

Deposit Inflows and Outflows in Failing Banks: The Role of Deposit Insurance

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Inputs and Outputs

- Daily balances by account owner by account type
 - During very volatile, interesting, important years
 - Constructing reliable dataset seems arduous
- Explain deposit outflows and inflows
- Estimate effects of (deposit) insurance on flows
- Assess deposit volatility re: new liquidity regulations

Conclusions

- Uninsured deposits leave a troubled bank
- Insurance reduces outflows and raises inflows
- Checkable deposits stickier than term deposits
- Discipline by depositors deemed weak
- Estimated account stabilities are in the range of those used by new liquidity regulations

Choices About Variables

- “Transaction” deposits = checkable + savings
- Unlike calculations by Fed and by FDIC
 - Fed & FDIC put savings accounts in nontransactions deposits

End of 2007	Domestic Offices	\$Trillions
<u>Demand</u>	<u>Savings</u>	<u>Term</u>
0.5	3.2	2.1

Choices About Variables

- Focus is on extensive, rather than intensive, margins
 - Thus, no eqns. estimated for inflows to existing accounts
 - Dummy variables used for opening or closing accounts
- But, data seem to provide dollar amounts
 - Outflows
 - Inflows to new and to existing accounts
 - Uninsured
 - Insured

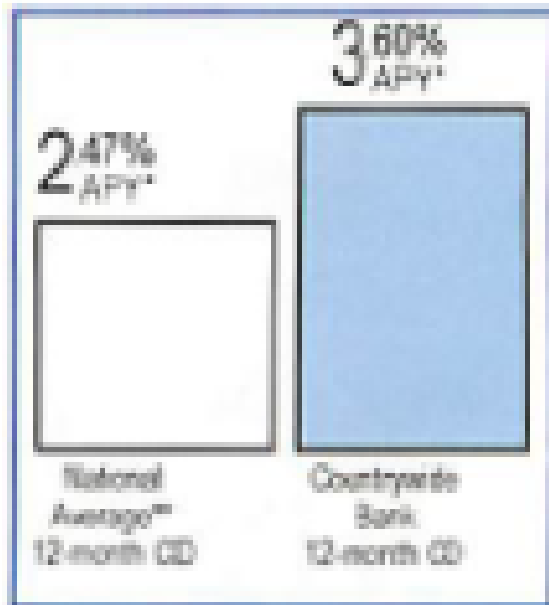
Deposit Stability

- Clarification useful about deposit stability in estimates and in regulations
 - Are there explicit or implicit assumptions about interest rates?
 - Deposit flows presumably are much affected by risk-adjusted, returns relative to other assets
 - If so, rate choices by banks may have effects on flow of deposits

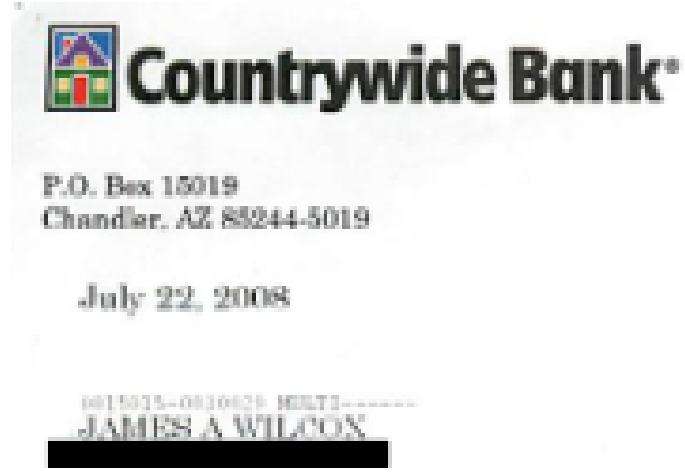
Depositors' Disciplining Banks

- Shift toward uninsured may signal discipline
- Let perceived risk rise, ex ante or when troubled
- Discipline via higher total deposit costs
- Higher rates on uninsured and on insured deposits
 - Reduced supply of and demand for uninsured raises demand and thus rates on insured deposits
- Discipline could also come from really-risk-adjusted premiums

Are Insured Inflows To Risky Banks Costly?



Compare our yields and see for yourself!



Certificate:	9606487685
Balance as of July 22, 2008:	\$91,352.47
Current Interest Rate:	4.45%
Current APY*:	4.55%
Maturity Date:	8/27/2008
Renewal Term:	6 months

4.45% was about 100 bps above Alex's Bank at inflow in Spring 2008 (his Figure 4)



One Week After CD Renewed ...

“Dear James A. Wilcox,

We are writing to inform you that we recently became aware that a Countrywide employee (now former) may have sold ... information about you ... Based on a joint investigation conducted by Countrywide and law enforcement authorities, it was determined that the customer information involved in this incident **included your name, address, Social Security number, mortgage loan number, and various other loan and application information.** ... We deeply regret ...”

Concluding Remarks
