Corriachi: We have a team of lawyers at the New York Clearing House working on this right now. We have to find out how far we can go and what are the legal ramifications.

George Phalen, Executive Vice President, First National Bank of Boston: We'll accept the IBF if the outside New York banks are not put at an anticompetitive disadvantage. We're all for the IBFs, we even think New York is a great place to have them. We just want to be sure we're in on the agreement on a fully competitive basis.

We want a national version of CHIPS. We are asking ultimately for full membership by our head offices in CHIPS directly.

However, if not, we might be able to operate through our Edge Acts in New York. We would prefer not to do it in the form of Edge sponsorships through a New York CHIPS member. We'd prefer our Edges to be granted full membership in CHIPS.

We feel confident that these proposals now being reviewed by the Fed will be forthcoming and that we'll be able to accept the Fed's eventual recommendations.

Raymond Peters, Executive Vice President, Bank of America, San Francisco: We want some kind of better clearing mechanism in New York both for liquidity and time-zone reasons. If there's a decision by the Fed to move with IBFs we're for the concept, but we have to have these conditions.

Our problem is that when we go to settle through our New York Edge at the end of the day in New York, we're still doing business in San Francisco. And the New York Federal Reserve monitors our New York Edge, which is not heavily capitalized, and we cannot use daylight overdrafts—which means that although we are moving huge volumes of funds around the world, we can't move them through the Edge unless we have the dollars physically in New York. And there are three hours a day when we don't. During this time, of course, the money is coming in from all over the world into San Francisco, but we have then an imbalance between San Francisco and New York which we can't settle because New York is closed.

We want to be able to have an account of the San Francisco headquarters at the New York Fed. I don't think that would be a violation of the Douglas Amendment; it would only be a Fed account. Then we could settle our CHIPS net imbalance by having CHIPS clear Bank of America payments directly with this headquarters account at the New York Fed, bypassing the Bank of America New York Edge altogether. This is not really full membership in CHIPS by Bank of America.

Of course we would rather have official full membership having CHIPS settle the San Francisco headquarters account directly with the San Francisco Fed. That would make us a full member in CHIPS.

Dereg bill aids interstate banking

Actions already being taken by the Federal Reserve and the Depository Institutions Deregulation Committee (DIDC) under the March 1980 Depository Institutions Deregulation and Monetary Control Act are bringing interstate banking to the U.S. without further legislative or regulatory action by the Fed or the Congress.

The two basic changes occurring under the Monetary Control Act are the implementation of interstate banking through Electronic Funds Transfer (EFT) systems, and a price war between the smaller thrifts and commercial banks that threatens to drive them both out of business and make them prey to interstate takeovers.

The act's provisions for "Pricing and Access to Federal Reserve Services," as described by Fed Board Governor Lyle Gramley, will force the introduction of an interstate EFT banking system. It mandates the Fed to remove itself as the central government institution responsible for providing banks with a national payments system, and encourages the top 100 money center banks to set up competing private EFT interstate clearing systems like the proposed U.S. CHIPS.

"The [dereg] law opens up new opportunities for the private sector to compete with the Fed," according to Gramley, "which will also help increase efficiency. We anticipate—and welcome—competition, not only from [large] commercial banks, but from a variety of private-sector suppliers of payments services. . . . We firmly believe that if private financial institutions can produce and sell payments services competitively more cheaply than the Federal Reserve, the nation may well be better served if they do so."

As Comptroller of the Currency John Heimann said in an Oct. 6 Washington speech, the advent of such private interstate EFT systems will render the McFadden Act and other such protective banking regulations "irrelevant and artificial." "Clearly, the authors of the McFadden Act did not envision automatic teller machines," Heimann told the National Association of Bank Women. "These technological changes will surpass legislative changes in making national banking an inevitability. Further, Heimann said, "the transition to this era

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will be marked by confusion, increased competition, and probably the disappearance of some institutions."

The Fed's announcement that it will phase out the nation's $10 billion in Federal Reserve float under the dereg bill by October 1982 also promotes this consolidation by removing cheap inter-Fed district float credit to the regional money center banks, prompting them to found and join private interstate EFT systems.

Consolidation through price war

Meanwhile, the Fed and DIDC have used the dereg bill to set off a price war among the smaller commercial and savings banks. The dereg bill was sold to both banking lobbies as a deal where the savings banks and S&Ls are authorized to issue Negotiable Orders of Withdrawal (NOW) accounts that compete with the commercials' checking business. The commercials won a phase-out of the savings banks' legally mandated ability to pay an extra margin of interest to depositors to attract personal savings.

The result is that both sectors are going under. The DIDC, instead of waiting the mandated six years to phase out the protective margin of interest savings banks could pay, phased it out entirely over a 60-day period this year, which the U.S. League of Savings Associations called a "short-term disaster" for thrift institutions. They will lose $17-$20 billion in deposits in the second half of 1980 alone to the large commercial banks.

The smaller commercial banks are faced with a similar loss in checking deposits to the larger S&Ls and savings banks when the NOW accounts go into effect on Dec. 31, 1980. Smaller savings banks won't be able to cash in on this because "the costs of operating NOW accounts will drive them crazy," according to Jerry Gitt, Dean Witter Reynolds financial analyst. "If they try it, the smaller S&Ls will drive themselves out of business."

Similarly, smaller commercial banks won't be able to pay the new higher interest rates to compete for savings banks' savings deposits. "A two-percentage-point increase in interest rate on savings would cut my bank's net earnings by a full 75 percent," said one small commercial banker.

The weakening of thousands of smaller commercial and thrift institutions across the country is supposed to force Congress to accelerate removal of interstate barriers to allow the bigger institutions to purchase smaller banks going under and to remove regulatory barriers that now keep commercial and savings banks from buying each other. "We foresee a general consolidation of the banking industry in which any type of bank can buy any other type of bank across state lines," says John Burke, bank analyst for Atlanta's Robinson & Humphrey.

DOCUMENTATION

Savings League versus the Fed's dereg moves

U.S. League of Savings Associations executive director William O'Connell, in a Los Angeles speech Sept. 22, hit the Federal Reserve hard for implementing the dereg bill's interest rate ceiling phase-out too quickly and simultaneously with a draconian monetary policy which is harming banks and the entire economy. He also questioned the "life and death powers" of the Fed over financial institutions.

The League is currently suing Fed chairman Paul Volcker and the rest of the DIDC for their incompetent actions in this regard, and has legislation in Congress to roll back parts of the deregulation act so that interest rate ceilings are more safely managed. As O'Connell put it:

Deregulation and a new monetary policy—all in the short space of six months. Either one would have been difficult to absorb; tied together they have added up to a prescription for chronic near-chaos in the financial markets. . . . The mistake made by the Congress was to turn deregulation over to the Depository Institutions Deregulation Committee (DIDC), which is dominated by the Federal Reserve Board. . . . [E]ven the greatest cheerleaders of the Fed would have to concede that the new monetary policy has been less than a success.

Interest rates are just as high as when the policy was inaugurated. Inflation psychology is just as deep as it was a year ago—if not deeper.

The Fed's new monetary policy, because it has created a financial environment characterized by extremely volatile interest rates, has proved to be extremely favorable to the commercial banking business and to the growth of money market funds. . . . What has this policy meant? For the saver and investor, it has been an incentive for them to stay short. Even corporate bond maturities have shortened significantly. For the nation's business firms, it has made financial planning impossible because borrowing costs and credit availability swing so widely in short periods. It has also encouraged firms to stay short—thus it has discouraged long term capital investments.

Beyond the present circumstances, *I think it is a legitimate question to ask whether the Federal Reserve does not have too much power. It has not only the responsibility for monetary policy but, through the DIDC, it also has new and effective life-and-death power over all financial institutions. This is, I submit, an extraordinary, unwarranted, and dangerous grant of power to a few non-elected public officials who are not accountable to the electorate of a representative democracy* [emphasis in original].