

Titles in Banking Legislation

OUTLINE OF SPEECH TO RESERVE CITY BANKERS
PHOENIX, ARIZONA

April 2, 1977

I. Legislative matters have become an increasingly important aspect of our work at the Federal Reserve in recent years. I want to discuss today ~~not only~~ some of the current legislative issues with which we have been concerned, ~~but also~~ ^{but also the ~~relationship~~ ~~between~~ ~~the~~ ~~Federal~~ ~~Reserve~~ ~~and~~ ~~the~~ ~~Congress~~ ~~in~~ ~~the~~ ~~past~~ ~~few~~ ~~years~~ ~~and~~ ~~what~~ ~~I~~ ~~see~~ ~~as~~ ~~an~~ ~~emerging~~ ~~new~~ ~~trend~~ ~~in~~ ~~the~~ ~~relationship~~ ~~between~~ ~~the~~ ~~Federal~~ ~~Reserve~~ ~~and~~ ~~the~~ ~~Congress~~.} what I see as an emerging new trend in the relationship between the Federal Reserve and the Congress.

A. First let me give you some facts to show how our legislative work has expanded:

1. In 1960 the Chairman of the Federal Reserve testified on four occasions before three Congressional committees, and one other Board member testified once. (Total: 5 occasions; 3 different committees)
2. In 1961, the Chairman testified three times before two committees, and no other Board members testified at all.
3. In 1975, the Chairman testified 18 times before 8 committees, and other Board members testified 26 times before 9 committees. (Total: 44 occasions, 9 different committees)

Members
Committees
4 3

3 2

on *by*
44 occasions, 9 different committees
1

4. In 1976, the Chairman testified 14 times before 6 committees and other Board members testified 25 times before 9 committees. (Total: 39 occasions; 12 different committees)

Thus, we have seen something like a tenfold increase in Congressional appearances in a period of about 15 years.

B. In addition to these formal appearances before the Congress, *Members / Bd - not legislative part / in Board falls a Chairman -* we have frequent informal meetings with Congressional groups

or individual members of Congress. We are ^{also} asked each year to comment upon ^{many} literally hundreds of letters received by members of Congress from their constituents.

In addition, we receive ^{many} dozens of requests from the Banking Committees, and other Committees whose jurisdiction may touch aspects of our work, for reports on proposed legislation, for legislative drafting assistance, for comment upon regulatory issues of current significance, and for the conduct of studies or research. (Might mention recent staff study on payment of interest on demand deposits as an example.)

C. We take this work very seriously, and a great deal of time and attention is devoted to our communications with the Congress. We are fully aware that statements from

the Board, particularly in the area of monetary policy, are watched carefully by the banking industry and financial markets. Furthermore, we are proud of the reputation the Board has for producing careful and thoughtful work, and we want to preserve that reputation.

II. The causes of this increase in our legislative work are quite clear.

(A. Not since the early 1930s has Congress given such extensive consideration to fundamental changes in our banking system and our system of bank regulation. There are a number of reasons for this:)

First 1. During the past decade bankers have become far more innovative than they traditionally have been. This has been reflected in expansion into new areas of financial activity; such as the spread of bank holding companies; the development of new methods of marketing bank services; ventures into various aspects of the securities business (e.g., brokerage activities, private placements). These innovations have stirred up competitors and have led to legislative scrutiny of bank activities.

2. The failure of several very large banks, followed by some unfortunate disclosures of so-called "problem *bank* lists", has aroused legislative concern about the health of the banking system.
3. Growing interest in "consumerism" has given rise to many legislative proposals relating to the credit-granting process.
4. Certain types of financial institutions -- e.g., savings and loan associations -- that have historically had limited powers have sought to expand their powers.
5. Several broad studies of the structure of our financial institutions -- the Commission on Money and Credit, the Hunt Commission, the FINE Study (Financial Institutions in the Nation's Economy) -- have sparked debate on key issues in financial regulation.
6. Changes have occurred in the makeup of the Congress. Both the Senate and House Banking Committees have new chairmen, each of whom has pronounced opinions on *financial* these matters. Congressional staffs have increased, and the number of committees and subcommittees having jurisdiction or some interest in our areas has proliferated.
[Last year we testified before 12 standing committees. (In 1960 we testified before only three.)] Indeed, many of our important appearances in past few years have been before committees other than Banking, such as Government Operations, Budget, and Joint Economic.

giving much more attention to the FR's monetary policy Congress has also been

III. As a result of many of these factors, Congress has been expanding the responsibilities of the Federal Reserve, principally in the areas of consumer protection and bank regulation and supervision.

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A. Starting with the Truth in Lending Act in 1968, Congress has enacted a number of measures intended to deal with consumer grievances in the credit area, and it has imposed upon the Board substantial rulemaking and enforcement responsibilities for such legislation. We now have a separate Division of Consumer Affairs at the Board, and the Board today has rule writing or enforcement authority under:

1. Truth in Lending Act (requires disclosure to borrowers of the costs of credit)
2. Fair Credit Reporting Act (regulates the use of consumer credit reports)
3. Equal Credit Opportunity Act (prohibits discrimination in the granting of credit)
4. Fair Credit Billing Act (establishes requirements for the correction of billing errors)
5. Home Mortgage Disclosure Act (requires public disclosure by lenders of the number and dollar amount of mortgage loans)

- 6. Federal Trade Commission Improvements Act (requires the Board to define unfair and deceptive practices for banks)
- 7. Consumer Leasing Act (requires disclosure similar to those of Truth in Lending in connection with consumer leases of personal property)

B. In 1970, Congress extended the reach of the Bank Holding Company Act to include one bank holding companies. Since 1970, holding company regulation has become an increasingly important part of the Board's work, such that today, [in terms of volume of matters considered by the Board] holding company regulation is one of the largest categories of Board activity.

*Work of Fed to
also responsible
is a result of
A. Amador job
Bank Act changes*

Mr. IV. Let me now turn to a discussion of the legislation that is *current*

of principal interest to the Federal Reserve. It is tempting to say that our number one legislative priority is to be left alone for a while. We already have an ample amount of legislation to deal with.

*But life will not stand still for the
some time. We have transmitted several
and all working in
legislative proposals to Congress during the past few years
some additional proposals. Let me mention the legislation that is
that remain of concern to us, however.*

*FR. Board,
any more
then it
will for
you be.ks.*

A. International Banking Act — The Board continues to support legislation that would adopt the principle of

national treatment with regard to the entry and expansion of foreign banks in the United States. [With the retirement of Congressman Rees from the House of Representatives, however, we lost a forceful advocate for this legislation in the Congress, and] I do not ^{know,} have high hopes for the passage of this legislation this year.

B. Our Bank Supervisory Improvement Bill -- [In January of this year the Board sent to Congress an omnibus draft bill] ^{which} dealing ⁵ with ~~[a number of matters of]~~ bank and bank holding company supervision. Among other things, the bill would:

1. Create a Federal Bank Examination Council (to be comprised of representatives of the Fed, FDIC and Comptroller) to improve and make uniform bank examination ^{and follow-up} procedures.
2. Provide civil (money) penalties for violations of banking laws and regulations.
3. Tighten limits upon insider loans.
4. Improve the Board's ability to deal with failing bank situations, by
 - (a) eliminating a statutory 30-day waiting period to consummate the acquisition of a failing bank by a bank holding company, and

(b) allowing a holding company to acquire a failing bank in another state where the failing bank has assets over \$500 million or is one of the three largest banks in the state.

5. Authorize the Board to compel divestiture of nonbank subsidiaries of bank holding companies where a serious financial risk is presented to a subsidiary bank.

6. Expand grounds for removal of bank officers and directors to include gross negligence in management of bank and continuing disregard for safety and soundness. (Present law requires showing of personal dishonesty).

Senate Banking Committee last year approved many of these proposals, ^{*/} and I think the chances are good that this Congress will enact legislation covering all or many of these matters.

all out interest on bank

C. Nationwide NOW's and Interest on Reserves -- In January

we sent to Congress a staff study on payment of interest on demand deposits. That study showed that our banking system has been evolving in the direction of paying interest on what are in essence demand deposits. For example:

Stop another dollar slip into reserves

1) % of deposit interest pay by

*/ Civil penalties, insider loans, divestiture of nonbank subsidiaries and expanded grounds for removal -- numbers 2, 3, 5 and 6 in the above list.

to deposits com. banks

2) deposit interest on bank by

% Federal Reserve on NOW's bill

- banks and thrifts in the six New England states offer NOW accounts
- banks nationwide may make transfers from savings to checking accounts upon telephone order of customer
- banks may accept savings deposits from state and local governments
- businesses may now hold savings accounts at banks (up to \$150,000 per institution)
- banks and thrifts may make transfers to third parties from customers' savings accounts with preauthorization of customers.

has advised her
We told Congress we would be sending up our recommendations soon based upon the staff study, and we are presently in the process of developing specific legislative proposals.

A principal objective we have is to guide the evolution of *banking system* toward the payment of ~~explicit~~ interest on transactions balances in an orderly and gradual manner. While the full Board has not yet had a chance to consider the details of such a package, it would in my view be likely to include the following elements:

1. depository institutions *across the* nationwide would be permitted to offer NOW accounts to household [↑] (account holders) (but not to businesses or nonprofit organizations)
2. the effective date of this authority would be delayed for two years in order to allow institutions to adjust to transitional cost pressures, *that is,*

to make appropriate plans regarding such things as service charges, advertising and computer programs, and to afford state legislatures an opportunity to ^{also} take any necessary actions to grant NOW account powers to state-chartered institutions

3. the interest ceiling applicable to such accounts would be uniform among all institutions
4. the interest rate ceiling for ~~several~~ years would be below that applicable to passbook accounts at member banks. ^{But} After a specified period such rate ceilings ^{He} would be removed, with standby authority in the Board to reimpose ceilings
5. all financial institutions would be required to maintain reserves at the Federal Reserve on their transactions balances (or, perhaps, only on their NOW account balances)
6. the Federal Reserve would be authorized to pay interest on all reserves required to be held with it (i.e., not merely upon reserves held against transactions balances or NOW accounts)
7. the ranges within which the Federal Reserve is authorized to fix reserve requirements would be lowered.

I think that there would be substantial merit in such a package, and I believe the chance that the 95th Congress will enact such legislation ranges from fair to good.

an order to move
 1) it would move it early '80s in the decade of '80
 a long time
 remove the impediments that are characteristic of the 1970s
 2) it would solve the existing problem of Fed. Reserve by different types of notes
 3) it would improve soundness & demand of Fed. Reserve money supply
 4) it would strengthen the safety of the money system

V. In closing it might be well to step back and take a broad look at the developing relationship between the Federal Reserve and the Congress during the past 64 years. Over the years since 1913 Congress has taken a number of steps to protect the independence of the Federal Reserve as the nation's central bank (e.g., eliminated audit by GAO in 1933; removed Secretary of Treasury and Comptroller from Board in 1935), and while the basic concept of independence remains under scrutiny and even attack, I believe the American public has come to value the concept. One need only recall the excesses in the use of executive power during the early years of this decade to appreciate how important it is that the monetary authority be free from ~~day-to-day partisan-~~ political control. ^{at pressure} Indeed, many thoughtful members of Congress ^{Even} have been opposed [^] to recent proposals to make the term of the ⁷ Chairman of the Federal Reserve ~~roughly~~ coterminous with that of the President precisely because of the political implications of such proposals.

What has been most interesting to me, however, has been the emergence of a new accommodation between the Congress and the Federal Reserve in recent years. The concept of independence ^{in broad} ~~imports~~ not only independence from the executive

control, but ^{dep} independence from day-to-day ~~political~~ control
by the Congress itself. Yet the Federal Reserve is the
creation of the Congress, and Congress is understandably
reluctant to abandon completely its authority over its
creation. Moreover, I believe the Congress has come to
recognize that the Federal Reserve has evolved as an agency
with a demonstrated capacity to perform its duties in a
thoughtful and responsible manner. Congress has frequently
drawn upon the Board's extensive research capacity for
study and analysis of issues of wide public importance, ^{And}
~~and~~ the fact that Congress has seen fit to confer upon the
Board the responsibility for developing regulations in the
consumer protection area reflects, we believe, a fundamental
confidence in the ability of the Federal Reserve to perform
^{serve the national interest}
responsibly.

The problem that the Congress has faced, however, has
been how best to assure itself that the Federal Reserve is
indeed performing its duties properly, while at the same
time protecting the value of an independent central bank.
An answer to this problem has been ^{gradually} developing ^{through} in the use
of oversight hearings. Beginning in 1975, with the
adoption of House Concurrent Resolution 133, the Board has
been presenting to Congress each quarter its targets for

monetary policy for the ensuing 12 months. These hearings have provided a valuable opportunity for an exchange of views between the Congress and the Board on monetary policy, and I believe that there is a mutual feeling that this process has worked well.

Within the past month, we have embarked upon a new series of oversight hearings, dealing with the condition of the banking system. We now expect that each six months we will be presenting a detailed report to the Congress on this subject. Furthermore, within the next few days we will be presenting testimony to the Senate Banking Committee on the 1977 budget of the Federal Reserve System, and I expect that this process will be repeated periodically in the future.

Finally, our proposal for a Bank Examination Council would provide for annual reports to Congress by the Council, which could become a focal point for oversight hearings.

We think this technique of oversight hearings offers much. On one hand, it avoids the expenditure of resources and the threat to intrusion into the policy-making process inherently involved in the use of the General Accounting Office to perform audits of the System and in subjecting the Federal Reserve to the appropriations process. On the other hand, it provides a meaningful and effective opportunity for

oversight hearings

that would be

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Coastline

members of Congress to deal directly with the Board in a review of the Board's performance of its responsibilities in the areas of monetary policy, bank supervision, and operation of the Federal Reserve System generally.

^{I am} We are hopeful that the evolution of our relationship with Congress will continue in this form, and that the

perennial proposals to subject the Federal Reserve to ^{Executive control,} GAO audit, or to the appropriations process, or to ^{confine the} ~~create a~~ ^{monolithic} Federal Banking Commission, will wither away.

While ^I we are hopeful in this regard, ^{I am} we are by no means

certain that such will be the result, and I fear that much of our energy may still have to be devoted to warding off

bad legislation, ^{that would impair the Federal Reserve's independence or otherwise reduce its ability to} ~~deal in~~ ^{deal in} ~~the~~ ^{to} ~~integrity of our~~ ^{integrity of our} ~~currency and~~ ^{currency and} ~~to~~ ^{to} ~~promote~~ ^{promote} ~~stable~~ ^{stable} ~~prosperity~~ ^{prosperity} in our land.

In ^{firmly} pursuing these fundamental objectives, sometimes against heavy odds, the Federal Reserve has been exceedingly supported by members of this Association, and I ^{welcome} ~~cannot~~ ^{thank} ~~for~~ ^{for} ~~their~~ ^{their} ~~opportunity~~ ^{to} ~~to~~ ^{express} ~~my~~ ^{my} ~~appreciation~~ ^{appreciation} of the ~~numerous~~ ^{numerous} ~~contributions~~ ^{contributions} you have been making to ~~our~~ ^{our} ~~nation's~~ ^{nation's} ~~personal~~ ^{personal} ~~welfare.~~ ^{welfare.} Your ^{continued} ~~valuable~~ ^{valuable} ~~support~~ ^{support} and ~~encouragement~~ ^{encouragement}