Who Opened Federal Reserve Accounts After the 1980 Monetary Control Act?

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Abstract

Recent debates about Federal Reserve accounts have focused on interpreting the provisions of the 1980 Monetary Control Act (MCA) which expanded account access to 35,000 additional depository institutions. However, these debates have not had the benefit of an empirical foundation on historic account take-up, which we provide here. We find that opening of accounts after 1980 was gradual and concentrated among the largest institutions. These findings are consistent with the expectations of contemporaries that the MCA was not expected or intended to displace the system of correspondent banking that served smaller institutions.

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The views expressed are those of the authors, and they do not necessarily reflect the views of any other people or institutions in the Federal Reserve System. Questions of statutory interpretation are beyond the scope of this economic and historical analysis.

Introduction

Depository institutions use accounts at Federal Reserve Banks (known as "master accounts" today) as a place to store cash reserves, a means to settle payments, and as a way to access the Federal Reserve's discount window. A landmark in the history of Federal Reserve accounts is the 1980 Monetary Control Act (MCA). Before the MCA, access to Federal Reserve accounts was largely limited to commercial banks that were members of the Federal Reserve System. After the MCA, access was expanded to include all other types of depository institutions, including nonmember banks, thrifts, and credit unions. This paper analyzes how many newly eligible institutions opened accounts at the Fed after this expansion of access in 1980.[2]

This topic is motivated by the recent debates about access to Federal Reserve accounts. Over the past decade, Federal Reserve Banks denied applications of a small number of institutions to open accounts, leading to debate and litigation that has often centered on legal questions about the Federal Reserve Banks' authority to deny accounts under the Federal Reserve Act as amended by the MCA. Here, we pivot away from questions of statutory interpretation and instead focus on the empirical foundation for this debate. Specifically, how many newly eligible institutions actually opened accounts at the Fed after 1980? Understanding these historical patterns provides context for the MCA's intent and impact. We fill in this missing empirical foundation using administrative data from 1980 to 2025.

Our main finding is that account openings after 1980 were gradual: for example, even twelve years later in 1992, only 7 percent of credit unions, 48 percent of thrifts, and 53 percent of nonmember banks had opened accounts. The remaining depository institutions continued to use the services of correspondent banks or similar institutions such as corporate credit unions. We briefly characterize the types of institutions that tended to open accounts. These institutions were more likely to be larger (with more administrative capacity), to provide correspondent services to other institutions, to be located closer to Fed facilities, and, if nonmember banks, to be former members of the Federal Reserve

[2] Federal Reserve accounts have been known as "master" accounts since the late 1990s, when the Federal Reserve reformed the administration of accounts in light of widespread interstate branching. As large banks began operating across multiple Federal Reserve districts, their accounts were consolidated into single master accounts. We avoid using the master account term in an anachronistic way when analyzing the pre-1998 period.

system. We also document that after opening accounts, depository institutions continued to keep the large majority of their cash reserves at correspondents.

These findings provide perspective on the current master account debates. For example, how essential did contemporaries in 1980 believe a Federal Reserve account was for a depository institution? How did the Fed view the expanded access provisions of the MCA? Our results indicate that the MCA was implemented under a common assumption that the correspondent banking system would continue to widely serve many depository institutions. There was little expectation, given prevailing trends, that take-up of Fed accounts would displace the correspondent system. The MCA aimed at solving two problems, however: (1) to stop the drain of deposits from the Fed that undermined its ability to conduct monetary policy, and (2) to resolve questions about access to the Fed's payment services. Because these problems were interrelated, the MCA sought to solve both with a package of reforms. Universal reserve requirements eliminated the opportunity cost of membership, while opening up account access and payment services rationalized the Fed's relationship to other depository institutions.

Recent debates about master accounts

Over the past decade, access to Federal Reserve master accounts has risen in salience as a policy issue. Much discussion has focused on a small number of decisions by Federal Reserve Banks to deny or revoke master accounts to certain depository institutions. In these decisions, Federal Reserve Banks have cited characteristics of those depository institutions that they judged would create undue risks for the Federal Reserve System, the payments system, and the overall economy. These characteristics have included lack of deposit insurance, novel business models and banking charter types, and exposure to illegal or illicit activities.[3]

Some of those depository institutions have brought lawsuits against the Federal Reserve System, challenging the decisions to deny or revoke their accounts.[4] One fundamental question which has arisen during this litigation is whether Federal Reserve Banks have discretion over master accounts under the Federal Reserve Act as amended by

[3] See, e.g., Federal Reserve Bank of New York (2023); Federal Reserve Bank of Kansas City (2023); Federal Reserve Bank of Kansas City (2015).

[4] Hill (2023a), pp. 470-500, provides an overview of several of these legal cases, including those brought by The Fourth Corner Credit Union, TNB USA, and Custodia Bank.

the MCA. The federal appellate courts have ruled that the Federal Reserve Banks do have such discretion.[5]

These cases have centered on two sections in the Federal Reserve Act: section 13 on the powers of the Federal Reserve Banks and section 11A on the pricing of Federal Reserve services by the Board of Governors. On the one hand, section 13(1) of the Federal Reserve Act states that "any Federal reserve bank may receive from any of its member banks, or other depository institutions, ... deposits of current funds."[6] The MCA added "or other depository institutions" here but left intact the original "may receive ... deposits" wording of the Federal Reserve Act as enacted in 1913.[7] On the other hand, the MCA also created a new section 11A of the Federal Reserve Act requiring the Board of Governors to create a schedule of fees for Federal Reserve services to depository institutions. This section also sets out several principles on which the fee schedule must be based, including, in relevant part: "All Federal Reserve bank services covered by the fee schedule shall be available to nonmember depository institutions and such services shall be priced at the same fee schedule applicable to member banks."[8] While some depository institutions have argued that they are legally entitled to master accounts because the MCA added this new provision, the courts thus far have declined to follow this reasoning that the pricing principle in section 11A should override the "may receive ... deposits" discretionary wording in section 13.[9]

While these cases have been pending, the Board of Governors has taken three major steps addressing access to Federal Reserve Bank accounts and services.

First, in August 2022 the Board issued master account guidelines to the Reserve Banks with a tiered review framework calling for federally insured depository institutions to receive a "more streamlined" review and non-federally-insured institutions to receive a "more extensive" review.[10] Noting an "uptick" in inquiries and account requests from novel charter types, these guidelines provided a set of principles "intended to ensure that

[5] See *Banco San Juan Internacional, Inc. v. FRB of N.Y.*, 2026 U.S. App. LEXIS 13818, *32 (2nd Cir. 2026); *Custodia Bank, Inc. v. Fed. Rsrv. Bd. of Governors*, 157 F.4th 1235, 1255 (10th Cir. 2025). At the time of publication of this working paper, an appeal was still pending before the 9th Circuit in *PayServices Bank v. Federal Rsrv. Bank of S.F.*, (docket no. 24-2355, argued Dec. 4, 2024).
[6] 12 USC 342.
[7] Public Law 96-221 (1980).
[8] 12 USC 248a(c)(2), Public Law 96-221 (1980).
[9] See *Banco San Juan Internacional*, *22, *28; *Custodia Bank*, 1253-1254, 1257.
[10] Board of Governors (2022a).

Reserve Banks apply a transparent and consistent set of factors when reviewing requests for accounts and services."[11]

Second, in accordance with an amendment to the Federal Reserve Act enacted in December 2022, the Board published a database to provide the public with quarterly updates on which institutions have or have applied for access to Federal Reserve financial services.[12] While this database provides new information to the public about which institutions have access to Federal Reserve financial services, not every institution listed in the database necessarily has its own master account at a Reserve Bank. The records also include institutions that use "Reserve Bank financial services by settling transactions in the master account of another depository institution."[13]

Third, in December 2025 the Board discussed the possibility of a new type of account known as a "payment account" for eligible institutions to use for clearing and settling payments, and issued a request for information about how such an account should work.[14] The request for information noted that, since the publication of the master account guidelines in 2022, the business models of institutions submitting access requests continued to evolve, as part of a broader evolution in the payments landscape.[15] It also disclosed that "many eligible uninsured institutions have requested or expressed interest in requesting a master account and have expressed concern about the length of time that Reserve Banks take to review their access requests and the likelihood of denial."[16] The Board said it designed its proposed payment account to allow for streamlined review while also limiting risks to the Federal Reserve Banks and the payment system with terms including: access only to payment services that prevent the accountholder from incurring an overdraft (i.e., negative balance in its account), no access to discount window loans, an overnight balance limit, and no interest paid by the Federal Reserve on balances.[17] After collecting public comments on the proposal, in May 2026 the Board issued a slightly revised proposal and additional request for comments.[18]

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[11] Board of Governors (2022b), p. 51,099.
[12] National Defense Authorization Act for Fiscal Year 2023, Public Law 117-263 (2022).
[13] Board of Governors (2023).
[14] Board of Governors (2025a).
[15] Board of Governors (2025b), 60096-97.
[16] Board of Governors (2025b), 60097.
[17] Board of Governors (2025b), 60097-98.
[18] Board of Governors (2026).

Overall, the literature, policy actions, and judicial decisions over the past decade have focused on depository institutions that might be described as at the periphery of the financial system, insofar as they have novel banking charter types and business models, lack deposit insurance, or focus on activities like cannabis businesses that are illegal under federal law. In the process, jurists and litigants' experts have looked back and put the text of the MCA and its legislative history under a magnifying glass to determine whether these relatively peripheral institutions should be legally entitled to master accounts.[19] Articles in academic law journals have focused on these kinds of case studies and recommended reforms to the master account process based on this relatively narrow window of experience.[20]

In contrast, our focus in this article is not on statutory interpretation of the MCA. Nor is our focus on uninsured depository institutions with novel business models and charters at the periphery of the financial system. Instead, we examine the economic decisions of typical depository institutions opening master accounts after the enactment of the MCA in 1980.

The Monetary Control Act of 1980

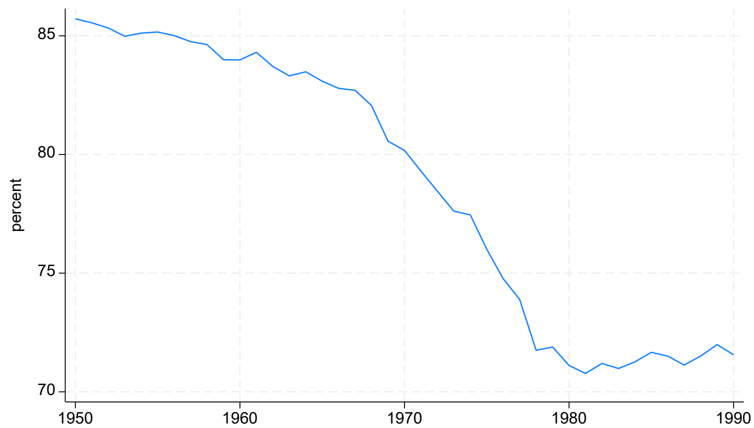
The Membership Problem

The main impetus for the Monetary Control Act of 1980 was the Federal Reserve's concern about declining commercial bank membership in the Federal Reserve System. Members were leaving because the costs of membership had grown, particularly the requirement that member banks hold reserves at Federal Reserve Banks that were non-interest-bearing at the time. As interest rates began to rise in the late 1960s, the opportunity cost of holding reserves at the Fed grew and for some members outweighed the benefits of membership, which included access to the Fed's discount window and the use of free payment services such as wire transfers or check processing. Many member banks left the system, evidently concluding that they could adequately secure their liquidity and payment needs through correspondent banks rather than the Fed.

[19] See, e.g., Conti-Brown (2023) and Ricks (2023).
[20] Hill (2023a, 2023b) and Judge & Menand (2025).

Figure 1

Member banks deposits as a percent of all commercial bank deposits, 1950 to 1990



Source: Federal Reserve Bulletin (multiple issues)

For example, one bank official described a 1980 meeting with a New York Fed official while considering dropping membership: the Fed official "was very fair. He said, check clearing could be done by a correspondent bank; that on delivery of currency we could hire a private carrier or get a correspondent to do that; other things we do for you can, in most cases, be done by a correspondent bank. The one thing which he said we couldn't do was borrow money at the discount window." The bank official added "Of course, it's also possible to use a correspondent for that, and we did set up lines of credit with several correspondents."[21]

As a result, by the end of the 1970s, the share of commercial bank deposits held by members had declined to about 72 percent, down from about 85 percent in the 1950s (Figure 1). This trend showed no sign of stopping. For example, in March 1979 the *American Banker* reported that "Up to 300 Banks Seen Possibly Leaving the Fed if Congress Does Not Act This Year."[22] Federal Reserve officials were quite concerned that the continued exit of members would degrade the Federal Reserve's ability to conduct monetary policy, since the Fed's changes to the supply of reserves would affect a declining

[21] Sayles and Nadler (1980).
[22] Conover (1979).

portion of the banking system. Moreover, the lack of direct access to the discount window for nonmembers raised financial stability concerns.

The Fed's proposed solution

Initially, the Fed's proposed solution was to pay interest on reserves. This approach likely had two motivations: it directly addressed the main cost of membership, and Fed officials initially believed they had the legal power to pay interest on reserves without additional legislation. In 1977, Board staff released a study exploring how the payment of interest on reserves could address the membership problem. This proposal paired interest on reserves with the pricing of payment services to defray the cost.[23] After members of Congress expressed the opinion that the Fed should seek legislative approval, in 1978 the Board sent a proposed package of reforms to Congress. Beyond the payment of interest on reserves and the pricing of payment services, this proposal also included reforms to reserve requirements that reduced those requirements and extended them to nonmember banks, thrifts, and credit unions.[24]

The Fed's proposal eventually became the core of the Monetary Control Act of 1980. However, Congress ultimately omitted the payment of interest on reserves, judging that universal reserve requirements alone would be sufficient to stop the membership drain. The MCA's core provisions as enacted were:

1) Universal reserve requirements for all depository institutions;
2) Reduction and simplification of reserve requirements;
3) Requirement that the Fed charge for payment services; and
4) Extension of eligibility for payment services and the discount window to all depository institutions.[25]

The Monetary Control Act therefore significantly altered the Fed's relationship with depository institutions. Before the MCA, only about 5,400 member commercial banks had Fed accounts, while 9,000 nonmember commercial banks, 21,000 credit unions, and 5,000 thrifts (savings banks or savings and loans) relied on correspondent banks. The MCA expanded eligibility for Fed accounts and services to all 35,000 of these additional

[23] Board of Governors (1977).
[24] Board of Governors (1978).
[25] The MCA passed as a package of legislation known as the Depository Institutions Deregulation and Monetary Control Act. The MCA, which was Title I of this legislation, is our focus in this working paper. Title II focused on the phasing out of caps on interest rates that depository institutions could offer on certain deposits.

institutions. Importantly, though, these institutions could decline this option and continue to rely on correspondents for reserves and receive payment services rather than the Fed.

Rationalizing Fed payment services

While the membership problem was the main impetus for the MCA, the act also addressed questions about access to Federal Reserve payment services by nonmember depository institutions that had been percolating during the 1970s. We review the history of access for nonmember banks first, and then for other depository institutions.

First, nonmember banks had gained limited access to check processing services before 1980. In an effort to speed up check processing and to handle growing check volumes, the Federal Reserve constructed regional check processing centers (RCPCs) beginning in 1972. To achieve economies of scale and maximize processing speed, the Fed opened RCPC access to nonmember commercial banks, not just member banks. The limitation on access was that nonmember banks could only use RCPCs for checks drawn on local banks, consistent with the focus of RCPCs on providing overnight clearing of local checks.[26] As of 1978, about 9 percent of checks received by the Fed were from nonmember banks through this channel.[27]

The RCPCs were not the first time the Fed had voluntarily opened up access to nonmembers for the purpose of improving the nation's payment system: since 1917 the Federal Reserve had offered "clearing accounts" to nonmember banks and trust companies to facilitate the collection and clearing of checks. At the time, the policy goal was to ensure collection of checks at par value, rather than at a discount.[28] The Board obtained an amendment to the Federal Reserve Act allowing accounts for nonmembers as a carrot to induce par collection.[29] These nonmember clearing accounts were never quantitatively important and the policy issue was largely moot by the late 1970s.[30]

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[26] Federal Reserve Bank of New York (1972), pp. 6-7.
[27] Federal Reserve Bank of Atlanta (1981), p. 102.
[28] Duprey & Nelson (1986), pp. 25-27; Hill (2023a), p. 461.
[29] First, the nonmember account holders must agree to remit to the Reserve Banks at par for checks drawn upon themselves. Second, they would agree to maintain a balance in the account sufficient to cover checks cleared through the account. Board of Governors (1916), p. 12.
[30] By 1925, only 158 nonmembers reportedly held such clearing accounts. By 1935, there were 301 nonmembers with clearing accounts. From 1942 through 1976, the number of nonmember clearing banks declined from about 200 to under ten, based on available statistical releases published by the Board. Parker and Steiner (1926), pp. 606-607; Board of Governors (1935); authors' calculations based on multiple releases from 1942 to 1976 of the Board of Governors' G.4 State Member Banks of the Federal Reserve System and Nonmember Banks that Maintain Clearing Accounts.

However, these accounts represent a longstanding precedent in which the Fed chose to open up payment services access to achieve a policy objective.

Second, thrifts and credit unions had also sought access to Fed payment services in the 1970s. [31] Thrifts in particular had begun providing checking accounts to their customers in the 1970s (nominally known as NOW accounts, or negotiable order of withdrawal), relying on correspondents for processing. Similarly, thrifts sought access to the Fed and banking industry's new automated clearing house (ACH) networks that had begun operating across the country as early as 1972, so that thrift customers could pay bills out of their savings accounts. While ACH access was initially limited to banks, it was opened up to thrifts and credit unions over 1976 and 1977, in part due to the Department of Justice filing an antitrust lawsuit against one of the ACH associations.[32]

The opening up of payment access required rationalization to the terms of Fed membership. As the New York Fed observed: "Concern over the membership problem has also been sharpened by pressures to provide nonmember banks and thrift institutions with direct access to certain Federal Reserve services.... Obviously, to the extent that Federal Reserve services are made available to nonmembers at low or no cost and without the necessity of maintaining reserve balances, the attractiveness of Federal Reserve membership will be further diminished."[33]

The MCA therefore addressed both the costs and benefits of membership. The Fed could not equitably extend reserve requirements to all depository institutions while continuing to offer payment services only to members for free. Therefore, the Fed proposed opening up payment services to all types of institutions, and the MCA required them to be priced at cost. In this way, the rationalization of payment services was tightly linked to the membership problem.

The historical record contains limited discussion of how many newly eligible depository institutions would open Fed accounts. The debate tended to focus on monetary control and the pricing of payment services, without much explicit discussion of account take-up. Indeed, as we noted in the introduction, the question of account access was relatively low-profile until recent years. As a result, data on account opening patterns

[31] On access to ACH, see the Federal Reserve Bulletin, February 1976, pp. 80-81.
[32] See Federal Reserve Bulletin, February 1976, p. 147, and Department of Justice (1977). Despite the 1976 guidelines that opened up ACH access, the DOJ sued in 1977 because not all ACH networks across the country had expanded access.
[33] Federal Reserve Bank of New York (1976), p. 32.

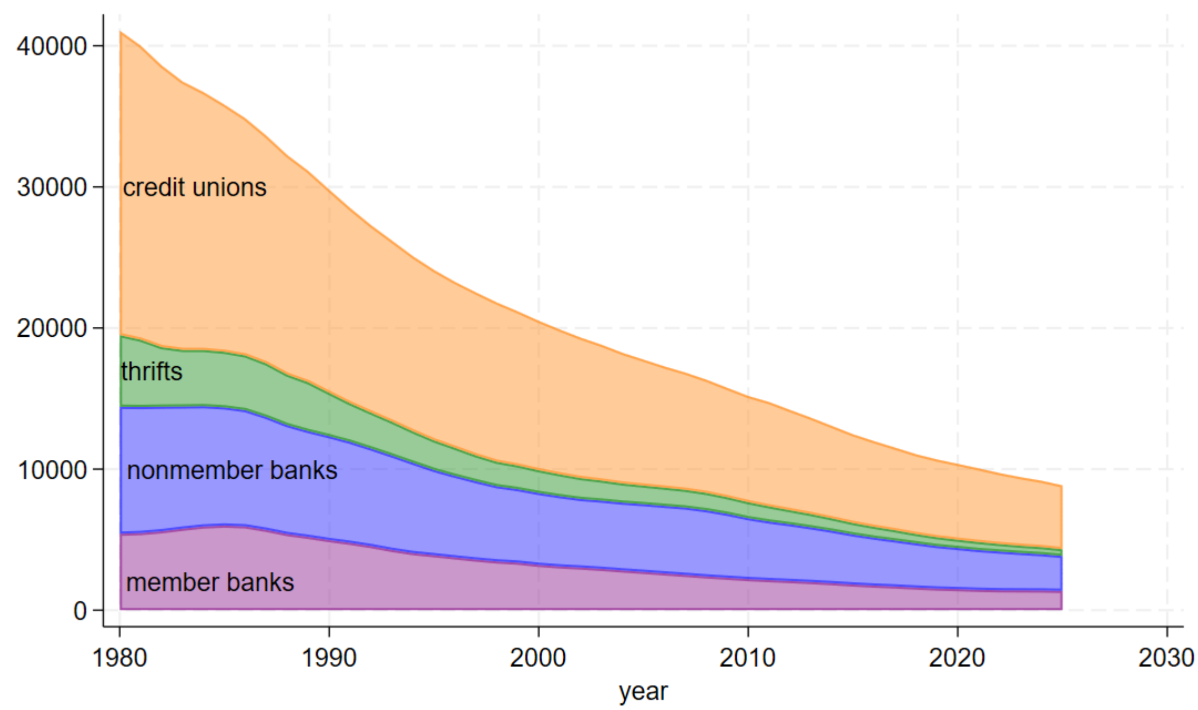
provide our best guide on how contemporary depository institutions viewed the benefits of establishing Fed accounts.

Estimating the opening of Fed accounts, 1980 to 2025

After 1980, about 35,000 additional depository institutions had to decide whether they wanted to open up accounts with Federal Reserve Banks. Figure 2 shows the breakdown of these kinds of depository institutions. In 1980, there were about 9,000 nonmember banks, 5,000 thrifts (savings and loans and savings banks), and 21,500 credit unions, in addition to the 5,500 member banks that already had accounts. Over time, these numbers have decreased significantly. The financial services industry has consolidated, thrift failures were widespread during the 1980s, and failures affected all kinds of depository institutions during the 2007-2009 financial crisis. Today, there are about 2,500 nonmember banks, only 500 thrifts, and about 4,500 credit unions.

Figure 2

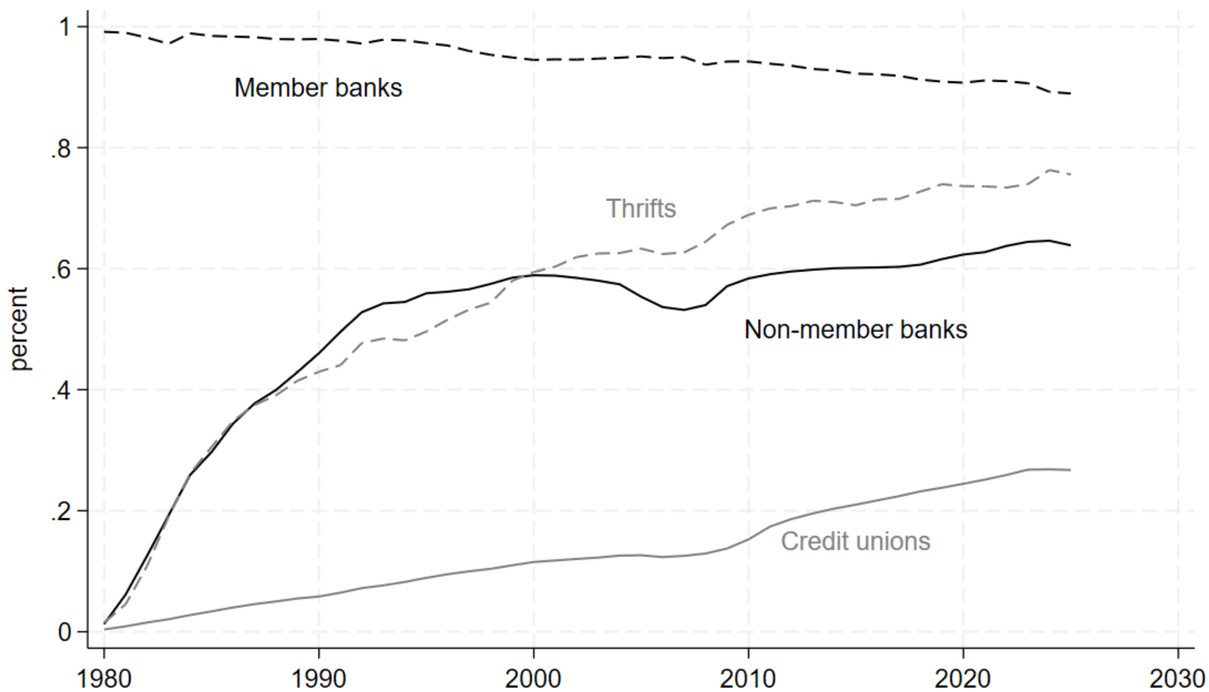
Number of depository institutions, by type



Source: Federal Reserve National Information Center

Figure 3

Percent of different kinds of depository institutions that established accounts at Federal Reserve Banks, 1980 to 2025



Source: Federal Reserve FR 2900 data, call reports, Federal Reserve National Information Center, and author estimates, as described in the text.

Figure 3 graphs our estimates of what percent of each category of depository institution established accounts with the Federal Reserve beginning in 1980. To construct these estimates, we use a few different data sources.

- Starting in 1992, we use an administrative data set, known as the National Information Center, or NIC, data. The confidential version of these data contain a flag for whether each institution set up a Federal Reserve account.

- Before 1992, we primarily rely on confidential administrative data on the balances that depository institutions held with the Fed. Our measure is whether an institution had a nonzero balance. This measure is slightly different than the NIC measure of if they established an account; however, we find that very few institutions established accounts but held zero balances. A limitation of these data is that they only include institutions above a minimum deposit threshold. In 1980, for example, the data contain 75 percent of thrifts, 53 percent of nonmember banks, but only 3 percent of credit unions. We linearly interpolate the take-up for smaller institutions, starting at zero in 1980 and ending at the 1992 data. This interpolation is most challenging for credit unions given the low coverage of those institutions; however, quantitatively the uncertainty is not important since by 1992 only 4 percent of the credit unions not covered by the reserves data had established accounts.

- Before 1992, we also use public call report data on nonmember commercial banks from 1980 to 1983, the only pre-1992 window in which all nonmember banks were required to report their reserve balances at the Fed.

We estimate that account openings by credit unions have been relatively small, reaching only 7 percent by 1992 and 27 percent in 2025. Nonmember banks and thrifts have had higher account openings, with fairly rapid growth in the 1980s to reach roughly 50 percent in 1992, followed by a plateau. In comparison, nearly 100 percent of member banks already had balances at the Federal Reserve by 1980, since member banks were required to hold their reserves with Federal Reserve Banks.

Therefore, large numbers of depository institutions have chosen not to establish accounts at the Federal Reserve. We unpack these decisions in the rest of this article.

Understanding the choice to open a Fed account

Size and correspondent status

The low take-up of Fed accounts by credit unions is a useful way of illustrating the key factors shaping this decision. At first glance, the low take-up would seem to be inconsistent with the keen interest that credit union officials expressed in establishing direct access to Federal Reserve payment services in the late 1970s and early 1980s. For example, before 1980 some credit unions had purchased or established commercial banks under cooperative ownership structures for the purpose of accessing Fed services. With the passage of the MCA, credit union officials welcomed the easier and direct route to access. In 1983, an official from the U.S. Central Credit Union testified before Congress about the benefits of direct access, including that the cost of wire transfers fell to $3.50 per transfer compared to $10-$25 per transfer charged by correspondent banks.[34]

Take-up was low among credit unions because in practice credit unions tapped Fed services through their corporate credit unions, which have a similar role to correspondent banks. U.S. Central Credit Union was an example of a corporate credit union, though a unique one that served other corporate credit unions, which were usually regionally based. In the data, we find that corporate credit unions were quite fast to establish Fed accounts. Using the pre-1992 administrative data, we find that about 63 percent of corporate credit unions in that data held balances at the Fed by the end of 1981. This figure grew to 75 percent by the end of 1982 and 90 percent by the end of 1983. In contrast, the vast majority of other credit unions were quite small, relying on corporate credit unions for payment services rather than establishing access to the Fed themselves.

This discussion of credit unions raises two key factors that shaped account take-up: whether a depository institution acted as a correspondent for other institutions, and its overall size. In Table 2, we show that across all types of depository institutions, smaller institutions were much less likely to establish accounts. In 1992, for example, the take-up rate among large institutions (with more than $300 million in assets) was 80-90 percent, compared to much lower take-up for small institutions (with less than $50 million in assets). Size reflects the administrative capacity and economies of scale of these institutions to deal with the Fed directly (Segala 1978, Gilbert 1977). Of course, size is correlated with other features as well, including whether an institution provided correspondent services. We can construct a rough measure of whether an institution was a correspondent from call report data on nonmember commercial banks, based on whether they held deposits for other commercial banks. In 1983, for example, 30 percent of such banks had established Fed accounts, compared to 15 percent of other nonmember banks.

[34] As an example of credit unions owning a commercial bank, see a discussion of a case in Wisconsin in the Federal Reserve Bulletin, September 1979, p. 773. On the U.S. Central Credit Union testimony, see testimony of Jim Kudlinski in U.S. Congress (1983).

Table 1

Account status by size, 1992

Size	Type	Number	Percent with Fed accounts
Small (<$50m)	CU	11,933	2.7
	Nonmember Bank	3,781	35.6
	Thrift	533	18.8
Medium ($50 to $300m)	CU	964	51.1
	Nonmember Bank	2,751	70.4
	Thrift	1,008	37.4
Large (>$300m)	CU	141	78.7
	Nonmember Bank	376	91.2
	Thrift	423	81.1

Source: Call reports; National Information Center.

Reserve requirements, former membership, and proximity to the Fed

A number of other factors also likely affected take-up. We briefly mention a few and provide simple statistics but do not attempt a comprehensive assessment of these factors. We focus on comparisons as of the end of 1983, the last date at which we have universal data on all nonmember banks' Fed balances through the call report.

- Reserve requirements: Since reserve requirements for nonmember banks differed across states before 1980, commercial banks in low reserve requirement states had a larger incentive to avoid membership before 1980. After 1980, this incentive to avoid membership was removed. Using a list of states with relatively low reserve requirements as determined by Gilbert and Peterson (1974), we find that 31 percent of nonmember banks in such states held Fed balances by the end of 1983, compared to 17 percent in other states. This result could reflect pent-up demand from nonmembers for the full array of Fed payment services in the lower reserve states, although they did have access to limited purpose clearing accounts before 1980, as we discussed above.
- Former membership: Commercial banks that were former members (having dropped out in the 1970s) likely faced low barriers to re-establishing accounts, since they were already familiar with Federal Reserve procedures. In 1983, we find that 35 percent of former members re-established accounts, compared to 18

percent of other nonmember banks. These banks likely left the Fed because of the opportunity costs of membership (non-interest bearing reserves), not because of complaints about the quality of payment services, and so were more likely to return to the Fed to receive those payment services afterward (even though the Fed started charging for them after 1980).

- Proximity to Fed facilities: Banks closer to Federal Reserve check processing locations likely found it easier to quickly establish direct access. We find that 32 percent of nonmember banks within 50 miles of a Fed facility opened Fed accounts by the end of 1983, compared to 14 percent of other nonmember banks.

Breadth, pricing, and quality of services

Even after opening Fed accounts, depository institutions continued to hold substantial correspondent balances. At the end of 1983, among nonmember banks with balances at the Fed, the median institution held balances at the Fed equal to about 13 percent of their demand balances at commercial banks (Source: call report data). These institutions continued to hold substantial correspondent balances because the Fed did not offer the full suite of correspondent services. While payment services (check processing, ACH, cash, and wire transfers) historically were the cornerstone of correspondent relationships, correspondents also offered securities services (safekeeping, clearance, coupon collection, redemption), the opportunity to purchase partial shares of a large corporate loans (i.e., loan participations), cash management (including borrowing or lending in the Fed funds market), data processing, and general consulting.[35] The Fed offered payment services and limited securities services (for Treasury securities) but not the others.[36]

Pricing of services naturally affected competition as well. The MCA required the Fed to begin charging for payment services in an amount sufficient to recover its costs. However, implementing this mandate was complicated and much of the historic discussions about competition focused on these pricing details rather than account access. For example, Federal Reserve Banks needed to calculate what share of their physical infrastructure costs to allocate to payment services. The Fed also calculated a

[35] For example, Greenwich Research (1985, p. 14) called check processing the "linchpin operations service in most correspondent relationships."

[36] A final service was the discount window. The MCA opened up discount window access to all depository institutions; if an institution did not open up an account with the Fed, that institution would need to process a discount window loan through a correspondent.

private sector adjustment factor (PSAF), marking up their costs to take into account that private competitors have additional expenses such as income taxes.

Finally, competition was also affected by the quality of correspondent services, such as the speed of payment processing, the extent of errors, and the responsiveness of the Fed or the correspondent.

Contemporary discussion

In the immediate aftermath of the MCA's passage in 1980, contemporaries believed that the statute would stop the drain of Fed account balances, but it was unclear how many new depository institutions would transfer their correspondent business to the Fed. An article in the *ABA Banking Journal* stated in October 1980 that "it is by no means certain that the Fed is going to generate large volumes of business from small and medium-sized depositories for its services" (Rideout 1980). Similarly, an article in *Savings Bank Journal* in December 1980 (p. 9) surveyed the largest savings banks and reported that thus far "no savings bank had opened a direct account with the Fed." This article noted that reserve requirements were to be phased in over an eight year period, and at that point in 1980 savings banks had enough vault cash to satisfy requirements. What this early window shows is that most institutions were not busting down the Fed's door in 1980, a broad indication that it was not obvious at the time how much take-up the Fed would get for its accounts and services.

Pricing was the main subject of comment and debate in the early 1980s. The Fed proposed a pricing schedule in August 1980 and took comments on that proposal before finalizing it August 1981, at which point it began charging for the services. By 1983, the competitive landscape had become clearer. Small respondent banks generally enjoyed the new competition from the Fed. For example, one official from a small bank wrote a comment letter in 1982 that "I feel that small banks, in general, have much to gain as the Fed develops its own competitive correspondent services."[37] Another official from a small bank, speaking on behalf of the Independent Bankers Association, said at Congressional hearings in 1983 that "the [Fed] System for too many years had been oriented toward serving the needs of the very large banks in this country" and that they welcomed the Fed's competition because "we still see abuses being promulgated by the private correspondent

[37] United States Congress (1983), p. 100.

banks."[38] The complaints of smaller banks tended to focus on the prices that correspondents charged for their services.

On the other end of the market, some large banks began to protest about actions the Fed had taken to bolster its competitive position. For example, Lawrence Russell—an official at the First National Bank of Chicago who testified before Congress as a representative of the National Payment Systems Coalition, a group of large banks—said that "we believe that it will become clear that the Federal Reserve, if unchecked by the Congress, will lead to the unintended nationalization of the correspondent banking business."[39]

Litigation emerged. The Fed was sued by Jet Courier Services, which provided air transportation for private correspondents to facilitate check clearing, complaining that the Fed's competition undermined the economies of scale needed to operate a fleet of jets for banks. The Fed was also sued by the Bank Stationers Association, which protested that the Fed's automated clearing house services were harming its business of providing paper checks to banks. These critics focused in particular on the Fed's cost and PSAF calculations and the Fed's decisions about the availability of check funds.[40] Ultimately, the federal district courts dismissed both of these cases because of the plaintiffs' lack of standing, and those judgments were affirmed on appeal.[41]

The Fed's pricing of check clearing services was the subject of particular scrutiny, as evidenced by these lawsuits and multiple reports by the U.S. General Accounting Office (GAO, now known as the Government Accountability Office) to Congress. However, by 1984, the GAO was able to report to Congress that total check clearing revenues were covering all costs and the PSAF, though the GAO official acknowledged that the MCA had "placed the Federal Reserve in the unique and difficult position of competing directly … with many of the same institutions that it regulates."[42] A Fed official testifying at the same hearing also reflected on how the transition to pricing Fed services had been "more difficult and complex—and more contentious" than most had anticipated when the MCA was enacted. Yet he also stressed that the Fed's "operational presence in the payments mechanism along the broad lines that have prevailed for the past 70 years" should be

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[38] United States Congress (1983), p. 64.
[39] United States Congress (1983), p. 10.
[40] The Jet Courier Services lawsuit is described in Rutter (1983).
[41] *See Jet Courier Services, Inc. v. Federal Reserve Bank*, 713 F.2d 1221 (6th Cir. 1983); *Bank Stationers Asso. v. Board of Governors of Federal Reserve System*, 704 F.2d 1233 (11th Cir. 1983).
[42] Anderson (1984).

preserved and that the "side-by-side presence of the Federal Reserve and the private banking system in the operation of the payments mechanism" had been a key factor contributing to the success of the nation's payment system to that date.[43]

Overall, pricing dominated the public discussion of the MCA's implementation in the early 1980s.

Conclusion

We have considered the current policy debate about the provisions of the 1980 Monetary Control Act that opened up access to Federal Reserve accounts. Over the past decade, much of this debate has focused on access by depository institutions with novel charters, without deposit insurance, or with other unusual features. We re-approach this debate from a different angle. We provide a missing empirical foundation for this debate by establishing the extent to which the typical depository institution opened up accounts with the Federal Reserve after 1980. We find take-up by newly eligible nonmember banks, thrifts, and credit unions was gradual. The Monetary Control Act succeeded in stopping the drain of institutions pulling funds from Federal Reserve Banks, but it did not (and was not expected to) displace the correspondent system.

[43] Corrigan (1984).

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