The Fed - Financial Failure and Depositor Quality Evidence from Building and Loan Associations in California

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Flightiness, or depositor sensitivity to liquidity needs, can be an important determinant of financial distress. I leverage institutional differences that attract depositors with varying flightiness across building and loan associations in California during the Great Depression. A new type of plan, the Dayton plan, involved less restrictive savings plans and lower withdrawal penalties. Dayton plans in California were more likely to close during the Great Depression. Archival evidence on lending rates and returns supports the flightiness mechanism.