Implementing the Monetary Control Act in a Troubled Environment for Thrifts

by Janice M. Moulton*

Since the Federal Reserve was created in 1913, it has been a major regulatory and supervisory body of the banking system. In this role, the Fed has helped to assure the safety and soundness of the banking system by lending to institutions with liquidity needs and by regulating merger activity in banking markets.

The Fed's traditional role in lending and regulation has been altered, however, by the Depository Institutions Deregulation and Monetary Control Act (MCA) which was passed by Congress in March 1980. This legislation had several broad objectives, which included improving the Fed's monetary control procedures, expanding thrift institution powers, and opening the financial markets to more competition. The latter two considerations, in particular, have raised some interesting implementation issues.

The MCA became law during a period of sustained high interest rates and fast-changing financial markets. These developments were quite troublesome for thrift institutions, especially savings and loan associations and mutual savings banks. Indeed, the plight of the thrifts has had a noticeable impact on the Fed's implementation of certain aspects of the MCA.

There are two broad areas—discount window access and mergers among financial

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institutions—where the problems of the thrifts have been particularly relevant to the Fed's post-MCA decisions.[1] The MCA opened the discount window to all depository institutions—commercial banks, savings and loans, mutual savings banks, and credit unions—that maintain reserves at the Fed, and the Fed has established a new extended credit program for longer term loans to financially troubled institutions. The financial weakness of the thrifts has raised some tough issues concerning the administration of the Fed's lending program. In the merger area, the Fed has been forced to rethink the question of the extent of competition between banks and thrifts. The MCA allowed expanded powers for the thrifts, making them more like commercial banks. At the same time, the financial problems of the thrifts have resulted in a spate of thrift mergers. While the question of bank holding company acquisition of thrifts would have inevitably surfaced in light of the MCA, the sense of urgency surrounding the difficulties in the thrift industry forced the Fed to face the bank-thrift merger question in short order.

AN EXPANDED LENDING RELATIONSHIP AT THE DISCOUNT WINDOW

The Federal Reserve has a long history of lending to member commercial banks. The Fed extends assistance, possibly for an extended period of time, when a commercial bank finds that its usual sources of funds are not available. Under the MCA, borrowing privileges have been extended as well to nonmember commercial banks (CBs), savings and loans (S&Ls), mutual savings banks (MSBs), and credit unions (CUs). The relevant provision states that "any depository institution in which transactions accounts or nonpersonal time deposits are held shall be entitled to the same discount and borrowing privileges as member banks." Moreover, the Fed is to "take into consideration the special needs of savings and other depository institutions for access to discount and borrowing privileges consistent with their long-term asset portfolios and the sensitivity of such institutions to trends in the national money markets." In other words, the Fed is directed to open its discount window to nonmember depository institutions on the same basis as to member banks.[2] Further, the thrifts appear to be singled out by the language of MCA as eligible for longer term borrowing from the Fed.

Current Status Report. The Fed has reformulated discount window guidelines to allow thrift access to its various programs: adjustment credit, seasonal credit, and other extended credit (including special assistance). To date, most thrift borrowing has been focused in the last program.[3]

Short-term credit (adjustment credit) has traditionally encompassed the bulk of discount window borrowing. The district Reserve banks can grant adjustment credit at their discretion to a bank or thrift which temporarily does not have access to its usual source of funds.[4] In the August-March period,

[1]Another major area of the MCA—Fed pricing and provision of services—was less affected by the troubled financial environment and is not covered in this article.

[2]See page 1 of "The Federal Reserve Discount Window," published by the Board of Governors of the Federal Reserve System in October 1980. I would like to thank Bill Stone, Vice President and Lending Officer, and Bernie Beck, Manager, Credit, at the Philadelphia Fed for helpful discussions on the discount window.

[3]The official language used in the pamphlet "The Federal Reserve Discount Window" labels the programs as follows: (a) short-term adjustment credit and (b) extended credit, including (1) seasonal credit and (2) other extended credit (special assistance to a particular depository institution and "other extended credit" to a class of institutions).

[4]Guidelines for adjustment credit state that appropriate reasons for borrowing include an unexpected loss of deposits, a surge of credit demands, or a shortfall in

short-term borrowing from the Fed (about 70 percent of total borrowing) has averaged about $850 million nationwide and $50 million for the Third District. Commercial banks have accounted for nearly all of the adjustment borrowing; short-term borrowing in the system by thrifts has averaged less than 1 percent. Although short-term borrowing in the Third District has been modest, several local MSBs, S&Ls, and CUs have completed the necessary paperwork and could borrow on short notice.

One of the more difficult aspects of discount window policy under MCA has been deciding what the Act means by the "same" borrowing privileges for nonmember institutions. It has long been a basic tenet of adjustment discount policy that a borrower normally should seek other reasonably available sources of funds before turning to the window for assistance. In the case of S&Ls, MSBs, and CUs, the Fed has interpreted the available sources of funds to include credit from special industry lenders, such as the Federal Home Loan Bank System, credit union centrals, or the Central Liquidity Facility of the National Credit Union Administration (NCUA).[5] An S&L in Philadelphia that is a member of the Federal Home Loan Bank System, for example, would be expected to seek assistance from its regional Federal Home Loan Bank in Pittsburgh before approaching the Philadelphia Fed's discount window. But if the S&L needs funds on short notice and cannot gain access to the FHLB in timely fashion, the Fed may grant credit on a temporary basis. The Fed would expect to be repaid the next business day once the institution again has access to its usual sources of funds. Thus, effectively, most nonbank depository institutions are limited to overnight loans from the discount window for adjustment credit.

Although adjustment credit accounts historically for the great bulk of discount window borrowing, extended or longer term credit has increased significantly since thrifts have gained access to the discount window. Three types of extended (longer term) credit are granted by the Fed—seasonal credit, special assistance credit, and what the Fed calls "other extended credit." Seasonal credit is available to institutions with earnings that vary at different times of the year, such as banks at the seashore or in agricultural areas. These institutions often experience large seasonal fluctuations in flows of funds that they can't deal with in another way. To date, thrifts have not used seasonal credit. The seasonal credit program is available, however, should they qualify. Special assistance credit is available to an *individual* bank or thrift institution in exceptional circumstances. Commercial banks have been the only borrowers under special assistance to date, but this program is also available to thrifts with problems unique to a particular institution.

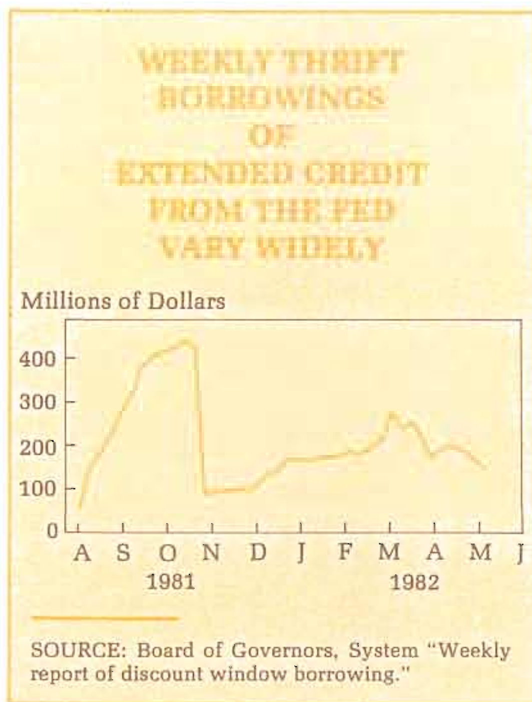
The other extended credit program, in contrast, is targeted toward a *class* of institutions affected by a general situation, such as changing money-market conditions or deposit disintermediation. This program was implemented by the Fed in August 1981 when many thrifts appeared to be facing serious financial problems. Though, in principle, other extended credit is available to banks, the Fed contended that S&Ls and MSBs faced special difficulties as a class of institutions

reserve requirements. Reasons not considered appropriate include supporting a program of aggressive loan expansion or taking advantage of a differential between the discount rate and other rates for alternative sources of funds. Nor is it considered appropriate to substitute discount borrowing for other short-term liabilities that are sensitive to interest rate changes, such as money-market certificates.

[5] S&Ls and MSBs that are members of the Federal Home Loan Bank System are eligible to borrow from one of their regional banks, such as the Federal Home Loan Bank in Pittsburgh. S&Ls and MSBs that are *not* members of the Federal Home Loan Bank System now have the Fed as their primary industry lender. Credit unions have access to the Central Liquidity Facility or to credit union centrals, which serve a similar function and have been formed recently in many areas of the country.

because of their long-term asset portfolios and their sensitivity to yield trends in national money markets. Since the program has been inaugurated, thrift borrowings from the Fed under the other extended credit program have fluctuated considerably, from a high of around $450 million to a low of about $60 million (see WEEKLY THRIFT BORROWINGS . . .); MSBs have borrowed more than S&Ls. Thrift institutions in the Third District have borrowed a substantial portion (about 20 percent) of this long-term credit.

The protocol for borrowing under extended credit is similar to that for adjustment credit: nonbank depository institutions are expected to make a reasonable effort to seek alternative sources of funds before coming to the discount window. When the Fed considers such applications, it consults with the appropriate regulatory agency—say, the regional FHLB. The thrift institution is evaluated in terms of its particular circumstances and ability to repay. Typically the Fed will share the loan on, say, a 50-50 basis with the FHLB. But if a check with the FHLB shows that the thrift is close to insolvency, the Fed may be reluctant to participate and may suggest that the FHLB take full responsibility for the loan. Thus far, the individual Reserve banks appear to be administering the other extended credit program on a flexible case-by-case basis.



SOURCE: Board of Governors, System "Weekly report of discount window borrowing."

What Comes Next? As the Fed tries to further implement the provisions of the MCA and to anticipate thrift borrowing needs, it will face a range of issues that will require ongoing consultation with other regulatory bodies.[6] One such issue is the *extent* of Fed lending under the other extended credit program: will this lending grow or shrink? Fed lending to thrifts thus far is small compared to the volume that thrifts may want should their condition continue to worsen. Weekly thrift borrowing at the discount window amounted to $450 million at its peak, most of it to MSBs. This amount is a little smaller than the $630 million weekly average in short-term funds (one year or less) lent by the FHLBs during their peak month to the S&Ls. Over the August-March period, these FHLB short-term advances to members totaled about $12 billion, nearly twice the $7 billion the Fed lent to thrifts. The limits of the Fed's commitment to lend to troubled thrift institutions will depend partially upon the

[6]The Fed also communicates directly with thrifts via advisory boards. Each district Reserve bank already has a nine-person Board of Directors—three bankers elected by member banks, three business people also elected by members, and three nonbankers appointed by the Board of Governors to represent the public interest. These district boards vote on discount rate changes and oversee the district Reserve banks' activities. But in addition, the district Reserve banks have established their own communication networks with thrifts. The Philadelphia Fed has established four Advisory Boards—one for nonmember commercial banks, one for S&Ls, one for MSBs, and one for credit unions—to enhance communication and feedback between the Philadelphia Fed and each group.

availability of funds from other primary industry lenders. In this regard, the FHLBB and the Fed have established a basis for consultation, albeit an evolving one. As yet, the Fed and the Central Liquidity Fund—the primary industry lender for national credit unions—have not established a formal consulting relationship. But even if credit unions should become active borrowers, they probably would account for only a small portion of long-term borrowings because of their smaller average size.

Another lending issue concerns the potential conflicts that might arise from the different lending rates and policies of the primary lenders. S&Ls consider the Fed to be a more restrictive lender than the FHLB; the Fed lends primarily for temporary liquidity purposes whereas the FHLB lends for loan-expansion purposes as well. Despite the restrictions, however, thrifts at times will have a strong incentive to borrow from the Fed. The Fed's discount rate moves up and down, but it is not tied in any mechanical way to a market rate. Overall considerations of monetary policy play the fundamental role. Especially during periods of high interest rates, the Fed's discount rate often is below market (but on some occasions the discount rate has been above the market rate). In contrast, the district FHLBs sell bonds and borrow in the market at close to a competitive rate and then advance the monies with a 1/4-percent premium or so to the S&Ls. Thus if the Fed frequently maintains the discount rate well below market rates, thrifts will argue for relaxing Fed guidelines to allow them greater borrowings.

In sum, the Fed has made substantial progress in implementing access to the discount window for all depository institutions. Guidelines have been established for the other extended credit program, and the Fed has developed a consulting relationship with the FHLBs. The program is basically in place. The difficulties of the thrift industry, although the catalyst for the extended credit program, have not resulted as yet in massive borrowings. Nor are large borrowings likely to occur, because the Fed is concerned that its money-growth targets not be jeopardized. Large borrowings could create money-supply control problems that would conflict with the Fed's monetary policy. Still, the Fed is ready to cooperate with other primary industry lenders and has established a continuing basis on which to work toward resolving differences among the regulatory agencies. These relationships should prove useful as financial institutions and markets become more closely integrated.

THRIFT PROBLEM PROMPTS A QUICK RECONSIDERATION OF MERGER QUESTIONS

By opening the discount window to thrifts, the MCA acknowledged that these institutions have become more like commercial banks. But the Act went considerably further in this regard. Thrifts received expanded asset powers; they also faced a dismantling of their regulation-preserved ability to pay higher rates on deposits than banks. These provisions of the MCA clearly set in motion forces that increased financial integration. Eventually, all these factors would have forced the Fed to face up to a host of new regulatory issues. But once again the plight of the thrifts forced the Fed's hand in these matters.

One major way that the Fed is involved in regulation of financial institutions is through its role in the merger process. The Fed has responsibility for approving bank mergers in which the surviving bank is a state member bank, for approving bank holding company formations and the acquisition of banks by holding companies, and for approving nonbank activities of bank holding companies. Prior to MCA, the Fed for the most part de-emphasized the presence of thrift institutions in reaching these decisions. But now there are two kinds of mergers in which the Fed might need to take account of thrifts and their

new powers: bank-thrift mergers and bank-bank mergers.

Bank-Thrift Mergers. Both the expanded asset powers of the thrifts and their generally troubled financial state have created new incentives for mergers of banks with thrifts. These mergers can be accomplished when banks or bank holding companies acquire thrifts or when savings and loan holding companies acquire banks. Currently, federally chartered S&Ls can branch statewide in all states. State chartered S&Ls can branch according to state law, which allows statewide branching in most cases, such as Pennsylvania. Moreover, they may merge across state lines under emergency conditions. Several mergers among S&Ls spanning large geographical areas have taken place.[7]

The Fed began to reconsider bank-thrift mergers when the thrift industry became distressed. As the regulator of bank holding companies, the Fed has statutory authority under the 1970 Amendments to the Bank Holding Company Act of 1956 to permit bank holding companies to acquire thrifts. Fed policy to date, however, states that the operation of a thrift, while an activity closely related to banking, is not an activity that is a proper incident to banking. Thus the Fed has not listed acquisitions of thrifts among the permissible activities of bank holding companies. In April 1981 the Fed asked for comment on whether savings and loan activities might be considered a proper incident to banking. The response from the Justice Department stated that the activities of thrifts are indeed closely related to banking. They also supported bank purchases of thrifts in localities other than a bank's home state. The Fed studied the matter further at the request of Senator Garn, Chairman of the Senate Banking, Housing, and Urban Affairs Committee, and released a staff report which suggested that "in general, policy and economic considerations that have been the basis for precluding bank holding companies from acquiring thrifts have diminished or are relatively insignificant."[8] More recently, the Comptroller and FDIC submitted studies favoring cross-industry acquisitions. At this point, however, the Board's policy does not favor acquisitions of thrifts except under restricted circumstances.[9]

This issue of bank-thrift mergers has surfaced in one form or another in practically every piece of recent U.S. banking legislation. In testimony so far the Fed has tried to make a distinction between emergency circumstances and normal times. Because of the distressed condition of the thrifts (and some banks), the *Fed did support the cross-industry acquisition of thrifts under emergency circumstances.* If the emergency should recede, however, the issue of bank-thrift mergers will still be with us. The Fed is reluctant to address this issue on its own and is looking to Congress for guidance and clarification. Many pieces of legislation have been proposed, both at national and state levels, to relax the branching constraints of the McFadden Act or the product constraints of the Glass-Steagall Act (see LEGISLATIVE INITIATIVES).

[7]For example, Citizen Savings and Loan of San Francisco, a subsidiary of National Steel Corporation, acquired an S&L in New York City and an S&L in Miami Beach.

[8]Cover letter from Paul Volcker to Chairman Garn, September 21, 1981. The study, titled "Bank Holding Company Acquisition of Thrift Institutions," was written by Eisenbeis, Cleaver, Bleier, Savage, and others on the staff of the Board of Governors.

[9]On April 5, 1982 the Federal Reserve Board approved the emergency merger of Scioto Savings Association, Columbus, Ohio, and Interstate Financial Corporation, owner of the Third National Bank and Trust Company, Dayton, Ohio. The merger was approved under Section 4(c)(8) of the Bank Holding Company Act, which allows bank holding companies to operate nonbank subsidiaries. Scioto will continue to operate as an S&L, except for some restrictions, such as adherence to Ohio bank branching laws.

LEGISLATIVE INITIATIVES

The Fed has a strong interest in legislation that affects its policies, and the Chairman testifies frequently before Congress on such legislation. The Fed also consults with other regulatory authorities on different legislative approaches. On the *national level*, the Fed supported the so-called Regulators' bill. This bill had provisions to facilitate mergers of troubled S&Ls across state lines and across industries, including bank acquisitions of thrifts in emergencies, provided a particular sequence is followed. Other provisions authorized the FDIC and FSLIC to aid a broader class of distressed institutions, increased the drawing authority of these insurance funds from the Treasury, and required both FSLIC and Reserve Board approval of a bank holding company acquisition of an S&L. The Regulators' bill has met with considerable opposition from various industry groups.

An alternative approach under consideration by Congress is embodied in the Garn bill (Restructuring bill). This broader, more comprehensive bill evolved from two major perspectives. The first was the FHLBB's desire, backed by the Administration, to provide thrift institutions with full banking powers. The second was to give more powers to banks to enable them to compete better with nonbanks. The Garn bill is wide ranging: it permits bank acquisitions of distressed thrifts; it allows banks and S&Ls to operate mutual funds and grants federally chartered thrifts the power to make commercial loans and buy commercial paper; it preempts state consumer usury ceilings and state due-on-sale clauses; it increases the insurance on IRA/Keogh accounts. Before this bill makes much progress, however, there will have to be many compromises made on all sides.

The Fed also is watching closely the Bank Holding Company Deregulation Act of 1982, introduced by the Administration. This bill expands the powers of banks and securities firms to enter each others' traditional lines of business. Bank holding companies could enter the securities business through securities affiliates subject to the same regulations as other participants in those markets. Hearings on this blockbuster bill will encompass all the issues of Glass-Steagall.

On a *statewide basis*, changes are also occurring on the legislative front in the Third District. The Pennsylvania legislature has just passed a bill relaxing the state's one-bank holding company and contiguous-county branching laws. The new bill permits bicontiguous county branching and allows multibank holding companies statewide.* The holding company provision is phased in. It allows bank holding companies to control up to four banks within the first four years and to acquire up to four banks in the second four-year period, with unrestricted acquisition thereafter. Home office protection is accorded some banks in small towns. In New Jersey, which permits statewide branching, multibank holding companies already exist. In Delaware, the Financial Center Development Act, passed in early 1981, allows out-of-state bank holding companies to enter *de novo* as brand new institutions. New banks created by out-of-state holding companies must meet certain requirements and not compete directly in the local retail banking markets. The attraction to Delaware stems from the elimination of all usury ceilings and a graduated tax system which favors larger banks. So far, several institutions based outside Delaware, including several large New York banks, have established operations in Delaware or have announced plans to move there.

*Contiguous county branching allows a bank headquartered in a given county to branch into all adjacent counties. Bicontiguous county branching would extend branching to the next adjacent county as well.

Bank-Bank Mergers. Even in cases of bank or bank holding company mergers, thrifts and their expanded powers under the MCA have influenced Fed merger policy. When the Fed considers the regulatory approval of *bank merger applications*, it is both bound by legislation and constrained by court precedent. Banks are formally subject to state branching laws under the McFadden Act and require the approval of the proper regulatory authority, Federal and state, to merge within a state. The existing court

cases address important concepts, such as potential competition, and sometimes raise questions about the rationale for the existing institutional restrictions.[10] To date, however, the courts have not fully reflected the rapid changes in the financial scene; concepts like banking as a separate line of commerce still are upheld by the courts and thus may constrain the Fed.[11] The line of commerce definition was enunciated in the *United States versus Philadelphia National Bank* decision in 1963, when the Court ruled that commercial banking is sufficiently distinct that other financial institutions are not able to compete with banks in the same markets. Thus in the past, consideration of the competitive effects of a bank acquisition has focused primarily on the relevant *commercial bank* market data, with market shares of deposits used as measures of concentration. Other institutions, financial or otherwise, have not been considered to be significant bank competitors. The courts have been moving somewhat in the direction of including thrifts as competitors. In the Connecticut National Bank case of 1974, for example, the Connecticut court specified the terms on which thrifts might be included in the regulatory decision process.[12] But the courts have not set a strong or systematic precedent for explicitly considering the importance of thrifts in the relevant market. Few recent cases have addressed directly the presence of thrift competition in banking markets, but the issue is sure to come up again.

Although the absence of definitive court cases since 1974 has increased uncertainty over how to assess thrift competition with banks, the regulatory authorities have felt compelled to move ahead on their own. The Fed has considered several alternative ways to include competition from thrifts in the market analysis. One approach taken was to include thrifts in the markets when thrifts are substantial competitors in certain product lines or for particular customer classes.[13] The Fed also has begun to make subjective judgments to identify some markets where thrifts should be included in market-share data, citing the size and deposit-taking role of thrifts as well as their expanded powers.[14]

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[10]Fed guidelines for bank acquisitions, for example, are being reevaluated to streamline the applications process. A market extension acquisition (acquisition of a bank in a market in which the acquiring firm is not already represented) would be subject to intensive scrutiny when all of the following circumstances are met: (1) the three-firm deposit concentration ratio is 75 percent or higher in the market of the firm to be acquired; (2) there are six or fewer probable future entrants into the market; (3) the market of the firm to be acquired is in an SMSA and is attractive for entry; (4) the firm to be acquired is one of the three largest in the market and has 10 percent or more of deposits. New Justice Department merger guidelines will be a factor in this reevaluation.

[11]For further discussion, see Robert A. Eisenbeis, "Regulatory Agencies' Approaches to the 'Line of Commerce'," *Economic Review*, Federal Reserve Bank of Atlanta, April 1982.

[12]In United States v. Connecticut National Bank, 418 U.S. 656 (1974), the Supreme Court acknowledged that savings banks were "fierce competitors" of commercial banks in some markets. Yet it overturned a lower court ruling that thrifts should be included in the line of commerce. The Court reaffirmed that commercial banks offer a unique cluster of services and that banks and mutual savings banks do not compete significantly for *commercial* accounts. The Court also stated, however, that it may be "unrealistic to distinguish them from commercial banks for purposes of the Clayton Act" at a later stage when "savings banks become significant participants in the marketing of bank services to commercial enterprises." For further discussion on the general topic of thrift competition see Michael Trebing, "The New Bank-Thrift Competition: Will It Affect Bank Acquisition and Merger Analysis?" *Review*, Federal Reserve Bank of St. Louis, February 1981, and the April 1982 *Economic Review*, Federal Reserve Bank of Atlanta.

[13]Bank Holding Company Letter #198, issued by the Board of Governors in June 1980, states the Board's position on consideration of thrifts in competitive analysis.

[14]The difficulty with including thrifts in market share data is that concentration of total deposits would remain the key competitive factor in considering whether mergers of any two banks would restrain trade. This

Essentially the Fed has taken the first step in recognizing that commercial banks may respond to the way thrifts price their product lines and in assessing the significance of alternative suppliers of financial services.[15]

Thus the Fed is reconsidering its position on mergers of bank holding companies with thrifts or banks and it is attempting to develop new analytical tools and concepts of competition in market analysis.[16]

CONCLUSION

Financial institutions and markets have changed so fast that the Fed has faced many difficult questions when implementing the provisions of the MCA and responding to today's financial environment.

The S&Ls, MSBs, CUs, and nonmember commercial banks that make up the Fed's expanded constituency have been given access to the discount window. Given the recent high inflation rates and the difficulties of the thrift institutions, the other extended credit program of the discount window probably will be operating for some time. The *extent* of the Fed's involvement still remains to be worked out, but the basic commitment to all depository institutions has been established.

In assessing mergers, the Fed has moved to include consideration of bank competitors, particularly thrifts, in banking markets. The implications of cross-industry mergers are being explored. The evolution of the different regulatory approaches and the issue of how to treat thrift competition also may be shaped by the courts. And the Fed is working closely with other regulatory agencies and with Congress. Many different legislative and regulatory approaches have been suggested, and it will take time to sort them all through. With continued change expected in financial institutions and the markets they serve, one thing is certain—life at the Fed won't be dull.

approach implicitly lumps all the product lines of banks and thrifts into a single aggregate deposit measure of market share. A second approach under consideration would be to include thrifts, and possibly other competitors, and to disaggregate the product lines. For example, in addition to demand deposits and savings deposits, there might be consumer loans, commercial loans, NOW accounts, trusts, and other product lines in which banks compete. Although the unbundling of products inherent in this second approach may be more accurate in looking at banks and thrifts as multiproduct institutions, an overall assessment of competition could be difficult. Weights would have to be given to the different product lines; how restrictive the regulatory stance is would depend partially on the weights chosen. This procedure has the merit of considering several different types of participants in a given market.

The Justice Department divided the line of commerce into retail (including thrifts) and wholesale banking (excluding thrifts) in its complaint filed February 28, 1982 in the *U.S. v. Virginia National Bankshares* case.

[15]Evidence from a study in Pennsylvania supports the hypothesis that, even before the MCA, substantial competition between banks and thrifts existed for certain product lines, such as passbook savings. Measures of market structure, as defined by an index covering CBs, S&Ls, MSBs, and CUs, contributed significantly as a determinant of bank performance. See Timothy Hannan, "Competition Between Commercial Banks and Thrift Institutions: An Empirical Examination," Research Paper No. 70, Federal Reserve Bank of Philadelphia, April 1981. Contradictory evidence is provided in a more recent study by William N. Cox and Joel R. Parker, "Do Banks Price as if Thrifts Matter?" *Economic Review*, Federal Reserve Bank of Atlanta, April 1982. They found that banks in the Sixth Federal Reserve District did not respond to thrift NOW account pricing.

[16]The far-reaching implications for the Fed of bank-thrift mergers and increasing financial integration have still to unfold. The Fed and the other regulatory authorities were established when each type of institution had its own niche in the financial markets. Now that financial services overlap to a great extent and nonbanking conglomerates are becoming strong competitors, the lines previously drawn between different types of institutions have become fuzzy. When carried to its conclusion, this argument states that it is no longer useful to separate the different regulatory authorities. The Fed, FHLBB, FDIC, Comptroller, and FSLIC, so the argument goes, could be consolidated and grouped according to function. One agency would be responsible for insurance, one would group together the supervision and regulatory functions, and one would handle the money supply control function.

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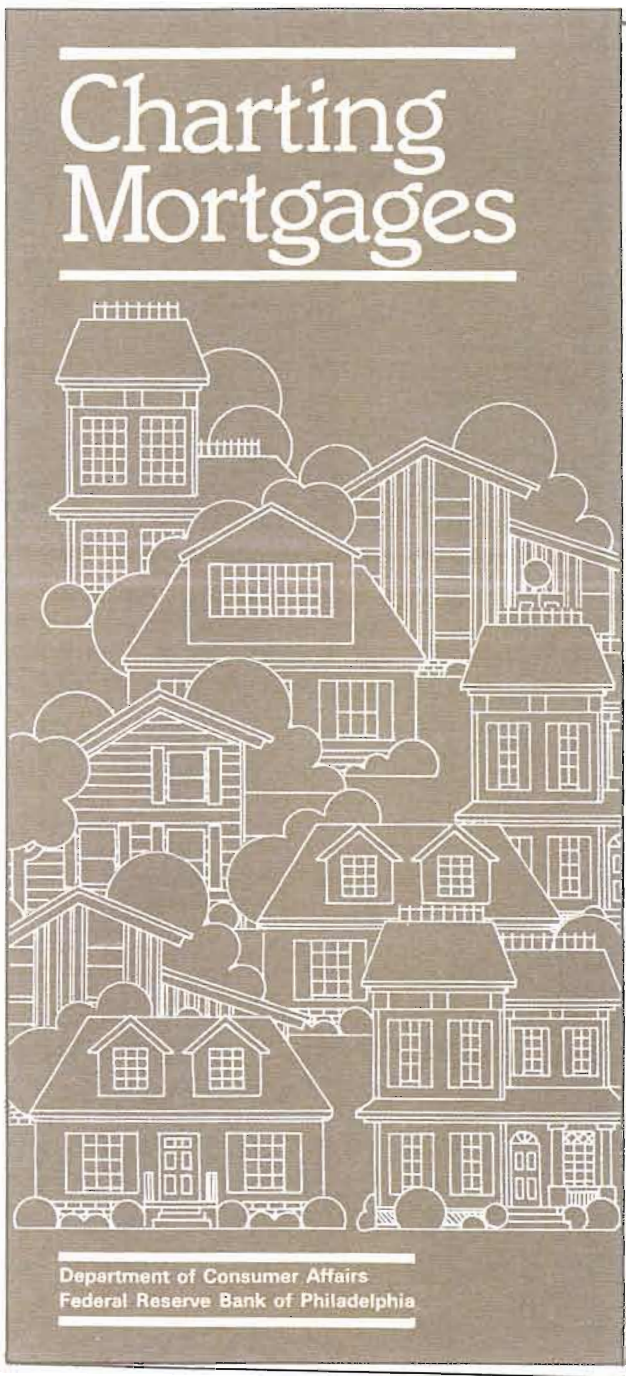

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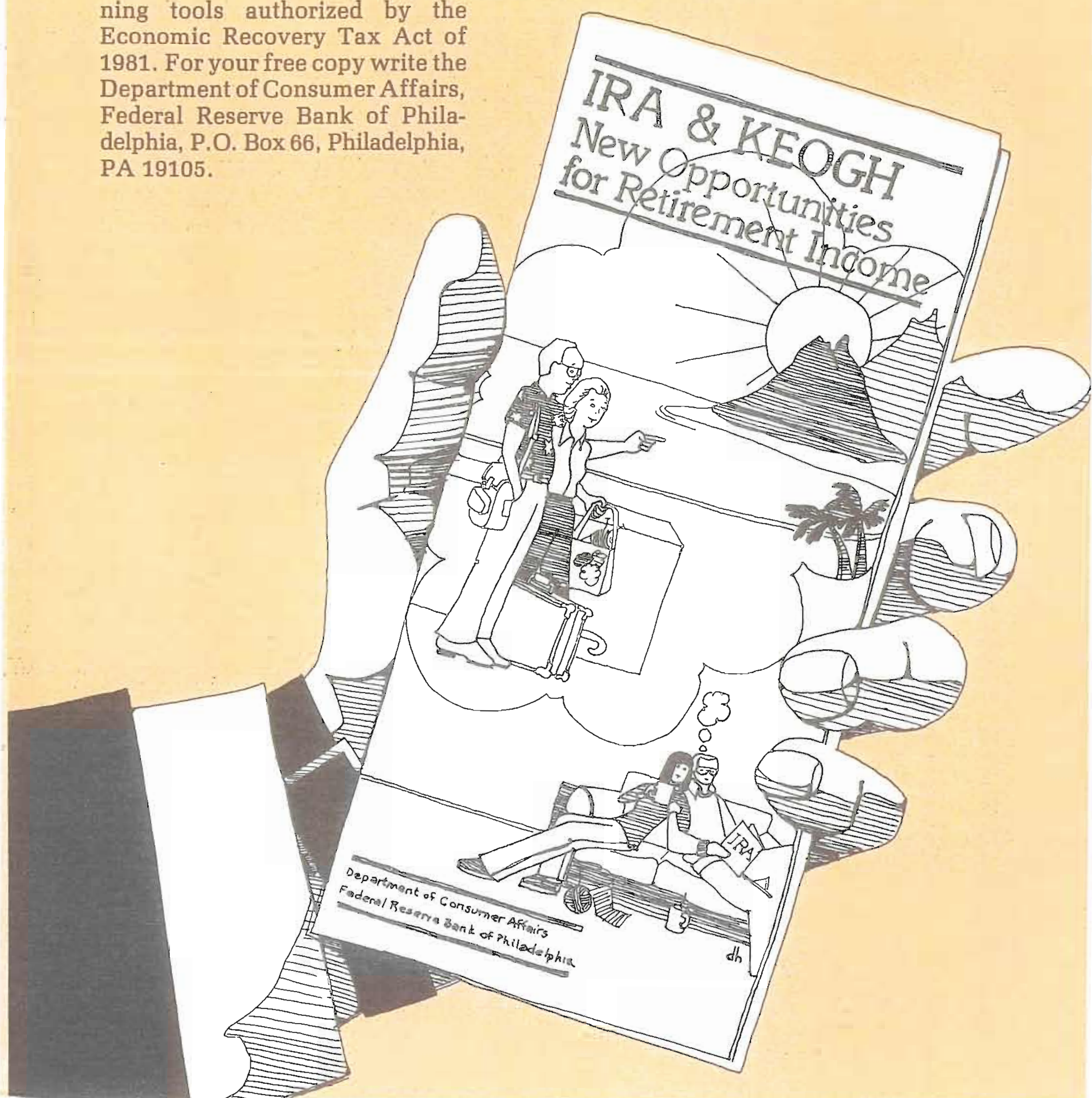

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