

Research Department
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As Maine Goes?

A political slogan of years gone by was, "As Maine goes, so goes the nation." In those days, independent Mainers held their Presidential election earlier than the rest of the states, providing a sample of voter preference. Maine lost some of its reputation as a political weather-vane in 1936, when Alf Landon showed that "As Maine goes, so goes Vermont." But the state may still have some standing as a fore-caster of financial trends, because legislation which Maine enacted last fall gives a foretaste of what would happen to the U.S. financial structure if the recommendations of various government study groups were implemented on the national level.

Maine's new legislation brought about sweeping changes in the powers (or, as a practical matter, the products and services) of various types of depository financial institutions within the state. As many of these changes have been hotly debated elsewhere, the Maine legislation should provide some evidence on which to evaluate their appropriateness at the national level.

National studies

In mid-1970, the President appointed the Commission on Financial Structure and Regulation (the Hunt Commission) to review "the structure, operation, and regulation" of the nation's private financial institutions, and in December 1971 it delivered a far-ranging report on this subject. The general thrust of the report was toward a greater freedom for all financial

institutions in determining their policies with regard to lending, investing, and acquisition of funds. More specifically, it recommended that specialized financial institutions, such as mutual-savings banks and savings-and-loan associations, be given broader powers so that they could provide the public with a more comprehensive package of financial services.

The recommendations were designed to make these institutions less vulnerable to periodic swings in interest rates, so that they could provide the housing market with a more stable flow of funds. Also, ceilings on interest paid to depositors would be eliminated gradually over a period of years.

The Commission made a strong plea that its recommendations be viewed as an integrated, comprehensive package—a plea that has been generally ignored in the ensuing years. However, a unique feature of the system of financial regulation in this country is the degree of autonomy left to the individual states. Enter the State of Maine.

Maine's initiative

In late 1970 the Androscoggin County Savings Bank unilaterally changed its by-laws and began offering demand deposits to its customers. Maine's Superintendent of Banking issued a cease-and-desist order, and his order was upheld by the courts. Then, in the following year, the legislature considered—but rejected—a bill calling for the conversion of mutual-savings banks to state-chartered commercial

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banks or trust companies, if they wished to issue checking accounts or engage in any other commercial-bank activity.

Following the release of the Hunt Commission report, leading Mainers decided that the creation of a broad-based panel comprised of bankers, businessmen, consumer advocates, and legislators would be the best way to reach a consensus on the reform of the state's financial statutes. This approach worked, because the general provisions of the *Report of the Governor's Banking Study Advisory Committee* remained intact in the bill which passed the legislature last year. This legislation thus implemented a major share of the Hunt Commission recommendations.

Important features

Branching. Under the new legislation, all depository financial institutions are permitted to establish branches on a statewide basis. Previously, branching had been limited to contiguous counties on a *de novo* basis, or else statewide by merger—a situation beneficial to the banks. Commercial banks had more incentive to engage in merger activities than mutual institutions, where there is no opportunity for capital gain. In addition, banks through their holding companies could expand through both acquisition and establishment of *de novo* affiliates. Consequently, unlike the thrift institutions, they had already achieved effective statewide branching capability. The new legislation redressed this situation by

granting statewide branching powers to the thrifts as well as to the banks.

Deposit powers. In perhaps its most controversial section, the new law granted demand-deposit powers to all state-chartered thrift institutions, although under the limited form of “personal checking accounts.” This power had been actively sought by thrift institutions, especially mutual savings banks, but had been viewed with substantial concern by commercial bankers, who saw their competitors receiving additional benefits without assuming additional burdens. The new law also gave explicit permission to all institutions to issue negotiable orders of withdrawal (N.O.W. accounts) should Federal law permit. The legislation consequently was activated when Congress altered the Federal law to permit the use of these demand-type time accounts throughout New England, effective last February.

Reserve requirements. The new law specified reserve requirements for various types of deposits, with some discretion left to the State Superintendent of Banking. The law stated that the requirements for each deposit category must be identical for all depository financial institutions.

Lending powers. Here again, the thrust of the new law provided for greater flexibility for thrift institutions in managing their asset portfolios. Thrift institutions henceforth may participate in consumer loans, commercial loans (with

Maine commercial banks), and “prudent loans” including commercial loans—in each case up to 10 percent of total deposits. In addition, thrifts are explicitly permitted to issue credit cards.

Reflection of Hunt report

In summary, Maine’s legislation implements much of what the Hunt Commission recommended in the area of liberalized powers for thrift institutions. As a practical matter, Maine has retained no important distinctions between the powers of commercial banks and those of thrift institutions. However, there is one important distinction remaining on the Federal level—the ¼-percentage point differential which thrift institutions can pay on various types of deposits. Maine’s legislature asked Federal regulatory authorities to abolish the differential for Maine, since there was no longer any justifiable reason for thrift institutions to have this competitive

advantage. However, no action has yet been taken at the Federal level.

Against this background, we can understand the proposal of Massachusetts Bank Commissioner Carol Greenwald—to raise deposit interest-rate ceilings step-by-step, until Regulation Q ceilings become a dead letter. While Maine has gone the farthest, thrift institutions in Northeastern states have been more successful than those elsewhere in expanding their consumer powers. Hence, it may be argued that one of the traditional supports for the ¼-point differential is no longer operative in the Northeast. It used to be thought that thrift institutions would have to be able to offer higher interest payments to attract depositors away from the “one stop shopping” commercial banks, since they themselves were precluded from offering the public a broad range of services. Clearly, this is no longer the case in Maine.

Neil Murphy

Copies are now available of the summer issue of the Federal Reserve Bank of San Francisco’s *Economic Review*. Under the theme of “Financial Markets and Uncertainty,” the issue contains analyses of variable-rate home mortgages, the impact of inflation on capital-market efficiency, debt-equity ratios in financial markets, and the shifting relationship of money demand and GNP. This publication is designed for financial analysts, college students and teachers. For those not on the mailing list, copies may be obtained from the Public Information Section, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco 94120.

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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT
(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 9/08/76	Change from 9/01/76	Change from year ago	
			Dollar	Percent
Loans (gross, adjusted) and investments*	89,389	+ 721	+ 3,009	+ 3.48
Loans (gross, adjusted)—total	67,746	+ 598	+ 2,270	+ 3.47
Security loans	1,615	+ 99	- 672	- 29.38
Commercial and industrial	21,701	+ 209	- 889	- 3.94
Real estate	20,607	+ 31	+ 956	+ 4.86
Consumer instalment	11,448	+ 28	+ 1,282	+ 12.61
U.S. Treasury securities	9,020	- 148	+ 858	+ 10.51
Other securities	12,623	+ 271	- 119	- 0.93
Deposits (less cash items)—total*	88,792	+ 474	+ 2,159	+ 2.49
Demand deposits (adjusted)	25,485	+ 285	+ 1,107	+ 4.54
U.S. Government deposits	388	+ 146	+ 29	+ 8.08
Time deposits—total*	61,394	+ 186	+ 1,273	+ 2.12
States and political subdivisions	5,372	- 97	- 494	- 8.42
Savings deposits	27,035	+ 92	+ 6,206	+ 29.79
Other time deposits‡	26,541	+ 70	- 3,097	- 10.45
Large negotiable CD's	10,818	+ 162	- 4,918	- 31.25
Weekly Averages of Daily Figures	Week ended 9/08/76	Week ended 9/01/76	Comparable year-ago period	
Member Bank Reserve Position				
Excess Reserves	- 17	53		8
Borrowings	4	0		29
Net free(+)/Net borrowed (-)	- 21	+ 53		- 21
Federal Funds—Seven Large Banks				
Interbank Federal fund transactions				
Net purchases (+)/Net sales (-)	- 730	- 920		+ 1,487
Transactions of U.S. security dealers				
Net loans (+)/Net borrowings (-)	+ 337	+ 122		+ 916

*Includes items not shown separately. ‡Individuals, partnerships and corporations.

Editorial comments may be addressed to the editor (William Burke) or to the author. . . .
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