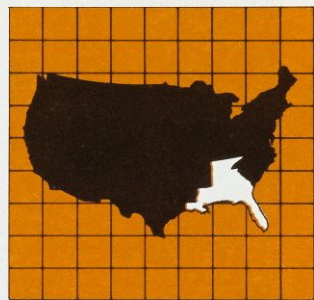


# Economic Review



FEDERAL RESERVE BANK OF ATLANTA

DECEMBER 1984

## CONSUMERS Sensitive to Rate Changes?

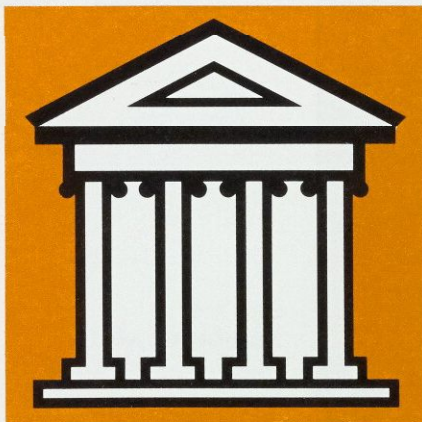
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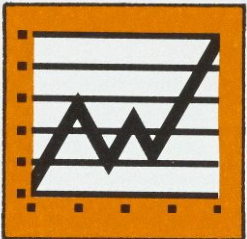
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# Money Market Account Competition

Larry D. Wall and Harold D. Ford

Consumers appear to be insensitive to short-run changes in rates paid by the various money market accounts, judging from this study.

Since 1933, competition for consumer deposits has been limited by regulations originally designed to prevent "ruinous competition" and to assure a low-cost source of funds for the mortgage markets. When money market mutual funds (henceforth simply "money funds") that paid market rates emerged as major competitors for consumer funds in the late 1970s, they allowed many consumers to avoid regulation by transferring money to unregulated investments. This problem grew especially acute as short-term market rates soared above 10 percent, while interest rates on savings accounts at thrifts and banks were limited to 5.5 percent and 5.25 percent, respectively.

The competition engendered by money funds forced momentous revision in interest rate controls in late 1982 and opened a new era in the competition for consumer deposits. Banks and thrifts were allowed to offer two new deposit accounts that were not subject to interest rate controls so long as a minimum of \$2,500 was maintained per account: the money market deposit account (MMDA), which has limited transaction features, and the Super NOW account (authorized in January 1983), which permits unlimited transactions. These accounts not only enable banks and thrifts to compete with money funds, but foster competition among banks and thrifts on a local and national basis.

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*The authors are, respectively, economist and student intern on the financial institutions and payments team.*

This study explores how banks and thrifts have used their restored power to compete for funds during the period from September 1983 to January 1984. We examine pricing of the various money market-type accounts, and short-run consumer response to that pricing. By examining prices we also gain insight into how bank and thrift managers view their competition with mutual funds and with other depository institutions in the nationwide and local markets. Consumer response to short-run changes in the relative rates is important because of its implications for account pricing. The weekly prices set by individual banks and thrifts increase in significance to them if consumers are highly responsive to short-run differences in rates. If they are not, then institutions may be able to focus more on long-term pricing strategies.

Our analysis below indicates that interest rates on money funds, MMDAs, and Super NOWs are highly correlated with each other but the average differences in the rates paid are statistically significant. Interest rates paid on MMDAs and Super NOWs also were found to differ significantly depending on the state or SMSA (Standard Metropolitan Statistical Area) where the bank was located, meaning that differences across geographic markets were greater than those within geographic markets.

Furthermore, we find that rates paid by individual banks and thrifts on MMDAs and Super NOWs within the markets we examined are significantly different from rates paid by their competitors in the same market. Despite these



differences, consumers seem not to be very responsive to the level or changes in the level of weekly interest rate differences. Consumers also show little response to weekly changes in interest rate differentials among money funds. Our finding of significant interest rate differentials within markets may be explained by differences in the quality of service provided by the various banks and thrifts. The limited short-run consumer responsiveness to changes in the interest rate differential suggests that the cost of transferring investments between different accounts exceeds the potential gain from making the transfer, at least in the short run.

## Account Features

The first savings vehicle that consumers turned to when rates skyrocketed was the money market mutual fund, which is a mutual fund that invests in large denomination money market securities. These funds generally require an initial investment of at least \$1,000 and pay dividends equal to the rates paid on their securities portfolio less a small management fee. The rate of return and the riskiness of the money funds vary with the sorts of securities in which they invest. The low risk, low return money funds only invest in U.S. Treasury securities, while those offering higher risk and returns invest in commercial paper, domestic bank certificates of deposit, and Euro-dollar certificates of deposit. For the purposes of our analysis, we follow *Donoghue's Money Fund Report* in dividing the money funds into five categories based on their investment policies: (1) those investing solely in U.S. Treasury securities; (2) those investing in Treasury securities plus agency securities (other securities backed by the U.S. government); (3) those investing in Treasury, agency, and prime domestic securities such as commercial paper and bank certificates of deposit; (4) those investing in Treasury, agency, domestic prime, and Eurodollar certificates of deposit; and (5) those investing in everything in category four plus Yankee dollar certificates of deposit and non-prime securities.

In addition to paying consumers high rates, the money funds also provide them access to their investments. Most mutual funds allow check withdrawals, but often require that the check be written for at least \$500. In addition, many funds enable easy transfers from their money funds to their stock and bond mutual funds.

Congressional concern about money funds was expressed in the Garn-St Germain bill, which ordered that MMDAs be "directly equivalent to and competitive with money market mutual funds..." No regulatory restrictions were placed on the rates paid on MMDAs with balances of at least \$2,500, and the limit will drop to \$1,000 on January 1, 1985. Consumers could write up to three checks monthly on an MMDA without the reserve requirements imposed on other transactions accounts. (Ordinarily, banks and thrifts must maintain noninterest-bearing accounts called "reserves" at the Federal Reserve equal to some fraction of their transactions accounts. No such requirement exists for money funds.) Furthermore, MMDAs are insured like other bank deposits. These accounts have competed very successfully with money funds (see Table 1).

Super NOW accounts were authorized soon after MMDAs. Super NOWs are identical to MMDAs for consumers except that transaction privileges are unrestricted and banks and thrifts

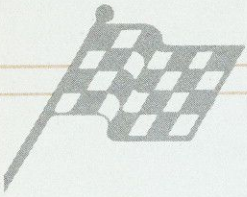
**Table 1.** MMDA and Money Fund Deposits  
(in billions of dollars, averages of daily figures)

	MMDAs	Money Funds*
<b>1982</b>		
December	42.9	182.2
<b>1983</b>		
January	189.1	167.7
February	277.7	159.6
March	320.5	154.0
April	341.2	140.1
May	356.8	135.0
June	367.3	132.9
July	368.4	138.8
August	366.3	139.1
September	366.9	137.6
October	367.4	137.8
November	372.9	138.8
December	375.9	138.2
<b>1984</b>		
January	380.4	137.9
February	386.0	142.1
March	392.5	144.8
April	396.3	146.1
May	394.7	146.6
June	392.9	148.8

\* General purpose and broker/dealer money market mutual funds.

Source: Various issues of the *Federal Reserve Bulletin*.





must maintain noninterest-bearing reserves equal to some fraction of their Super NOW deposits. These features enhance the value of Super NOW accounts to consumers but make the accounts more costly to banks and thrifts.

## MMDA, Super NOW, and Money Fund Rates

Money fund rates are determined by rates of return they earn on the short-term securities in which they invest. Differences in money fund rates reflect differences in risk, management fees, and maturity. MMDA and Super NOW rates are heavily influenced by market rates, but are ultimately determined by banks and thrifts. The rates on these accounts could be slow to adjust to changes in market interest rates, as has been the case with banks' administration of the prime rate. Alternatively, the rates paid on MMDAs

and Super NOW accounts could closely track market rates. Casual observation suggests that MMDA and Super NOW rates change weekly in response to market rates, unlike the prime rate which may remain unchanged for months.

In order to examine how closely MMDA and Super NOW rates track money fund rates we examined the correlation between the rates paid on the different types of accounts. (Data on the average interest rate paid on the different types of funds were obtained from the *Bank Rate Monitor* and *Donoghue's Money Fund Report* for the period September 5, 1983 through January 5, 1984.) Tests indicated that the interest rates on the various types of accounts all were highly and significantly correlated; that is, increases in the rate paid on one type of account are associated with rate hikes in other accounts (see Table 2).

MMDA and Super NOW rates match changes in money fund rates during our sample period,

**Table 2.** Correlation Results  
Interest Rates on Different Types of Funds

	Super NOW	U.S. Treasury Money Funds	U.S. Government Money Funds	Domestic Prime Money Funds	Domestic Prime and Eurodollar Money Funds	Domestic Prime Eurodollar, and Yankee Dollar Money Funds
MMDA	.9042** .0001	.9333** .0001	.9353** .0001	.9300** .0001	.9565** .0001	.9477** .0001
Super NOW		.8715** .0001	.8717** .0001	.8407** .0001	.9060** .0001	.8765** .0001
U.S. Treasury Money Funds			.9772** .0001	.9017** .0001	.9462** .0001	.9247** .0001
U. S. Government Money Funds				.9453** .0001	.9672** .0001	.9614** .0001
Domestic Prime Money Funds					.9694** .0001	.9938** .0001
Domestic Prime and Eurodollar Money Funds						.9856** .0001
Domestic Prime, Eurodollar and Yankee Dollar Money Funds						

\*\*Significant at the 1 percent level.

Source: Federal Reserve Bank of Atlanta.



but the level of rates paid for the different accounts need not be equal. The rates on many banks' and thrifts' MMDAs were far in excess of market rates when the accounts were first introduced. MMDA rates have since fallen, however, and have generally remained below the average money fund rate. Possible explanations for this difference are that consumers are willing to accept a lower rate in exchange for the convenience of MMDAs, and that the rate differential is compensation for the greater risk of some money funds relative to government-insured MMDAs. If the rate differential is primarily compensation for risk, then government-insured MMDAs should be paying rates comparable to very low-risk money funds that invest solely in U.S. Treasury securities. If MMDA rates are significantly below those of the safest money funds, that would suggest that banks are taking advantage of depositors' preference for convenience.

We examined the national average interest rates paid on MMDAs and Super NOW accounts, and the average rate on five categories of money funds (U.S. Treasury securities; U.S. government agency securities; domestic prime; domestic prime and Eurodollar; and domestic prime, Eurodollar, and Yankee dollar) to determine whether significant differences existed among them over the same time period.<sup>1</sup> An analysis of variance test, a statistical technique used to study the variability of data, showed that this was the case. Pairwise least significant difference t-tests were used to compare the rates paid on different accounts during our sample period. The rate on Super NOW accounts at depository institutions was lowest, at 143 basis points, or hundredths of a percent, less than money market accounts at depository institutions. Money funds investing in U.S. Treasury securities paid the second lowest rate, 17 basis points below MMDAs. Money funds that invested in paper backed by the U.S. government and MMDAs at depository institutions paid more than the Treasury funds, but the differences between the two funds were insignificant. Domestic prime money funds paid 16 basis points more than money market accounts; funds that could invest in Eurodollars and those that could invest both in Eurodollars and Yankee dollar certificates of deposits paid approximately 24 basis points more than money market accounts.

The lower rates for bank Super NOWs probably reflected both the reserve requirement on these deposits and the relatively greater check writing privileges given Super NOW accounts. The higher rates paid on funds that can invest in domestic prime assets and in Eurodollar and Yankee dollar investments reflected the lack of any government guarantee for these assets. In contrast, money market accounts are insured by an agency of the U.S. government, while Treasury funds and government funds both have government backing. This suggests that rate differences between MMDA and money fund rates during our sample period were due to risk differences rather than depositor preference for the convenience of a local bank or thrift.

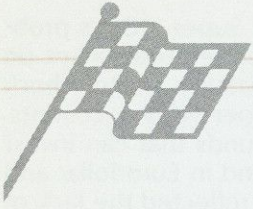
### Competition Among Banks and Thrifts

In addition to the competition between types of accounts, competition exists between similar accounts at different institutions, and this could be nationwide or primarily local in scope. The market for MMDAs and Super NOW accounts could be nationwide if consumers were willing to make deposits in geographically distant institutions. Alternatively, bank and thrift rates could look as though they were in one nationwide market if competition between money funds and MMDAs was sufficiently intense. Bank and thrift pricing across the nation would then be based solely on national money fund rates rather than local market conditions.

We do not expect all institutions in a market to pay one rate on their accounts. An absence of any price variation would indicate either perfect competition among institutions with perfect information about the future or a complete absence of competition. If local markets are relevant, then what we expect to see is less variability in rates within markets than across markets. Thus we examined the differences in interest rates paid by banks in various states and SMSAs to determine if account pricing is influenced by local factors.

Data on bank interest rates across the country were obtained from a monthly Federal Reserve survey of MMDAs and Super NOW accounts and were available for the period August 1983 to January 1984. We conducted an analysis of variance test on banks in 143 SMSAs and 48 states over that same period. Washington D.C.





was included in our study but, because of their limited representation in the sample, Alaska, North Dakota, and Wyoming were excluded. The number of observations available for analysis ranged from 431 to 457 for SMSAs and 573 to 589 for states. The first set of tests consisted of separate tests of MMDA rates for each of the six months. The second set consisted of six monthly tests of the Super NOW rates.

If the rates paid in different states and SMSAs are not statistically significantly different, that would provide strong evidence for the existence of a nationwide market for the bank and thrift accounts. A finding that the rates are significantly different would be consistent with the existence of local markets, but would not prove their existence. Differences in the level of services provided by the accounts could also influence the rate paid. We will check one proxy for the level of service, state branching laws, if the rates are significantly different. Banks located in states where statewide branching is permitted may be providing more convenience than banks in unit banking states. Another possibility is that the rates paid on the accounts is more a function of bank size than of geographic region. Since typical bank size varies by state, and the Federal Reserve survey is stratified to take account of size differences, we could observe rate differences due solely to size. If bank size is a factor, then we should observe states with very large banks like California and New York consistently paying different rates than states with small unit banks.

Results of the analysis of variance tests indicated statistically significant differences in the rates paid on MMDAs and Super NOWs in the various states as well as between SMSAs for all the time periods in question. The Super NOW rates also were significantly different both across states and SMSAs. These differences were significant at the 0.01 level, which is notably high. Thus the variation of rates within states and SMSAs is less than the variation across states and SMSAs. Furthermore, differences across

states and SMSAs are not merely random fluctuations but are statistically significantly different.

The size of the interest rate differentials between the most common rate paid on MMAs and Super NOW accounts varies across states, but the spread between the highest and lowest rate difference is generally, but not always, small. For MMAs, this differential ranged from less than 0.4 percent to as much as 1.4 percent; for Super NOW accounts the difference was slightly higher, up to 2 percent in some cases. The size of these interest rate differentials remained consistent over the periods studied.

We applied pairwise least significant difference t-tests to interest rate differentials between states, again including Washington D.C. and excluding Alaska, North Dakota, and Wyoming. A group of high-paying states was found that offered rates that were consistently larger than those offered by low-rate states and the rate differences were statistically significant (see Table 3).

Our findings are consistent with, but do not prove the existence of, local markets. Branch banking law as a proxy for different service levels and size differences also could explain the variation in interest rates. A comparison of the states in Table 3 with their branch banking laws reveals no clear trends, as unit banking, limited branching, and statewide branching states appear in all four columns. Furthermore, there is no obvious relationship between bank size and the rankings of the states in Table 3. Thus our results remain consistent with the existence of local markets.

The finding that rates vary significantly across the nation does not imply that rates within markets show little or no variation. The above results merely demonstrate that cross-market variability in rates exceeds intramarket variability in rates. Examination of rates paid by different institutions within markets could reveal significant differences. Therefore, analysis of variance tests also were conducted on interest rates



**Table 3. States with the Highest and Lowest Interest Rates**

MMDAs		Super NOWS	
Lowest	Highest	Lowest	Highest
Colorado	Hawaii	Alabama	Arizona
Connecticut	Indiana	Kansas	Hawaii
Kansas	Iowa	Louisiana	Iowa
Louisiana	Minnesota	Mississippi	Montana
Massachusetts	Nevada	Oklahoma	Nevada
Maine	South Dakota	Rhode Island	Oregon
North Carolina	West Virginia	Utah	South Carolina
Oklahoma		Vermont	South Dakota
Vermont			Washington
			Washington, D.C.

Source: Federal Reserve Bank of Atlanta.

over time of individual banks within the Chicago, Detroit, Philadelphia, New York City, Atlanta, and Nashville markets.

We chose the first four cities because their rates are regularly featured in the national edition of *Bank Rate Monitor*, but excluded Los Angeles, the fifth city it features. Unlike institutions in the other four locations, which typically draw large proportions of their deposits from the consumers of that city, Los Angeles banks tend to have extensive statewide branching networks and may derive sizable shares of their deposits outside the Los Angeles market. We chose Atlanta and Nashville, our last two cities, to obtain some information on competition in the Southeast. None of the various tests using individual bank information revealed any dramatic differences between Southeastern markets and the other four examined.

The tests of interest rates for individual banks were analogous to those performed on a state and SMSA level, with one exception. The state and SMSA tests were conducted separately for every month, whereas those for the individual banks used weekly data over the period September 5, 1983 through January 5, 1984. The tests revealed that bank rate differences within the same market are significant, which suggests that banks within a market follow consistently different pricing strategies.

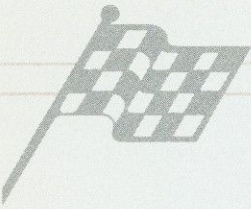
### Competition Among Categories of Accounts

Analysis of the interest rates paid on the different types of accounts provides some

information on potential competition between the different accounts. Information on the degree of actual competition, however, requires analysis of the flow of funds into the different categories. We begin this analysis by trying to identify the primary reasons for changes in funds invested in the different categories of money market-type accounts. Most of the observed shifts in funds invested in one money market-type account (such as domestic prime money funds) could be coming from another money market-type account (such as MMDAs). In this case, the different money market-type accounts primarily are competing for market share with other money market-type accounts, and we should observe a negative correlation between the accounts. Another possibility is that most of the observed growth in a particular money market-type account does not involve other money market accounts. That is, the gains of one type of money market-type account (such as Super NOWs) are coming at the expense of other types of investment (such as investments in stocks or bonds). In this instance we may observe an insignificant or even positive correlation between flows into the two types of accounts.

We examine the chief source of competition for individual categories of money market-type accounts by correlating the weekly changes in money invested in the different categories (Table 4). The negative correlation between U.S. Treasury and U.S. government money funds indicates that increases in the Treasury category are associated with decreases in the government category. Such negative correlations suggest competition for market share. A similar,





statistically significant negative correlation exists between the domestic prime and Eurodollar accounts and in domestic prime, Eurodollar, and Yankee dollar accounts. The positive correlation between MMDAs and Super NOW accounts indicates that an increase in one account was associated with an increase in the other. This finding suggests that during our sample period most of the money flowing into these accounts came from a third type of investment (such as bank certificates of deposit). The correlation between MMDAs and Treasury funds also is significantly positive.

### Deposit Sensitivity to Interest Rates

Interest rates paid by banks in different markets and by individual banks within the

same markets differ significantly, but do short-run differences influence the flow of funds into the individual accounts? Neil Murphy and Richard Kraas reported earlier this year that interest rates paid on MMDAs had positive and significant effects on MMDA deposits.<sup>3</sup> They further noted that, based on weekly data, money fund rates had significant negative effects on MMDA deposits in the one bank they examined. To address this question we decided first to examine the responsiveness of funds flowing into individual MMDAs and Super NOW accounts to the rates paid by a bank and its competitors, and next to examine the flow of funds into money funds. Our analysis concentrates on consumer response to changes in current interest rates and, hence, has a short-term focus.

**Table 4. Correlation Results**  
Change in Level of Funds in Different Types of Accounts

	Super NOW	U.S. Treasury Money Funds	U.S. Government Money Funds	Domestic Prime Money Funds	Domestic Prime and Eurodollar Money Funds	Domestic Prime Eurodollar, and Yankee Dollar Money Funds
MMDA	.9908** .0001	.4836* .0420	-4047 .0957	.4532 .0589	.0283 .9113	.0294 .9078
Super NOW		.4344 .0715	-3649 .1365	.4263 .0777	.0070 .9781	.0482 .8493
U.S. Treasury Money Funds			-.9561** .0001	.3361 .1727	-.1042 .6809	.1763 .4841
U.S. Government Money Funds				-.2098 .4305	.1185 .6395	-.2329 .3523
Domestic Prime Money Funds					.1046 .6796	.2656 .2867
Domestic Prime and Eurodollar Money Funds						-.6905** .0015
Domestic Prime, Eurodollar, and Yankee Dollar Money Funds						

\*Significant at the 5 percent level.  
\*\*Significant at the 1 percent level.

Source: Federal Reserve Bank of Atlanta.



## MMDAs and Super NOW Accounts

Murphy and Kraas looked at MMDA deposits for a single bank for 32 weeks beginning in early 1983. Their dependent variable was the log of the bank's MMDA balances; their independent variables were the log of the bank's MMDA rate, the log of the average rate paid on mutual funds, and a time variable that increased by one for each successive period. They used time as a proxy for consumer income. Their tests were biased against finding a significant interest rate effect because the close relationship between MMDA rates and money fund rates causes a statistical problem called multicollinearity.

According to Murphy and Kraas' findings, the flow of funds into MMDA deposits at one institution was positively related to the bank's MMDA rate, negatively related to the money fund rates, and positively related to the passage of time, which indicates that MMDA deposits are sensitive to interest rates.

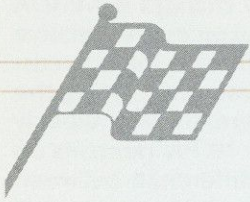
We tried to replicate their results by using our sample of individual banks in six markets during the 17 weeks between September 5, 1983 and January 5, 1984 for MMDAs and Super NOW accounts. For our study, we estimated another equation that included the log of the average local market MMDA rate rather than the log of the money fund rate as an independent variable. A total of 108 equations were estimated: 54 equations regressed MMDA deposits on the bank's MMDA rate, the mutual fund average rate, and a time variable, while the other 54 regressed MMDA deposits on the bank's MMDA rate, the average MMDA rate in the local market, and a time variable. Of the 108 regressions run, the MMDA interest rate paid by the individual bank was of the correct sign and was significant at the 95 percent level in only 8 equations while the time variable was significant and had the correct sign in 59 cases. The average money fund rate variable was significant and of the correct sign in one instance out of 54 whereas the market rate variable had the proper sign and was significant in 10 cases out of 54. Thus we are unable to duplicate Murphy and Kraas' results when employing data from a later time period. Using contemporaneous weekly data, we find no response to interest rate levels, which could indicate that there is no relationship or which could be due to multicollinearity problems.

Next, we examined weekly changes in MMDA and Super NOW account balances and relative rates to determine how sensitive banks' customers are to changes in these rates. Using the same data as above, we regressed the weekly growth in MMDA and Super NOW deposits on the weekly change in the difference between the bank or thrift institution's interest rate and the average rate for that market and on the growth in the local MMDA or Super NOW account market.<sup>4</sup> We relied on changes in interest rate differentials to measure customers' sensitivity to changes in the relative gain obtainable by depositing funds in these accounts. This set of regressions differs from the first in focusing on weekly changes in deposits and in the interest rate differentials rather than on deposit and interest rate levels. The regressions, therefore, more clearly reflect whether consumers respond to changes in relative interest rates. Furthermore, they are not affected by multicollinearity problems.

The results showed that growth in the local MMDA or Super NOW account market was significant and of the correct sign but that the interest rate differentials were rarely significant. In this case, of 54 equations examined for MMDAs, 40 had significant local market growth effects while only seven had significant interest rate differential effects. Of 45 equations examined for Super NOWs, 28 had significant local market growth effects and 3 had significant interest rate differential effects.

The statistical evidence for MMDAs and Super NOW accounts points to little short-run interest rate sensitivity of deposits, given observed rate differentials. On an individual institution basis, few institutions exhibited significant (though quantitatively small) interest rate effects on their flows of funds into MMDAs and Super NOW accounts, while the majority of institutions exhibited nonsignificant and quantitatively small sensitivities. The other variables examined showed similar relationships to deposit flows. This may be attributable to the stability of individual account rates relative to market rates: most of the changes in the differential were at or below 0.3 percentage points, but two changes in MMDAs went as high as 0.75 percentage points and the change in one Super NOW differential reached 3.25 percentage points. We did not observe any relationship, however, between the change in the differential and consumer response.





Similar relationships emerged for the six individual markets when we aggregated banks into their respective markets and examined the combined figures. The flow of new funds into MMDAs and Super NOW accounts was regarded as a function of the difference between the local market rate paid on MMDAs and the average national rate paid on MMDAs or Super NOW accounts, and the growth in the national market of MMDA or Super NOW funds. The interest rate sensitivity of deposits in these accounts appeared to be significant at the 90 percent level in only the Chicago market, while the national growth in deposits of MMDAs and Super NOWs was a significant factor in the Atlanta, Chicago, Detroit, and New York markets.

These results imply low customer interest rate sensitivity in the short run for the majority of institutions in our sample offering MMDAs and Super NOW accounts. Interest rate differentials also might be compensating for differences in services provided (for example, branching and existing customer relationships), which would lead to a tiering of banks within markets, with banks compensating for lower rates through better service. Another very important reason consumers may be slow to shift funds to take advantage of favorable rates is transactions costs. For instance, transferring \$10,000 to take advantage of a 0.5 percent rate difference for one week would gain only 96 cents, which might easily be negated by the cost and time involved in shifting funds. Our results do not, however, deny the possibility that persistent interest rate differentials might affect consumers over a two- or three-month period. Our sample period is too short to test longer-run responses.

### Money Fund Account Deposits

The correlation analysis indicates that some types of money funds may compete with one another. Although they compete mainly on the basis of interest rates paid, differences also exist in the riskiness of money fund accounts

because of the varying risk levels of the funds' assets. For instance, U.S. Treasury securities are less risky than U.S. prime and Eurodollar assets, and so the funds that hold these assets differ in risk. Also, the rate money funds pay is determined largely by market interest rates. As a result, differences in interest rates can be attributed to differences in the funds' risk, management fees, and maturity.

To test the interest rate sensitivity of money fund deposits, we carried out an analysis similar to that performed on MMDAs and Super NOW accounts for the period September 5, 1983 through January 5, 1984. Individual funds within five different categories of money funds were examined to determine consumer substitutions within the categories. These regressions were essentially similar to those used for the flow of MMDAs into individual institutions except that asset category replaced geographic market.<sup>5</sup>

Regressions on the money funds yielded fewer significant relationships of the correct sign than did the MMDA and Super NOW regressions. Out of 25 individual money fund regression equations examined, three showed significant relationships between the flow of funds into a money fund account and the total flow into its category, and only two had a significant coefficient on the interest rate differential. As with the analysis of MMAs and Super NOWs, few money funds within the different fund categories showed significant interest rate sensitivities to differences between the rate paid on that account and the average rate paid on similar accounts. Such results have implications similar to those of the MMDA and Super NOW account analysis. The largely non-significant interest rate effects on money funds imply that money fund customers, like MMDA and Super NOW customers, are not highly sensitive to interest rates in the very short run.

### Conclusion

We examined the interest rates offered on MMDAs, Super NOWs, and money funds, the



flow of funds into the different accounts, and short-run consumer responses to interest rate differentials. The results provide insight into bank and thrift managers' perceptions of their competition and into consumers' interest in the different accounts.

Our analysis of the interest rates paid on the different types of accounts during our sample period suggests that government-insured MMDAs pay rates comparable to those paid on money funds that invest solely in obligations of the U.S. Treasury and obligations backed by the U.S. government. The rates paid on Super NOWs are significantly below all other rates because the special transaction privileges of the account are valuable to consumers and costly to provide in terms of check processing costs and reserve requirements.

Comparison of the rates paid throughout the nation by banks and thrifts revealed that significant differences exist across the different states and SMSAs. This finding is consistent with the theory that banks and thrifts compete in geographically separate markets. We also found

evidence of persistent differences in the rates paid by various banks in the same market.

By examining the correlation of funds flowing into different types of accounts we discovered that the changes in MMDAs are positively correlated with changes in Super NOWs and in money funds investing solely in Treasury securities. The implication here is that MMDAs, Super NOWs, and Treasury money funds are drawing most of their new money from other types of investments (such as stocks and bonds).

Our finding that consumers are not responsive to short-run changes in the rates paid by the different accounts suggests that bank and thrift managers can focus on long-term pricing and need not be concerned about small, short-run variations in their rates relative to other rates in their markets. Our results do not prove, however, that consumers are unresponsive to persistent variations in interest rates.

*(The authors gratefully acknowledge the research assistance of Felicia Bellows and Linda Harris.)*

#### APPENDIX

Through statistical analysis of the flow of funds into MMDAs, Super NOWs, and money funds in different markets, this study seeks to examine the various accounts' interest rate sensitivity. Data on the flow of funds into MMDAs and Super NOWs were taken from the "Report of Transactions Accounts, Other Deposits, and Vault Cash" filed with the Federal Reserve. Interest rate data for individual institutions were obtained from the *Bank Rate Monitor*, except for Atlanta data which were obtained from the *Atlanta Journal*. *Donoghue's Money Fund Report* was the source for data on the interest rates and flow of funds into mutual funds.

Our sample for analysis of MMDAs and Super NOW accounts consisted of six individual markets: Atlanta, Chicago, Detroit, Nashville, New York City, and Philadelphia. Within these markets we also examined the largest individual banks and S&Ls in an attempt to determine the effect of interest rates on the flow of funds into MMDAs and Super NOW accounts at banks within the same markets. The number of institutions examined within each market is shown in Table 5.

We looked at money funds in five different categories, which Donoghue classifies according to the type of assets in which the funds are allowed to invest. The five types were U.S. Treasury securities funds, U.S. government securities funds, domestic prime funds, domestic prime and Eurodollar funds, and domestic prime, Eurodollar, and Yankee dollar funds. Within each of these categories, we analyzed data from the five largest individual funds.

Most of the regressions for banks, thrifts, and money funds were run for individual banks and the data from accounts offered by different institutions were not pooled. We did not include quality of service or service charge variables in the regressions, and so these variables will be reflected in the interest rate coefficients to the extent that they are correlated with interest rates. Pooling the data across institutions would pose a severe problem, because one would

expect lesser service and higher service charges at any given institution to be associated with higher interest rates. So long as time series regressions are run for individual institutions, however, the correlation between rate changes and level of service and between rate changes and the level of service charges should be much smaller. The level of services offered by an institution and its service charges change only slowly through time.

We followed Murphy and Kraas in examining the relationship between the MMDA balance of a single bank and the interest rate paid by the bank on its MMDA, the average rate paid on competing money funds, and a time variable. In logarithm form, the equation examined using linear regression was of the form:

$$1) \log F = a + (b_1 * \log i) + (b_2 * \log M) + (b_3 * t) + e$$

where

F = MMDA balances for sample bank

i = rate paid on MMDA balances during each period for sample bank

M = average rate paid on money funds during each period

t = time variable to serve as a proxy for economic variables, and

e = a random error term.

The same equation also was examined using our data for individual banks within specific markets.

The second regression model focused on changes in deposits in MMDAs and Super NOW accounts rather than the level of deposits in these accounts. The dependent variable was the flow of funds into MMDAs and Super NOW accounts; the independent variables were the change in the difference between an

(cont. next page)



individual bank's MMDA rate and the average MMA rate for the local market and the local market growth of these accounts. The regressions to identify the effect of changes in interest rate differentials on the flow of money into an MMDA took the form:

$$2) \text{MMDA}_{j,t} = a + b_1 * m_{j,t} + b_2 * \text{LM}_{m,t} + e_{j,t}$$

$$m_{j,t} = (i_{j,t} - i_{m,t}) - (i_{j,t-1} - i_{m,t-1})$$

where

$\text{MMDA}_{j,t}$  = flow of funds into MMDA j at week t

$m_{j,t}$  = change in difference between the rate paid on MMDA j and the average local market MMDA rate at week t

$i_{j,t}$  = interest rate paid by account j at week t

$\text{LM}_{m,t}$  = flow of funds into all MMDAs in market m at week t

$e_{j,t}$  = a random error term, and

$i_{m,t-1}$  = average interest rate paid at time t-1 for the market m that contains the account j.<sup>6</sup>

**Table 5.** Number of Banks and Thrifts Analyzed in Selected Markets

Market	Number of Banks	Number of Thrifts
Atlanta	5	4
Chicago	5	5
Detroit	5	5
Nashville	3	2
New York	5	5
Philadelphia	5	5

Source: Federal Reserve Bank of Atlanta.

The regressions for the Super NOW accounts followed a similar form:

$$3) \text{SUP}_{j,t} = a + b_1 * s_{j,t} + b_2 * \text{LS}_{m,t} + e_{j,t}$$

$$s_{j,t} = (i_{j,t} - i_{m,t}) - (i_{j,t-1} - i_{m,t-1})$$

where

$\text{SUP}_{j,t}$  = flow of funds into Super NOW account j at week t

$s_{j,t}$  = change in difference between the rate paid on Super NOW j and the average local market Super NOW rate at week t

$\text{LS}_{m,t}$  = flow of funds into all Super NOW accounts in market m at week t

$e_{j,t}$  = a random error term

$i_{j,t}$  = interest rate paid by account j at week t, and

$i_{m,t-1}$  = average interest rate paid at time t-1 for the market m that contains the account j.

Comparable regressions were run for the aggregate of each of the six markets for both MMDAs and Super NOWs for the purpose of examining competition for MMDA investments across geographic markets. The equation for the market MMDA took the form:

$$4) \text{MKA}_{j,t} = a + b_1 * \text{dmi}_{j,t} + b_2 * \text{LMK}_{m,t} + e_{j,t}$$

$$\text{dmi}_{j,t} = (i_{j,t} - i_{m,t}) - (i_{j,t-1} - i_{m,t-1})$$

where

$\text{MKA}_{j,t}$  = flow of funds into all MMDAs for market j at week t

$\text{dmi}_{j,t}$  = change in difference between the average rate paid on MMDAs in market j and the national average

$\text{LMK}_{m,t}$  = flow of funds into all MMDAs in the nation at week t

$e_{j,t}$  = a random error term

$i_{j,t}$  = average interest rate paid in market j at week t, and

$i_{m,t-1}$  = national average interest rate paid at time t-1.

The market regressions for Super NOWs were similar except that MMDA data were replaced with Super NOW data.

The flow of funds into mutual funds was examined by regressing the flow into these accounts on variables representing the change in the difference between an individual money fund's rate and the average rate on comparable money funds, and the total growth in comparable money market accounts.

$$5) \text{MMMF}_{j,t} = a + b_1 * \text{mfi}_{j,t} + b_2 * \text{FC}_{m,t} + e_{j,t}$$

$$\text{mfi}_{j,t} = (i_{j,t} - i_{m,t}) - (i_{j,t-1} - i_{m,t-1})$$

where

$\text{MMMF}_{j,t}$  = flow of funds into money fund account j at week t

$\text{mfi}_{j,t}$  = change in difference between the rate paid on money fund j and the average rate paid on all money funds investing in asset category m at week t<sup>7</sup>

$\text{FC}_{m,t}$  = flow of funds into all mutual fund accounts investing in asset category m at week t

$e_{j,t}$  = a random error term

$i_{j,t}$  = week t interest rate paid by account j at week t, and

$i_{m,t-1}$  = average interest rate paid at time t-1 for funds investing in the asset category m that contains the mutual fund j.<sup>8</sup>

Equations 2, 3, and 5 could be estimated for each individual type of account and by market, but it was not efficient to estimate equation by equation. Funds not allocated to one money market account were allocated to another account, so errors in estimation should be contemporaneously correlated. Accordingly, rather than estimate each equation individually, we estimated by groups of equations. Such correlation among the error terms of the equations indicated the need for a statistical technique that would consider such an effect in any analysis. Seemingly unrelated regression was more efficient in this case than ordinary least squares linear regression because it utilizes the contemporaneous correlation in the estimations. Therefore, this study used seemingly unrelated regression to estimate equation 1 for individual banks within markets, equation 5 for the different types of money fund accounts, and to estimate equation 4 for each individual market. Banks and thrifts were grouped by geographic markets (Atlanta, Chicago, and so on) and money funds by Donoghue's classification. Equations were then estimated for individual institutions and funds with these groups. The use of seemingly unrelated regression did not result in a significant change in our findings.

#### NOTES

<sup>1</sup>See Appendix for a description of mutual fund categories. The MMA and Super NOW averages are calculated by *Bank Rank Monitor*. The mutual fund average rates are from *Donoghue's Money Fund Report*.

<sup>2</sup>See Robert Rogowski, "Pricing the Money Market Deposit and Super-NOW Accounts in 1983," *Journal of Bank Research*, vol. 15 (Summer 1984), pp. 72-81 for a further discussion of account pricing policies.

<sup>3</sup>Neil B. Murphy and Richard H. Kraas, "Measuring the Interest Sensitivity of Money Market Accounts," *Magazine of Bank Administration*, vol. 60 (May 1984), pp. 70-74.

<sup>4</sup>See the Appendix for a more detailed discussion of the statistical analysis.

<sup>6</sup>For example, if MMA account j is the First National Bank of Atlanta, then the market m is Atlanta.

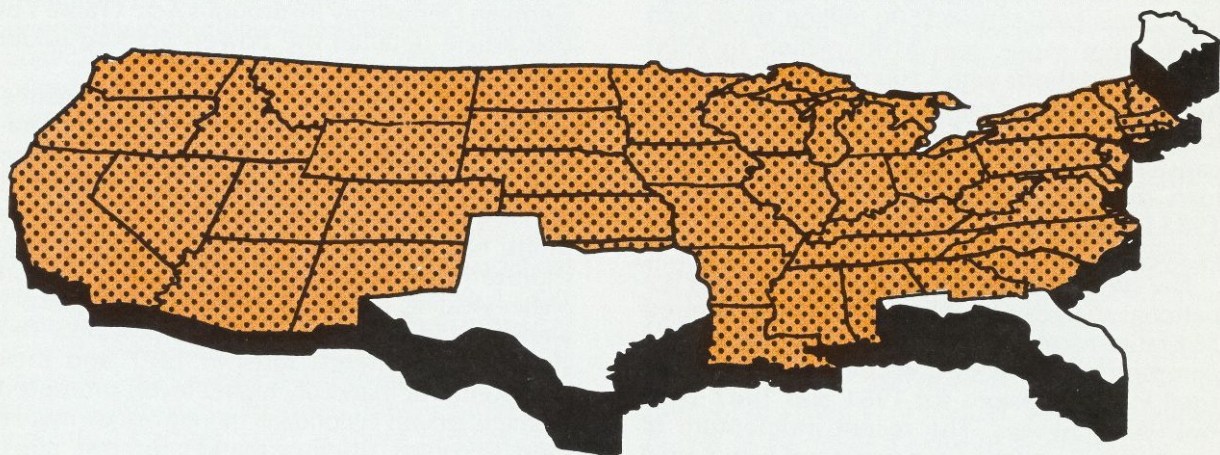
<sup>7</sup>For example, the average rate paid on funds investing solely in U.S. Treasury securities is subtracted from the rate paid by funds investing solely in Treasury securities, while the average rate on domestic prime money funds is subtracted from funds that can invest in domestic prime securities.

<sup>8</sup>For example, if mutual fund j is restricted to investing in Treasury securities, then category m refers to mutual funds investing solely in Treasury securities.



# S&L Use of New Powers: Consumer and Commercial Loan Expansion

Robert E. Goudreau



S&Ls in Texas, Maine, and Florida, whose powers were broadened comparatively early, have expanded their consumer lending moderately, but have diversified into commercial lending almost negligibly. Their experience mirrors that of thrift institutions nationwide.

From the early 1970s to the early 1980s, legislation was enacted both at the state and national levels to broaden the powers wielded by thrift institutions. This article, which completes a study that began in the October issue of this *Review*, measures the pace of expansion into new powers and the speed with which S&Ls have adopted consumer and commercial loan powers authorized by these statutes. Data on NINOW (noninterest-earning negotiable order of withdrawal) accounts also are included because of the close relationship of these accounts to commercial loans. This investigation should shed light on the success of various state and federal laws in prompting diversification as well as on the roles played by an austere, recessionary economy that demanded survivalist tactics and a

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favorable, expansionary economy that offered increased flexibility and improved profit opportunities.<sup>1</sup> Over a decade has passed since the earliest legislation, and so association management has had time to plan more thoroughly, hire or train the requisite staffs, purchase the necessary equipment, develop applications software, and devise marketing strategies before committing heavily to consumer or commercial lending. Have post-recession economic conditions and the passage of time facilitated associations' expansion into consumer and commercial lending?

After summarizing its companion piece, this study reviews the relevant consumer loan, commercial loan, and NINOW account provisions of those federal and state statutes designed to lessen thrift vulnerability to the real estate cycle and interest-rate risk exposure. The empirical work that follows is organized into two parts, the



first of which analyzes the pace at which S&Ls used their new powers. This analysis was accomplished by reviewing the booking of consumer loans, commercial loans, and NINOW accounts by three size categories of differently chartered S&Ls in Texas, Maine, Florida, and the nation. Bookings for consumer loans, commercial loans, and NINOW accounts are computed as a percent of total institutions and as a percent of total assets. The groupings by size cover S&Ls with total assets greater than \$500 million, those with assets from more than \$100 million to \$500 million, and thrifts with \$100 million or less. The four years covered end with June 30, from 1980 to 1983. Also included in this segment is a capsule view of consumer loan, commercial loan, and NINOW account growth as of June 30, 1983 for the nation's S&Ls, regardless of their size or charter.

The second empirical portion of this study is a national analysis of state and federally chartered S&L ratios for mortgage loan, consumer loan, and commercial loan extensions, each as a percent of total loan extensions for 1981 and 1982 year-over-year changes. The recent momentum of associations' growth in consumer and commercial lending, or alternatively their continued reliance on mortgage lending, is measured by the June 30, 1983 over December 31, 1982 data for the same loan allocation ratios. Standard statistical two-sample t tests were calculated for all of the allocation ratios mentioned to determine whether state-chartered and federal-chartered S&Ls' behavior differed significantly.

## Summary of Part One

In the October issue of this *Review* we examined how state-chartered savings and loan associations in Texas, Maine, Florida, and the United States used expanded powers compared with their respective federally chartered counterparts.<sup>2</sup> For the period 1980 through 1983, the study analyzed balance sheet ratios (for example, total loans, mortgage loans, consumer loans, commercial loans, liquid investments, and investment in service corporations), each as a percent of total assets, and NOW accounts and NINOW accounts, each as a percent of total liabilities.<sup>3</sup> The purpose was to ascertain whether state- and federal-chartered S&Ls in the various geographical groupings evidenced significantly different

balance sheet behavior. The technique employed was the standard statistical two-sample t test.<sup>4</sup> Three state legislative acts that granted respective state-chartered thrifts liberalized powers were considered—a 1972 Texas law, a 1975 Maine statute, and 1980 Florida legislation. We also looked at the federal laws that expanded powers for federal-chartered thrifts nationwide—the 1980 Depository Institutions Deregulation and Monetary Control Act and the 1982 Garn-St Germain Depository Institutions Act.<sup>5</sup> (Table 1 of that article detailed the powers granted under these state and federal laws.)

All these laws were designed to enhance thrifts' viability by allowing them to match maturities on assets and liabilities more closely, thereby reducing interest-rate risk exposure and stabilizing earnings and profits. For decades thrifts had garnered funds from low-yielding, short-term savings deposits which they lent on higher-yielding, long-term mortgages that typically were held in an institution's loan portfolio. The sharp rise in interest rates in 1977 and their persistence at markedly higher levels prompted dramatic growth in nonbank money market mutual fund accounts offering market interest rates, virtually instant liquidity, and eventually free but limited check-writing privileges.

As a consequence of this tremendous growth, regulated, relatively low-yielding savings began to flow out of depository institutions at a drastic clip. To help redirect savings to depository institutions, regulatory agencies on June 1, 1978 introduced the six-month money market time deposit. The account's variable interest rate ceiling moved with changes in the average yield on new issues of six-month Treasury bills; the minimum required deposit was \$10,000. Although the six-month money market time deposit attracted a considerable amount of savings, a large proportion came from the offering institution's own lower-yielding time and savings deposits. This initial shift to high-yield, short-term savings induced a subsequent explosion in thrifts' cost of funds. Thus, toward the turn of the decade, the thrift industry encountered a higher, more volatile cost of funds and only sluggishly increasing yields on total assets, consisting mostly of mortgage holdings. That is, the industry's liability powers had been expanded in an environment of higher and more volatile interest rates while its asset powers generally had not been broadened—a combination that spelled serious trouble for thrift profitability. Indeed, mounting losses in the



1980-82 period threatened the very existence of the industry.<sup>6</sup>

Potentially, state and federal statutes passed in the 1970s and early 1980s could transform thrifts to resemble commercial banks more closely. Such a change would increase bank-thrift competition, which in turn would have a notable effect on antitrust decisions and on both business and individual consumers of financial services.<sup>7</sup> More bank, thrift, or bank-thrift mergers could be permitted if market shares of both types of depository institutions were considered in merger applications.<sup>8</sup> And heightened competition would benefit financial services purchasers because commercial banks and thrifts likely would provide a wider array of services at lower prices, presumably with the same or higher quality.

The results of our October study suggest that the most pronounced balance sheet difference between state- and federal-chartered associations on a statewide basis occurred when a large number of S&Ls chose to begin their existence as state-chartered organizations or convert to state charters. Supposedly, these thrifts intended to take advantage of expanded powers offered by individual statutes, such as those in Texas and Florida.<sup>9</sup> An additional finding was that increased liquidity, decreased mortgage holdings, and slow expansion in consumer and commercial loan holdings generally characterized state- and federal-chartered S&Ls across the nation.

The most striking evidence was provided by new Florida-chartered associations, the vast majority of which came into existence after 1979. These relatively unrestrained "de novo" institutions sought sharply higher liquidity and reduced holdings of mortgages; however, they expanded consumer and commercial loan portfolios only modestly. Overall, as of June 1983 the nation's federal-chartered S&Ls were comparatively more specialized in total loans and mortgage loans as a percent of assets. State-chartered associations held a relatively greater concentration in consumer loans, commercial loans, liquid investments, investment in service corporations, and NINOW accounts. Judging by the asset ratios most relevant to broadened powers (consumer loans, commercial loans, liquid investments, and investment in service corporations), neither group of S&Ls even approached the various ceilings imposed by state and federal statutes. Associations' cool responses were attributable to high start-up costs, lack of expertise, sluggish national economic activity, sharply di-

minished earnings, and intense competition from other financial services entities. Managerial inertia likely was another major limiting factor.

## Principal Points of Legislation

**Consumer Loan Powers.** Federal-chartered thrifts were authorized to extend consumer loans up to 20 percent of total assets as of March 31, 1980 under provisions of the Depository Institutions Deregulation and Monetary Control Act (or DIDMCA); the Garn-St Germain Act increased this authorization to 30 percent of total assets effective October 15, 1982.<sup>10</sup> Texas statutes allowed state-chartered thrifts to make consumer loans essentially free of any percent-of-assets limitation beginning August 3, 1972; the October 1, 1975 Maine law allowed state-chartered thrifts to grant consumer loans up to 10 percent of total deposits, with an additional maximum 10 percent extension of consumer loans under prudent loan rules.<sup>11</sup> As of July 1, 1980, Florida-chartered thrifts could begin granting consumer loans of any type or amount with the proviso that at least 60 percent of a thrift's "nonliquid" assets be placed in real estate-related loans or interests.<sup>12</sup>

**Commercial Loan Powers.** Garn-St Germain empowered thrifts to make non-real estate commercial loans, direct or participating, up to 5 percent of assets (7.5 percent for savings banks) prior to January 1, 1984 and thereafter up to 10 percent.<sup>13</sup> As of August 1972, Texas-chartered thrifts could make commercial loans with essentially no percent-of-assets ceiling. Maine-chartered thrifts, as of October 1975, could participate with Maine banks in commercial loans up to 10 percent of total deposits and make commercial loans under prudent loan rules up to 10 percent of deposits.<sup>14</sup> That state's law stipulated that an additional allowance up to 10 percent for making direct or participating commercial loans was to be determined by the state superintendent of banking; in 1981 the department granted the additional 10 percent. As of July 1980, Florida-chartered thrifts could grant commercial loans of any type or amount if 60 percent of an institution's nonliquid assets were in real estate-related loans or interests.<sup>15</sup>

**NINOW Account Powers.** DIDMCA authorized thrifts to accept NINOW accounts from individuals; the Garn-St Germain Act expanded that authority to include customers or organizations that had established a "business, corporate, commercial or agricultural loan relationship" with



the institution. Texas' general parity provisions allowed institutions to accept NINOW accounts from individuals upon the enactment of DIDMCA. General parity provisions in Texas, Maine, and Florida empowered thrifts chartered in those states to undertake any activity permitted for federal-chartered institutions. In 1981, Texas statutes granted thrifts NINOW powers for business accounts without imposing a loan relationship requirement. The Maine law's general parity provisions authorized thrifts to accept NINOW accounts from individuals in 1980. Legislators in 1981 granted Maine-chartered thrifts the authority to accept NINOW accounts from business customers who had established a commercial loan relationship; the loan requirement was eliminated in 1983. Finally, the 1980 Florida law allowed NINOW account acceptance from business customers without requiring any loan relationship.

### **Expansion of Consumer Loans, Commercial Loans, and NINOW Accounts**

**Texas.** Eight years after the passage of power-broadening statutes, Texas-chartered associations still had not expanded their holdings of consumer loans substantially (see Table 1). As of June 30, 1980 consumer loans as a percent of total assets stood at just 1.1 percent for state-chartered associations with over \$500 million in assets, and 2 percent and 2.5 percent for those with assets of over \$100 million to \$500 million and \$100 million or less, respectively. However, with the exception of five of the 200 smallest associations, all Texas-chartered S&Ls had booked some consumer loans. As of the same date, federal-chartered associations in Texas had respective holdings of 0.8 percent, 1.7 percent, and 2.3 percent of assets in consumer loans for associations with over \$500 million, over \$100 million to \$500 million, and \$100 million or less in assets. These three percentages were basically the same as the respective proportions recorded for their Texas-chartered counterparts. All federal-chartered S&Ls in the Lone Star State had booked some consumer loans by June 1980.

In the commercial lending field, the largest Texas-chartered associations held a meager 0.1 percent of assets, the middle category held 1 percent, and the smallest institutions had 0.6 percent. These percentages are tiny considering that liberalized commercial lending powers had been available for about eight years under Texas statute.

However, despite the meagerness of commercial loans in relation to total assets, slightly over 80 percent of the large Texas-chartered S&Ls possessed some commercial loans and approximately 40 to 45 percent of the two other groups had booked some commercial loans. Finally, since legislation authorizing thrifts to accept NINOW accounts from individuals had been approved only a few months earlier, these accounts were virtually absent from the books of both state- and federal-chartered associations in Texas.

By June 30, 1981, the large, mid-size, and small Texas-chartered S&Ls exhibited a marked rise in consumer loans as a percent of assets, with respective shares of 4.3 percent, 5.9 percent, and 5.7 percent. Furthermore, Texas' federally chartered S&Ls displayed noticeable gains in consumer lending, posting respective rises to 7.8 percent of assets, 3.4 percent, and 4.1 percent.

Despite the eight-year availability of expanded consumer lending powers and a generally prosperous, occasionally booming, energy production-based economy, apparently it was not until after mid-year 1980 that Texas-chartered S&Ls finally decided to enlarge consumer loan holdings. An increased sense of competition with Texas' federal-chartered S&Ls, which shortly before had been granted broadened powers and began to use them, helped provide considerable impetus for expansion. Additionally, heightened awareness of the industry's interest-rate risk exposure and lackluster profit potential may have occasioned some consumer loan growth.<sup>16</sup> Advances in this area offered the path of least resistance because associations already had been empowered (exclusive of the five state and federal laws cited) to make certain consumer loans, such as loans for home improvement and education and loans on savings accounts. An institution could achieve further gains in consumer loans with little more than its existing expertise, applications software, and customer base. In many cases, loan expansion required only a relaxation of credit standards or stepped-up marketing efforts.

From June 1981 to June 1983, consumer loans for the differently chartered S&Ls in the Lone Star State remained at roughly the same percent of assets levels. Further S&L diversification into short-term, higher-yielding consumer loans failed to come about, possibly because Texas was hurt by an oil glut and the sluggish general economy of the 1981-83 period.

Minimal or no commercial loan growth was registered for all size categories of differently



chartered S&Ls in Texas from 1980 to 1983. Large federally chartered associations held no commercial loans over the entire period, while similarly chartered small- and mid-size S&Ls increased commercial loans ever so slightly, from zero to 0.2 and 0.1 percent of assets, respectively. Texas-chartered S&Ls, which had been empowered to enlarge their commercial loan holdings since 1972, expanded them only fractionally. From June 1980 to June 1983, the largest Texas-chartered associations raised commercial loans slightly from 0.1 percent of assets to 0.3 percent; mid-size S&L holdings inched up from 1 percent to 1.1 percent; and small S&Ls' commercial loans edged forward from 0.6 percent to 0.8 percent of assets. Also during this period, only a modest rise was registered in the proportion of associations, either state or federal, reporting commercial loans on their books. But commercial loan-related NINOW account bookings grew, particularly for Texas-chartered associations. Although their commercial loan portfolios as a percent of assets were minor, Texas' state-chartered S&Ls held comparatively more in commercial loans than their federal counterparts.<sup>17</sup> Furthermore, in 1981 Texas-chartered associations received authority to accept NINOW accounts from business customers without any loan relationship requirement. Their relatively larger commercial loan holdings and new account acceptance powers appear to be responsible for the greater prevalence of NINOW account bookings at Texas-chartered associations in 1983.

**Maine.** Although the population of S&Ls in Maine is modest and confined to the small and mid-size institutions, the state's experience is useful for corroborating that of Texas (see Table 2). Like Texas-chartered associations, Maine-chartered S&Ls had possessed broadened consumer and commercial lending powers for many years but had not made use of them. After approximately five years of expanded abilities, Maine S&Ls with assets of over \$100 million to \$500 million held 1.3 percent of their assets in consumer loans and 0.3 percent in commercial loans; those with assets of \$100 million or less held 2.2 percent in consumer loans and none in commercial loans. By June 1980, small federally chartered S&Ls held 2.8 percent in consumer loans and zero in commercial loans. There were no mid-size federal-chartered S&Ls in Maine from June 1980 to June 1983.

As in Texas, Maine's state- and federal-chartered S&Ls increased consumer loans significantly by June 1981. Presumably, the rises were caused by an increased sense of competition between state- and federally chartered associations, an enhanced awareness of the industry's severe interest-rate risk exposure and dour profit potential, and the relative facility of enlarging certain types of consumer loan holdings. From June 1981 to June 1983, consumer loans as a portion of assets generally remained static. A Maine economy that relies heavily on cyclical industries such as tourism and forest products dampened consumer loan growth. Commercial loans expanded very little from 1980 to 1983, mirroring the Texas experience.

**Florida.** Even though expanded powers had been available to Texas- and Maine-chartered S&Ls for many years, Florida-chartered associations' holdings of consumer and commercial loans by all three size categories were only moderately lower than those states' associations on June 30, 1980 (see Table 3). Large- and mid-size Florida-chartered associations, respectively, held 1 and 0.8 percent of assets in consumer loans and zero and 0.1 percent in commercial loans. Small state S&Ls held 1.9 percent in consumer loans and zero in commercial loans. The Sunshine State's large and mid-size federal-chartered associations by June 1980 allotted respective shares of 0.6 and 0.9 percent of assets to consumer loans, while its small federal S&Ls allocated 2.1 percent of their assets to consumer loans. All three groups of federal-chartered S&Ls registered zero in commercial loans. Despite the small or nonexistent figures posted for commercial loans as a proportion of assets—the amount of commercial loans in most instances was too small to register even 0.1 percent of assets—between 25 and 50 percent of the two larger size state- and federal-chartered S&Ls in Florida had booked some commercial loans by June 1980. Florida's small state- and federal-chartered S&Ls paid little attention to commercial loans. NINOW account bookings were nonexistent on June 30, 1980; acceptance of these accounts from individuals had been approved only a few months earlier for federally chartered thrifts.

By June 1981, consumer loans had grown as a percent of assets for all size categories of Florida's state and federal S&Ls, but not as abruptly as the June 1980 to June 1981 consumer loan expansions for associations in Texas and Maine. Several factors apparently contributed to the



**Table 1. Texas S&L Involvement in Consumer Loans, Commercial Loans, and NINOW\* Accounts by Size Category and Charter**

June 30, 1980					June 30, 1981				
<b>Total Assets &gt; \$500 million</b>					<b>Total Assets &gt; \$500 million</b>				
Total Number of S&Ls (F)=2 (S)=6		Sum of Total Assets (F)=\$2.1 billion (S)=\$9.9 billion			Total Number of S&Ls (F)=2 (S)=6		Sum of Total Assets (F)=\$ 2.1 billion (S)=\$11.9 billion		
Asset/Liability Category		Number of S&Ls Involved	Percent of Institutions	Percent of Total Assets	Asset/Liability Category		Number of S&Ls Involved	Percent of Institutions	Percent of Total Assets
Consumer Loans	(F)	2	100.0	0.8	Consumer Loans	(F)	2	100.0	7.8
	(S)	6	100.0	1.1		(S)	6	100.0	4.3
Commercial Loans	(F)	0	0.0	0.0	Commercial Loans	(F)	0	0.0	0.0
	(S)	5	83.3	0.1		(S)	4	66.7	0.0**
NINOW Accounts	(F)	0	0.0	0.0	NINOW Accounts	(F)	0	0.0	0.0
	(S)	0	0.0	0.0		(S)	1	16.7	0.0**
<b>Total Assets &gt; \$100 million to \$500 million</b>					<b>Total Assets &gt; \$100 million to \$500 million</b>				
Total Number of S&Ls (F)=18 (S)=40		Sum of Total Assets (F)=\$3.6 billion (S)=\$7.1 billion			Total Number of S&Ls (F)=21 (S)=43		Sum of Total Assets (F)=\$4.2 billion (S)=\$8.3 billion		
Consumer Loans	(F)	18	100.0	1.7	Consumer Loans	(F)	21	100.0	3.4
	(S)	40	100.0	2.0		(S)	43	100.0	5.9
Commercial Loans	(F)	5	27.8	0.0**	Commercial Loans	(F)	4	19.0	0.0**
	(S)	16	40.0	1.0		(S)	20	46.5	0.7
NINOW Accounts	(F)	0	0.0	0.0	NINOW Accounts	(F)	0	0.0	0.0
	(S)	0	0.0	0.0		(S)	11	25.6	0.1
<b>Total Assets ≤ \$100 million</b>					<b>Total Assets ≤ \$100 million</b>				
Total Number of S&Ls (F)= 48 (S)=200		Sum of Total Assets (F)=\$2.1 billion (S)=\$7.6 billion			Total Number of S&Ls (F)= 45 (S)=197		Sum of Total Assets (F)=\$2.0 billion (S)=\$7.8 billion		
Consumer Loans	(F)	48	100.0	2.3	Consumer Loans	(F)	44	97.8	4.1
	(S)	195	97.5	2.5		(S)	197	100.0	5.7
Commercial Loans	(F)	3	6.3	0.0**	Commercial Loans	(F)	3	6.7	0.0**
	(S)	91	45.5	0.6		(S)	64	32.5	0.6
NINOW Accounts	(F)	0	0.0	0.0	NINOW Accounts	(F)	1	2.2	0.0**
	(S)	1	0.5	0.0**		(S)	44	22.3	0.4



June 30, 1982

June 30, 1983

**Total Assets > \$500 million**Total Number of S&Ls (F)=3  
(S)=7 Sum of Total Assets (F)=\$ 2.9 billion  
(S)=\$13.8 billion

Asset/Liability Category		Number of S&Ls Involved	Percent of Institutions	Percent of Total Assets
Consumer Loans	(F)	3	100.0	6.7
	(S)	7	100.0	4.1
Commercial Loans	(F)	0	0.0	0.0
	(S)	5	71.4	0.2
NINOW Accounts	(F)	0	0.0	0.0
	(S)	5	71.4	0.5

**Total Assets > \$100 million to \$500 million**Total Number of S&Ls (F)=21  
(S)=50 Sum of Total Assets (F)=\$ 4.3 billion  
(S)=\$10.7 billion

Consumer Loans	(F)	21	100.0	2.8
	(S)	50	100.0	6.0
Commercial Loans	(F)	8	38.1	0.1
	(S)	28	56.0	0.6
NINOW Accounts	(F)	3	14.3	0.0**
	(S)	31	62.0	0.7

**Total Assets ≤ \$100 million**Total Number of S&Ls (F)= 38  
(S)=184 Sum of Total Assets (F)=\$1.7 billion  
(S)=\$7.0 billion

Consumer Loans	(F)	36	94.7	4.2
	(S)	174	94.6	6.0
Commercial Loans	(F)	4	10.5	0.0**
	(S)	59	32.1	0.5
NINOW Accounts	(F)	2	5.3	0.0**
	(S)	74	40.2	0.5

(F) - Federal-chartered

(S) - State-chartered

\* As of January 1981 Texas law allowed demand deposit acceptance without regard to a requisite loan relationship. The October 1982 Garn-St Germain Act allowed demand deposit acceptance from customers who had established a loan relationship with the institution. Thus, some demand deposits may appear in the NINOW category. General parity provisions of Texas law apply.

\*\*Too small to register as 0.1 percent.

**Total Assets > \$500 million**Total Number of S&Ls (F)= 3  
(S)=13 Sum of Total Assets (F)=\$ 3.4 billion  
(S)=\$19.3 billion

Asset/Liability Category		Number of S&Ls Involved	Percent of Institutions	Percent of Total Assets
Consumer Loans	(F)	3	100.0	5.7
	(S)	13	100.0	4.4
Commercial Loans	(F)	0	0.0	0.0
	(S)	6	80.0	0.3
NINOW Accounts	(F)	0	0.0	0.0
	(S)	13	100.0	1.1

**Total Assets > \$100 million to \$500 million**Total Number of S&Ls (F)=24  
(S)=66 Sum of Total Assets (F)=\$ 5.1 billion  
(S)=\$13.3 billion

Consumer Loans	(F)	24	100.0	2.9
	(S)	66	100.0	6.8
Commercial Loans	(F)	12	50.0	0.2
	(S)	33	50.0	1.1
NINOW Accounts	(F)	15	62.5	0.2
	(S)	46	69.7	0.2

**Total Assets ≤ \$100 million**Total Number of S&Ls (F)= 27  
(S)=134 Sum of Total Assets (F)=\$1.3 billion  
(S)=\$5.5 billion

Consumer Loans	(F)	27	100.0	4.3
	(S)	132	98.5	6.4
Commercial Loans	(F)	6	22.2	0.1
	(S)	40	29.9	0.8
NINOW Accounts	(F)	8	29.6	0.0**
	(S)	81	60.4	0.5

Source: Federal Reserve Board Database.



**Table 2. Maine S&L Involvement in Consumer Loans, Commercial Loans, and NINOW\* Accounts by Size Category and Charter**

June 30, 1980

June 30, 1981

**Total Assets > \$100 million to \$500 million**

Total Number of S&Ls (F)=0 (S)=2 Sum of Total Assets (F)=\$0.0 billion (S)=\$0.2 billion

Asset/Liability Category		Number of S&Ls Involved	Percent of Institutions	Percent of Total Assets
Consumer Loans	(F) (S)	0 2	— 100.0	— 1.3
Commercial Loans	(F) (S)	0 1	— 50.0	— 0.3
NINOW Accounts	(F) (S)	0 2	— 100.0	— 0.3

**Total Assets ≤ \$100 million**

Total Number of S&Ls (F)=8 (S)=9 Sum of Total Assets (F)=\$0.3 billion (S)=\$0.2 billion

Asset/Liability Category		Number of S&Ls Involved	Percent of Institutions	Percent of Total Assets
Consumer Loans	(F) (S)	8 9	100.0 100.0	2.8 2.2
Commercial Loans	(F) (S)	0 0	0.0 0.0	0.0 0.0
NINOW Accounts	(F) (S)	0 2	0.0 22.2	0.0 0.1

**Total Assets > \$100 million to \$500 million**

Total Number of S&Ls (F)=0 (S)=2 Sum of Total Assets (F)=\$0.0 billion (S)=\$0.2 billion

Asset/Liability Category		Number of S&Ls Involved	Percent of Institutions	Percent of Total Assets
Consumer Loans	(F) (S)	0 2	— 100.0	— 5.5
Commercial Loans	(F) (S)	0 1	— 50.0	— 0.0**
NINOW Accounts	(F) (S)	0 2	— 100.0	— 0.3

**Total Assets ≤ \$100 million**

Total Number of S&Ls (F)=8 (S)=9 Sum of Total Assets (F)=\$0.2 billion (S)=\$0.2 billion

Asset/Liability Category		Number of S&Ls Involved	Percent of Institutions	Percent of Total Assets
Consumer Loans	(F) (S)	8 9	100.0 100.0	4.2 4.7
Commercial Loans	(F) (S)	0 2	0.0 22.2	0.0 0.0**
NINOW Accounts	(F) (S)	0 2	0.0 22.2	0.0 0.1

June 30, 1982

June 30, 1983

**Total Assets > \$100 million to \$500 million**

Total Number of S&Ls (F)=0 (S)=1 Sum of Total Assets (F)=\$0.0 billion (S)=\$0.2 billion

Asset/Liability Category		Number of S&Ls Involved	Percent of Institutions	Percent of Total Assets
Consumer Loans	(F) (S)	0 1	— 100.0	— 5.4
Commercial Loans	(F) (S)	0 1	— 100.0	— 0.0**
NINOW Accounts	(F) (S)	0 —	— —	— —

**Total Assets > \$100 million to \$500 million**

Total Number of S&Ls (F)=0 (S)=1 Sum of Total Assets (F)=\$0.0 billion (S)=\$0.2 billion

Asset/Liability Category		Number of S&Ls Involved	Percent of Institutions	Percent of Total Assets
Consumer Loans	(F) (S)	0 1	— 100.0	— 5.1
Commercial Loans	(F) (S)	0 1	— 100.0	— 0.1
NINOW Accounts	(F) (S)	0 —	— —	— —



	Total Number of S&Ls (F)=8 (S)=9		Sum of Total Assets (F)=\$0.2 billion (S)=\$0.2 billion		Total Number of S&Ls (F)=9 (S)=7		Sum of Total Assets (F)=\$0.3 billion (S)=\$0.2 billion	
	(F)	(S)	(F)	(S)	(F)	(S)	(F)	(S)
Consumer Loans	8	9	100.0	4.2	9	7	100.0	5.5
Commercial Loans	0	0	0.0	4.8	1	1	100.0	7.0
NINOW Accounts	0	2	0.0	0.0	3	2	11.1	1.2
			22.2	0.1			14.3	0.2
							33.3	0.2
							28.6	1.6

(F) - Federal-chartered  
(S) - State-chartered

\*Maine-chartered associations' NINOW account holdings may consist of some demand deposits for personal checking accounts as authorized by the 1975 law. The October 1982 Garn-St Germain Act allowed demand deposit acceptance from customers who had established a loan relationship with the institution. Thus, some demand deposits may appear in the NINOW category. General parity provisions of state law apply.

\*\*Too small to register as 0.1 percent.

Source: Federal Reserve Board Database.

substantial consumer loan growth in Texas and Maine from 1980 to 1981. These included a heightened sense of competition created by the recent enactment of both state and federal laws affecting thrift institutions, keener cognizance of the industry's excessive interest-rate risk exposure and sagging profit potential, and the relative ease of increasing certain types of consumer loans. Even though management at Florida's state- and federal-chartered S&Ls was influenced by these factors, the relative profitability of lending in the state's real estate market could have tempered the pace of diversification by Florida's S&Ls. Commercial loan expansion during this 1980 to 1981 period generally was insignificant.

Unlike Texas and Maine, Florida associations' holdings of consumer loans did not stay level from June 1981 to June 1983. Instead they grew gradually, but to 1983 levels that were lower than those for Texas and Maine. Again, the continued profitability of Florida's real estate sector, even during the 1981-82 recession, probably was responsible in part for this gradual but slower growth. Also, Florida-chartered associations' preference for greatly increased liquidity accounted partly for their comparatively slower growth in consumer loans from 1981 to 1983 vis-a-vis Texas- and Maine-chartered S&Ls. (Liquid investments averaged 26.2 percent of assets for Florida-chartered associations during this two-year period compared with 10.9 percent for Texas-chartered S&Ls and 12.5 percent for Maine-chartered institutions.) In brief, as of June 30, 1983 Florida's differently sized state-chartered S&Ls held between 2.8 and 4.1 percent of assets in consumer loans, while Texas-chartered associations retained between 4.4 and 6.8 percent and Maine-chartered associations between 5.1 and 7 percent in consumer loans. Florida's federal-chartered S&Ls maintained a relatively smaller 1.7 to 2.5 percent of assets in consumer loans, compared with 2.9 to 5.7 percent for Texas' federal associations and 5.5 percent for those in Maine.

It is interesting to note that commercial loans comprised 1.4 percent of assets for large Florida-chartered S&Ls on June 30, 1983 and 2.8 percent for mid-size state-chartered associations. Florida's small state-chartered associations held only 0.4 percent of their assets in commercial loans on that date. This is the first consistent pattern to emerge on a statewide basis in support of the supposition that larger associations are better able to subsidize from various profit-generating activities the high start-up costs associated with establishing a commercial



**Table 3.** Florida S&L Involvement in Consumer Loans, Commercial Loans, and NINOW\* Accounts by Size Category and Charter

June 30, 1980					June 30, 1981				
<b>Total Assets &gt; \$500 million</b>					<b>Total Assets &gt; \$500 million</b>				
Total Number of S&Ls (F)= 24 (S)= 4		Sum of Total Assets (F)=\$26.1 billion (S)=\$ 6.1 billion			Total Number of S&Ls (F)=31 (S)= 5		Sum of Total Assets (F)=\$33.2 billion (S)=\$ 7.5 billion		
Asset/Liability Category		Number of S&Ls Involved	Percent of Institutions	Percent of Total Assets	Asset/Liability Category		Number of S&Ls Involved	Percent of Institutions	Percent of Total Assets
Consumer Loans	(F)	24	100.0	0.6	Consumer Loans	(F)	31	100.0	1.6
	(S)	3	75.0	1.0		(S)	5	100.0	1.9
Commercial Loans	(F)	12	50.0	0.0**	Commercial Loans	(F)	17	54.8	0.0**
	(S)	1	25.0	0.0**		(S)	2	40.0	0.7
NINOW Accounts	(F)	0	0.0	0.0	NINOW Accounts	(F)	2	6.5	0.0**
	(S)	0	0.0	0.0		(S)	1	20.0	0.1
<b>Total Assets &gt; \$100 million to \$500 million</b>					<b>Total Assets &gt; \$100 million to \$500 million</b>				
Total Number of S&Ls (F)=53 (S)= 4		Sum of Total Assets (F)=\$13.4 billion (S)=\$ 1.2 billion			Total Number of S&Ls (F)=46 (S)= 3		Sum of Total Assets (F)=\$11.4 billion (S)=\$ 0.9 billion		
Consumer Loans	(F)	53	100.0	0.9	Consumer Loans	(F)	46	100.0	1.4
	(S)	4	100.0	0.8		(S)	3	100.0	3.0
Commercial Loans	(F)	17	32.1	0.0**	Commercial Loans	(F)	19	41.3	0.0**
	(S)	2	50.0	0.1		(S)	1	33.3	0.0**
NINOW Accounts	(F)	0	0.0	0.0	NINOW Accounts	(F)	1	2.2	0.0**
	(S)	0	0.0	0.0		(S)	0	0.0	0.0
<b>Total Assets ≤ \$100 million</b>					<b>Total Assets ≤ \$100 million</b>				
Total Number of S&Ls (F)=30 (S)= 8		Sum of Total Assets (F)=\$1.5 billion (S)=\$0.2 billion			Total Number of S&Ls (F)=28 (S)=19		Sum of Total Assets (F)=\$1.5 billion (S)=\$0.4 billion		
Consumer Loans	(F)	30	100.0	2.1	Consumer Loans	(F)	28	100.0	2.3
	(S)	7	87.5	1.9		(S)	15	78.9	2.4
Commercial Loans	(F)	2	6.7	0.0**	Commercial Loans	(F)	1	3.6	0.0**
	(S)	0	0.0	0.0		(S)	3	15.8	0.2
NINOW Accounts	(F)	0	0.0	0.0	NINOW Accounts	(F)	4	14.3	0.0**
	(S)	0	0.0	0.0		(S)	6	31.6	0.2



**Total Assets > \$500 million**

Total Number of S&Ls (F)=32 (S)= 4      Sum of Total Assets (F)=\$34.4 billion (S)=\$ 6.6 billion

Asset/Liability Category		Number of S&Ls Involved	Percent of Institutions	Percent of Total Assets
Consumer Loans	(F)	32	100.0	1.9
	(S)	4	100.0	2.5
Commercial Loans	(F)	15	46.9	0.0**
	(S)	2	50.0	0.3
NINOW Accounts	(F)	4	12.5	0.0**
	(S)	2	50.0	0.3

**Total Assets > \$100 million to \$500 million**

Total Number of S&Ls (F)=37 (S)= 3      Sum of Total Assets (F)=\$8.3 billion (S)=\$1.0 billion

Consumer Loans	(F)	37	100.0	1.6
	(S)	3	100.0	3.1
Commercial Loans	(F)	10	27.0	0.0**
	(S)	2	66.7	0.5
NINOW Accounts	(F)	6	16.2	0.0**
	(S)	2	66.7	0.1

**Total Assets ≤ \$100 million**

Total Number of S&Ls (F)=24 (S)=21      Sum of Total Assets (F)=\$1.2 billion (S)=\$0.6 billion

Consumer Loans	(F)	24	100.0	2.3
	(S)	20	95.2	4.2
Commercial Loans	(F)	1	4.2	0.0**
	(S)	7	33.3	0.5
NINOW Accounts	(F)	8	33.3	0.0**
	(S)	17	81.0	0.8

(F) - Federal-chartered

(S) - State-chartered

\*The October 1982 Garn-St Germain Act allowed demand deposit acceptance from customers who had established a loan relationship with the institution. Thus, some demand deposits may appear in the NINOW category. General parity provisions of Florida law apply.

\*\*Too small to register as 0.1 percent.

**Total Assets > \$500 million**

Total Number of S&Ls (F)=31 (S)= 5      Sum of Total Assets (F)=\$39.8 billion (S)=\$ 8.0 billion

Asset/Liability Category		Number of S&Ls Involved	Percent of Institutions	Percent of Total Assets
Consumer Loans	(F)	31	100.0	2.5
	(S)	5	100.0	3.4
Commercial Loans	(F)	15	48.4	0.0**
	(S)	2	40.0	1.4
NINOW Accounts	(F)	14	45.2	0.0**
	(S)	3	60.0	1.4

**Total Assets > \$100 million to \$500 million**

Total Number of S&Ls (F)=30 (S)= 6      Sum of Total Assets (F)=\$7.8 billion (S)=\$1.7 billion

Consumer Loans	(F)	30	100.0	1.7
	(S)	6	100.0	2.8
Commercial Loans	(F)	12	40.0	0.1
	(S)	4	66.7	2.8
NINOW Accounts	(F)	15	50.0	0.1
	(S)	5	83.3	0.3

**Total Assets ≤ \$100 million**

Total Number of S&Ls (F)=19 (S)=22      Sum of Total Assets (F)=\$1.0 billion (S)=\$0.8 billion

Consumer Loans	(F)	19	100.0	2.5
	(S)	21	95.5	4.1
Commercial Loans	(F)	3	15.8	0.0**
	(S)	7	31.8	0.4
NINOW Accounts	(F)	9	47.4	0.1
	(S)	20	90.9	1.1

Source: Federal Reserve Board Database.



**Table 4.** United States S&L Involvement in Consumer Loans, Commercial Loans, and NINOW\* Accounts by Size Category and Charter

June 30, 1980					June 30, 1981				
<b>Total Assets &gt; \$500 million</b>					<b>Total Assets &gt; \$500 million</b>				
Total Number of S&Ls (F)=125 (S)= 70		Sum of Total Assets (F)=\$143.7 billion (S)=\$102.4 billion			Total Number of S&Ls (F)=148 (S)= 77		Sum of Total Assets (F)=\$174.1 billion (S)=\$123.1 billion		
Asset/Liability Category		Number of S&Ls Involved	Percent of Institutions	Percent of Total Assets	Asset/Liability Category		Number of S&Ls Involved	Percent of Institutions	Percent of Total Assets
Consumer Loans	(F)	125	100.0	0.8	Consumer Loans	(F)	148	100.0	3.1
	(S)	69	98.6	1.2		(S)	77	100.0	2.5
Commercial Loans	(F)	58	46.4	0.5	Commercial Loans	(F)	61	41.2	0.0**
	(S)	35	50.0	0.2		(S)	31	40.3	0.2
NINOW Accounts	(F)	2	1.6	0.0**	NINOW Accounts	(F)	8	5.4	0.0**
	(S)	6	8.6	0.0**		(S)	8	10.4	0.0**
<b>Total Assets &gt; \$100 million to \$500 million</b>					<b>Total Assets &gt; \$100 million to \$500 million</b>				
Total Number of S&Ls (F)=616 (S)=397		Sum of Total Assets (F)=\$130.3 billion (S)=\$ 75.8 billion			Total Number of S&Ls (F)=622 (S)=425		Sum of Total Assets (F)=\$132.0 billion (S)=\$ 83.4 billion		
Consumer Loans	(F)	608	98.7	1.2	Consumer Loans	(F)	621	99.8	2.6
	(S)	395	99.5	1.2		(S)	425	100.0	2.8
Commercial Loans	(F)	148	24.0	0.1	Commercial Loans	(F)	141	22.7	0.0**
	(S)	93	23.4	0.2		(S)	96	22.6	0.2
NINOW Accounts	(F)	3	0.5	0.0**	NINOW Accounts	(F)	13	2.1	0.0**
	(S)	54	13.6	0.1		(S)	56	13.2	0.1
<b>Total Assets ≤ \$100 million</b>					<b>Total Assets ≤ \$100 million</b>				
Total Number of S&Ls (F)=1253 (S)=1502		Sum of Total Assets (F)=\$53.8 billion (S)=\$52.4 billion			Total Number of S&Ls (F)=1184 (S)=1458		Sum of Total Assets (F)=\$52.7 billion (S)=\$51.4 billion		
Consumer Loans	(F)	1228	98.0	1.8	Consumer Loans	(F)	1166	98.5	2.7
	(S)	1436	97.6	1.7		(S)	1439	98.7	3.1
Commercial Loans	(F)	88	7.0	0.0**	Commercial Loans	(F)	87	7.3	0.0**
	(S)	239	15.9	0.1		(S)	201	13.8	0.1
NINOW Accounts	(F)	3	0.2	0.0**	NINOW Accounts	(F)	24	2.0	0.0**
	(S)	85	5.7	0.1		(S)	131	9.0	0.1



**Total Assets > \$500 million**

Total Number of S&Ls (F)=173 Sum of Total Assets (F)=\$249.4 billion  
(S)= 79 (S)=\$129.0 billion

Asset/Liability Category		Number of S&Ls Involved	Percent of Institutions	Percent of Total Assets
Consumer Loans	(F)	173	100.0	2.6
	(S)	79	100.0	2.5
Commercial Loans	(F)	64	37.0	0.0**
	(S)	34	43.0	0.1
NINOW Accounts	(F)	24	13.9	0.0**
	(S)	14	17.7	0.1

**Total Assets > \$100 million to \$500 million**

Total Number of S&Ls (F)=592 Sum of Total Assets (F)=\$126.2 billion  
(S)=389 (S)=\$ 78.6 billion

Consumer Loans	(F)	591	99.8	2.6
	(S)	389	100.0	2.9
Commercial Loans	(F)	135	22.8	0.1
	(S)	101	26.0	0.2
NINOW Accounts	(F)	47	7.9	0.0**
	(S)	84	21.6	0.1

**Total Assets ≤ \$100 million**

Total Number of S&Ls (F)=1034 Sum of Total Assets (F)=\$47.1 billion  
(S)=1302 (S)=\$45.7 billion

Consumer Loans	(F)	1006	97.3	2.7
	(S)	1268	97.4	3.2
Commercial Loans	(F)	96	9.3	0.1
	(S)	185	14.2	0.1
NINOW Accounts	(F)	43	4.2	0.0**
	(S)	190	14.6	0.2

(F) - Federal-chartered

(S) - State-chartered

\*The October 1982 Garn-St Germain Act allowed demand deposit acceptance from customers who had established a loan relationship with the institution. Thus, some demand deposits may appear in the NINOW category. General parity provisions of state laws apply.

\*\*Too small to register as 0.1 percent.

Source: Federal Reserve Board Database.

**Total Assets > \$500 million**

Total Number of S&Ls (F)=202 Sum of Total Assets (F)=\$315.1 billion  
(S)= 89 (S)=\$147.9 billion

Asset/Liability Category		Number of S&Ls Involved	Percent of Institutions	Percent of Total Assets
Consumer Loans	(F)	202	100.0	3.0
	(S)	89	100.0	2.8
Commercial Loans	(F)	100	49.5	0.2
	(S)	39	43.8	0.2
NINOW Accounts	(F)	79	39.1	0.1
	(S)	31	34.8	0.2

**Total Assets > \$100 million to \$500 million**

Total Number of S&Ls (F)=575 Sum of Total Assets (F)=\$126.1 billion  
(S)=397 (S)=\$ 81.6 billion

Consumer Loans	(F)	574	99.8	2.7
	(S)	396	99.7	3.0
Commercial Loans	(F)	177	30.8	0.2
	(S)	121	30.5	0.3
NINOW Accounts	(F)	175	30.4	0.1
	(S)	149	37.5	0.4

**Total Assets ≤ \$100 million**

Total Number of S&Ls (F)= 850 Sum of Total Assets (F)=\$40.1 billion  
(S)=1081 (S)=\$40.7 billion

Consumer Loans	(F)	839	98.7	2.9
	(S)	1066	98.6	3.4
Commercial Loans	(F)	111	13.1	0.1
	(S)	194	17.9	0.3
NINOW Accounts	(F)	126	14.8	0.0**
	(S)	287	26.5	0.2



**Table 5. Savings and Loan Associations - United States  
Consumer Loans, Commercial Loans, and NINOW\* Accounts  
June 30, 1983**

	Number Offering*	Percent of Associations	Dollar Value of Accounts as a Percent of Associations' Assets
Consumer Loans	3166	99.1	3.3
Commercial Loans	742	23.2	.02
NINOW Accounts	847	26.5	0.2

\* May include some demand deposits resulting from enactment of a 1981 Texas law, a 1975 Maine law, and the 1982 Garn-St Germain Act.

\*\*Total number of associations = 3,194

Source: Federal Reserve Board Database.

loan department. Accordingly, between two-fifths and two-thirds of the large and mid-size Florida-chartered S&Ls had booked some commercial loans by June 1983; small Florida-chartered associations exhibited less interest in commercial lending. NINOW account bookings, though, were considerable for all size categories of state and federal S&Ls.

**United States.** Nationwide, on June 30, 1980 consumer loans as a percent of assets for state- and federal-chartered associations were close to the proportions cited for Texas, Maine, and Florida (see Table 4). On that date the nation's large and mid-size state-chartered S&Ls retained 1.2 percent of assets in consumer loans, and small state-chartered associations held 1.7 percent; the differently sized federally chartered S&Ls had devoted similar proportions of assets to consumer loans. Within the next 12 months, consumer loans as a portion of assets rose for both state and federal associations nationwide, but this expansion was modest compared with those for Texas and Maine. As in these states, though, consumer loans as a portion of the various S&Ls' assets remained about the same over the next two years. This flat 1981-83 growth for the United States was attributable to the national recession that prevailed during most of that period.

It is important to note that, for the differently sized federally chartered S&Ls nationwide, commercial loans as a portion of assets remained the same or rose very slightly from June 1982 to

June 1983. Under Garn-St Germain, non-real estate commercial lending powers were available to federal associations during most of this time, and so it would seem that federal-chartered S&Ls hesitated to enter the commercial lending arena. Also, state-chartered associations' commercial loan growth was scant from 1980 to 1983. By June 1983, however, commercial loans had been booked at 30 to 50 percent of the nation's large and mid-size associations. The nation's small S&Ls, like small associations in Texas, Maine, and Florida, were comparatively less interested in placing commercial loans on their books. Commercial loan-related NINOW account bookings nationwide for associations of different sizes and charters were about the same as their respective bookings of commercial loans.

Without regard to size category or charter, Table 5 displays for June 30, 1983 the number of associations booking consumer loans, commercial loans, and NINOW accounts as a percent of total U.S. associations and total assets. The table depicts concisely the extent to which the nation's savings and loan industry has expanded consumer and commercial loan portfolios, as well as holdings of NINOW accounts. Clearly, S&Ls have not diversified greatly into consumer lending, and particularly not into commercial lending. Accordingly, NINOW account bookings were limited. Specifically, of the 3,194 state and federal associations in existence on June 30, 1983, fully 99.1 percent



had some consumer loans on their books; however, these short-term, higher yielding loans accounted for only 3.3 percent of their total assets. Also as of that date, commercial loans had been booked by 23.2 percent of all associations nationwide, but accounted for a puny 0.2 percent of their total assets. Commercial loan-related NINOW accounts had been booked by 26.5 percent of all institutions and equaled 0.2 percent of total assets, proportions not dissimilar to the figures recorded for commercial loans.

What do these results tell us? On a national basis, we found that consumer loans comprised between 0.8 and 1.8 percent of assets for the three size categories of associations on June 30, 1980, only a few months after passage of DIDMCA. A year later notable rises in consumer loans—to between 2.5 and 3.1 percent of assets—occurred, principally because of the factors mentioned earlier. The first was an apparent increased sense of competition between state- and federal-chartered associations engendered by DIDMCA's expanded consumer loan powers for federal S&Ls. S&Ls' severe profit squeeze, the second factor, likely prompted gains in consumer loans by elevating management awareness of the industry's excessive interest-rate risk exposure and its dim profit outlook. And third, consumer loan advances provided the path of least resistance toward diversification.

Over the next two years, however, consumer loans nationwide remained at essentially the same level. This leveling off was ascribed to recessionary conditions that dampened employment, personal income, and consumer confidence. Furthermore, S&Ls wanting to gain a foothold in the potentially profitable automobile loan business were hampered by a spate of below-market rate loans offered by U.S. automakers whose sales were flagging during the July 1981-November 1982 recession.

**Summary.** The absence of substantial consumer loan diversification for Texas- and Maine-chartered associations by 1980 is pertinent. State legislators had expanded consumer loan powers for Texas' state-chartered thrifts in August 1972 and for Maine's in October 1975. Nonetheless, by June 1980 the consumer loan portfolios of state-chartered S&Ls in both states were basically the same relative size as those for their federally chartered counterparts and

for associations generally in Florida and the United States. However, 12 months later, and 15 months following passage of DIDMCA, consumer loans as a proportion of assets at associations in Texas jumped from 0.8 to 2.5 percent in June 1980 to 3.4 to 7.8 percent, and for S&Ls in Maine they rose to 4.2 to 5.5 percent of assets from 1.3 to 2.8 percent. Since these were the first notable gains in consumer loan portfolios for Texas- and Maine-chartered associations despite many years of statutory availability and an expansionary economic climate throughout virtually all of the latter 1970s, we can presume that the experience for Texas and Maine mirrored the nation's. That is, they were motivated by the same three factors that brought about the 1980-1981 rises in loans to consumers: enhanced rivalry, keener awareness of the industry's vulnerability, and the facility of expanding certain types of consumer loans.

In Florida, S&L consumer loan portfolios in June 1980 accounted for approximately the same portion of assets as in Texas, Maine, and the United States. During the next year, consumer loans in Florida, unlike those in the other three geographical areas, grew only moderately even though broadened consumer loan powers were then fully available to Florida's state and federal associations. While S&L managers in Florida also were influenced by the three factors that seemed to spur consumer loan growth elsewhere, the relative profitability and safety of extending mortgages in that state's real estate market during 1980-81 may have tempered interest in stepping up consumer lending.

Over the ensuing two years, consumer loans at Florida S&Ls rose gradually, but their levels still were below those for Texas and Maine. If we assume that Florida's S&Ls sought to diversify through consumer lending, their loan growth from 1981 to 1983, as opposed to the generally flat growth for Texas, Maine, and the nation, resulted largely from the interaction of several, sometimes opposing, factors. Advances in consumer loans can be ascribed to Florida's ability to weather recessions better than most other states. The comparatively lower 1983 percent-of-assets levels for Florida S&Ls owes both to the continued profitability of the Florida real estate market despite the national recession, and to the dramatically higher liquidity positions sought by Florida-chartered associations. Finally, S&Ls in Florida that wished to participate actively in the automobile loan field were constrained



by the subsidized auto loan rates tendered by U.S. manufacturers during the 1981-82 recession, as were Texas and Maine associations.

The proposition that larger S&Ls are more likely to diversify into consumer lending and, particularly, commercial lending because they can absorb more easily the high costs of start-up, marketing, and the loan losses associated with increased credit-rate risk seems a plausible one. Provided profitability is adequate, larger associations can subsidize the expenses related to training their employees in specialized lending, hiring people who already command the skills needed, purchasing equipment, modifying applications software, and boosting marketing efforts to tap or expand their current customer base.

Consumer loan percent-of-assets figures for differently sized and chartered associations in Texas, Maine, Florida, and the United States revealed that small associations maintained consumer loans that were proportionately the same as those of larger associations. Perhaps most of the consumer loans being offered then can be considered "basic" products, consisting chiefly of loans on savings accounts, home improvement loans, and educational loans, all of which S&Ls had been tendering prior to 1980. Hence, start-up costs may have been irrelevant in the expansion process through 1983.<sup>18</sup> When S&Ls as a group diversify into automobile loans, personal loans, and credit card operations, the increased training, hiring, equipment, software, and marketing expenses, along with loan losses, may become decisive. At that point consumer loan expansion by larger associations might become measurably greater than expansion by smaller S&Ls.

The only perceptible pattern supporting the supposition that larger S&Ls are better able to diversify into commercial lending than small associations emerges from the June 1983 data for Florida. Larger Florida-chartered associations held 1.4 and 2.8 percent of assets and small associations maintained a modest 0.4 percent. Comparable data for Florida's federal-chartered S&Ls and differently chartered S&Ls in Texas, Maine, and the United States formed no such pattern. Less conclusive commercial loan booking data for Texas, Maine, Florida, and the United States indicate less interest in booking such loans by small-size associations. Consequently, the overall evidence that larger S&Ls diversify more aggressively in commercial

lending is insufficient. Indeed, commercial loan powers were used sparsely by various associations in all three states studied and in the nation.

More significantly, our study indicated that Texas- and Maine-chartered associations, which by June 1983 had possessed broadened powers for 11 and 8 years, respectively, essentially did not use their commercial loan powers. Although S&Ls eventually are likely to increase commercial loan holdings to reduce interest-rate risk exposure and enhance earnings, the industry's unfamiliarity with the complexities of commercial lending rule out such loans as basic products. (On the other hand, it seems logical that with their traditional consumer or individual orientation and their previous experience with extending certain types of consumer loans, S&Ls would regard consumer loans as a basic industry product and attempt to make advances in them.) Thus S&Ls as a group probably will diversify very slowly into the intensely competitive field of commercial lending because of the extraordinary costs involved. But it seems likely that larger, more profitable S&Ls will emerge as the industry's commercial loan pioneers, for these institutions seem better able to absorb the substantial expenses associated with establishing a profitable commercial loan department.

High commercial lending start-up costs are related primarily to staffing needs. To acquire the requisite level of expertise, departments either must hire employees with extensive commercial loan experience—often at salaries that have been bid up markedly—or conduct intricate training programs. The personnel of a successful commercial loan department must be well-versed in loan documentation (verifying the borrower's legal status and perfecting security interests in collateral), loan administration, disbursement of advances, and financial statement analysis. Commercial loan officers also must have a solid understanding of the businesses to which they lend, particularly in accounts receivable and cash flow.

And finally, aside from lack of experience and prohibitive start-up costs, competition will be a prominent factor limiting associations' commercial loan expansions. Winning profitable and demanding (in terms of ancillary services offered) commercial loan customers away from sophisticated commercial bankers should prove extremely difficult for S&Ls inexperienced in and narrowly associated with commercial lend-



**Table 6.** Allocation of Total Loan Extensions - United States

	1981	1982	June 1983/Dec. 1982
Mortgage Loans*	1.01(F) .91(S)	.96(F) .97(S)	.93(F) .94(S)
Consumer Loans*	-.01(F) .07(S)	.04(F) .04(S)	.07(F) .05(S)
Commercial Loans*	.00(F) .02(S)	.00(F) .00(S)	.00(F) .01(S)

F - Federal charter

S - State charter

\*Ratios are calculated by dividing mortgage loan, consumer loan, and commercial loan extensions each as a percent of total loan extensions for a particular period.

†Ratios for 1981 and 1982 were obtained by computing December 31 over-the-preceding-December 31 balance sheet data.

The sum of mortgage loan, consumer loan, and commercial loan ratios for a particular column may not equal one because of rounding.

Source: Federal Reserve Board Database.

ing. Consequently, the pool of commercial loan accounts that S&Ls can tap is likely to consist of smaller businesses that either are recently established or seek more personalized service, which associations intent on securing a foothold in commercial lending might provide.

### Allocation Ratios for Mortgage, Consumer, and Commercial Loans

The ratios displayed in Table 6 illustrate the recent momentum of growth in consumer and commercial loans for the nation's state- and federal-chartered associations, as well as a different view of the pace of expansion. Alternatively, the table indicates the degree to which S&Ls have continued to rely on mortgage holdings. The ratios are computed by dividing mortgage loan, consumer loan, and commercial loan extensions each as a percent of total loan extensions.

The data for 1981 indicate that federal-chartered associations emphasized mortgage loans, while state-chartered S&Ls relied relatively less on mortgages and they expanded consumer loans noticeably. In 1982, a distinct pattern for both federal and state associations began to emerge, with mortgage loan extensions comprising 96-97 percent of total extensions for the differently chartered S&Ls, and consumer and commercial

loans encompassing 4 percent and zero percent of total extensions, respectively.

The June 1983 over December 1982 ratios, which measure the recent momentum of consumer and commercial loan expansion, cover a six-month period of post-recession economic growth that was more conducive to increased S&L diversification than were the preceding years. Furthermore, by the first half of 1983 federal-chartered associations as a group already had about three years to plan for a substantial expansion in consumer loan holdings. Non-real estate commercial loan powers granted by the October 1982 Garn-St Germain Act also were fully available to federal associations.

The June 1983 over December 1982 ratios show a clear pattern for the recent momentum of consumer and commercial loan expansion, particularly in relation to the 1982 ratios. Federal- and state-chartered S&Ls continued to rely heavily on mortgage lending, posting mortgage loan extension ratios of 93 and 94 percent, respectively, down from the 96-97 percent recorded for 1982. Respective consumer loan extension ratios were 7 and 5 percent for federal- and state-chartered S&Ls, compared with 4 percent logged for 1982. Commercial loan extension ratios were zero for federal S&Ls, which recently had been empowered to make non-real estate commercial loans, and 1 percent for state associations.



Two-sample t tests were calculated to determine whether statistically significant divergent loan extension behavior was manifest between federal- and state-chartered associations. Of interest here is the proposition that federal associations, which comprise about half of the nation's S&Ls, would take advantage of the greatly expanded consumer loan powers granted under DIDMCA in 1980 and non-real estate commercial loan powers provided by the Garn-St Germain Act in 1982. The two-sample t tests compare the loan extension behavior of federal-chartered S&Ls with that for state-chartered S&Ls, of which only those in Texas, Maine, and Florida received broad and explicit consumer and commercial loan powers under state laws.<sup>19</sup>

All of the two-sample t tests calculated were insignificant, indicating that the loan allocation behavior of federally chartered S&Ls was essentially the same as that for state associations. Therefore, the nation's federal S&Ls did not avail themselves more heartily of the consumer loan powers granted under DIDMCA than did state-chartered thrifts. Insignificant two-sample t tests for the June 1983 over December 1982 commercial loan allocation ratios indicated that federally chartered S&Ls as a whole did not take advantage of the non-real estate commercial loan powers given to them by the Garn-St Germain Act. Moreover, insignificant two-sample t tests for the mortgage loan ratios suggest that mortgage lending, the industry's traditional activity, was being emphasized about equally by the differently chartered associations; mortgage loan extensions were taking 93 to 94 cents of every dollar in loan extensions for the nation's S&Ls during 1983's first half.

The slow diversification into consumer and commercial loans through June 1983 indicates that S&Ls continued to rely in great measure on mortgage lending, for which they already possessed vast experience. However, associations as a group have chosen consumer lending as the principal area for diversification, and have not expanded significantly into commercial lending. Finally, one must remember that the mere granting of broadened powers certainly will not of itself prompt diversification. Before such expansion occurs S&L management must adopt a more venturesome attitude, acquire profits to absorb start-up costs, and devote time to obtain the specialized expertise and to find qualified loan applicants.

## Summary and Conclusions

Through June 1983, the overall pace of S&L diversification in Texas, Maine, Florida, and the United States has been moderate for consumer loans and languid for commercial loans. Texas- and Maine-chartered associations, which had possessed these expanded powers for a number of years, manifested a similarly restrained pace of expansion in consumer and commercial lending. Only moderately higher consumer loan gains were posted for Texas- and Maine-chartered S&Ls, while their commercial loan growth was basically as lackluster as other associations'.

A chief factor that induced advances in short-term, higher-yielding consumer loans appears to be the heightened sense of competition between state- and federal-chartered associations brought about by the expanded powers granted in state and federal statutes. After the 1980 liberalization of consumer loan powers for federal S&Ls through DIDMCA, a rise in consumer loans as a portion of assets was easy to discern for state and federal S&Ls in Texas, Maine, and the nation in the 1980-81 period. The increase in Florida was less notable at that time, possibly because of the continued relative profitability of mortgage lending in that state's real estate market. These advances also may have reflected an enhanced awareness of the industry's severe interest-rate risk exposure and discouraging profit outlook, and the relative ease of expanding certain types of consumer loans that associations had been empowered to make for some time. From June 1981 to June 1983, consumer loan growth generally leveled off, largely because of slumping employment, personal income, and consumer confidence resulting from the July 1981-November 1982 recession.

From June 1980 to June 1983, commercial loan holdings at state-chartered S&Ls were quite sparse in Texas, Maine, and the United States. However, large and mid-size Florida-chartered S&Ls maintained commercial loan portfolios that comprised, respectively, 1.4 and 2.8 percent of assets. Federal-chartered S&L holdings were unsurprisingly minuscule because non-real estate commercial loan powers had been granted only shortly before 1983 in the Garn-St Germain Act. It is especially noteworthy that the different size categories of associations chartered in Texas and Maine re-



tained respective commercial loan portfolios ranging between 0.3 and 1.1 percent and 0.1 and 0.2 percent of assets as of June 1983. These were slight gains, indeed, considering the approximately eleven years they had been available for Texas-chartered S&Ls and eight years for Maine-chartered associations.

Our study considered the proposition that larger S&Ls are more likely to diversify into consumer and commercial loans because of their comparative ability to absorb high start-up costs, increased marketing expenses, and the loan losses related to greater credit-rate risk. But consumer loan data revealed that holdings of consumer loans were proportionately the same for large and small S&Ls. This may be attributable to the fact that consumer loans are a basic product of the industry; S&Ls, historically consumer-oriented, have previous experience in certain forms of consumer lending.

Commercial loan data that we used to weigh the supposition of larger S&Ls' advantages proved inconclusive. Evidence for Florida-chartered S&Ls revealed that larger associations retained as a portion of assets comparatively greater commercial loan portfolios than small S&Ls, but data for Texas- and Maine-chartered associations did not. Classifying commercial loans as a nonbasic product of the S&L industry seems plausible as they entail extraordinary expenses, primarily for hiring experienced commercial loan officers and technicians and for training other employees. Thus far these costs apparently have precluded S&Ls as a group from entering the field of commercial lending, particularly during the profit-depressed 1980-83 period. Additionally, luring sophisticated commercial loan customers away from highly experienced commercial bankers promises to be extremely difficult. In the near term, therefore, S&L commercial loan customers likely will be smaller business entities, those either newly formed or seeking more personalized, lower cost service from S&Ls.

The recent momentum of consumer and commercial loan expansion for the nation's state- and federal-chartered S&Ls indicates that mortgage loans remain the mainstay of the industry, garnering 93 to 94 cents of every dollar in loans extended during the post-recession December 1982 to June 1983 period. Consumer loan extensions accounted for 5 to 7 cents of every dollar lent during that period, up modestly from 4 cents for 1982. Commercial loan extensions were essentially zero. (Federal-chartered associations as a group extended no commercial loans and state-chartered S&Ls allocated only one cent of every loan dollar to commercial loans.) The capsule view of S&L consumer and commercial loans as of June 1983 revealed that the nation's S&Ls as a group held 3.3 percent of assets in consumer loans and a paltry 0.2 percent in commercial loans.

The findings of this study, like those of its predecessor in the *October Review*, suggest that savings and loan associations cannot yet be considered full competitors with commercial banks, although some associations are competing aggressively in certain geographic markets. The results further imply that consumers have not yet benefited substantially—in terms of price, quantity, or quality of services offered—from the generally modest advance in competition between S&Ls and commercial banks. Finally, it is clear that S&Ls must reduce their vulnerability to the real estate cycle and lessen their excessive interest-rate risk exposure. However, the industry's future diversification likely will be concentrated in the consumer lending area because of S&Ls' familiarity with such lending and their established customer base. The high start-up costs of commercial lending departments are quite likely to crimp commercial loan growth for the nation's savings and loan associations.

*(Sherley Wilson contributed valuable research assistance to this article.)*



NOTES

<sup>1</sup>January was the peak for the 1980 recession and July was the trough. The nation's most recent recession included a July 1981 peak and a November 1982 trough.

<sup>2</sup>Robert E. Goudreau, "S&L Use of New Powers: A Comparative Study of State- and Federal-Chartered Associations," *Economic Review* (Federal Reserve Bank of Atlanta), vol. 69 (October 1984), pp. 18-33.

<sup>3</sup>Mortgage loans include FHA-VA mortgages, conventional mortgages, mortgage-backed securities, and mortgage participations. Consumer loans include loans on savings accounts, home improvement loans, education loans, automobile loans and other closed-end consumer loans, credit cards and other open-end consumer loans, and mobile home loans to consumers (retail mobile home loans). Commercial loans include unsecured construction loans; mobile home loans to dealers to finance inventory (wholesale mobile home loans); loans to business development corporations; loans for alteration, repair, or improvement of other than one-to-four unit residential property; chattels loans other than those reported as wholesale mobile home loans to commercial borrowers; loans secured by securities; and other miscellaneous loans.

<sup>4</sup>For an explanation, refer to SAS (Statistical Analysis System) Institute, Inc., *SAS Users Guide* or Ronald L. Iman and W. J. Conover, *Modern Business Statistics* (New York, 1983), pp. 276-302.

<sup>5</sup>Refer to Texas Savings and Loan Act, Article 852a, Vernon's Texas Civil Statutes; Maine Bureau of Banking, Laws, Regulations and Bulletin Maine Revised Statutes Annotated, Title 9B, Financial Institutions Laws 1975, Chapter 500; and Florida Savings Association Act, Chapter 665, Savings, Savings and Loan, and Building and Loan Associations, F.S. 1981.

For these states, subsequent and less major statutes that further broadened powers for respective state-chartered thrifts also were approved, and general parity provisions included in these state statutes authorized the undertaking by Texas-, Maine-, or Florida-chartered thrifts of any activity permitted for federal-chartered institutions.

Refer to Depository Institutions Deregulation and Monetary Control Act of 1980, Public Law 96-221, March 31, 1980 and Garn-St Germain Depository Institutions Act of 1982, Public Law 97-320, October 15, 1982.

<sup>6</sup>Net income for FSLIC-insured associations dropped from \$3.6 billion in 1979 to \$0.8 billion for 1980. Losses of \$4.6 and \$4.3 billion were recorded for 1981 and 1982, respectively. 1983's net income was \$2.0 billion.

<sup>7</sup>For a discussion of how mergers and acquisitions that result in fewer financial institutions can lead to increased competition, see David D. Whitehead and Jan Luytjes, "Can Interstate Banking Increase Competitive Market Performance? An Empirical Test," *Economic Review* (Federal Reserve Bank of Atlanta), vol. 69 (January 1984), pp. 4-10. In this study, evidence was presented to support the hypothesis that increased links (meeting points) between competing firms that operate in geographically dispersed markets actually may stimulate competition. Whitehead and Luytjes stated that, in addition to the increased competition presumably fostered by increased links between multi-market firms in various markets, the lack of scale economies found in the banking industry can make even relatively small competitors influential in given markets. See George J. Benston, Gerald A. Hanweck, and David B. Humphrey, "Operating Costs in Commercial Banking," *Economic Review* (Federal Reserve Bank of Atlanta), vol. 67 (November 1982), pp. 6-21. The authors found that costs per account for banks larger than \$50 million in deposits increased as bank size increased, while costs declined with size for banks with less than \$25 million in deposits.

<sup>8</sup>In the 1963 Philadelphia National Bank-Girard Trust Corn Exchange Bank merger, the Supreme Court established commercial banking as an industry offering a unique product, a line of commerce separate and distinct from that produced by any other suppliers of financial services. In 1974, the Supreme Court remanded the Marine Bancorporation (Washington State) and Connecticut National Bank cases back to District Courts for further adjudication. The Court reaffirmed the single line of commerce rule and rejected the expansion of the line of commerce concept to include potential competition from savings and loan associations and mutual savings banks. More recently, District Courts in 1980 considered the impact of thrifts in cases involving commercial bank mergers. Merger of The First State Bank of Central Jersey and the First National Bank of South Jersey was approved and included banking alternatives, namely thrifts, in determining the resultant competitiveness of post-merger markets. The same rationale applied to the 1980 Utah

merger of the Zions First National Bank and The First National Bank of Logan. See Douglas V. Austin, "The Legal and Legislative History of the Line of Commerce in Banking," *Economic Review* (Federal Reserve Bank of Atlanta), vol. 67 (April 1982), pp. 12-19.

The 1982 Garn-St Germain Act authorized emergency acquisitions of thrifts by commercial banks. See Garn-St Germain Depository Institutions Act of 1982; Public Law 97-320; Title 1; Sections 116, 123, and 141; October 15, 1982. Also see Constance Dunham, "Thrift Institutions and Commercial Bank Mergers," *New England Economic Review* (Federal Reserve Bank of Boston) (November/December 1982), pp. 45-62.

<sup>9</sup>From 1972 to 1983, about 90 associations received Texas charters through either de novo formations or conversions. On June 30, 1983, 213 Texas-chartered S&Ls were extant. Prior to 1980, 9 Florida-chartered S&Ls were in existence. By June 1983, 19 more state-chartered associations began operations in Florida either by de novo formations or conversions.

<sup>10</sup>The 20 percent and 30 percent of total assets limitations apply to the aggregate of consumer loans, commercial paper, and corporate debt securities.

<sup>11</sup>The maximum 10 percent allowance under prudent loan rules applies to a combination of consumer and commercial loans. In 1981, the maximum percentage authorized for consumer loans made by Maine-chartered thrifts was 20 percent of total deposits, provided consumer and commercial loans combined do not exceed 40 percent of total deposits.

<sup>12</sup>Requirement reduced to 50 percent of a thrift's "nonliquid" assets as of July 1, 1982.

<sup>13</sup>The Garn-St Germain Act authorized federal-chartered thrifts to grant commercial real estate loans up to 40 percent of total assets. DIDMCA initially allowed for the extension of commercial real estate loans up to 20 percent of a thrift's assets. To the extent that S&Ls hold commercial real estate loans on their books as mortgages or mortgage participations, these loans will not be considered commercial loans as defined by this study. Unsecured construction loans on commercial real estate are classified as commercial loans.

<sup>14</sup>The maximum 10 percent allowance under prudent loan rules applies to a combination of consumer and commercial loans.

<sup>15</sup>Requirement reduced to 50 percent of a thrift's "nonliquid" assets as of July 1, 1982.

<sup>16</sup>The interest-rate spread (yield on assets less cost of funds) for FSLIC-insured associations declined from 1979's 1.16 percentage points to 0.42 for 1980. Negative spreads of 0.76 and 0.41 percentage points were logged for 1981 and 1982, respectively. The spread was 1.18 percentage points during the first six months of 1983.

<sup>17</sup>See Robert E. Goudreau, "S&L Use of New Powers: A Comparative Study of State- and Federal-Chartered Associations," *Economic Review* (Federal Reserve Bank of Atlanta), vol. 69 (October 1984), pp. 25-27.

<sup>18</sup>See George J. Benston, Gerald A. Hanweck, and David B. Humphrey, "Operating Costs in Commercial Banking," *Economic Review* (Federal Reserve Bank of Atlanta), vol. 67 (November 1982), pp. 6-21. The authors found that costs for producing outputs such as deposits or loans processed (basic operations with which banks have great familiarity) at banks larger than \$50 million in deposits increased as bank size increased, while costs declined with size for banks with less than \$25 million in deposits. However, commercial loans can be construed as nonbasic S&L products for which substantial (absolute) expenditures must be made to establish an effective commercial loan department, and the purported economies of scale for such nonbasic loans may favor larger associations.

<sup>19</sup>Total assets for Texas-chartered associations on June 30, 1980 were \$24.6 billion and for Maine-chartered S&Ls \$0.5 billion. Total assets for the nation's state-chartered associations were \$230.6 billion. The Texas and Maine proportion was 10.9 percent. Total assets on June 30, 1983 for Texas-chartered S&Ls were \$38.1 billion, for Maine-chartered institutions \$0.4 billion, and for Florida-chartered associations \$10.4 billion. The nation's total was \$270.1 billion. The Texas, Maine, and Florida portion was 18.1 percent.

Provided federal-chartered S&Ls use their new powers, the likelihood of registering significant t statistics is decreased by the increased use of broadened consumer and commercial loan powers by Texas-, Maine-, and Florida-chartered S&Ls. Greater balance sheet diversification in consumer loans was evident for only Texas-chartered associations from June 1980 to June 1983. For commercial loans, increased balance sheet diversification was manifest for Texas- and Florida-chartered S&Ls. See



Robert E. Goudreau, "S&L Use of New Powers: A Comparative Study of State- and Federal-Chartered Associations," *Economic Review* (Federal Reserve Bank of Atlanta), vol. 69 (October 1984), pp. 25-27.

Texas-chartered associations accounted for an average 12.5 percent of total assets for the nation's state-chartered associations from June 1980 to June 1983. This proportional representation may have had a moderate influence on national consumer loan allocation data and the resultant two-sample t test results.

Texas- and Florida-chartered S&Ls combined accounted for 18 percent of total assets for the nation's state-chartered associations on June 30, 1983. Although this 18 percent figure is noteworthy, commercial loan allocations were inconsequential for the December 1982 to June 1983 period. Hence, even if the two-sample t tests for this period were significant, any related statements regarding commercial loan expansion would provide scant additional insight into important divergent behavioral patterns between state- and federal-chartered S&Ls.

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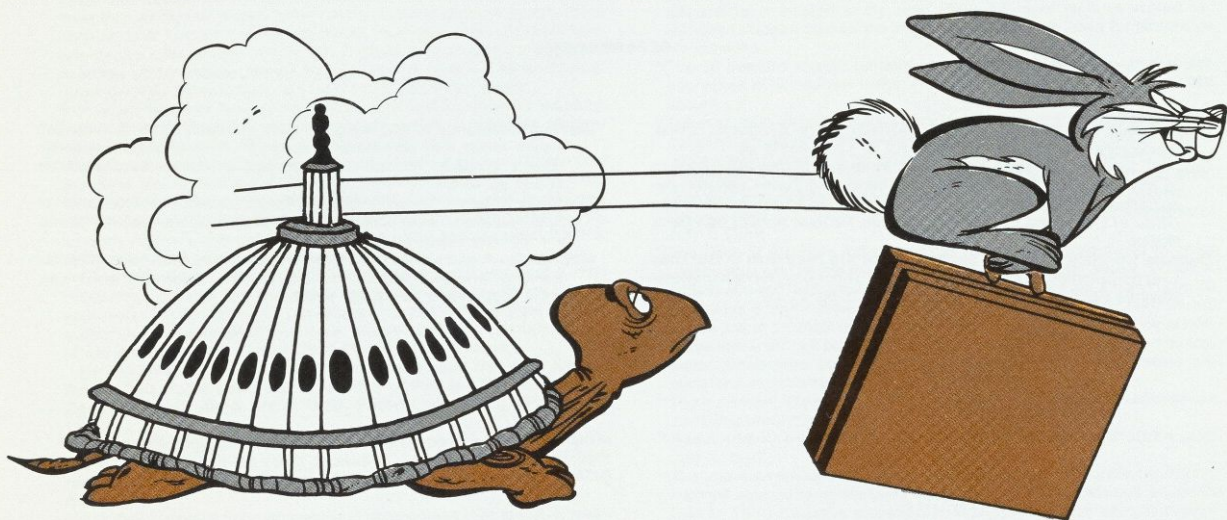
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# Market-Driven Deregulation of Financial Services

John Heimann

The marketplace is the actual deregulator of today's financial services industry, former Comptroller John Heimann said in a recent speech to Atlanta Fed directors. Congress, he said, must address the new reality by creating legislation to resolve such pressing issues as the proper role of deposit insurance.



Financial intermediation and the role of financial intermediaries is an arcane subject. The U.S. financial intermediary system makes little sense to today's objective observer who, if given the power, probably would structure a quite different system. In order to understand, if not rationalize, what has evolved, we must look to the past.

First, however, we should consider an assortment of current facts about the system. Midland Bank of Britain owns 57 percent of Crocker Bank in California, and has made an offer to increase its ownership to 100 percent. Midland also owns 60 percent of one of the great London merchant banking firms, Samuel Montague and Company; the other 40 percent is owned by the Aetna Life Insurance Company of Hartford, Connecticut.

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*Heimann, a former comptroller of the currency, is now vice chairman of Merrill Lynch Capital Markets in New York.*

American Express owns Fireman's Fund, as well as American Express International Banking Company, which purchased Trade Bank & Trust of Geneva.

In addition, American Express owns Shearson, which bought the great American investment banking house, Lehman Brothers, and it owns Investors Diversified Services. Citicorp, the largest commercial bank in the United States and the fourth largest thrift institution, is buying one of the largest brokers in the United Kingdom, Vicars de Costa, which in turn is buying another U.K. brokerage firm. Prudential, the life insurance company, now owns Bache Halsey Stuart. The Mercantile House, a British company engaged in a variety of financial services, owns Oppenheimer and Company, a New York investment brokerage firm. Societe General, one of the top three French banks, just purchased a prominent finance



company in Thailand, and a California furniture store recently secured a charter for a national bank. What is happening in this tumultuous world of financial services?

Modern financial legislation in the United States dates back to the early 1930s, following upon a period of financial trauma. Congress decided to divide up the turf of the financial services industry in its attempt to assure that the 1920s' crisis would not recur. It implemented price restrictions to protect bankers from themselves by limiting the amount of interest paid on deposits. Congress also strengthened geographic restrictions; introduced limits on the products and services that commercial banks could provide; and formalized the structure of the thrift industry. In effect, Congress carved up the financial world.

Fortunately, the capitalistic spirit—truly alive and well in the United States—prompted entrepreneurs to find ways to take advantage of these increasingly outdated restrictions, which were put on the books before the advent of data processing, satellite communication, and new investment instruments. A whole entrepreneurial force entered the financial services field to undertake what Congress had forbidden to the traditional purveyors of these services.

An obvious example of such an effort is the money market mutual fund, the marketplace's response to the restrictions of Federal Reserve Regulation Q, which severely limited the level of interest that thrifts and commercial banks could pay on savings deposits. When interest rates soared in the 1970s, the increasingly sophisticated American saver realized that inflation was running at 8 or 9 percent and Treasury bill rates ranged from 10 to 11 percent, while banks or thrifts could pay only 5 to 5 3/4 percent. Consumers clearly understood that they were not getting a fair deal. An entrepreneur then created the money market fund, and such funds grew at a staggering pace during the late 1970s and the early 1980s. Savings deposits flowed out of the commercial banks and thrifts into the money market funds as well as into Merrill Lynch's Cash Management Account and similar instruments. The free market successfully responded to a consumer need.

As for geographic restrictions and the supposed lack of nationwide banking, Congress permitted commercial banks and bank holding companies to create Edge Act corporations and loan production offices, to purchase mortgage bankers,

and so on. And in products and services, one of the great examples of the entrepreneurial system overcoming the legislative fragmentation of the past was the creation of commercial paper to act as a substitute for bank lending. While the market and the entrepreneurial spirit were alert and energetic, Congress was fast asleep.

No such thing as government deregulation of the financial services industry exists today. Rather, it is the market that has deregulated the industry and continues to do so. The issue is whether Congress can catch up with the marketplace and perhaps put into this deregulatory process some sensible protections and delineations. We are now attempting to conform U.S. laws to the existing realities of the worldwide financial system. The boundaries have been challenged, and those being served are demanding new services and new products at a competitive price. The powerful economic forces working in this country also are exerting pressure for change in Japan, Australia, and Canada.

Hastening this long-term trend are three other forces basic to today's financial world. The first and perhaps most important force is the institutionalization of savings, the concentration of investment capital in relatively few managerial hands. This change has implications for all financial intermediaries, all financial instruments, and all financial markets, including depository institutions along with contractual savings institutions (life insurance companies and pension and profit-sharing firms) and the securities intermediaries. Possibly the least understood of all is the effect of this concentration upon the issuers of securities, that is, those who raise capital, and the changes it has brought about in the marketplace.

Today the institutional manager looks for a "counterparty" rather than for an intermediary. A few years ago, if an insurance company, retirement system, or central bank wished to buy or sell a large amount of securities, it would go through an intermediary, or broker, who would act as agent in the purchase or sale. What the investor now wants is not an agent but a firm commitment for the order. This institutionally driven requirement places substantial capital needs on the traditional brokers and intermediaries, who have responded to customer demands by becoming principals instead of brokers. The change in roles is important and far-reaching.

At the same time, issuers of securities require the intermediary to bid on securities without the



traditional benefit of syndicate formation, market testing, and the like. With Securities Exchange Commission Rule 415, the securities issuer can opt for a shelf registration. The intermediary bids and must have the capital and capacity to support the purchase of those securities. To serve both the investor and the issuer, intermediaries need considerable capital—hence, the merger of Lehman into Shearson and of Becker into Merrill Lynch, as well as Donaldson's acquisition by Equitable.

The second force affecting deregulation in the marketplace is technology. The satellite, for instance, is quite extraordinary in communicating a bit of information anywhere in the world in less than 60 seconds. Everybody knows everything simultaneously, and that instant access to information has an effect on market volatility.

Traders in front of the flickering Dow Jones and Reuters screens are not so much attempting to evaluate the information coming across as to evaluate how other traders will react to that information. Whether the traders are in Hong Kong or Zurich or Atlanta, their mentality is much the same. The approach is not to ask "What does it really mean if retail sales rise 2.1 percent?" but "What will other traders think about it?" Market volatility has increased substantially because of the free, complete, and instantaneous dissemination of information.

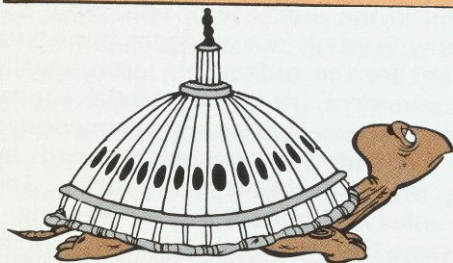
The growing internationalization of the world's financial markets is another factor to consider. America is no longer dominant: if you took the top 500 banks in the world, 27.3 percent of their assets are held by Japanese banks and only 16.8 percent by American banks. Those numbers are a little misleading because they refer exclusively to the largest banks. If you take total banking assets in the United States with its 14,500 banks, you find that this country emerges as just barely the largest, holding 25.6 percent of the assets compared with the Japanese banks' 25.3 percent.

Internationalization of the debt markets is critical, for it means that markets now operate 20 hours a day. The major banks and intermediaries open in London in the morning; their books move to the United States during the day; and at night, they move to Hong Kong or to Tokyo. For example, the run on Continental Illinois was started in Hong Kong and then moved to London with the clock. The same was true for the rumors about Manufacturers Hanover that proved to be false. Markets have changed; therefore, the world's financial structure has changed.

Clearly, the American experience has been messy, in the sense that it has been unplanned. The politics of banking and of the financial intermediary services are not normal American politics, but politics of self-interest on the part of the large banks versus the smaller banks, the thrifts versus the commercial bankers, and the investment bankers versus anybody attempting to broach the Glass-Steagall Act.

The U.S. deregulatory process for the last five years can best be described as "crawling through the loophole" or "scoring from the off-side." Congress has been an impediment to change, unwilling to face the task of defining role and responsibility. Entrepreneurs have taken advantage of the cracks in the legislative infrastructure. All the elements of confusion are present. In fact, we have even invented a new language with something called a "nonbank bank." Those who are amused by the term ask how there can be a "nonbank bank." But isn't an Edge Act corporation or a loan production office a nonbranch branch?

Rather than facing the complicated issues of financial structure and finding solutions, which by definition will upset some of the interests involved, the congressional instinct has been to permit the market to arrive at answers that inevitably created inequities. This approach has



"Congress has been an impediment to change, unwilling to face the task of defining role and responsibility. Entrepreneurs have taken advantage of the cracks in the legislative infrastructure."



made a hash of yesterday's standards, such as the prohibition of nationwide banking in the United States.

I have just met a gentleman from one of the large money center banks that has a facility in Atlanta, at which 300 to 400 people work. What are those people actually doing if not something related to banking? Bank of America maintains approximately 367 nonbank offices in 37-plus states, and they recently moved 1,500 people to the site of New York's old Biltmore Hotel. I daresay those people are doing work related to banking. Manufacturers Hanover's new advertisements for CIT show the map of the United States with the bank's name underneath. In these ads Manufacturers Hanover claims, "we service the whole country"—and they do.

In the area of products and services, the breakdown of traditional barriers is somewhat more complicated. In any major airport or hotel you can get cash from an American Express machine, a service your bank or thrift cannot provide. American Express can offer cash services across this country and around the world, while a U.S. depository institution cannot.

This situation leaves us with countless questions. Where do we go from here? Will there be any difference whatsoever among the future's financial institutions? Will a high degree of financial concentration prevail? What will our system look like in the future, and what will be its logical rationalization? Who will regulate it and why?

It is clear to me that the commercial bank's future holds more market segmentation—knowing who it is, who it wants to serve, and what it does well. The commercial bank's future does not lie in merely securing more business, but in paying greater attention to management information systems and in improving credit and quality controls.

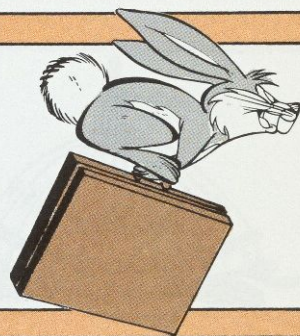
Every bank worth its salt has hired scores of MBAs over the years, all of whom have been trained to go out and get business. But is it the right business at the right profit margins? The mark of a successful commercial bank over the next five years will be the quality of its increasing profitability.

Finally, I think you will see further concentration in commercial banking, but not in the way that many people predict. An extraordinarily important role will remain for the community bank, for nothing can substitute for the bank run by somebody who knows the community's people. In the United States, we probably will end up with a system of franchise banking in which the large money center banks and regional banks provide services to, and perhaps even have ownership in, the community banks. These will still be run by the local Mr. and Mrs. Jones, but they will secure their support services from the larger institutions that can afford to provide customers with credit cards, cash management accounts, and money market funds. That way a small community bank can compete—not only with the regional bank and Citibank, but with Merrill Lynch or Dean Witter or Shearson-Lehman. So this kind of franchise banking will develop, as will thousands of smaller institutions whose linkages permit them to compete effectively without losing the definition and strength that distinguish the local bank.

Currently, thrifts are in the best position because they have been granted so many new and competitive powers. Their biggest problem, however, is to overcome their shortage of aggressive and thoughtful management. As these new powers subject the thrift industry to enormous change, the industry's requisite for success is substantially to improve the quality, scope, reach, and depth of its management. Thrifts will become more like commercial banks. Five years from

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"The commercial bank's future does not lie in merely securing more business, but in paying greater attention to management information systems and in improving credit and quality controls."





now we will have some strikingly profitable thrift institutions, superb competitors within the financial services industry.

Investment brokers and bankers always have been part of the intermediary system but not as direct competitors with depository institutions. We can divide these firms into two groups: distributors of securities, such as Merrill Lynch and Dean Witter, and true investment bankers, such as Morgan Stanley or Goldman Sachs. Today, most firms do both functions but, with the exception of the very largest companies, I doubt that the distributors of securities will be independent five years from now. Tie-ins with other financial services and the resulting sales forces are so persuasive that less powerful firms will be absorbed by or merged with those providing services beyond brokerage. This already has happened in the cases of Bache, Shearson, Lehman, and Donaldson. Investment bankers—risk takers who live by their ability to provide ideas and tap markets—will survive as independents, but they will need capital and worldwide distribution.

Insurance companies face an enormous challenge: their structure must be reshaped, and they must define who they are. Mutual companies will disappear because of the need for capital, for they can grow only through retained earnings. In order to compete with banks, thrifts, and the investment bankers providing similar services, mutual companies must have greater access to equity. The trend in the insurance industry will be consolidation and demutualization. Firms will have to reconfigure their sales networks and create new products and services.

What all this points to is heightened competition, and this means better services, better products, better pricing, and increased profitability for successful management. Current developments also strengthen the likelihood that financial institutions unable to keep a prudent pace with their

competitors will vanish. And this brings us to Continental Illinois. That bank's problem was not a matter of loans to less-developed countries, nor of deregulation. Continental Illinois got into trouble because it made bad domestic loans.

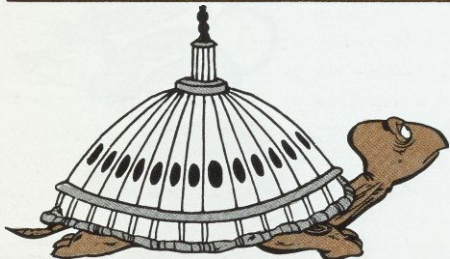
Continental Illinois' situation underlines the need for a redefinition of deposit insurance. Rather than deregulation or modest changes in the powers of thrifts, commercial banks, and investment bankers, the important question Congress should debate is whether deposit insurance is intended to protect banks, depositors, or the banking system. Can we differentiate between the large bank failure, which has widespread ramifications here and abroad, and the smaller bank failure, which may be a tragedy but has no lasting impact on the system? Will regulators treat all failures uniformly?

Any rediscussion of deposit insurance should encompass the responsibilities of those institutions that benefit from government protection, for they clearly enjoy a competitive advantage over uninsured depositors. In particular, their responsibilities vis a vis capital adequacy and risk diversification should be explored. Perhaps institutions will find it more profitable in the future to relinquish their bank charters and become finance companies because the limitations inherent in the new deposit insurance may be too restrictive for their business.

The world has changed, but not all financial institutions have changed along with it. To understand what is going on, we must look first at the world and then at the American capital market as it exists within that framework, rather than as an isolated segment or industry.

As I view deregulation, it is the marketplace, nationally and internationally, that is deregulating the financial services industry of this country. We really have not begun to address that reality. With due respect to all the bills that have been proposed in Congress, I believe they

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“The important question Congress should debate is whether deposit insurance is intended to protect banks, depositors, or the banking system.”

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try to deal with yesterday's problems. Surely there are inequities to be redressed, but the real problems are the result of market volatility, the free flow of capital throughout the world, and the lack of definition in the financial intermediary system and its consequent unfairness. Who is protected and who is not protected by deposit insurance? And how do we equitably protect everyone who uses our system? Those issues are especially ill-defined and call out for the attention of Congress.

Not only as participants in the financial services industry but as citizens we ought to be involved in those definitions, because the effect on the

economy of a weak financial intermediary system can range from negative to destructive. The system's role is to take savings and put them to work productively in society. If that transmission function is blocked or diverted in any way, the economic cost will be high and it can be disastrous. We have to conform our statutes and our thinking to the true nature of today's markets. We must decide where we want to create protective barriers for very good public policy reasons and put them into effect. The world of 1984 cannot continue to be patterned after the world of 1928 to 1932.



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# FINANCE

	OCT 1984	SEPT 1984	OCT 1983	ANN. % CHG.		OCT 1984	SEPT 1984	OCT 1983	ANN. % CHG.
<b>\$ millions</b>									
<b>UNITED STATES</b>									
Commercial Bank Deposits	1,414,002	1,387,112	1,296,169	+ 9	Savings & Loans**				
Demand	308,345	299,548	307,622	+ 0	Total Deposits	701,480	682,812	611,947	+ 15
NOW	90,212	90,141	82,865	+ 9	NOW	20,365	29,783	17,927	+ 14
Savings	358,365	354,134	346,078	+ 4	Savings	163,565	163,423	179,418	- 9
Time	695,481	677,954	596,651	+ 17	Time	520,264	501,408	417,960	+ 24
Credit Union Deposits	57,705	53,132	60,902	- 5		SEPT	AUG	SEPT	
Share Drafts	6,159	5,581	5,461	+ 13	Mortgages Outstanding	585,449	572,336	472,267	+ 24
Savings & Time	39,309	41,459	50,054	- 21	Mortgage Commitments	42,041	47,383	31,827	+ 32
<b>SOUTHEAST</b>									
Commercial Bank Deposits	160,606	159,130	146,524	+ 10	Savings & Loans				
Demand	35,450	34,851	35,595	- 0	Total Deposits	93,740	90,779	N.A.	
NOW	11,429	11,581	10,598	+ 8	NOW	3,157	3,197	N.A.	
Savings	41,024	40,735	38,247	+ 7	Savings	20,782	20,707	N.A.	
Time	76,866	74,960	65,946	+ 17	Time	69,458	67,254	N.A.	
Credit Union Deposits	6,447	6,174	5,946	+ 8		SEPT	AUG	SEPT	
Share Drafts	555	537	483	+ 15	Mortgages Outstanding	74,309	72,827	67,455	+ 10
Savings & Time	5,753	5,531	5,063	+ 14	Mortgage Commitments	4,732	5,562	5,142	- 8
<b>ALABAMA</b>									
Commercial Bank Deposits	17,102	16,560	15,333	+ 12	Savings & Loans**				
Demand	3,726	3,656	3,734	- 0	Total Deposits	5,927	5,543	5,158	+ 15
NOW	1,063	1,045	957	+ 11	NOW	166	166	146	+ 14
Savings	3,289	3,280	3,141	+ 5	Savings	913	870	875	+ 4
Time	9,525	9,080	8,066	+ 18	Time	4,880	4,554	4,182	+ 17
Credit Union Deposits	975	966	914	+ 7		SEPT	AUG	SEPT	
Share Drafts	96	97	87	+ 10	Mortgages Outstanding	4,265	4,190	3,712	+ 15
Savings & Time	853	850	780	+ 9	Mortgage Commitments	177	288	272	- 35
<b>FLORIDA</b>									
Commercial Bank Deposits	56,245	55,791	51,173	+ 10	Savings & Loans**				
Demand	12,338	12,302	12,418	- 1	Total Deposits	60,049	58,582	53,070	+ 13
NOW	4,683	4,731	4,405	+ 6	NOW	2,184	2,239	2,033	+ 7
Savings	19,290	19,138	17,598	+ 10	Savings	14,238	14,271	15,647	- 9
Time	21,180	20,693	17,864	+ 19	Time	42,789	42,076	35,725	+ 20
Credit Union Deposits	2,888	2,720	2,602	+ 11		SEPT	AUG	SEPT	
Share Drafts	283	266	242	+ 17	Mortgages Outstanding	43,626	42,426	39,988	+ 9
Savings & Time	2,473	2,311	2,057	+ 20	Mortgage Commitments	3,008	3,560	3,468	- 13
<b>GEORGIA</b>									
Commercial Bank Deposits	24,828	24,266	21,372	+ 16	Savings & Loans				
Demand	7,255	6,927	6,959	+ 4	Total Deposits	8,174	7,993	N.A.	
NOW	1,556	1,563	1,426	+ 9	NOW	283	276	N.A.	
Savings	5,917	5,733	4,770	+ 24	Savings	1,804	1,769	N.A.	
Time	11,517	11,162	9,330	+ 23	Time	6,222	6,071	N.A.	
Credit Union Deposits	1,373	1,303	1,352	+ 2		SEPT	AUG	SEPT	
Share Drafts	90	84	72	+ 25	Mortgages Outstanding	8,950	8,908	8,212	+ 9
Savings & Time	1,279	1,216	1,203	+ 6	Mortgage Commitments	462	553	503	- 8
<b>LOUISIANA</b>									
Commercial Bank Deposits	26,373	26,180	24,903	+ 6	Savings & Loans**				
Demand	5,443	5,446	5,734	- 5	Total Deposits	10,773	9,663	8,883	+ 21
NOW	1,499	1,534	1,373	+ 9	NOW	267	236	190	+ 41
Savings	5,438	5,484	5,317	+ 2	Savings	2,294	2,160	2,403	- 5
Time	14,469	14,180	13,007	+ 11	Time	8,348	7,377	6,374	+ 31
Credit Union Deposits	181	212	199	- 9		SEPT	AUG	SEPT	
Share Drafts	16	23	23	- 30	Mortgages Outstanding	9,126	9,010	7,730	+ 18
Savings & Time	177	239	194	- 9	Mortgage Commitments	568	631	620	- 8
<b>MISSISSIPPI</b>									
Commercial Bank Deposits	12,232	12,139	11,484	+ 7	Savings & Loans				
Demand	2,315	2,255	2,398	- 3	Total Deposits	1,605	2,004	N.A.	
NOW	817	838	785	+ 4	NOW	49	80	N.A.	
Savings	2,304	2,310	2,420	- 5	Savings	283	379	N.A.	
Time	7,110	7,033	6,233	+ 14	Time	1,448	1,590	N.A.	
Credit Union Deposits	*	*	*			SEPT	AUG	SEPT	
Share Drafts	*	*	*		Mortgages Outstanding	2,038	2,010	2,051	- 1
Savings & Time	*	*	*		Mortgage Commitments	175	200	57	+207
<b>TENNESSEE</b>									
Commercial Bank Deposits	23,826	23,538	22,259	+ 7	Savings & Loans**				
Demand	4,373	4,265	4,352	+ 0	Total Deposits	7,212	6,994	N.A.	
NOW	1,811	1,870	1,652	+ 10	NOW	208	200	N.A.	
Savings	4,786	4,790	5,001	- 4	Savings	1,250	1,258	N.A.	
Time	13,065	12,812	11,446	+ 14	Time	5,793	5,586	N.A.	
Credit Union Deposits	1,030	973	879	+ 17		SEPT	AUG	SEPT	
Share Drafts	70	67	59	+ 19	Mortgages Outstanding	6,304	6,283	5,762	+ 9
Savings & Time	971	915	829	+ 17	Mortgage Commitments	342	330	222	+ 54

**Notes:** All deposit data are extracted from the Federal Reserve Report of Transaction Accounts, other Deposits and Vault Cash (FR2900), and are reported for the average of the week ending the 1st Wednesday of the month. This data, reported by institutions with over \$15 million in deposits as of December 31, 1979, represents 95% of deposits in the six state area. The major differences between this report and the "call report" are size, the treatment of interbank deposits, and the treatment of float. The data generated from the Report of Transaction Accounts is for banks over \$15 million in deposits as of December 31, 1979. The total deposit data from the Report of Transaction Accounts eliminates interbank deposits by reporting the net of deposits "due to" and "due from" depository institutions. The Report of Transaction Accounts subtracts cash items in process of collection from demand deposits, while the call report does not. Savings and loan mortgage data are from the Federal Home Loan Bank Board Selected Balance Sheet Data. The Southeast data represent the total of the six states. Subcategories were chosen on a selective basis and do not add to total.

\* = fewer than four institutions reporting.

\*\*S&L deposits subject to revisions due to reporting changes.

N.A. = not comparable with previous data at this time.





# CONSTRUCTION

		SEPT 1984	AUG 1984	SEPT 1983	ANN % CHG			SEPT 1984	AUG 1984	SEPT 1983	ANN % CHG
<b>12-month Cumulative Rate</b>											
<b>UNITED STATES</b>											
Nonresidential Building Permits - \$ Mil.						Residential Building Permits					
Total Nonresidential	58,997	59,147	49,130	+ 20	Value - \$ Mil.	74,275	74,573	63,233	+ 17		
Industrial Bldgs.	7,950	8,013	5,300	+ 50	Residential Permits - Thous.						
Offices	14,231	14,315	12,197	+ 17	Single-family units	904.9	912.5	850.8	+ 6		
Stores	9,060	8,945	6,468	+ 40	Multi-family units	747.5	760.0	653.3	+ 14		
Hospitals	1,829	1,897	1,903	- 4	Total Building Permits						
Schools	872	867	886	- 2	Value - \$ Mil.	133,272	133,720	112,363	+ 19		
<b>SOUTHEAST</b>											
Nonresidential Building Permits - \$ Mil.						Residential Building Permits					
Total Nonresidential	9,033	9,060	7,679	+ 18	Value - \$ Mil.	13,991	14,145	11,549	+ 21		
Industrial Bldgs.	885	890	666	+ 33	Residential Permits - Thous.						
Offices	2,100	2,067	1,835	+ 14	Single-family units	188.4	188.8	174.3	+ 8		
Stores	1,795	1,781	1,189	+ 51	Multi-family units	174.7	179.3	143.7	+ 22		
Hospitals	405	450	466	- 13	Total Building Permits						
Schools	111	114	168	- 34	Value - \$ Mil.	23,024	23,204	19,229	+ 20		
<b>ALABAMA</b>											
Nonresidential Building Permits - \$ Mil.						Residential Building Permits					
Total Nonresidential	742	755	430	+ 73	Value - \$ Mil.	468	472	384	+ 22		
Industrial Bldgs.	185	185	20	+825	Residential Permits - Thous.						
Offices	97	97	58	+ 67	Single-family units	8.1	8.1	7.7	+ 5		
Stores	128	127	83	+ 54	Multi-family units	7.8	8.2	6.8	+ 15		
Hospitals	19	16	24	- 21	Total Building Permits						
Schools	5	5	8	- 38	Value - \$ Mil.	1,210	1,227	815	+ 48		
<b>FLORIDA</b>											
Nonresidential Building Permits - \$ Mil.						Residential Building Permits					
Total Nonresidential	4,451	4,449	3,875	+ 15	Value - \$ Mil.	8,112	8,242	6,693	+ 21		
Industrial Bldgs.	416	428	358	+ 16	Residential Permits - Thous.						
Offices	1,000	987	854	+ 17	Single-family units	103.6	103.7	92.3	+ 12		
Stores	1,025	1,012	661	+ 55	Multi-family units	95.5	98.5	81.2	+ 18		
Hospitals	175	186	298	- 41	Total Building Permits						
Schools	45	46	52	- 13	Value - \$ Mil.	12,563	12,691	10,568	+ 19		
<b>GEORGIA</b>											
Nonresidential Building Permits - \$ Mil.						Residential Building Permits					
Total Nonresidential	1,650	1,623	1,233	+ 34	Value - \$ Mil.	2,789	2,769	2,242	+ 24		
Industrial Bldgs.	160	151	173	- 8	Residential Permits - Thous.						
Offices	521	525	373	+ 40	Single-family units	43.0	42.9	39.8	+ 8		
Stores	248	245	132	+ 88	Multi-family units	28.8	28.7	23.3	+ 24		
Hospitals	62	62	26	+138	Total Building Permits						
Schools	13	14	28	- 54	Value - \$ Mil.	4,439	4,393	3,475	+ 28		
<b>LOUISIANA</b>											
Nonresidential Building Permits - \$ Mil.						Residential Building Permits					
Total Nonresidential	1,114	1,178	1,209	- 8	Value - \$ Mil.	1,118	1,151	1,009	+ 11		
Industrial Bldgs.	29	31	47	- 38	Residential Permits - Thous.						
Offices	268	283	406	- 34	Single-family units	14.8	15.1	16.6	- 11		
Stores	210	208	121	+ 74	Multi-family units	15.9	17.0	14.4	+ 10		
Hospitals	123	154	78	+ 58	Total Building Permits						
Schools	39	41	65	- 40	Value - \$ Mil.	2,232	2,328	2,218	+ 1		
<b>MISSISSIPPI</b>											
Nonresidential Building Permits - \$ Mil.						Residential Building Permits					
Total Nonresidential	242	233	190	+ 27	Value - \$ Mil.	385	396	288	+ 34		
Industrial Bldgs.	14	14	7	+100	Residential Permits - Thous.						
Offices	29	28	17	+ 71	Single-family units	5.6	5.6	4.7	+ 19		
Stores	52	49	38	+ 37	Multi-family units	6.0	6.5	3.8	+ 58		
Hospitals	11	12	18	- 39	Total Building Permits						
Schools	2	2	8	- 75	Value - \$ Mil.	627	629	478	+ 31		
<b>TENNESSEE</b>											
Nonresidential Building Permits - \$ Mil.						Residential Building Permits					
Total Nonresidential	834	822	742	+ 12	Value - \$ Mil.	1,119	1,115	933	+ 20		
Industrial Bldgs.	81	81	61	+ 33	Residential Permits - Thous.						
Offices	185	147	127	+ 46	Single-family units	13.3	13.4	13.2	+ 1		
Stores	132	140	154	- 14	Multi-family units	20.7	20.4	14.2	+ 46		
Hospitals	15	20	22	- 32	Total Building Permits						
Schools	7	6	7	0	Value - \$ Mil.	1,953	1,936	1,675	+ 17		

**NOTES:**  
 Data supplied by the U. S. Bureau of the Census, Housing Units Authorized By Building Permits and Public Contracts, C-40.  
 Nonresidential data excludes the cost of construction for publicly owned buildings. The southeast data represent the total of  
 the six states. The annual percent change calculation is based on the most recent month over prior year. Publication of F. W.  
 Dodge construction contracts has been discontinued.





# GENERAL

	LATEST DATA	CURR. PERIOD	PREV. PERIOD	YEAR AGO	ANN. % CHG.		OCT 1984	SEPT 1984	OCT (R) 1983	ANN. % CHG.
<b>UNITED STATES</b>										
<b>Personal Income</b>						<b>Agriculture</b>				
(\$bil. - SAAR)	2Q	2,970.9	2,910.0	2,703.3	+10	Prices Rec'd by Farmers				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		Index (1977=100)	138		134	+ 3
Plane Pass. Arr. 000's		N.A.	N.A.	N.A.		Broiler Placements (thous.)	77,845	80,932	73,681	+ 6
Petroleum Prod. (thous.)	OCT	8,776.3	8,819.7	8,729.0	+ 1	Calf Prices (\$ per cwt.)	58.40	56.60	56.80	+ 3
Consumer Price Index						Broiler Prices (\$ per lb.)	29.50	32.10	29.30	+ 1
1967=100	OCT	315.3	314.5	302.6	+ 4	Soybean Prices (\$ per bu.)	6.04	6.09	8.32	-27
Kilowatt Hours - mils.	AUG	208.4	202.1	207.5	+ 0	Broiler Feed Cost (\$ per ton)	221	221	237	- 7
<b>SOUTHEAST</b>										
<b>Personal Income</b>						<b>Agriculture</b>				
(\$bil. - SAAR)	2Q	361.8	351.6	326.4	+11	Prices Rec'd by Farmers				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		Index (1977=100)	143	137	118	+21
Plane Pass. Arr. 000's	AUG	4,723.3	4,530.5	4,247.6	+11	Broiler Placements (thous.)	29,856	31,357	28,559	+ 5
Petroleum Prod. (thous.)	OCT	1,484.0	1,479.0	1,450.0	+ 2	Calf Prices (\$ per cwt.)	51.68	51.93	51.99	- 1
Consumer Price Index						Broiler Prices (\$ per lb.)	27.82	31.65	29.02	- 4
1967=100		N.A.	N.A.	N.A.		Soybean Prices (\$ per bu.)	6.16	6.20	7.91	-22
Kilowatt Hours - mils.	AUG	34.4	34.1	35.2	- 2	Broiler Feed Cost (\$ per ton)	213	220	227	- 6
<b>ALABAMA</b>										
<b>Personal Income</b>						<b>Agriculture</b>				
(\$bil. - SAAR)	2Q	39.8	39.0	36.2	+10	Farm Cash Receipts - \$ mil.				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		(Dates: JUL, JUL)	1,104	-	1,085	+ 2
Plane Pass. Arr. 000's	AUG	126.7	120.0	115.9	+ 9	Broiler Placements (thous.)	10,007	10,656	9,577	+ 1
Petroleum Prod. (thous.)	OCT	51.0	51.0	49.0	+ 4	Calf Prices (\$ per cwt.)	50.80	52.10	51.70	- 2
Consumer Price Index						Broiler Prices (\$ per lb.)	26.50	31.00	29.00	- 9
1967=100		N.A.	N.A.	N.A.		Soybean Prices (\$ per bu.)	6.02	5.83	7.84	-23
Kilowatt Hours - mils.	AUG	4.6	4.6	4.6	0	Broiler Feed Cost (\$ per ton)	195	210	240	-19
<b>FLORIDA</b>										
<b>Personal Income</b>						<b>Agriculture</b>				
(\$bil. - SAAR)	2Q	136.1	132.4	122.3	+11	Farm Cash Receipts - \$ mil.				
Taxable Sales - \$ bil.	OCT	82.1	81.5	72.1	+14	(Dates: JUL, JUL)	2,961	-	3,022	- 2
Plane Pass. Arr. 000's	AUG	2,192.9	2,157.7	2,039.2	+ 8	Broiler Placements (thous.)	1,874	1,866	1,810	+ 4
Petroleum Prod. (thous.)	OCT	37.0	39.0	49.0	-24	Calf Prices (\$ per cwt.)	54.50	55.30	55.10	- 1
Consumer Price Index - Miami						Broiler Prices (\$ per lb.)	28.00	31.00	29.00	- 3
Nov. 1977 = 100		167.9	167.0	162.9	+ 3	Soybean Prices (\$ per bu.)	6.02	5.83	7.84	-23
Kilowatt Hours - mils.	AUG	9.9	9.5	9.9	0	Broiler Feed Cost (\$ per ton)	235	240	255	- 8
<b>GEORGIA</b>										
<b>Personal Income</b>						<b>Agriculture</b>				
(\$bil. - SAAR)	2Q	65.9	62.8	58.4	+13	Farm Cash Receipts - \$ mil.				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		(Dates: JUL, JUL)	1,570	-	1,515	+ 4
Plane Pass. Arr. 000's	AUG	1,817.8	1,710.5	1,648.3	+10	Broiler Placements (thous.)	11,978	12,576	11,490	+ 4
Petroleum Prod. (thous.)		N.A.	N.A.	N.A.		Calf Prices (\$ per cwt.)	47.50	46.30	47.60	- 0
Consumer Price Index - Atlanta						Broiler Prices (\$ per lb.)	27.50	31.00	28.00	- 2
1967 = 100		317.8	315.9	304.4	+ 4	Soybean Prices (\$ per bu.)	6.46	6.58	7.71	-16
Kilowatt Hours - mils.	AUG	5.7	5.5	5.7	0	Broiler Feed Cost (\$ per ton)	250	255	220	+14
<b>LOUISIANA</b>										
<b>Personal Income</b>						<b>Agriculture</b>				
(\$bil. - SAAR)	2Q	48.2	48.5	45.5	+ 6	Farm Cash Receipts - \$ mil.				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		(Dates: JUL, JUL)	634	-	623	+ 2
Plane Pass. Arr. 000's	AUG	369.2	341.1	279.3	+32	Broiler Placements (thous.)	N.A.	N.A.	N.A.	
Petroleum Prod. (thous.)	OCT	1,308.0	1,299.0	1,266.0	+ 3	Calf Prices (\$ per cwt.)	55.00	53.30	52.90	+ 4
Consumer Price Index						Broiler Prices (\$ per lb.)	30.00	33.00	29.50	+ 2
1967 = 100		N.A.	N.A.	N.A.		Soybean Prices (\$ per bu.)	6.18	6.23	7.75	-20
Kilowatt Hours - mils.	AUG	5.6	5.8	5.7	- 2	Broiler Feed Cost (\$ per ton)	255	260	290	-12
<b>MISSISSIPPI</b>										
<b>Personal Income</b>						<b>Agriculture</b>				
(\$bil. - SAAR)	2Q	22.6	22.2	20.5	+10	Farm Cash Receipts - \$ mil.				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		(Dates: JUL, JUL)	952	-	1,028	- 7
Plane Pass. Arr. 000's	AUG	39.7	31.9	38.4	+ 3	Broiler Placements (thous.)	6,003	6,259	5,682	+ 6
Petroleum Prod. (thous.)	OCT	88.0	90.0	86.0	+ 2	Calf Prices (\$ per cwt.)	51.30	52.10	52.70	- 3
Consumer Price Index						Broiler Prices (\$ per lb.)	30.00	34.00	30.50	- 2
1967 = 100		N.A.	N.A.	N.A.		Soybean Prices (\$ per bu.)	6.18	6.15	8.03	-23
Kilowatt Hours - mils.	AUG	2.4	2.5	2.6	- 8	Broiler Feed Cost (\$ per ton)	159	159	195	-18
<b>TENNESSEE</b>										
<b>Personal Income</b>						<b>Agriculture</b>				
(\$bil. - SAAR)	2Q	49.3	46.6	43.5	+13	Farm Cash Receipts - \$ mil.				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		(Dates: JUL, JUL)	852	-	916	- 7
Plane Pass. Arr. 000's	AUG	177.0	169.3	161.5	+10	Broiler Placements (thous.)	N.A.	N.A.	N.A.	
Petroleum Prod. (thous.)		N.A.	N.A.	N.A.		Calf Prices (\$ per cwt.)	51.00	51.60	51.20	- 0
Consumer Price Index						Broiler Prices (\$ per lb.)	27.50	30.50	31.00	-11
1967 = 100		N.A.	N.A.	N.A.		Soybean Prices (\$ per bu.)	6.06	6.33	8.12	-25
Kilowatt Hours - mils.	AUG	6.2	6.2	6.7	- 7	Broiler Feed Cost (\$ per ton)	191	200	225	-15

**Notes:** Personal Income data supplied by U. S. Department of Commerce. Taxable Sales are reported as a 12-month cumulative total. Plane Passenger Arrivals are collected from 26 airports. Petroleum Production data supplied by U. S. Bureau of Mines. Consumer Price Index data supplied by Bureau of Labor Statistics. Agriculture data supplied by U. S. Department of Agriculture. Farm Cash Receipts data are reported as cumulative for the calendar year through the month shown. Broiler placements are an average weekly rate. The Southeast data represent the total of the six states. N.A. = not available. The annual percent change calculation is based on most recent data over prior year. R = revised.



# EMPLOYMENT



	SEPT 1984	AUG 1984	SEPT 1983	ANN. % CHG.		SEPT 1984	AUG 1984	SEPT 1983	ANN. % CHG.
<b>UNITED STATES</b>									
Civilian Labor Force - thous.	113,843	115,076	112,197	+ 1	Nonfarm Employment- thous.	95,224	94,507	91,485	+ 4
Total Employed - thous.	105,792	106,694	102,366	+ 3	Manufacturing	19,894	19,850	18,971	+ 5
Total Unemployed - thous.	8,051	8,382	9,830	-18	Construction	4,651	4,657	4,273	+ 9
Unemployment Rate - % SA	7.4	7.5	9.2		Trade	22,120	21,997	21,121	+ 5
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	15,687	15,107	15,584	+ 1
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	20,912	20,891	19,963	+ 5
Mfg. Avg. Wkly. Hours	40.7	40.4	40.8	- 0	Fin., Ins., & Real Est.	5,705	5,763	5,522	+ 3
Mfg. Avg. Wkly. Earn. - \$	375	369	363	+ 3	Trans. Com. & Pub. Util.	5,227	5,214	5,095	+ 3
<b>SOUTHEAST</b>									
Civilian Labor Force - thous.	15,107	15,050	14,798	+ 2	Nonfarm Employment- thous.	12,168	12,059	11,675	+ 4
Total Employed - thous.	13,941	13,864	13,446	+ 4	Manufacturing	2,280	2,283	2,209	+ 3
Total Unemployed - thous.	1,166	1,186	1,352	-14	Construction	752	751	680	+11
Unemployment Rate - % SA	8.1	8.1	9.5		Trade	2,973	2,954	2,815	+ 6
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	2,172	2,091	2,136	+ 2
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	2,452	2,440	2,345	+ 5
Mfg. Avg. Wkly. Hours	41.1	41.1	41.0	+ 0	Fin., Ins., & Real Est.	705	706	672	+ 5
Mfg. Avg. Wkly. Earn. - \$	329	328	317	+ 4	Trans. Com. & Pub. Util.	706	706	693	+ 2
<b>ALABAMA</b>									
Civilian Labor Force - thous.	1,788	1,787	1,760	+ 2	Nonfarm Employment- thous.	1,347	1,353	1,327	+ 2
Total Employed - thous.	1,593	1,590	1,549	+ 3	Manufacturing	346	351	345	+ 0
Total Unemployed - thous.	196	197	211	- 7	Construction	67	66	63	+ 6
Unemployment Rate - % SA	11.6	11.2	12.8		Trade	285	285	274	+ 4
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	282	283	281	+ 0
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	218	219	220	- 1
Mfg. Avg. Wkly. Hours	41.0	41.2	41.6	- 1	Fin., Ins., & Real Est.	62	62	60	+ 3
Mfg. Avg. Wkly. Earn. - \$	330	331	316	+ 4	Trans. Com. & Pub. Util.	72	73	71	+ 1
<b>FLORIDA</b>									
Civilian Labor Force - thous.	5,184	5,166	5,101	+ 2	Nonfarm Employment- thous.	4,144	4,094	3,920	+ 6
Total Employed - thous.	4,865	4,846	4,686	+ 4	Manufacturing	503	499	472	+ 7
Total Unemployed - thous.	319	320	415	-23	Construction	312	312	276	+13
Unemployment Rate - % SA	6.0	6.3	8.0		Trade	1,114	1,107	1,048	+ 6
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	653	618	629	+ 4
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	1,009	1,008	964	+ 5
Mfg. Avg. Wkly. Hours	41.2	40.8	40.6	+ 1	Fin., Ins., & Real Est.	312	311	290	+ 8
Mfg. Avg. Wkly. Earn. - \$	319	315	301	+ 6	Trans. Com. & Pub. Util.	230	230	231	- 0
<b>GEORGIA</b>									
Civilian Labor Force - thous.	2,814	2,826	2,733	+ 3	Nonfarm Employment- thous.	2,451	2,429	2,309	+ 6
Total Employed - thous.	2,652	2,658	2,547	+ 4	Manufacturing	539	539	520	+ 4
Total Unemployed - thous.	162	168	187	-13	Construction	143	143	116	+23
Unemployment Rate - % SA	6.1	6.2	7.1		Trade	611	603	556	+10
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	429	418	433	- 1
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	435	432	403	+ 8
Mfg. Avg. Wkly. Hours	40.8	41.4	41.7	- 2	Fin., Ins., & Real Est.	130	130	123	+ 6
Mfg. Avg. Wkly. Earn. - \$	312	313	298	+ 5	Trans. Com. & Pub. Util.	156	155	150	+ 4
<b>LOUISIANA</b>									
Civilian Labor Force - thous.	1,984	1,970	1,932	+ 3	Nonfarm Employment- thous.	1,582	1,572	1,570	+ 1
Total Employed - thous.	1,798	1,785	1,717	+ 5	Manufacturing	183	183	180	+ 2
Total Unemployed - thous.	185	185	214	-14	Construction	114	113	116	- 2
Unemployment Rate - % SA	9.6	9.5	11.3		Trade	374	375	373	+ 0
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	319	312	315	+ 1
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	313	309	306	+ 2
Mfg. Avg. Wkly. Hours	41.5	41.1	40.3	+ 3	Fin., Ins., & Real Est.	83	84	83	0
Mfg. Avg. Wkly. Earn. - \$	418	416	399	+ 5	Trans. Com. & Pub. Util.	117	117	117	0
<b>MISSISSIPPI</b>									
Civilian Labor Force - thous.	1,105	1,085	1,072	+ 3	Nonfarm Employment- thous.	812	793	799	+ 2
Total Employed - thous.	987	964	955	+ 3	Manufacturing	211	211	210	+ 0
Total Unemployed - thous.	118	121	117	+ 1	Construction	33	34	35	- 6
Unemployment Rate - % SA	11.8	11.4	12.1		Trade	172	171	166	+ 4
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	186	171	183	+ 2
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	128	124	125	+ 2
Mfg. Avg. Wkly. Hours	40.8	40.6	40.8	0	Fin., Ins., & Real Est.	34	35	34	0
Mfg. Avg. Wkly. Earn. - \$	286	281	276	+ 4	Trans. Com. & Pub. Util.	39	39	39	0
<b>TENNESSEE</b>									
Civilian Labor Force - thous.	2,232	2,216	2,200	+ 1	Nonfarm Employment- thous.	1,832	1,818	1,750	+ 5
Total Employed - thous.	2,046	2,021	1,992	+ 3	Manufacturing	498	500	482	+ 3
Total Unemployed - thous.	186	195	208	-11	Construction	83	83	74	+12
Unemployment Rate - % SA	9.4	9.4	10.3		Trade	415	413	398	+ 4
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	303	289	295	+ 3
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	349	348	327	+ 7
Mfg. Avg. Wkly. Hours	41.2	41.6	41.1	+ 0	Fin., Ins., & Real Est.	84	84	82	+ 2
Mfg. Avg. Wkly. Earn. - \$	307	310	312	- 2	Trans. Com. & Pub. Util.	92	92	85	+ 8

**Notes:** All labor force data are from Bureau of Labor Statistics reports supplied by state agencies. Only the unemployment rate data are seasonally adjusted. The Southeast data represent the total of the six states. The annual percent change calculation is based on the most recent data over prior year.



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