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Old-Fashioned Deposit Runs

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Disclaimer

Motivation

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Facts about 2008 runs

Do deposit runs still happen?

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A leading principles textbook, 2011 edition:

"Today, bank runs are not a major problem for the U.S. banking system or the Fed. The federal government now guarantees the safety of deposits at most banks, primarily through the Federal Deposit Insurance Corporation (FDIC). Depositors do not run on their banks because they are confident that, even if their bank goes bankrupt, the FDIC will make good on the deposits."

A central banker, in 2010:

"Commercial banks and thrift institutions had been exposed to runs prior to the creation of deposit insurance."

(FDIC insurance began in 1934.)

Establishing basic facts about bank runs in 2008

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I create a list of bank runs using authoritative accounts from public sources:

- Reviews of failed banks, published by regulators,
- Bankruptcy court documents,
- Financial Crisis Inquiry Commission documents,
- Senate Investigative Committee documents,
- Testimony by federal regulators, and
- SEC filings, other news releases from banks

Unconventional data sources.

Runs at large institutions

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Table 1: Deposit outflows at large institutions

Institution	Start of outflow	Duration of outflow	Size of outflow	Deposit base	Percent outflow	Monthly rate (hypothetical)
Wachovia	4/15/2008	2 weeks	$15b	$414b	3.6%	7.8%
	9/15/2008 (Lehman)	5 days	$8.3b		2.0%	11.8%
	9/26/2008 (WaMu)	8 days	$10b		2.4%	9.0%
Washington Mutual	7/11/2008 (IndyMac)	23 days	$9.1b	$186b	4.9%	6.5%
	9/8/2008	16 days	$18.7b		10.1%	18.6%
National City	3/15/2008 (Bear Stearns)	2 days	$5b	$98b	5.1%	55.6%
	7/11/2008 (IndyMac)	5 days	$4.5b		4.6%	25.3%
	9/15/2008 (Lehman)	25 days	$4.5b		4.6%	5.7%
Sovereign	7/11/2008 (IndyMac)	?	$0.74b	$47b	1.6%	
	9/1/2008	1 month	$2.9b		6.2%	6.2%
IndyMac	6/27/2008	2 weeks	$1.55b	$18.5b	8.4%	17.6%

Notes: The deposit base is the total deposits according to the 6/30/2008 call report figures except for Wachovia and IndyMac, where I use 3/31/2008 figures. I combine multiple banks or thrifts within a holding company where appropriate.

Washington Mutual

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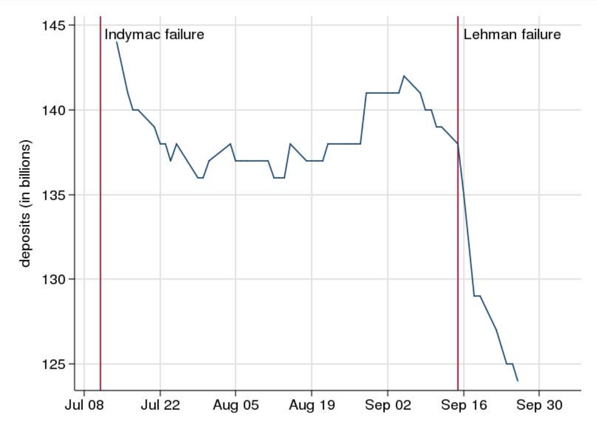
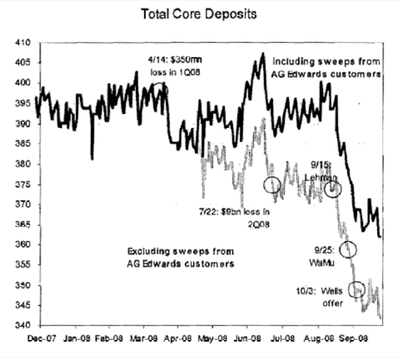
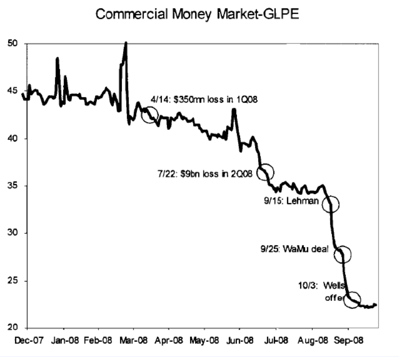
Figure 1: Washington Mutual deposit levels



Notes: Consumer and small business deposits. Source: Declaration of Thomas Blake to the United States Bankruptcy Court, District of Delaware, Chapter 11 Case No. 08-12229 (MFW), available from the author.

Wachovia





Source: FRB document titled “Wachovia Case Study” released by the Financial Crisis Inquiry Commission

More comprehensive data

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Daily deposit data from individual banks:

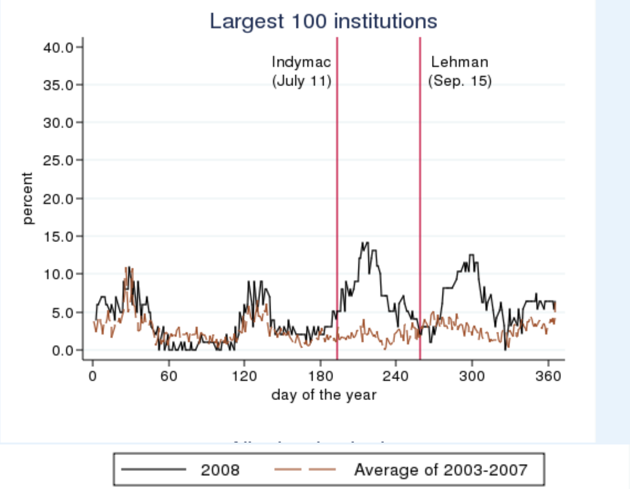
- Savings and transaction deposits
- Time deposits.
- Individual responses are confidential.

Measure:

- Percent of institutions with outflows of at least 5 percent, over a 20 business day period, lasting for 4 days.

Savings + transaction deposits

Percent with large outflows:



Time deposits

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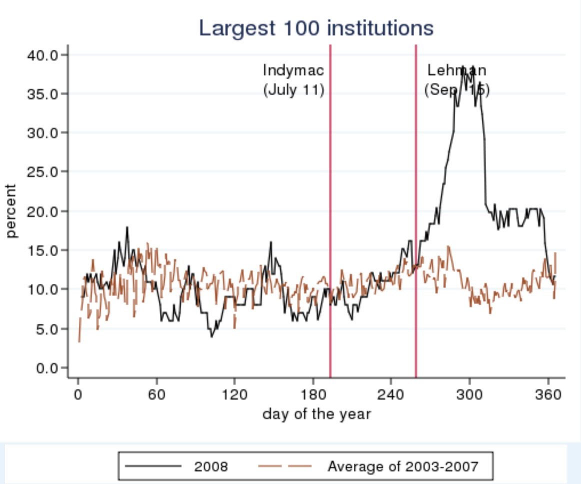
Percent with large inflows:



Wachovia

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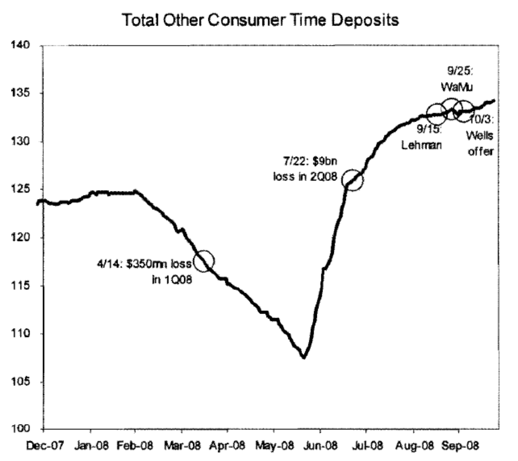

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Large depositors

Quick facts about 2008

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Washington Mutual:

- 25 percent of outflows from accounts with more than $500 million each.
- 70 percent of outflows from uninsured deposits.
- Lost 13 percent of its uninsured deposits in one run; 2 percent of insured.

Sources: Office of Thrift Supervision document titled "WaMu Ratings", released by the Financial Crisis Inquiry Commission; Senate Permanent Committee on Investigations Exhibits.

Quick facts about 2008

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Corporate transaction accounts:

- Cited prominently in descriptions of runs at Washington Mutual, Wachovia, Citibank, National City, Sovereign,...
- Wachovia: "corporate customers began to pull uninsured deposits."
  Source: Federal Deposit Insurance Corporation Document titled "Memo to the FDIC Board of Directors, Re: Wachovia," released by the Financial Crisis Inquiry Commission.
- National City: "particularly in business transaction accounts and other accounts in excess of the FDIC insurance limit."
  Source: SEC filing.
- Citi: "these concerns [that depositors might start a run] were substantiated by significant corporate withdrawals (i.e. a run)"
  Source: SIGTARP report.

Uninsured deposits

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- Response of FDIC most telling. (2008-10-16)
  - Creation of unlimited insurance for noninterest-bearing transaction accounts
  - "mainly payment-processing accounts, such as payroll accounts used by businesses."
  - "We're trying to address the problems that we've seen with, you know, these noninterest-bearing transaction accounts, these corporate accounts leaving banks."

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Large deposits in historic perspective

Percent of deposits covered by insurance

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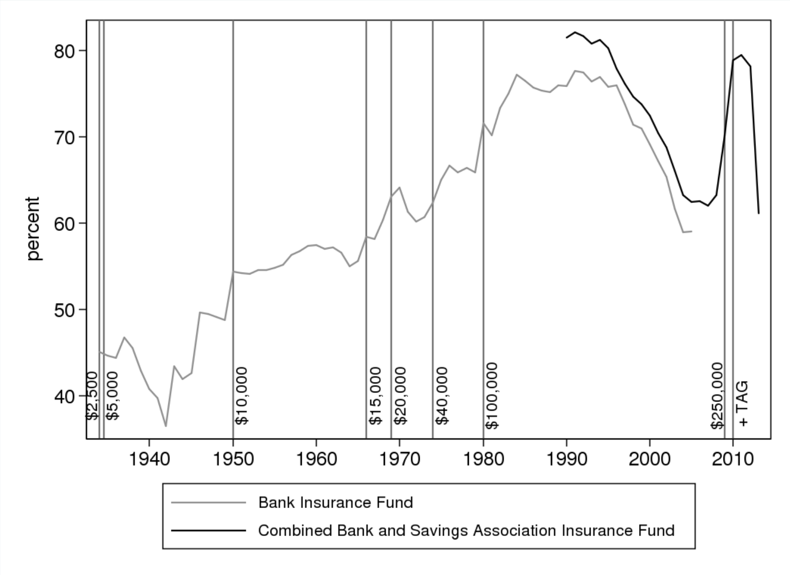

FRB study of suspended banks

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5 percent sample of banks that suspended from 1929-1933.

Demand deposit classification	Percent of initial deposits	Percent decline	Percent of overall deposit decline
Government deposits	13.0	-17.8	5.6
Certificates of deposit	0.6	-54	0.8
Other accounts, smaller than $5,000	35.3	-27.7	26.1
Under $1,000	17.2	-15.3	8.9
$1,000 to $5,000	18.1	-39.4	17.2
Other accounts, larger than $5,000	48.0	-57.5	67.0
$5,000 to $25,000	20.4	-48.9	24.3
$25,000 and up	27.6	-63.8	42.7
Other (inactive or unknown size)	3.1	-6.8	0.5
Total	100.0	-40.2	100.0

Krost (1938)

Reflections on the FRB study

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Disproportionality:

- Large depositors had easier methods of withdrawing deposits.
  - Inter-bank transfers.
  - Checks.
  - Storing in other forms of wealth.
  - Insider connections and information.
- Modern runs resemble these “old-fashioned” runs.

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The design of deposit insurance

Initial design

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Interim system with $2,500 limit made permanent.

- Realization that 98-99 percent of deposit accounts were fully covered.
- Instead of extending partial insurance to deposits above the threshold.

Debate during 1930s

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Deliberate decision to leave large depositors uninsured:

- Belief that large depositors had access to good information
  - Able to effectively discipline banks.
  - Not in need of protection.
- Avoid greater cost to FDIC.

Debate during 1930s

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See this opinion about large depositors espoused by:

- FDIC officials in 1930s (Crowley, Fox, Jones)
- OCC officials in 1930s (O'Connor)
- Fed officials in 1938 (Krost study) and 1950 (Staff study, Goldenweiser)
- Former Treasury secretaries McAdoo and Glass
- Academics: Viner (1936) , Preston (1935)
- Various places in congressional testimony

Large previous literature on design of DI and the debate during the 1930s. Discussion of large depositors noted by some, e.g. Flood (1991), but mostly as asides

Predictions that came true

FRB in 1950

"It is extremely unlikely, however, that the large banks holding the bulk of large deposits would be permitted to close, in view of the experience of the mid-1930s. In effect, then, large depositors in these banks enjoy 100 per cent protection..."

Predictions that came true

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Preston in 1933

"In the banking crisis in March the withdrawals and transfers by corporation treasurers was a leading cause of embarrassment to banks. Bank "runs" may still be a hazard even if 99 per cent of the depositors are fully covered and have confidence in the solvency of the Insurance Corporation.

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Two things surprised me after writing this paper:

- I don't understand the "quiet period" in US banking as much as I thought I did.
  I also don't understand why the bank holiday was successful.
- Would large depositors flee a failing systemically important institution in the future, or will they expect to receive 100 percent insurance? I think this is an open question.

Deposit concentration

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Typical data on deposit concentration:

- Percent of deposits were in accounts that exceeded $X.
- In 1918
  - Threshold of $5,000 (roughly $76,000 today)
  - The largest 2.2 percent of accounts held 55 percent of deposits.
  - (National banks only)

Measures of deposit concentration since 1933

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Date	Percent of accounts over threshold	deposits held by accounts over	Threshold in 1933 dollars	Insurance limit at the time
Highest threshold: $50,000				
May 1933	0.15	44.6	$50,000	N/A
Oct 1933	0.15	48.2	$50,000	N/A
Highest threshold: $25,000				
Sep 1938	0.28	49.4	$23,000	$5,000
Sep 1941	0.36	56.9	$22,100	$5,000
Oct 1945	0.53	50.7	$18,100	$5,000
Sep 1949	0.56	48.1	$13,700	$5,000
Sep 1951	0.60	50.6	$12,500	$10,000
Highest threshold: $100,000				
Sep 1955	0.15	36.9	$48,500	$10,000
Nov 1964	0.17	37.2	$41,900	$10,000
Jun 1966	0.16	37.9		$15,000
Jun 1968	0.18	36.4	$37,400	$15,000
Jun 1970	0.18	35.6	$33,500	$20,000
Jun 1972	0.21	38.0	$31,100	$20,000
Jun 1980	0.32	35.5		$100,000
Highest threshold: $250,000				
Jan 1983	not given	29.2	$32,630	$100,000

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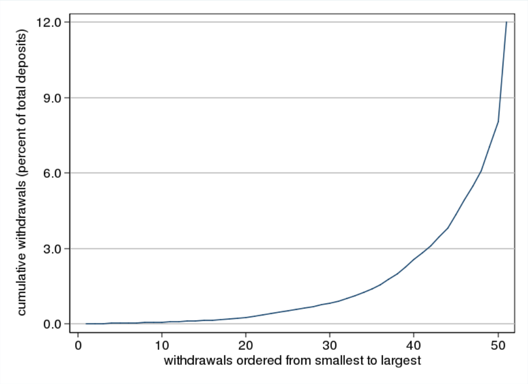
Union Guardian Trust

- Withdrawals of about \$1.5 million from January 1, 1933 to Feb 11, 1933
- Famous role for Henry Ford
- Enormous concentration of withdrawals. Some examples from the Pecora Hearings:

U. G. T. Co., Agt. W. S. Knudsen	\$40, 300. 00
Crowley Milner Company	50, 000. 00
General Foods Corporation	50, 000. 00
Campbell Ewald Company	170, 000. 00
H. P. Cristy	10, 000. 00
Pacific Steel Boiler Corp	180, 000. 00
Allied Jewish Campaign	10, 000. 00
Detroit Auto Club	10, 000. 00
Sundry Items	61, 231. 62

Example: Detroit

CD Withdrawals, ordered from smallest to largest, at the Union Guardian Trust, as a percent of total CDs:



Data from Pecora Hearings

Example: Toledo

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Messer-Kruse (2004)

- Withdrawals by “a few working class Toledoans... didn’t amount to much. The real trouble came when a few major corporations, tipped off by bank insiders, decided to pull the plug.”
- ”Large corporations were quick to pull the plug. Electric Auto-Lite . . . withdrew $865,990.”
- “The Willys-Overland Company . . . pulled out $720,122 in July.”
- “Owens-Illions Glass cashed out $230,604.”
- “Kroger Foods withdrew $573,881.”
- “Ford Motor claimed $99,966... ”
- “In all, local businesses took over three million dollars out of the frozen bank.”

Contrast that with typical descriptions

Calomiris and Wilson *AER* 1997:
"The Commercial and Financial Chronicle provided a detailed account of the runs on Chicago banks. . . these reports emphasized that long lines of individual depositors formed at banks. . . people from all parts of the city seemed to converge on the Loop in hysterical fear and anxiety."