Thrifts in New Mexico registered the highest growth before 1979, after which they dropped to last place. At that point, Oklahoma savings and loans—which had experienced slow growth—began expanding their mortgage portfolios at a faster pace than their counterparts in the other states. In 1982, however, those thrifts joined New Mexico's as the slowest-growing institutions. Growth in Texas generally was high, while growth generally was low in Louisiana. The growth in these two states reflected different rates of population growth.

Commercial bank lending secured by one- to four-family residences generally grew faster in the District than in the nation but also was considerably more volatile. The volume for this type of lending was approximately one-quarter that for savings and loan mortgage lending in the District—slightly below the national ratio. The year-by-year patterns bear fairly strong resemblances to the growth patterns for wholesale real estate loans: very high growth in 1972, a sharp dropoff in 1975 and 1976, and very high growth again in 1977 and 1978. This region's growth exceeded growth in the nation by the widest margin during cyclical peaks.

With the exception of New Mexico, loan growth in the individual states closely followed the four-state

pattern. A 1976 plunge reflected the withdrawal from this market by banks in Texas and Louisiana. In the early 1970s, growth in retail real estate loans at New Mexico banks moved independently from such growth in the other states, but New Mexico loan growth was similar to others in the region after 1975.

THE STAGE IS SET
In the future, diversification and retail banking will become more attractive as competitive pressures increase.

Through the rest of this decade, the influence is likely to subside for the two forces that dominated behavior in the District during the past ten years: rising interest rates in conjunction with regulatory ceilings on deposit yields and energy-driven surges in economic growth in the Southwest. Interest rate ceilings have been removed for most types of small-denomination deposits, and there is little room for additional growth through expansion of non-interest-bearing demand accounts and passbook-type savings accounts. The time, savings and transaction instruments that pay market interest rates are the vehicles that can be used to build profitable customer bases in the future.

The other dominant factor of the past decade—economic growth in the Southwest—also will change. The 1982 and 1983 declines in oil prices have shattered the illusions of those wishing to build empires based on continuing increases in energy prices. Economic growth in the District should remain above that for the nation, but ups and downs will follow the fortunes of the national economy more closely in the future than in the past ten years. The price of oil again may rise abruptly, but increases of the magnitude seen in 1973 and 1979 are unlikely. Furthermore, the response to a price increase of any given size should be more restrained than reactions to the 1979 oil price increase. The 1982 and 1983 declines in oil prices have threatened the solvency of many borrowers, and this sobering experience should influence the behavior of banks in this region for some time.

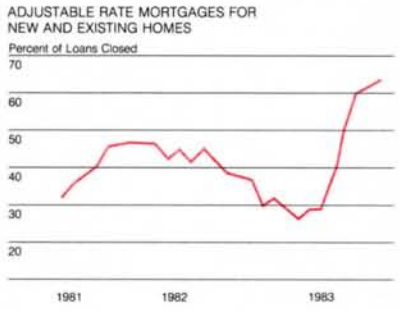
With economic growth returning to a more normal pace and interest rate ceilings fading from the picture, banks in this area will focus greater attention on the household customer. This shift should be particularly attractive for large banks in Texas and Oklahoma, which now have an exceptionally strong orientation toward wholesale banking. The incentive to move in the other direction will be reinforced by new freedom to engage in additional business activities. In the future, banking organizations are expected to provide a broader array of services—such as brokerage activities and insurance—to household customers. They will have an increased ability to serve households as general financial custodian and advisor. However, success here will depend on their ability to attract these accounts.

A move in this new direction will lead to a larger share of income coming from service fees as opposed to interest rate charges on loans, but banks will not ignore loans as a source of revenue growth. In fact, the stage appears to be set for banks to consider consumer lending as a growth market. Variable-rate loans of different types have been in existence for some time now, and the variable-rate consumer loan may well be a product whose time will come in the near future.

Savings and loan associations are likely to continue the same kinds of activities as in the past couple of years, with NOW accounts, small time deposits and money market deposit accounts serving as major sources of funds. Given their comparative advantage in competing for household deposits, thrifts may decrease their reliance on large time deposits.

Recent innovations in mortgage

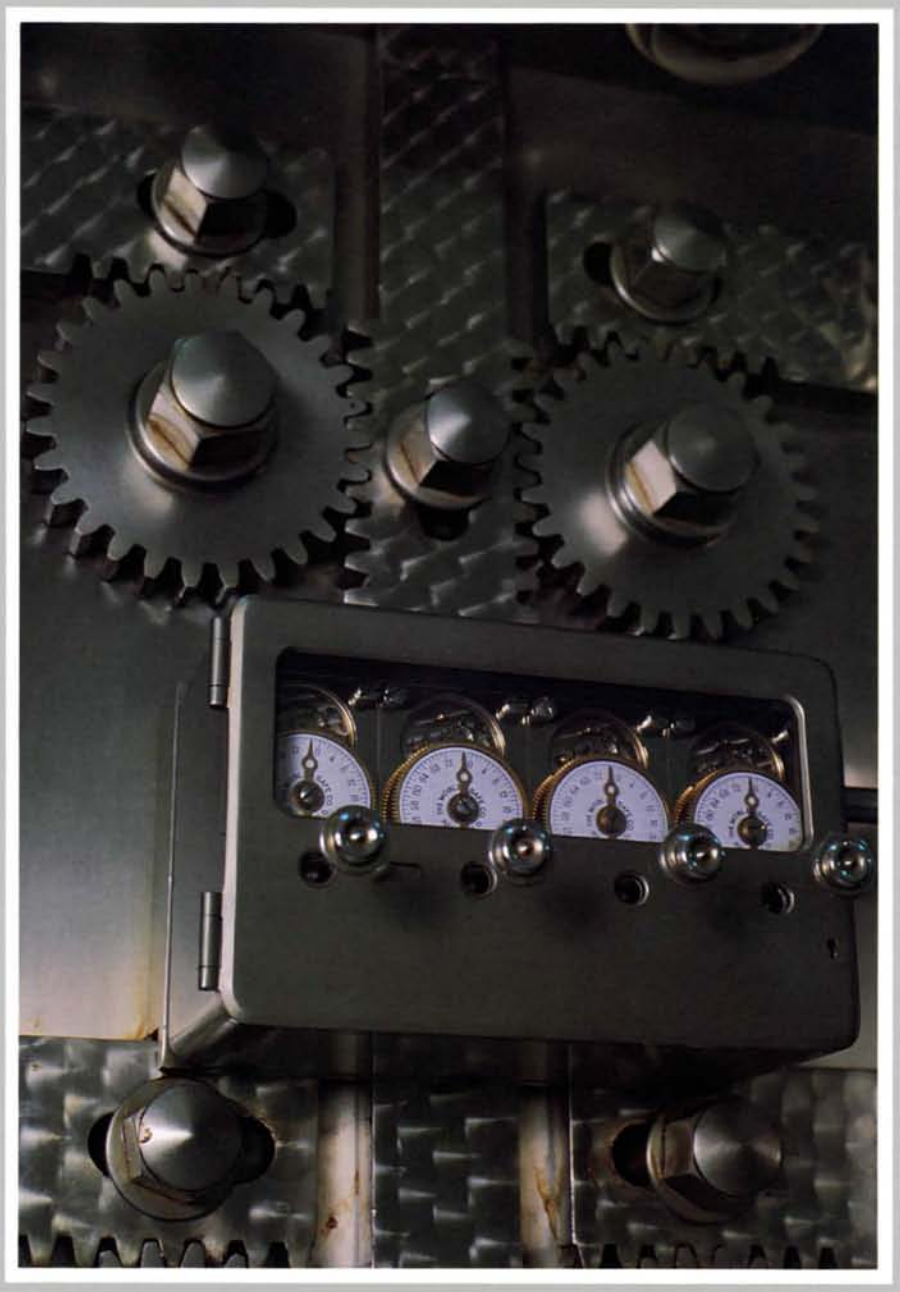
INNOVATIVE LENDING
Variable-rate mortgages have become increasingly important in recent years.



lending also should become standard practice. Mortgages increasingly have featured variable rates, and savings and loans now sell mortgages in the secondary market and hold mortgage-backed securities. This satisfies requirements that thrifts devote a certain percentage of their assets to housing. But these changes also are significant because they reduce exposure to interest rate risk as well as increase the liquidity of savings and loans—and both innovations should become more widespread. Substantial increases in construction lending are not likely to be sustained indefinitely, but area thrifts will continue to look beyond mortgages for opportunities to diversify. Nevertheless, diversification will continue to be repressed by legal restrictions on the amount of nonmortgage lending allowed. Although thrifts will remain heavily oriented toward households, efforts toward penetrating the business sector will continue.

With the removal of interest rate ceilings on most deposits, credit unions have lost some of their past advantage over banks and savings and loan associations. Nevertheless, credit unions have shown in the early 1980s that they can continue to survive even though banks and thrifts can compete with credit union rates. Because of their cooperative structure, credit unions enjoy a highly favorable tax treatment. Furthermore, the relationship of individual credit unions with specific groups of employers provides good access to specialized markets that they are well prepared to serve. Consumer loan demand is expected to rebound with the general economic recovery, and credit unions in the District should continue to match the performance of credit unions nationwide.

But regardless of whether an institution emphasizes wholesale or retail intermediation, banks, thrifts and credit unions will face increasing competition through the rest of the decade from different types of institutions in all parts of the country. Changing technology and regulatory philosophy have transformed the products of these other institutions into close substitutes for those of the traditional depository intermediary. In addition, some institutions already have expanded their activities across state lines. Such competitive pressure is likely to intensify over the remainder of this decade and could become the dominant force shaping the behavior of institutions in this District and the nation.




Washington National Bank
ONE
DOLLAR
THE NATIONAL CURRENCY
100
1723
National Currency
United States of America
MERCANTILE
NATIONAL BANK
DALLAS
ONE HUNDRED DOLLARS
12707
3200
1882
1908
50

Electronic innovation and streamlining of processes were the tools used by the Federal Reserve Bank of Dallas during 1983 to serve area financial institutions in an atmosphere of deregulation and accelerated competition. A new department was established to provide a service liaison with institutions, while another continued to address problems associated with computer and communications networks on a System-wide basis.

Speed and efficiency in the payments mechanism function continued to be a major concern at the Dallas Fed. Automated clearing-house capabilities were expanded with later item deposit deadlines and an option for electronic corporate trade payments. Later check deposit deadlines were offered with improved availabilities to accomodate financial institutions' increasing need for flexibility.

Of particular significance in 1983 was the implementation of a return item pilot program at the Dallas Fed. This experimental project benefits Eleventh District institutions with a reduced sorting burden for returns, expedited collection of return items, reduced risk of loss through notification of large returns, and reduced costs for other check processing services. Phased-in applications were scheduled for completion in the first quarter of 1984.

Operations

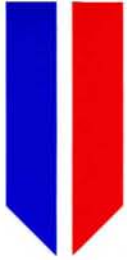
To better serve area financial institutions in a changing atmosphere, the Dallas Fed adapted a number of service offerings and, in January, created a Corporate Banking Department to provide a liaison between financial institutions in this District and the Dallas Fed.

In April, a 7:00 p.m. deadline for mixed and other Fed cash letters was introduced, and nonmachineable cash letter deadlines were extended from 7:00 a.m. to the city deadline. The mixed program was offered at the Dallas, Houston and San Antonio offices. The nonmachineable cutoff was extended at all offices. These enhancements were designed to improve availability and promote speed and efficiency for the payments mechanism function.

By the end of the second quarter of 1983, noncash collection services had been expanded. In addition to accepting for collection matured corporate and municipal coupons on a cash processing basis, the Dallas Fed began including matured corporate and municipal bonds payable in the Eleventh District in its cash processing procedure. New joint safekeeping procedures and a pilot program for the collection of sight drafts were adopted in August.

An automated clearinghouse pilot program for electronic corporate trade payments also was implemented in 1982. The ACH pilot allowed corporations to originate ACH payments with almost unlimited addenda records for payment descriptions and other information. Prior to this innovation, ACH services were used primarily for consumer payments such as salaries, insurance premiums or mortgage payments. In October, originators of ACH items were offered the option of deposits being accepted at a nighttime deadline. This represented another improvement in availability and made it possible to accommodate payments that normally would be processed during the day but had been delayed due to operational problems.

A significant service expansion during 1983 was the establishment of several offsite settlement centers for check processing. An offsite center operates as a small regional check processing center—receiving and sorting checks drawn on institutions in remote areas of the Eleventh District. These centers are unique to the Dallas Fed and were begun originally in the early 1970s. Offsite centers make it more convenient for financial institutions to process checks, and offer the advantages of earlier availability of credit and faster presentment of items for payment. This increase in the efficiency of check collection has been a major goal throughout the Federal Reserve System.

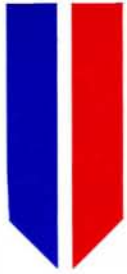


Statement of Condition

	December 31, 1983	December 31, 1982
ASSETS		
Gold certificate account[1]	**$ 750,000,000**	$ 743,000,000
Special Drawing Rights certificate account[2]	**310,000,000**	310,000,000
Coin	**28,176,166**	31,811,551
Loans to depository institutions	**69,600,000**	159,700,000
Securities:		
Federal agency obligations	**598,174,516**	605,772,700
U.S. Government securities	**10,417,528,318**	9,191,977,299
Total securities	**$11,015,702,834**	$ 9,797,749,999
Cash items in process of collection	**1,101,371,257**	1,404,085,127
Bank premises (net)	**18,197,964**	16,015,519
Other assets	**1,185,881,707**	577,918,963
Interdistrict settlement account	**(1,247,024,708)**	91,373,584
TOTAL ASSETS	**$13,231,905,220**	$13,131,654,743
LIABILITIES		
Federal Reserve notes	**$ 9,943,735,343**	$ 9,316,417,905
Deposits:		
Depository institutions	**1,984,967,913**	2,408,406,887
Due to other Federal Reserve Banks—collected funds	**–**	763,616
Foreign	**10,350,000**	13,650,000
Other	**29,897,765**	44,391,053
Total deposits	**$ 2,025,215,678**	$ 2,467,211,556
Deferred availability cash items	**884,465,741**	1,024,365,314
Other liabilities	**163,189,258**	135,144,768
TOTAL LIABILITIES	**$13,016,606,020**	$12,943,139,543
CAPITAL ACCOUNTS		
Capital paid in	**$ 107,649,600**	$ 94,257,600
Surplus	**107,649,600**	94,257,600
TOTAL CAPITAL ACCOUNTS	**$ 215,299,200**	$ 188,515,200
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	**$13,231,905,220**	$13,131,654,743

[1]This Bank's share of gold certificates deposited by the U.S. Treasury with the Federal Reserve System.

[2]This Bank's share of Special Drawing Rights Certificates deposited by the U.S. Treasury with the Federal Reserve Bank of New York.



Income and Expenses

	1983	1982
CURRENT INCOME		
Interest on loans	**$ 50,351,114**	$ 15,125,041
Interest on government securities	**1,036,724,272**	1,019,659,201
Income on foreign currency	**18,891,868**	27,925,967
Income from priced services	**35,139,599**	26,088,093
All other income	**624,058**	621,310
Total current income	**$1,141,730,911**	$1,089,419,612
CURRENT EXPENSES		
Current operating expenses	**$ 62,675,887**	$ 61,399,571
Federal Reserve currency	**--**	4,755,151
Total current operating expenses	**$ 62,675,887**	$ 66,154,722
Less expenses reimbursed or recovered	**(3,699,235)**	(3,786,618)
Current net operating expenses	**$ 58,976,652**	$ 62,368,104
Cost of earnings credits	**2,579,199**	-
Current net expenses	**$ 61,555,851**	$ 62,368,104
CURRENT NET INCOME	**$1,080,175,060**	$1,027,051,508
PROFIT AND LOSS		
Additions to current net income:		
Profit on sales of government securities (net)	**$ 1,432,608**	$ 5,851,259
All other additions	**11,138**	40,300
Total additions	**$ 1,443,746**	$ 5,891,559
Deductions from current net income:		
Loss on foreign exchange transactions (net)	**$ 31,484,519**	$ 9,724,794
All other deductions	**136,790**	688,177
Total deductions	**$ 31,621,309**	$ 10,412,971
Net additions or deductions	**(30,177,563)**	(4,521,412)
Assessment by Board of Governors:		
Expenditures	**$ 5,024,200**	$ 4,074,500
Federal Reserve currency costs	**11,827,012**	-
NET INCOME AVAILABLE FOR DISTRIBUTION	**$1,033,146,285**	$1,018,455,596
DISTRIBUTION OF NET INCOME		
Dividends paid	**$ 6,160,847**	$ 5,368,824
Payments to the U.S. Treasury (interest on F.R. notes)	**1,013,593,438**	1,002,595,672
Transferred to surplus	**13,392,000**	10,491,100
Surplus, January 1	**94,257,600**	83,766,500
Surplus, December 31	**$ 107,649,600**	$ 94,257,600

Volume of Operations

HEAD OFFICE AND BRANCHES COMBINED

	Number of Pieces Handled[1]		Dollar Amount (thousands)	
	1983	1982	**1983**	1982
Currency received and counted	**637,770,000**	577,006,000	**8,055,781**	6,594,283
Coin received and counted	**1,250,069,576**	1,015,807,000	**226,669**	185,917
Food stamps redeemed	**193,873,652**	166,927,000	**796,289**	672,126
Transfers of funds	**4,833,717**	4,718,020	**6,524,627,000**	6,662,648,673
Checks handled:				
U.S. Government checks	**39,088,000**	41,964,000	**39,873,095**	40,081,037
Postal money orders	**9,601,492**	9,792,000	**749,983**	777,917
All other[2]	**909,581,341**	870,519,000	**593,353,399**	567,757,147
ACH items handled:				
Commercial	**14,023,590**	9,613,336	**71,341,597**	36,240,667
U.S. Government	**18,183,267**	15,170,201	**9,464,762**	7,556,324
Collection items handled:				
U.S. Government coupons paid	**94,365**	99,810	**56,670**	60,167
All other	**131,633**	104,761	**424,352**	771,126
Issues, redemptions, and exchanges of U.S. Government securities:				
Definitive	**7,305,400**	8,318,206	**1,645,045**	3,305,149
Book-entry	**156,302**	149,182	**325,252,029**	226,064,506
Loans	**978**	667	**76,867,301**	10,527,170

[1]Packaged items handled as a single item are counted as one piece.

[2]Exclusive of checks drawn on the Federal Reserve Banks.

Bank Holding Company Activity

NUMBER OF BANK HOLDING COMPANIES, BANK AND NONBANK SUBSIDIARIES

	December 31, 1983	December 31, 1982
COMPANIES		
One-bank holding companies	**502**	437
Multibank holding companies	**105**	83
Total bank holding companies	**607**	520
SUBSIDIARY BANKS		
One-bank holding companies	**470***	403*
Multibank holding companies	**693**	585
Total subsidiary banks	**1,163**	988
NONBANK SUBSIDIARIES		
One-bank holding companies	**63**	58
Multibank holding companies	**291**	282
Total nonbank subsidiaries	**354**	340

* These figures are adjusted to reflect ownership of the same subsidiary bank by two bank holding companies.

DEPOSIT DATA FOR SUBSIDIARY BANKS OF BANK HOLDING COMPANIES

	December 31, 1983	December 31, 1982
DOMESTIC DEPOSITS IN SUBSIDIARY BANKS (millions)		
One-bank holding companies	**$ 20,981**	$16,701
Multibank holding companies	**89,053**	73,771
Total	**$110,034**	$90,472
SUBSIDIARY BANKS, PERCENT OF DISTRICT DEPOSITS		
One-bank holding companies	**16.1**	14.6
Multibank holding companies	**68.4**	64.6
Total	**84.5**	79.2

Directors and Officers

The end of 1983 also marked an end to the term of Gerald D. Hines as chairman of the board of directors of the Federal Reserve Bank of Dallas. In 1984, that position will be held by Robert D. Rogers, president and chief executive officer of Texas Industries, Inc.

Hines' nine-year association with the Dallas Fed began in 1975 when he was elected by member banks as a director for the head office, with the past three years spent serving as chairman. As owner of Gerald D. Hines Interests, an internationally recognized development company, Hines has earned a reputation among investors, tenants, realtors and architects as one of the nation's outstanding developers by blending innovative design, organization and financial management.

For 26 years, Gerald D. Hines Interests has been active in developing real estate projects known as much for their outstanding architectural achievements as for their ability to meet the needs of their tenants. Examples of these developments include the multi-use Galleria centers in Houston and Dallas, the Transco Tower and Texas Commerce Bank headquarters in Houston.

Hines' association with the Federal Reserve Bank of Dallas has spanned a dramatic period in the history of the Federal Reserve. Beginning in 1980 with the passage of the Monetary Control Act, major changes took place as the Fed extended its services to all types of financial institutions and also began to price these services for the first time. Throughout his association with the Bank, those who have worked closely with him have benefited from his direction and expertise. According to Robert H. Boykin, president of the Dallas Fed, "I feel Gerry's involvement has been a great asset for the Bank. And I know that both the directors who worked with him and our own management staff want to express their appreciation for the time and effort he gave in serving as a director and as chairman."

Federal Reserve Bank of Dallas

GERALD D. HINES
Chairman and Federal Reserve Agent

Owner
Gerald D. Hines Interests
Houston, Texas

JOHN V. JAMES
Deputy Chairman

Chairman of the
Executive Committee
Dresser Industries, Inc.
Dallas, Texas

J. WAYLAND BENNETT

Charles C. Thompson Professor of Agricultural Finance and Associate Dean, College of Agricultural Sciences
Texas Tech University
Lubbock, Texas

LEWIS H. BOND

Chairman of the Board and
Chief Executive Officer
Texas American Bancshares, Inc.
Fort Worth, Texas

ROBERT TED ENLOE, III

President
Lomas & Nettleton Financial Corporation
Dallas, Texas

KENT GILBREATH

Associate Dean
Hankamer School of Business
Baylor University
Waco, Texas

JOHN P. GILLIAM

Chairman of the Board and
Chief Executive Officer
First National Bank in Valley Mills
Valley Mills, Texas

ROBERT D. ROGERS

President and
Chief Executive Officer
Texas Industries, Inc.
Dallas, Texas

MILES D. WILSON

Chairman of the Board and
Chief Executive Officer
The First National Bank of Bellville
Bellville, Texas

FEDERAL ADVISORY COUNCIL MEMBER

TOM C. FROST

Chairman of the Board
Cullen/Frost Bankers, Inc.
San Antonio, Texas

El Paso Branch

CHESTER J. KESEY
Chairman

C. J. Kesey Enterprises
Pecos, Texas

MARY CARMEN SAUCEDO
Chairman Pro Tem

Associate Superintendent
Central Area Office, El Paso
Independent School District
El Paso, Texas

STANLEY J. JARMIOLOWSKI

Chairman of the Board and
Chief Executive Officer
InterFirst Bank El Paso, N.A.
El Paso, Texas

ERNEST M. SCHUR

Chairman of the
Executive Committee
InterFirst Bank Odessa, N.A.
Odessa, Texas

DAVID L. STONE

President
The Portales National Bank
Portales, New Mexico

Replaced Calude E. Leyendecker, President Mimbres Valley Bank, Deming, New Mexico, who resigned February 1, 1983

GERALD W. THOMAS

President
New Mexico State University
Las Cruces, New Mexico

S. LEE WARE, JR.

Investor, Oil and Real Estate
Ruidoso, New Mexico

Houston Branch

PAUL N. HOWELL
Chairman

Chairman of the Board and
Chief Executive Officer
Howell Corporation
Houston, Texas

GEORGE V. SMITH, SR.
Chairman Pro Tem

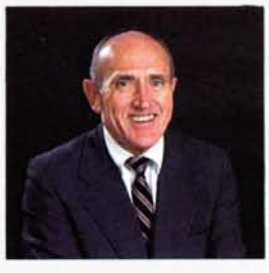
President
Smith Pipe Companies, Inc.
Houston, Texas

RAYMOND L. BRITTON

Labor Arbitrator and
Professor of Law
University of Houston
Houston, Texas

RALPH E. DAVID

Chairman of the Board and
Chief Executive Officer
First Freeport National Bank
Freeport, Texas



THOMAS B. McDADE

Vice Chairman
Texas Commerce Bancshares,
Inc.
Houston, Texas

ROBERT T. SAKOWITZ

Chairman of the Board
and President
Sakowitz, Inc.
Houston, Texas

WILL E. WILSON

Chairman of the
Executive Committee
First City Bank of Beaumont
Beaumont, Texas

San Antonio Branch

CARLOS A. ZUNIGA
Chairman

Laredo Freight Services, Inc.
Laredo, Texas

LAWRENCE L. CRUM
Chairman Pro Tem

Professor of Banking and Finance
The University of Texas at Austin
Austin, Texas

JOE D. BARBEE

President and Chief
Executive Officer
Barbee-Newhaus Implement
Company
Weslaco, Texas

GEORGE BRANNIES

Chairman of the Board
and President
The Mason National Bank
Mason, Texas

CHARLES E. CHEEVER, JR.

Chairman of the Board
Broadway National Bank
San Antonio, Texas

JOHN H. GARNER

President and Chief
Executive Officer
Corpus Christi National Bank
Corpus Christi, Texas

ROBERT F. McDERMOTT

Chairman of the Board
and President
United Services Automobile
Association (USAA)
San Antonio, Texas

Officers

HEAD OFFICE

ROBERT H. BOYKIN
President

WILLIAM H. WALLACE
First Vice President

JOSEPH E. BURNS
Senior Vice President

GEORGE C. COCHRAN, III
Senior Vice President

JAY K. MAST
Senior Vice President

HARRY E. ROBINSON, JR.
Senior Vice President

NEIL B. RYAN
Senior Vice President

TONY J. SALVAGGIO
Senior Vice President

JACK A. CLYMER
Vice President

BILLY J. DUSEK
Vice President

ANTHONY J. MONTELARO
Vice President

JAMES E. PEARCE
Vice President and
Associate Director

LARRY J. RECK
Vice President

PHILLIP E. SELLERS
Vice President

ROBERT SMITH, III
Vice President and
Secretary

LARRY M. SNELL
Vice President

JAMES L. STULL
Vice President and
General Auditor

MILLARD E. SWEATT, JR.
Vice President and
General Counsel

E. W. VORLOP, JR.
Vice President

CARLA M. WARBERG
Vice President

UZZIAH ANDERSON
Assistant Vice President

BASIL J. ASARO
Assistant Vice President

RICHARD L. BARNES
Assistant Vice President

T. GUY BROWN
Assistant Vice President

TERRY B. CAMPBELL
Assistant Vice President

LYNE H. CARTER
Assistant Vice President

BILLY D. FULLER
Assistant Vice President

ROBERT D. HANKINS
Assistant Vice President

RICHARD D. INGRAM
Assistant Vice President

JOHNNY L. JOHNSON
Assistant Vice President

LEROY O. LANEY
Assistant Vice President
and Senior Economist

REBECCA W. MEINZER
Assistant Vice President

BILLY B. MUSGRAVE
Assistant Vice President

JOHN R. PHILLIPS
Assistant Vice President

WILLIAM M. RETTIE
Assistant Vice President

LARRY C. RIPLEY
Assistant Vice President

MARY M. ROSAS
Assistant Vice President

ROBERT J. ROSSATO
Assistant Vice President

THOMAS H. RUST
Assistant Vice President

JESSE D. SANDERS
Assistant Vice President

EUGENIE D. SHORT
Assistant Vice President
and Senior Economist

W. ARTHUR TRIBBLE
Assistant Vice President
and Assistant Secretary

C. LYNN VICK
Assistant Vice President

ROBERT L. WHITMAN
Assistant Vice President

ROBERT F. LANGLINAIS
Assistant General Auditor

DEAN A. PANKONIEN
Assistant General Counsel

EL PASO BRANCH

JOEL L. KOONCE, JR.
Vice President in Charge

ROBERT W. SCHULTZ
Assistant Vice President

WILLIAM L. WILSON
Assistant Vice President

HOUSTON BRANCH

J. Z. ROWE
Senior Vice President in Charge

VERNON L. BARTEE
Assistant Vice President

SAMMIE C. CLAY
Assistant Vice President

ANDREW W. HOGWOOD,
Assistant Vice President

LUTHER E. RICHARDS
Assistant Vice President

SAN ANTONIO BRANCH

THOMAS H. ROBERTSON
Vice President in Charge

JOHN A. BULLOCK
Assistant Vice President

THOMAS C. COLE
Assistant Vice President

ANTONIO G. VALENCIA, JR.
Assistant Vice President

January 1, 1984