

Federal Reserve Bank of Dallas      December 1982

## Volcker Addresses Joint Board Meeting

Federal Reserve Board Chairman Paul A. Volcker told attendees of a special Federal Reserve Bank of Dallas joint board meeting that there is "growing evidence that the inflationary momentum has been broken." Volcker was guest of honor at the annual event, which brings together members of the Dallas Board of Directors and members of the boards of the branch offices in El Paso, Houston, and San Antonio. Special meetings and activities were held in conjunction with the event November 11 and 12 in Houston.

In addition, former directors of the Dallas and branch offices attended and were given a special briefing on current activities within the Federal

Reserve System.

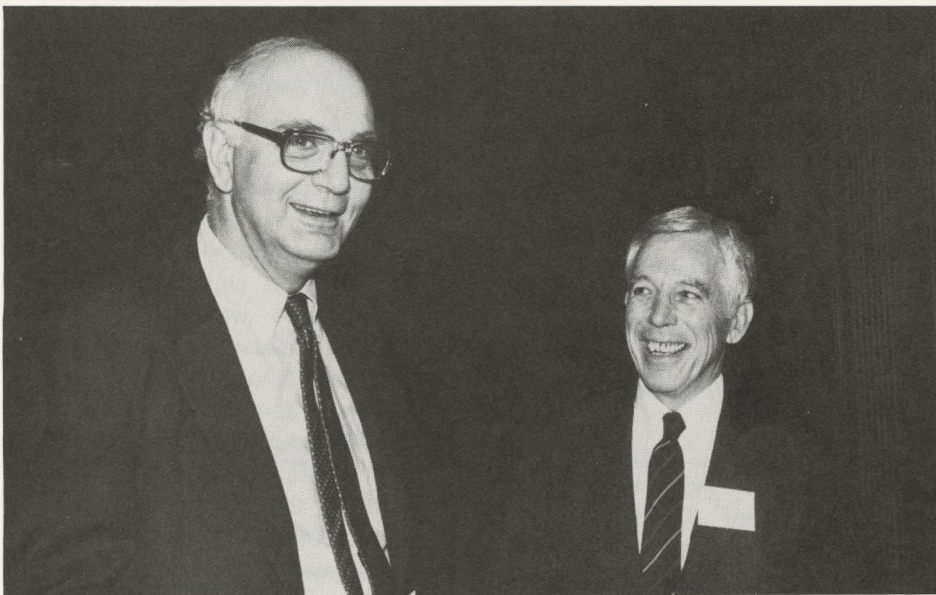
In addressing the group, Volcker said that the Fed's basic thrust of policy has not changed and that price stability and maintaining control over money growth over a period of time are essential if interest rates are going to be kept at levels that will support real growth in the economy.

"Money growth above the targeted range has been acceptable to the Federal Reserve during this recent period because of precautionary liquidity, economic uncertainty and other factors such as the behavior of money supply components," Volcker said.

Volcker continued by stating that with appropriate policies, the pro-

spects appear good for continued moderation of inflation over the months ahead. Lower interest rates do not necessarily indicate a change in basic policy, he said. "What is needed now is market validation that the fundamentals being expressed in the economy are consistent with lower interest rates. And I believe that we have been seeing this for some months now."

Volcker also addressed the problem of international financial strains caused by large international debts and the possibility of defaults on these debts by developing nations. The International Monetary Fund should expand its lending authority and establish a fund to help borrowers such as Mexico avoid default, he said. Volcker also stated that the Fed is prepared to relax some of its loan classification standards so new loans to developing nations will not be considered non-performing loans, and that commercial banks must help provide additional credit to these nations if necessary.



Fed Chairman Paul A. Volcker and Dallas Fed President Robert H. Boykin

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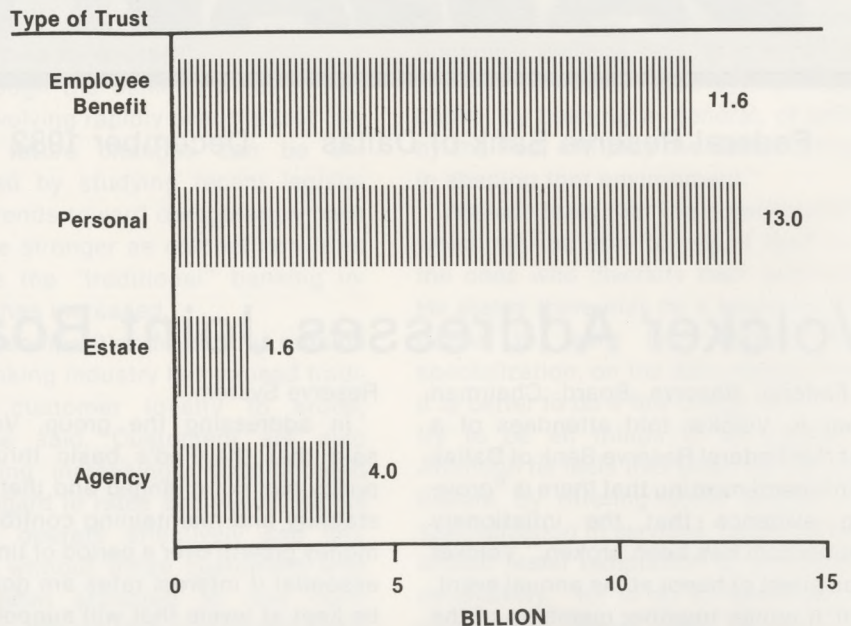
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# Trust Assets in Texas Total \$30 Billion

Trust assets in the state of Texas totaled over \$30 billion in 1981, according to the 1981 Trust Assets of Banks and Trust Companies, recently published by the Federal Financial Institutions Examination Council. The 1981 trust asset report includes information collected from all insured commercial and mutual savings banks and certain noninsured trust companies on accounts over which investment discretion is exercised.

In addition to total trust assets reported in the survey, the information is reported by type of account, by the average size of trust accounts, by size of trust institution, and by state, among other classifications. For example, the breakdown of trust assets in Texas by type of account is shown in the graph accompanying this article. Copies of the 1981 trust asset survey are available from the FDIC in Washington D.C.

## 1981 Trust Assets—Texas



## New Account Guidelines Established by DIDC

An account that has been called the most important banking innovation in years will be offered by the nation's financial institutions beginning December 14. Authorized by the Garn-St. Germain Act passed by Congress in October, the account is designed to compete with high-paying money market mutual funds. Specific terms of the new federally-insured account were set at the November meeting of the Depository Institutions Deregulation Committee (DIDC).

### No interest ceiling

The committee agreed to let financial institutions decide what interest rate will be paid on the account. However, institutions will not be allowed to guarantee a fixed rate on the new account for more than 30 days at a time. The absence of interest rate restrictions is designed to help the ac-

count compete effectively with money market funds.

### \$2,500 minimum

The committee also set a \$2,500 required minimum balance on the new account. Depositors may make unlimited withdrawals, but if the average monthly balance falls below \$2,500, the interest rate will be reduced to the ceiling rate that applies to NOW accounts, which is currently 5.5 percent. Congress had suggested that the minimum deposit be no more than \$5,000, but left the final determination to the DIDC.

As with money market funds, depositors may write checks drawn on the new account. Institutions are authorized to allow three third-party transactions per month on each account. Overall, a total of six transfers are allowed per month per account.

## Election Results Announced

The head office of the Dallas Federal Reserve has announced the results of its recent Board of Directors election.

Robert Ted Enloe, III, president of Lomas and Nettleton Financial Corporation was elected a Class B Director to succeed Robert D. Rogers whose term expires December 31. John P. Gilliam, president and chief executive officer of First National Bank in Valley Mills was reelected a Class A Director. Each director was elected to a three-year term beginning January 1.

The head office has nine directors classified according to whether they are elected by member banks (Class A and B) or are appointed by the Board of Governors (Class C).

# New Account May Rival Market Funds

In 1975, Merrill Lynch offered the first money market mutual fund. These funds pool investor contributions and invest in short-term instruments such as Treasury bills, bank certificates of deposit, and commercial paper. Merrill Lynch's success resulted in other firms offering similar accounts and, in less than eight years, total assets in money market funds (MMFs) amount to approximately \$230 billion. From the end of 1978 alone, MMF assets have increased more than 2000 percent.

Because these funds offered a market rate of interest on accounts, investors were quick to take advantage of their return, which reached a high of 17.2 percent in August 1981. Funds invested in MMFs often came from deposits in banks and savings and loan associations, which could not offer a similar high-yield account. MMF accounts also allow check writing privileges which keep invested funds highly liquid.

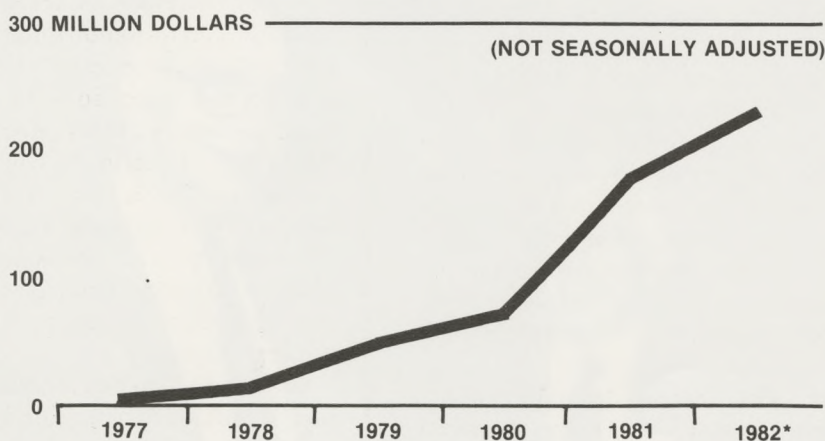
With the recent establishment of a new money market account that banks and savings and loans can offer this month, money market funds will face some new competition. Now that financial institutions have a ceilingless interest rate account to offer, dif-

ferences between the two industries are becoming less distinct.

One difference that will exist, however, is that the new account authorized by the Garn-St. Germain Act will be insured up to \$100,000. This insurance feature might help banks and savings and loans attract some of the funds in MMFs back to their institutions. The insurance feature is expected to be the major promotional point when the accounts begin to be marketed to the public.

It is possible that firms offering MMFs will develop new strategies by obtaining private funding for insurance purposes. They may also begin to work with banks and savings and loans through brokerage arrangements. Financial institutions have been gradually entering into discount brokerage services as a direct result of deregulation activities occurring since the passage of the Monetary Control Act of 1980 and the Garn-St. Germain Act of 1982. As brokerage houses and retail establishments increasingly offer financial services similar to banks, some industry analysts believe that traditional financial institutions will offer brokerage services in a continuing effort to gather investors' funds.

## Money Market Mutual Funds Total Assets



\*As of November 19, 1982.

SOURCE: Investment Company Institute.

## YIELD ON MONEY MARKET FUNDS SINCE 1980

DATE	YIELD*
1980—Jan.	12.9
Feb.	12.7
Mar.	14.1
Apr.	16.3
May	13.4
June	9.8
July	8.5
Aug.	8.2
Sept.	9.2
Oct.	10.5
Nov.	12.3
Dec.	15.6
1981—Jan.	17.1
Feb.	16.3
Mar.	15.1
Apr.	14.1
May	15.6
June	16.9
July	17.0
Aug.	17.2
Sept.	16.6
Oct.	15.3
Nov.	14.0
Dec.	12.1
1982—Jan.	12.0
Feb.	13.1
Mar.	13.5
Apr.	13.8
May	13.6
June	13.1
July	12.9
Aug.	11.0
Sept.	9.7
Oct.	9.2
Nov.	8.7

(As of Nov. 19)

\* 30-day average yield.

SOURCE: Donoghue's Money Fund Report and Treasury Department.

# Deregulation Topic of Wallace Speech

"One of the lessons that all of us have learned over the last few years is that no one who is in the business of providing financial services operates in a vacuum."

With these introductory words, Dallas Fed First Vice President William H. Wallace spoke recently on deregulation and its impact on the financial industry. Speaking before the Texas-Louisiana chapter of the Bank Administration Institute, he stated that not only does deregulation change the operational environment of the industry, competition from money market funds, retailers, and brokerage firms changes the structural environment. "There are so many different players in the game . . . that the future assumes more the nature of a free-for-all, not a neat, organized endeavor which can be analyzed and projected with confidence," Wallace stated. Even though it has become increasing-

ly difficult to accurately predict what banking is going to look like in another ten years, Wallace said, that doesn't mean "we should give up and let nature take its course."

Although the banking industry has been evolving rapidly over the last few years, future changes can be anticipated by studying recent legislation. Trends toward deregulation have become stronger as competition from outside the "traditional" banking industry has increased.

New competition from firms outside the banking industry has caused traditional customer loyalty to erode, Wallace said. Customers are also becoming increasingly sophisticated with regard to rates and yields. Banks cannot operate effectively and profitably without these customers who have been attracted to new competitors offering high-paying accounts. These changes, coupled with the rapid

advancements of electronic technology, will shape the environment to which bankers will have to adjust. Because of these complex interrelationships, Wallace said, "it is not clear that the decisions made by individual banks, by banking in general, or even by the Fed, will play the deciding role in shaping that environment."

Wallace feels that the organizations which will be able to adjust best are the ones who diversify their services. He states there may be a tendency for banks to want to "retreat into specialization, on the assumption that it is better to do a few things well than try to be all things to all people." Although he feels that small banks can benefit by offering some degree of specialization in services, larger banks should resist temptation to specialize extensively, "for to do so would be to give up the unique ability of banks to react to changed conditions."

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