

THE BEACH BANK OF VERO BEACH  
VERO BEACH, FLORIDA 32960

April 10, 1981

Honorable Bill McCollum  
House of Representatives  
Washington, D.C. 20515

Re: Checking Privileges Money Market Funds

Dear Mr. McCollum:

You were kind enough to respond to my letter in support of President Regan's economic program. I am probably pushing my luck a bit but I thought I'd try again on the subject of Money Market Funds.

I have just received the enclosed letter from Mr. Arthur Zeikel, President of Merrill Lynch Asset Management, Inc., whereby he encourages share holders to contact their Congressional delegates in support of the funds. Concurrently The Wall Street Journal (Thursday, April 9, 1981) indirectly quoted you as "(not) seeing any benefit from the proposal to eliminate the funds ability to allow check writing privileges".

May I suggest you review your position regarding checking privileges. At this time there is not distinction being made between Money Market Funds in general and Merrill Lynch's Cash Management Account (CMA). The Cash Management Account (CMA) of Merrill Lynch is, however, in the long run a far greater threat to the banking and savings and loan industries than Ready Assets or any other money market fund in existence at this time. Unlimited checking privileges, which are unique to the CMA account, if allowed to continue or for that matter spread to other brokerage concerns will ultimately destroy the third party money transfer system currently administered through the Federal Reserve. It is common knowledge that E.F. Hutton, Dean Witter Reynolds and etc. are about to introduce similar unlimited checking privileges in conjunction with their money market funds.

Please consider:

The savings and loan industry has just achieved the right to issue checks after six years of experimentation in the Eastern Sea Board States whereas Merrill Lynch simply usurped the privilege.

The savings and loans as well as commercial banks are required to properly reserve for the checking account system that they offer whereas no such reserves are required of the brokerage houses.

If brokerage houses become de facto banks, and they will if given unlimited checking privileges, the Federal Reserve will certainly lose its ability to control the nations money supply. With money market funds totaling \$115,000,000.00 and continually expanding there will be a continual lessening of their ability to regulate monetary policy.

Unlimited checking removes the contention by the brokerage houses that their funds represent investments rather than deposits. Who's kidding who? The funds become deposits when you have individuals cashing checks for their daily needs. Despite any statistics that may be quoted by Merrill Lynch as to the frequency with which their customers utilize the checking privileges of the CMA account, it is becoming increasingly popular as a daily convenient checking account rather than an investment transfer system.

Mr. Zeikel's statement that the money market funds make an important contribution to meeting America's capital needs by virtue of the fact that these funds flow through the banking system into our entire economy and every section of the country is at best misleading by what it does not say. The only way that funds are flowing is out of some 13,900 banks plus the savings and loan institutions to the money market centers where the money market funds are reinvesting in those banks which have total assets of at least \$1,000,000,000.00. (Please see enclosed prospectus page 7) This means that over 13,900 banks are supporting the likes of Citibank, Chase, Harris and etc. This does not help the local merchant, home borrower or the various other needs of smaller communities and cities. The brokerage houses who now have these funds simply do not reinvest them in the community from which they come.

I would like to suggest the following minimal course of action:

Allow the banking industry sufficient latitude to offer a money market type instrutment in addition to those accounts which are presently authorized.

Continue the gradual deregulation of the industry as directed by the Deregulation Committee in order to permit the industry to readjust their fix rate loan portfolios which were created by in large as a result of government regulations in the first place.

Either remove or severely restrict the checking privilege-not the investment features-of the money market funds so the banking industry is

not unduly handicapped in competing with a nonregulated industry which operates independently of the Federal Reserve System.

Permit the money market funds to establish some type of "pool" system whereby the smaller banks through out the country can participate in the reinvestment of the money market funds.

Thank you for your consideration.

Yours very truly,

John K. Moore  
Chairman of the Board  
And Chief Executive Officer

JKM:jm  
Enclosure