

U.S. Banks' Reliance on Large CDs Outpaced Other Deposits in the First Quarter of 2006

Recently, U.S. banks have become increasingly dependent upon more volatile liabilities, such as large certificates of deposits (CDs with balances of more than \$100,000) to meet their overall funding needs, as the competition among financial institutions to develop funding sources has intensified. Since the Federal Reserve began raising short-term interest rates in June 2004, large CDs, as a percentage of total deposits, have been rising steadily, from 14.8% as of June 30, 2004, to 18.0% as of March 31, 2006. During that time, total deposits also grew from \$6.29 trillion to \$7.32 trillion, representing an increase of \$1.03 trillion, or 16.4%.

In addition, in the year ended March 31, 2006, total deposits reached \$7.32 trillion, an increase of \$610 billion, or 9.1%. Although the growth rate for total deposits was solid, large CDs grew at an even faster rate, surpassing \$1.3 trillion, which represented an increase of \$216.6 billion, or 19.7%. Given the recent volatility in equity markets and the more attractive yields available on deposit accounts, annual deposit growth in 2004 and 2005 has accelerated from 2002 and 2003 levels (see Chart 1).

The banks listed below (see Chart 2) represent the five banks with the highest deposit levels, as of March 31, 2006, that also had a ratio of large CDs to total deposits of 100%. There are 41 other banks that also have a ratio of large CDs to total

deposits of 100%; however, in all instances, the total deposit figure for each of the 41 banks is less than \$1 billion. In general, these 41 banks consist of industrial loan companies (ILCs) or other specialty operations that are affiliated with investment or insurance providers.

Chart 1
Selected Deposit Statistics and Growth Rates for U.S. Banks

(\$ millions)

	3/31/2006	12/31/2005	3/31/2005	12/31/2004	12/31/2003	12/31/2002
Total Deposits	\$7,318,790	\$7,141,283	\$6,708,778	\$6,584,561	\$5,960,351	\$5,568,504
CDs > \$100,000	1,315,130	1,256,840	1,098,526	1,050,646	842,791	799,923
Lg. CDs/Deposits	18.0%	17.6%	16.4%	16.0%	14.1%	14.4%
Tot. Dep. Growth	9.1%	8.4%	9.4%	10.5%	7.0%	7.3%
Lg. CD Growth	19.7%	19.6%	21.7%	24.7%	5.4%	10.3%

Source: Federal Deposit Insurance Corp.

Chart 2
Selected Bank Data

Bank Name, State	Total Assets (\$000s)	Large CDs (\$000s)	Large CDs/Total Deposits
World Financial Network Nat'l Bank, OH	\$770,400	\$147,000	100%
World Financial Capital Bank, UT	196,343	131,200	100%
World's Foremost Bank, NE	244,386	104,231	100%
Magnet Bank, UT	137,592	78,823	100%
FDS Bank, OH	353,747	65,959	100%

Source: FDIC

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