Failed banks are causing a deposit glut

By CYNDY FALGOUT
Advocate business writer

A deposit glut stemming from bank and thrift failures in Louisiana has left some large depositors holding the bag, state Commissioner of Financial Institutions Larry Murray told bankers meeting Friday.

The closure of four New Orleans financial institutions in four consecutive weeks last June, when Murray took office, dumped a huge volume of deposits into the marketplace in a short period of time, he said.

"That was just a little bit much," he told bankers.

Larry Murray:
Flood of deposits

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The Morning Advocate
Saturday, September 21, 1991
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bankers gathered at the annual meeting of Community Bankers of Louisiana. Besides taking a toll on public confidence, he said, such back-to-back closures flood the system with more deposits than the remaining banks and thrifts can handle.

"We've had some problems in New Orleans with these institutions being able to absorb the deposits," Murray said. "The closure of an institution affects every institution in the state, especially the others in that community."

OFI has not received any calls from depositors who could not find a place for their money, Murray said in an interview after the meeting.

However, depositors with large sums that are interest-rate shopping among institutions may have a hard time finding someone to take their funds, he said.

"For the average depositor, I don't think this is a problem," Murray said. "But for brokered-money deposits and large deposits it can be a problem. Somebody walking in with half a million dollars is going to have a problem."

Depositors also can expect interest rates paid by local institutions to remain at fairly low levels because of the stalled economy, Murray said.

"People in financial institutions have substantially lowered their interest rates because they don't need the money," he said.

The deposit glut stems from the large number of bank and thrift failures in the state during the past decade, Murray said. The number of banks in the state dropped from more than 300 in 1986 to about 230 now, Murray said.

Surviving banks and thrifts already have absorbed the deposits from those failed ones over the years, Murray said.

"There is a limit to how much you can absorb when you have low loan demand," he said.

Financial institutions must balance the interest they pay for their deposits with the amount they earn on loans.

"What you want to do is to take in money and loan it out," he said. "But when you have low loan demand, you don't have a need for the deposits."

Also, "if you can't do something with the money, like loan it out, growth can hurt you with respect to some of the key ratios that regulators are going to look at to determine the health of your institution," he said. "So we do have some institutions that are, at times, seeking to discourage deposits."

Considering the slow growth of the Louisiana economy and the stagnant national economy, Murray said, "I don't see anything on the horizon that is going to dramatically increase loan demand anytime soon."

For its part, OFI is trying to ensure that federal regulators remain mindful of community impact, and monitor the timing and pace of bank and thrift closures in the future, Murray said.

While some deposit run-off typically results when a bank or thrift is closed and sold, the biggest impact results from those that are liquidated and their depositors paid off, he said.

Bankers, faced with an excess of available deposits and weak loan demand to offset deposit growth, should consider buying loans from the Resolution Trust Corp, Murray said. The RTC is the federal agency charged with resolving the nation's beleaguered savings and loan industry.

"One of the primary things we've been encouraging them to do is to work with the RTC because you can buy loan packages from your area or from all over the country," he said. "There is just a variety of things you can purchase from them. So if you can't create loan demand, or there isn't loan demand in your community, perhaps you can buy a package of loans from the RTC."