Growth in time deposits has also been spurred by favorable yield spreads caused by changes in offering rates by banks rather than by cyclical movements in market rates. Thus, the continued favorable yield spread for time deposits in the period from 1960 through 1965 reflected higher offering rates on time deposits—permitted by higher ceiling rates under Regulation Q—rather than declining market rates. Moreover, as indicated in the table,

EFFECTIVE RATES PAID AT FINANCIAL INSTITUTIONS

(Per cent per annum)

Type of institution	1952–56	1957–61	1962–65
Average effective rate at:			
Commercial banks	1.33	2.38	3.40
Savings and loan associations	2.94	3.71	4.28
Mutual savings banks	2.52	3.24	4.00
Spread above commercial bank rate:			
Savings and loan associations	1.61	1.33	.88
Mutual savings banks	1.19	.86	.60

NOTE.—Effective rates are ratios of total interest or dividends paid during the year to average deposits or shares during year. Data are for all insured institutions.

higher offering rates also made bank time deposits more attractive relative to deposits and shares at other financial institutions. In some localities during 1965 and 1966 the rates being offered by banks on specific kinds of time deposits exceeded those paid by local nonbank competitors.

The continued favorable yield spread permitted banks to attract greater inflows of funds and thereby to enlarge their contribution to financing economic expansion through acquisitions of loans and investments. This accelerated inflow of time deposits during the 1960's influenced borrowing and lending patterns and interest rates throughout the economy as commercial banks sought assets with higher rates of return to cover the additional cost of time deposits.

BANK'S SHARE

	%
New mortgages:	
1952-56	13.8
1957-61	10.2
1962-65	19.4
State and local bond issues:	
1952-56	21.8
1957-61	32.7
1962-65	72.4

Based on flow of funds data. Percentages are averages for the period indicated.

For example, banks stepped up their purchases of mortgages in the period from 1962 through 1965; the proportion of funds supplied to that market was almost twice the annual average for 1957 through 1961. With banks, as well as nonbank institutions, bidding aggressively for mortgages, total mortgage borrowing by consumers and businesses showed a large expansion.

In the market for municipal securities the structural shift in sources of finance was even more striking. Commercial banks have long been important in the municipal bond market; during