Recent Developments at Banks and Nonbank Depository Institutions

By Daniel J. Vrabac

The methods used by financial intermediaries to channel funds from savers to borrowers have been affected significantly in recent years by inflation, fluctuations in interest rates, two recessions, and the ongoing deregulation of depository institutions. During this time, the banking industry has shown itself capable of adapting to an increasingly uncertain and complex operating environment. This article describes developments in the industry that allowed it to achieve reasonable success despite the generally unfavorable economic environment.

The article first reviews the economic environment of the past several years, with particular emphasis on the 1979-82 period. Against this backdrop, the changes in commercial bank deposits, earning assets, and profitability are discussed. These changes are then compared with changes that have occurred at thrift institutions. The article concludes by discussing some possible explanations for the relatively better performance of banks, and then examines the outlook for banks and thrifts.

Daniel J. Vrabac was a research associate with the Economic Research Department at the Federal Reserve Bank of Kansas City when this article was written. The author wishes to thank Karlyn Mitchell for her helpful comments during preparation of the article.

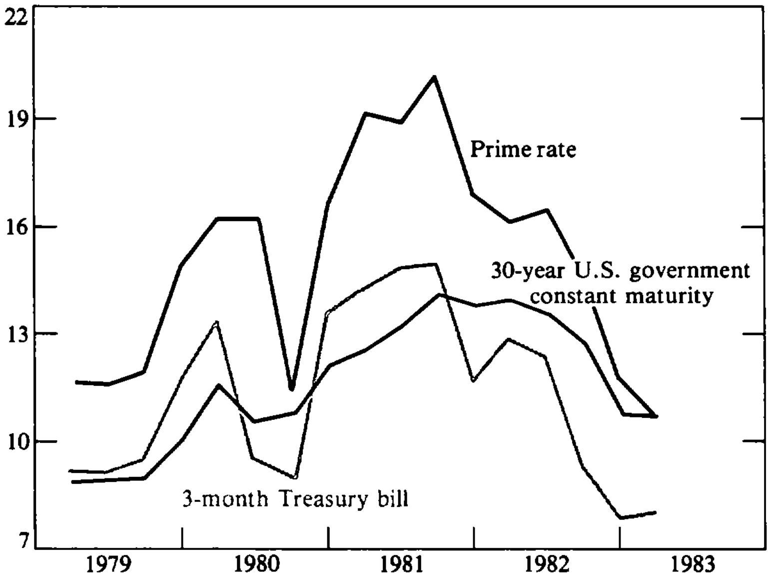
The environment

The financial environment that affected the strategies of all depository institutions during 1979-82 was shaped primarily by macroeconomic conditions, monetary policy, and the deregulation of depository institutions.

Macroeconomic conditions

The turbulent 1979-82 period was characterized by recession, double-digit inflation, and high and volatile interest rates. January 1980 and July 1981 marked the beginnings of the seventh and eighth recessions since World War II. The first was the shortest recession in the postwar era, while the second was much longer and more severe. Adjusted for inflation, GNP did not grow at all between 1979 and 1982. Industrial production increased only slightly and at times declined. Inflation, which reached 13.3 percent in 1979 after the second OPEC price shock, averaged 9.6 percent for the period as a whole. Interest rates, which tend to decline during recessions and rise with expectations of higher inflation, fluctuated widely between 1979 and 1982. As Chart 1 shows, interest rates declined sharply in the second quarter of 1980 following the onset of the recession. The economy recovered quickly, however,

CHART 1
Selected Interest Rates



and by the fourth quarter of 1980 interest rates had climbed above their prerecession peaks, where they remained at double-digit levels until the third quarter of 1982. Deepening recession and lower expected inflation then combined to bring interest rates back to somewhat more normal levels.

The turbulence of this four-year period stands in marked contrast to the previous four years when economic conditions were generally more stable. The economy turned upward after the severe recession of 1973-75 and the impact of the first OPEC oil price shock was absorbed. Industrial production increased at an annual average rate of nearly 7.5 percent in the 1975-78 period as long-term borrowing for durable good purchases and capital expenditures increased. Inflation averaged less than 7 percent a year, while short-term Treasury rates averaged 5.8 percent and long-term Treasury rates averaged 8.1 percent.

Monetary policy

Throughout most of the 1979-82 period, monetary policy sought to achieve a reduction in inflation. To meet this objective, the Federal Reserve switched its operating procedure in October 1979 from targeting short-term interest rates to targeting reserves. Controlling reserves to gradually reduce the growth of the monetary and credit aggregates, it was reasoned, would lead to a reduction in inflation. The new operating procedures facilitated better monetary control, and by mid-1982 there was a substantial lowering of inflation.

The new operating procedure, however, lent an element of uncertainty to the financial environment. Under the old procedure, the Federal Reserve influenced market interest rates by limiting movements in the federal funds rate. Stability of the federal funds rate, in turn, led to stability in both short and long-term interest

TABLE 1
Regulatory Developments

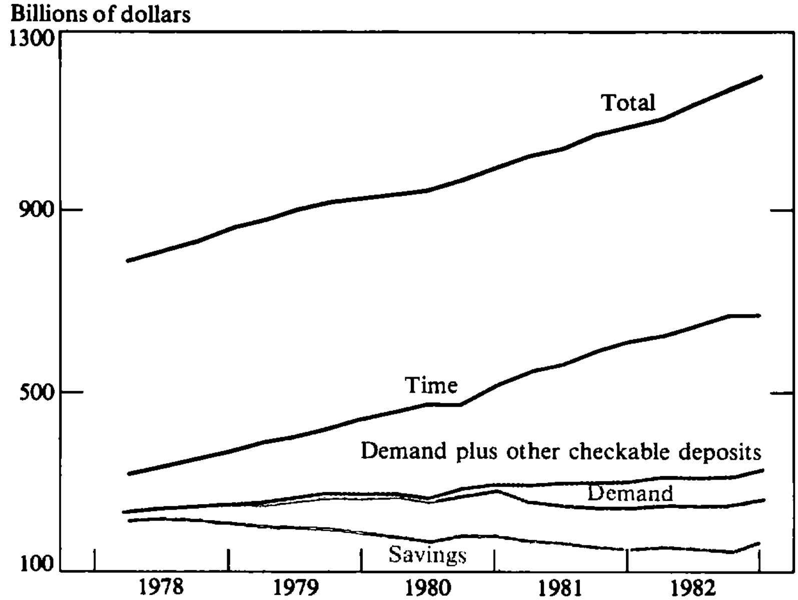
1972	NOW accounts were authorized for thrift institutions in Massachusetts. In the next few years, all New England thrifts were allowed to issue NOWs.
1973	The wild card experiment: The first use of ceiling-free, small denomination certificates of deposit. The certificate had a minimum maturity of four years; the experiment lasted four months. All depository institutions were allowed to participate.
1975	California state-chartered savings and loans were authorized to issue variable-rate mortgages. At the same time, a few national banks in California began to issue variable-rate mortgages.
1978	6-month money market certificates were authorized nationally for all depository institutions. California federally-chartered savings and loans were authorized to issue variable-rate mortgages.
1980	Authorization of the 2 1/2-year small saver certificate for all depository institutions. Passage of the DIDMCA: Extension of reserve requirements to all depository institutions. Creation of the DIDC. Allowed thrifts to invest 20 percent of assets in consumer loans. Allowed mutual savings banks to make business loans and accept business deposits.
1981	Introduction of nationwide NOW accounts. Introduction of the ceiling-free Individual Retirement Account. Introduction of the tax-exempt All Savers certificate of deposit.
1982	Several new accounts paying market-related rates were introduced: 91-day money market certificate 3 1/2-year ceiling-free deposit. 7-to-31 day time deposit. Passage of the Garn-St. Germain Act: Capital assistance for ailing thrifts. Authorization of the money market deposit account. Increase allowable consumer loan percentage at thrifts to 30 percent. Authorized savings and loans to issue business loans and accept business deposits.
1983	Introduction of the Super NOW accounts. Lowering of minimum deposit on short-term certificates of deposit to $2,500. Elimination of ceiling rates on remaining time deposits.

rates and to more certainty in financial markets. Under the new procedure, close control of reserves can lead to wide shifts in interest rates. Greater volatility in interest rates, in turn, complicates the management of asset and liability portfolios for depository institutions by making future rates of return on financial assets less predictable.

Deregulation

Commercial banks traditionally have been the primary suppliers of short- and medium-term credit to businesses, while thrift institutions have been the primary suppliers of long-term housing credit to consumers. This specialization worked well when prices were stable,

CHART 2
Deposit Growth at Commercial Banks



yield curves were upward sloping, and the economy was growing. The turbulence of the 1970s, however, revealed the weaknesses of such specialized institutions. The need for change in financial institutions was first put forth by the Commission on Money and Credit and by the Heller Committee in the early 1960s, followed by the Hunt Commission report in the early 1970s, and the Financial Institutions Act (FIA) of 1975. Few changes were made, however, until passage of the Depository Institutions Deregulation and Monetary Control Act (DIDMCA) in 1980. The DIDMCA included many of the provisions first recommended by the Hunt Commission and the FIA. Table 1 provides a brief history of deregulatory actions.

The DIDMCA altered the competitive balance between depository institutions by changing the rules of the game for all institutions. First, reserve requirements, previously imposed only on banks that were members of the Federal Reserve System, were imposed on all institutions accepting deposits. Reserve ratios for member banks were to be gradually reduced while ratios for other depository institutions were to be increased until reserve ratios at all institutions were equal. By imposing uniform reserve requirements on all depository institutions, the Act removed the penalty member banks pay by having to keep more of their assets in noninterest-earning reserves.

The Act also called for the gradual phasing out of interest-rate ceilings on deposits and the creation of the Depository Institutions Deregulation Committee (DIDC) to oversee the phaseout. The committee was charged with administering differences between banks and thrifts, determining the rates that could be paid on existing accounts, and establishing new types of accounts.

To help prop up the ailing thrift industry, the DIDMCA gave thrifts broader asset powers.

TABLE 2
Composition of Deposits At Commercial Banks

	End of Year Holdings as a Percent of Total Deposits			Average Annual Growth Rates	
	1974	1978	1982	1975-78	1979-82
Demand Deposits	34.4	30.9	22.7	6.3	0.7
Demand and Other Checkables	34.4	31.5	29.3	6.8	6.7
Savings Deposits	22.1	24.6	15.4	12.5	(2.4)
Time Deposits	43.5	43.9	55.3	9.7	15.2
Large Time	23.6	22.8	24.1	9.8	10.2
Small Time	19.9	21.1	31.2	10.8	20.1
Total Deposits	100.0	100.0	100.0	9.2	8.7

Note: Demand deposits include overnight RP's.
Savings deposits include money market deposit accounts.
Large time deposits include term RP's.
Other checkables, overnight RP's, term RP's, and MMDA's are not seasonally adjusted.

They were authorized to invest up to 20 percent of their assets in consumer loans, commercial paper, and corporate debt securities. Mutual savings banks could make business loans up to 5 percent of their assets and accept business deposits.

The Garn-St. Germain Act passed in the fall of 1982 further broadened the asset powers of thrifts. Authorization to make business loans and accept business deposits was extended to savings and loans. Beginning in 1984, thrifts can increase business loans from 5 percent of assets to 10 percent. The percentage of consumer loans allowed at thrift institutions was increased from 20 percent of assets to 30 percent. Most important, the Act authorized a new deposit account at banks and thrifts, the money market deposit account, to compete with the money market mutual funds.

The banking industry

Against the background of turbulent financial developments, a number of important changes took place in commercial bank deposits, earning assets, and profits during the 1979-82 period. Moreover, the comparative performance of banks and other depository institutions varied widely.

Deposits at commercial banks

Total deposits at commercial banks grew from $870 billion at the end of 1978 to $1,210 billion at the end of 1982 (Chart 2), an average annual increase of 8.7 percent.[1] Although less than the 9.2 percent average increase for 1975-78, deposit growth held up remarkably well considering the volatility of the economic environment. As interest rates began rising in 1978, commercial banks faced tremendous

1 Total deposits include demand deposits, other checkable deposits, overnight repurchase agreements, term repurchase agreements, regular savings accounts, small time deposits, large time deposits, and money market deposit accounts.

TABLE 3
Deposit Growth At Commercial Banks and Thrift Institutions
(Four-year average annual growth rates)

	Total Depository Institutions	Commercial Banks	Thrift Institutions
1975-78			
Total Deposits	11.0	9.2	13.8
1979-82			
Total Deposits	7.6	8.7	6.0
Demand and Other Checkables	8.1	6.7	69.5
Savings Deposits	(3.7)	(2.4)	(4.8)
Time Deposits	13.6	15.2	11.8
Large Time	14.0	10.2	40.0
Small Time	13.5	20.1	9.3

Note: Demand and other checkables at commercial banks includes overnight RP's. Savings deposits for banks and thrifts include MMDA's. Large time deposits for banks and thrifts include term RP's.

competition for deposit funds from nondepository institutions, especially money market mutual funds. The competition centered on savings and demand deposits, traditionally the main sources of funds at commercial banks. That total deposit growth slowed as little as it did between 1979 and 1982 is due partly to banks having restructured their deposits. Banks came to depend less on demand and savings deposits and more on time deposits paying market-related interest rates. Changes in the composition of bank deposits can be seen in Table 2.

Because interest rates were comparatively low in the 1975-78 period, holders of demand deposits were not penalized unduly for keeping their transactions balances in noninterest-bearing demand accounts. Also, since the maximum rate allowed on fixed-ceiling passbook savings accounts was similar to the yields on other financial assets, savers had little incentive to withdraw funds from insured accounts. This situation changed dramatically beginning in 1979, as interest rates rose generally and short-term rates climbed above long-term rates. As a result, depositors began to keep transactions balances in noninterest-bearing demand deposits to a minimum, and growth in demand deposits was brought to a halt. In addition, money either flowed out of savings deposits into higher yielding time deposits, or flowed out of banks entirely into money market mutual funds. The growth of demand and savings deposits was further affected after 1981 by the nationwide introduction of NOW accounts which, by combining the most important features of demand and savings deposits into one account, attracted funds away from both types of deposits.

Time deposits became the main source of deposit growth at commercial banks in the 1979-82 period.[2] As savings deposits declined, growth in time deposits increased, especially time deposits with variable ceilings. Large time deposits, which has become a fairly stable source of deposit funds in the early 1970s, continued to grow at about the same pace into the 1980s. Most of the growth in time deposits came from the proliferation of small time deposits, which increased in both amount and number.[3] Small time deposits grew from the

2 Growth in time deposits was due entirely to growth in variable-ceiling certificates. Fixed-ceiling certificates declined as a percentage of small time deposits from 100 percent at the end of 1977 to 12 percent at the end of 1982.

3 The 6-month money market certificate was the only variable-ceiling account at the end of 1978. It then accounted for less than 3 percent of all deposits. By the end of 1982, there were nine such accounts and many of them offered both fixed and variable rates.

least important source of funds at the end of 1978 to the most important source at the end of 1982. They also grew nearly twice as fast as any other deposit category (Table 2).

The two accounts responsible for the growth in small time deposits were the 6-month money market certificate and the 2 1/2-year small saver certificate. The 6-month CD, introduced in June 1978, increased to $220 billion by the end of 1982. The 2 1/2-year CD, introduced in January 1980, increased to $87 billion by the end of 1982. Together, these two accounts represented 25 percent of total deposits at the end of 1982 and 77 percent of small time deposits at commercial banks. The introduction of these CD's gave banks and thrift institutions an account that savers could use in shifting funds from lower yielding fixed-ceiling accounts, and thus prevented disintermediation and its costly effects.

Deposit comparison of depository institutions

Although the growth rate of deposits at commercial banks totaled only slightly less in 1979-82 than in 1975-78, the growth rate of deposits at thrift institutions was less than half what it had been in the previous period (Table 3). In the earlier period, when interest rates were generally lower and more stable, savings deposits were the most important source of deposit growth at all depository institutions. But as interest rates went higher and became more volatile, savers began seeking higher returns. All depository institutions lost savings deposits in 1979-82, but the effect on total deposit growth was greater at thrifts than at banks because thrifts depended on savings deposits more than banks.

As savings deposits declined, time deposits became the most imporant source of funds for banks and thrifts. Time deposits grew at an annual average rate of less than 12 percent at thrifts, compared with more than 15 percent at banks. While large time deposits at commercial banks grew at about the same rate in both periods, the growth of these deposits at thrifts was sizable in the second period. Even so, large time deposits accounted for less than 10 percent of deposits at thrifts by the end of 1982.

The competition for funds between banks and thrifts in 1979-82 centered mainly on small time deposits and, to a less extent, on savings deposits. Banks fared well in the competition. Where banks had held about 40 percent of the small time and savings deposits at the end of 1978, they held 45 percent at the end of 1982 (Chart 3). Small time deposits grew at an annual average rate of over 20 percent at banks, compared with less than 9 percent at thrifts. Although banks and thrifts both lost savings deposits, the decline at banks was only half as rapidly at thrifts, with the result that banks increased their share of the market.

Earning assets at commercial banks

Earning assets at commercial banks grew from $1,000 billion at the end of 1978 to $1,400 billion at the end of 1982 (Chart 4), an average annual growth of 8.7 percent compared with 9.7 percent in 1975-78. This slower growth in assets reflected the slower growth in deposits.

All categories of bank assets increased between 1979 and 1982, but the rates of increase were not uniform and they differed from the rates in the 1975-78 period (Table 4). Loan growth between 1975 and 1978 was greatest in consumer loans and real estate loans for housing.[4] The relative importance of these two

[4] Real estate loans with a consumer orientation are loans on one- to four-unit family housing, which had average annual growth during the 1975-78 and 1979-82 periods of 14.9 percent and 8.3 percent, respectively.

CHART 3
Market Share of Savings and Small Time Deposits At Commercial Banks and Thrift Institutions

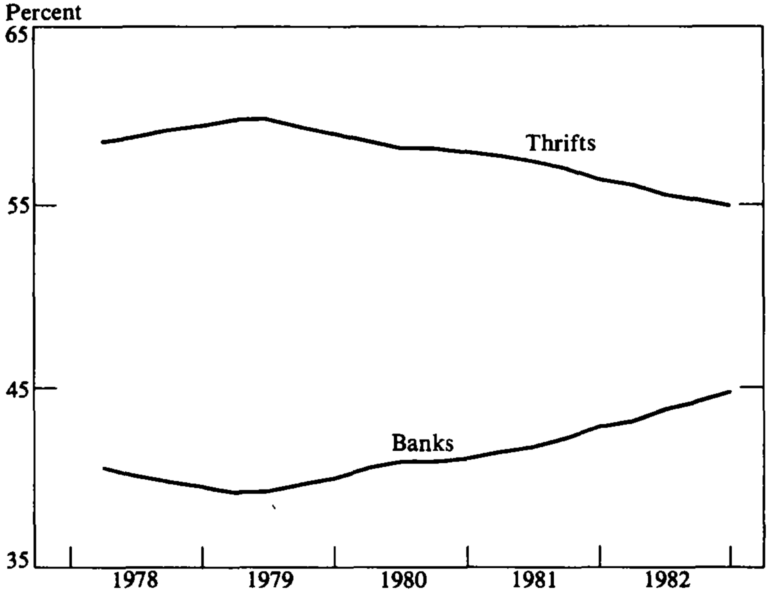


CHART 4
Earning Asset Growth At Commercial Banks
(Seasonally Adjusted)

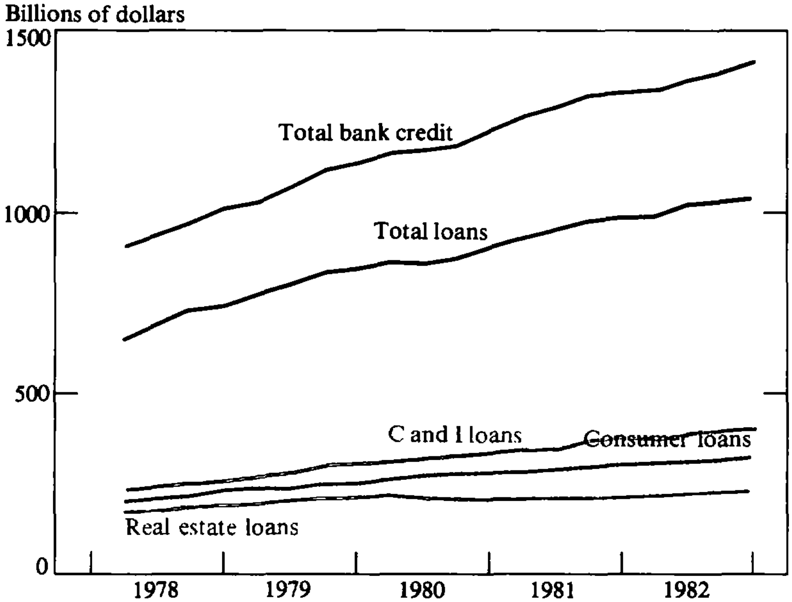


TABLE 4
Distribution of Earning Assets at Commercial Banks

	End of Year Holdings as a Percent of Total Assets			Average Annual Growth Rates	
	1974	1978	1982	1975-78	1979-82
Total Loans	72.9	73.7	73.8	9.7	8.7
Commercial and Industrial	27.6	24.3	27.8	6.0	12.5
Consumer	14.4	16.2	13.6	12.8	4.0
Real Estate	18.2	20.8	21.5	12.9	9.6
All Other	12.7	12.4	11.0	8.8	5.3
Investments	27.1	26.3	26.2	8.5	8.6
U.S. Treasuries	7.5	9.3	9.3	17.2	9.0
Other	19.6	17.0	16.9	5.5	8.5
Total Earning Assets	100.0	100.0	100.0	9.2	8.7

categories increased as the proportion of commercial and industrial loans declined. The situation was reversed in the 1979-82 period, however, as growth in consumer-oriented loans declined significantly and growth of commercial and industrial loans increased.

The composition of earning assets shifted as banks adjusted the distribution of their portfolios in response to the changing economic environment. Household incomes rose during the 1975-78 economic upswing and consumers became more willing to incur debt. As a result, consumer borrowing at banks increased. With interest rates relatively low, nonfinancial business firms preferred to borrow in long-term capital markets instead of taking short-term loans from banks. The result was an increase in the relative importance of consumer-oriented loans in banks' portfolios. Over the next four years, however, household incomes declined and, with substantially higher interest rates, demand for consumer loans declined. Growth in real estate loans dropped to 10 percent a year as loans for one to four-family housing declined. The recessionary environment and rising interest rates also reduced corporate cash flow and profitability, causing nonfinancial corporations to rely more on bank loans. Part of the increase in bank loans to business was to finance unwanted inventories, but nonfinancial corporations also were reluctant to issue bonds at double-digit interest rates, preferring instead to borrow short term from banks until interest rates declined.

Earning asset comparison of depository institutions

Earning assets grew significantly faster at commercial banks than at thrift institutions during the 1979-82 period (Tables 4 and 5). The difference represented a reversal from the previous four years, when earning assets grew faster at thrifts than at banks.

The divergence was due to changes in the composition of assets. Regulations allowed banks to make a greater variety of loans than thrift institutions. The effect of the restrictions on thrifts can be seen from a comparison of the composition of earning assets at banks and thrifts. Over the whole period from 1975 through 1982, banks as a group never held more than 28 percent of their assets in any one type of loan or security. In the same period,

TABLE 5
Distribution of Earning Assets At Savings and Loans and Mutual Savings Banks

	End of Year Holdings as a Percent of Total Assets			Average Annual Growth Rates	
	1974	1978	1982	1975-78	1979-82
Savings and Loans					
Mortgage Loans	87.1	85.0	73.9	14.9	3.0
Mortgage-Backed Securities	2.0	3.2	9.7	31.5	42.4
Nonmortgage Loans	2.0	2.3	3.6	19.3	20.1
Cash and Investments	8.9	9.5	12.8	17.7	15.1
Total Earning Assets	100.0	100.0	100.0	15.6	6.5
Mutual Savings Banks					
Mortgage Loans	70.1	61.8	56.7	6.2	−0.1
Mortgage-Backed Securities	2.1	6.5	8.5	46.8	9.4
Nonmortgage Loans	3.6	4.7	10.1	17.5	23.9
Cash and Investments	24.3	27.0	24.7	13.0	−0.2
Total Earning Assets	100.0	100.0	100.0	9.6	2.0

thrifts as a group held over 65 percent of their assets in mortgage loans and mortgage-backed securities. As consumer mortgage lending waned in 1979-82, the traditional lending base of thrifts was eroded. And as mortgage loan demand declined, funds deposited at thrifts had to be invested in lower yielding securities. In contrast, banks were able to respond to the change in loan demand by diverting funds from mortgages and consumer loans to short-term business loans.

Profitability comparison of depository institutions

Banks have been substantially more profitable than thrifts since 1979. The differences in profitability can be seen by a comparison of the returns on assets (ROA) at banks and thrifts (Table 6). Return on assets is defined as net income for a year expressed as a percentage of average assets for the year. Profitability was about the same at banks and at thrifts in the 1975-78 period, and bank profitability remained about the same through 1982. At thrifts, however, ROA declined sharply after 1979 and then turned negative.

One reason banks were more profitable after 1979 is that their loans were shorter term. Because thrifts had concentrated their lending on long-term mortgages, only a small percentage of their loans matured during an accounting period. And as most of these loans were made at fixed rates, an unexpected rise in interest rates caused a significant proportion of the assets of thrifts to earn below-market rates.

The shorter terms of bank loans caused a much larger percentage of their loans to mature during a given period. Many bank loans also were made at floating rates. Following a rise in interest rates, banks were able to adjust loan rates closer to the current market rate. The result was that bank profitability was affected less by unexpected changes in interest rates.

TABLE 6
Profitability Comparison of Depository Institutions*
(Percent)

	1975	1976	1977	1978	1979	1980	1981
Commercial Banks	0.69	0.70	0.71	0.76	0.80	0.79	0.76
Savings and Loans	0.47	0.63	0.77	0.82	0.67	0.14	−0.73
Mutual Savings Banks	0.38	0.45	0.55	0.58	0.46	−0.12	−0.83

*Profitability is the return on assets, or ROA. ROA is defined as net income as a percentage of the average of beginning and end of year assets.

Source: Commercial Banks—"Profitability of Insured Commercial Banks," *Federal Reserve Bulletin,* August 1982, Table 9. Savings and Loans and Mutual Savings Banks—"Thrift Institutions in Recent Years," *Federal Reserve Bulletin,* December 1982, Table 1.

Banks could keep more of their assets earning at or near market rates.

The contractual features of loans by thrifts combined with the less favorable economic environment of the 1979-82 period put thrifts in a profit squeeze. As interest rates rose and deregulation led to the introduction of new accounts paying market-related interest rates, the cost of funds at all depository institutions rose. Banks were able to maintain their profitability, however, by earning market rates of return on a significant part of their earning assets. Thrifts, able to earn market rates of interest on only a small proportion of their earning assets, saw their profitability decline both absolutely and relatively to banks.

Performance and outlook

Bank and thrift performance

Commercial banks were able to maintain deposit growth better than thrifts in the 1979-82 period, primarily because they were more successful in attracting consumer-type deposits. One explanation for the difference in deposit growth after 1979 is that banks were more profitable than thrifts. Their greater profitability probably made banks more aggressive in seeking deposits to invest in earning assets. Another explanation is the phasing out of regulatory interest rate differentials that allowed thrifts to pay more than banks on certain time and savings deposits. The purpose of this interest rate differential had been to allow thrifts to compete for deposits with banks, which offered a wider variety of services. As thrifts began losing the advantage of the interest ceiling differential, customers lost some of the incentive to hold deposits with thrifts instead of banks. Also, because several large thrift institutions had failed or been merged into other institutions, there may have been a perceived risk difference between banks and thrifts that hastened deposit withdrawal from thrifts and increased deposits at banks.

Continued stable deposit growth at commercial banks contributed to stable growth in earning assets. Similarly, the decline in deposit growth at thrifts in the 1979-82 period contributed to a decline in earning asset growth. Another factor that contributed to differences in asset growth at banks and thrifts was differences in their regulation that worked to the detriment of the profitability of thrift institutions. Where asset restrictions on thrifts caused them to be geared to making consumer-oriented loans, primarily mortgages, banks were more able to diversify their assets. When consumer borrowing declined in the 1979-82 period, thrifts were forced to invest in mortgage-backed or money market securities (Table 5). In contrast, banks—especially large banks—were able to respond to the decline in consumer loan demand and the rise in business loan demand by shifting from consumer loans to business loans. Because the yield on business loans was higher than the yield on mortgage-backed and money market securities, banks had a distinct profit advantage over thrifts.[5] Given the differences in profitability, it is hardly surprising that asset growth was faster at banks than thrifts.

Bank and thrift outlook

The basis for more competition among depository institutions lies in their continued deregulation, as provided for in the DIDMCA and the Garn-St. Germain Act. The two major facets of the deregulation movement are the removal of interest rate ceilings from deposit accounts at banks and thrifts and the broadening of the asset powers of thrifts. The removal of interest rate ceilings began in late 1981 with the introduction of the ceiling-free IRA's. The real impact of ceiling removal was felt, however, when money market deposit accounts (MMDA's) were introduced in December 1982. More than $367 billion was accumulated in MMDA's by the end of June 1983, a growth unparalleled by any other deposit account at any time. Super NOW accounts, checking accounts paying market-related rates, were introduced in early January 1983. Although they have not grown as fast as MMDA's, Super NOW's totaled more than $31 billion by the end of June. In the short run, MMDA's and Super NOW's will raise the cost of funds at banks and thrifts, possibly causing profitability to decline. This is because most of the funds being deposited in these accounts are coming from the banks' and thrifts' own deposit bases. Although the long-run effect of these accounts on the profitability of banks and thrifts is as yet undetermined, the greater stability in deposits that comes from the ability to pay market-related rates should allow both banks and thrifts to shift more of their assets into longer term, higher yielding loans.

Broader asset powers for thrifts should help narrow the divergence in bank and thrift profitability that arises when interest rates shift unexpectedly. Thrifts, however, will now have to determine their own area of lending expertise and identify the markets in which they want to participate. This will be a break from the past, when their markets were determined by legislation. Competition between banks and thrifts will certainly increase, but the allocation of credit in the economy will be more efficient.

Conclusion

Depository institutions have faced numerous challenges in the past few years, including unfavorable macroeconomic trends, a monetary policy geared to the reduction of inflation, and a definitive move toward the deregulation of all depository institutions. Despite the challenges, commercial banks have fared well compared with other depository institutions. Part of the success of banks has been due to their ability to profit from a rise in business loan demand.

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[5] The following shows the average annual rate of return on prime rate loans, GNMA's, and 3-month Eurodeposits.

	1978	1979	1980	1981	1982
Prime	9.06	12.67	15.27	18.87	14.86
GNMA's	8.98	10.22	12.55	15.29	14.68
3-month Eurodeposits	8.78	11.96	14.00	16.79	13.12

Source: Federal Reserve Board *Annual Statistical Digest.*

Lending to business was an avenue of growth open to them when consumer loan demand was declining. Under previous regulation, this avenue was not open to thrifts. Whether the banking industry continues to outperform the thrift industry will depend on how each responds to the challenges and opportunities brought by further deregulation.