



For release on delivery

Statement by

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Chairman, Board of Governors of the Federal Reserve System

before the

Commerce, Consumer and

Monetary Affairs Subcommittee

of the

Committee on Government Operations

House of Representatives

March 6, 1975

I am pleased to meet with this Subcommittee today to report on the apparent theft of certain confidential data from the Federal Reserve Board's files, and on my decision to request an appropriate inquiry by the Federal Bureau of Investigation.

The data in question relate to interest rates charged by commercial banks on various types of consumer, agricultural, and small business loans. They are collected by the Federal Reserve System for a sample of nearly 300 banks, and by the Federal Deposit Insurance Corporation for another 70 banks. The Board releases each month the interest rate information in the form of averages for the banks covered in the sample. A copy of the most recent statistical release is attached for the convenience of the Subcommittee.

Before proceeding further, let me explain the origin of these statistical data. We began collecting this information on a regular monthly basis in January 1972 at the request of the Committee on Interest and Dividends, which was established by Executive Order in October 1971 as part of the President's program to implement the Economic Stabilization Act of 1970. The Committee had the responsibility of guiding a program of voluntary restraints on interest rates and dividends.

To carry out its responsibilities, the Committee initiated the collection of a variety of statistics, including the survey on bank lending rates. Data collected by the Federal Reserve on behalf of the Committee were obtained on a voluntary basis, as is the bulk of the statistical reports that we obtain. We have been highly successful over the years in obtaining the information we need to carry out the various responsibilities assigned to us by the Congress. Our success has been based on our ability to assure reporting banks that the data provided voluntarily by each of them will be treated in a confidential manner. Consequently, member banks participating in the interest rate survey were assured that the figures each supplied would be held confidential.

Because of the proven usefulness of the figures, the Committee on Interest and Dividends recommended in its final report, issued in June 1974, that the Federal Reserve Board continue to gather the interest rate information. Similar requests were received from other Government agencies. The data in question meet needs of the Department of Commerce in estimating the interest paid by consumers, and of the Department of Agriculture in estimating interest payments on farm debt. The Small Business Administration has also found the information on interest rates useful in administering its programs.

The Board has been advised by its attorneys that it is doubtful whether we have authority under existing law to require regular reporting by member banks of the type of information on interest rates that I have been discussing. The availability of these data in the future thus depends on the willingness of banks to continue their reporting voluntarily. This week the Board has asked the member banks that participate in the survey whether they regard all or part of this information on interest rates as confidential, and whether they would be adversely affected if the data for individual banks were to be made public. Several banks had notified us previously that they will drop out of the survey if assurance of confidential treatment cannot be given. How many banks will take this attitude, we do not know at present.

It is entirely clear, however, that if refusal by banks to participate in the survey were at all widespread, this would not only jeopardize the information on consumer loan rates that is now available to the public, but it would also jeopardize the numerous other voluntary surveys conducted by the Federal Reserve -- surveys that yield vital data on bank credit, business loans, bank lending practices, consumer credit, and so on.

Let me now turn to the apparent theft -- a matter that has excited this Committee's interest. On February 14, I was informed that Consumer Reports, a magazine published by Consumers Union, had in its possession interest rate data that had been reported to us by individual banks for November 1974, that the magazine planned to publish these data in its March issue, that the data had been improperly obtained, and that a Federal law protecting confidential statistical data may have been violated. Clearly, if a theft was committed by one or more of the Federal Reserve's employees, it was essential to the integrity of our future operations to establish the facts in the case, and to take any corrective action that may be warranted. The circumstance that the apparent theft involved interest rate data had no relevance whatsoever to our handling of this case. What was important to me was the apparent theft of Government property. We could neither ignore nor condone this.

As I reviewed the problem, it became clear that three options were available to us. We could initiate an internal inquiry; we could retain a qualified outside firm to undertake an investigation; or we could request a law enforcement agency to look into the matter.

Since our internal resources were unequal to the task, and since I had doubts about the propriety of calling in private investigators, I decided that it would be best to request the Government's investigative body, namely, the Federal Bureau of Investigation, to conduct the inquiry. FBI officials were immediately contacted by telephone and their assistance requested. The investigation began on February 19. The FBI has complete charge of the inquiry and I am unaware of what progress, if any, has been made up to this point.

I hope that I have made it clear that the issue involved in this case goes beyond the unauthorized disclosure of individual bank data on consumer loan rates. In fact, it goes to the very heart of our data collection system which is so necessary in carrying out our responsibilities. The nation's central bank cannot have a dishonest employee; it must take every appropriate step to protect the integrity of its operations.

I understand that this Subcommittee's interest in this case derives from its concern about consumer affairs. As I have already explained, the fact that data on consumer loan rates are involved in the case has no relationship whatsoever to my request for an FBI inquiry. My sole concern was, and

remains, the apparent theft of Government property, and the continued ability of the Federal Reserve System to collect statistical information that is essential in its work.

In conclusion, let me say a word about the Federal Reserve's interest in consumer problems. While the Federal Reserve was not established as a consumer protection agency, it has become more and more involved in this field over the years. Since 1934, the Federal Reserve has had responsibility for setting margin requirements on securities credit -- that is, for regulating credit that is used to purchase or carry securities. In 1968, the Truth in Lending Act directed the Board to prescribe regulations for the protection of consumers in their credit transactions. Last year, in anticipation of additional consumer responsibilities, the Board established an Office of Saver and Consumer Affairs. This new division, reporting directly to the Board, coordinates the System's responsibilities relating to savers and consumers.

Governor Bucher, who has been assigned special oversight responsibility in this area, will explain more fully the activities of this Office under both long-standing and recently enacted legislation.

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# FEDERAL RESERVE

## statistical release

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For immediate release

February 28, 1975

### INTEREST RATES CHARGED ON SELECTED TYPES OF BANK LOANS

Type of Loan	Interest rate (per cent per annum)		
	January 1972	December 1974	January 1975
Small short-term noninstalment loans to businesses <u>1/</u>	7.31	11.48	11.29
Farm production loans (one year of less maturity)			
Feeder cattle operations	7.55	10.70	10.62
Other farm production operating expenses	7.63	10.39	10.30
Consumer instalment credit for:			
New automobiles (36 months)	10.26	11.62	11.62
Mobile homes (84 months)	10.94	11.71	11.66
Other consumer goods (24 months)	12.57	13.27	13.28
Other personal expenditures (12 months)	12.74	13.60	13.60
Credit card plans	17.11	17.21r	17.16
Business loans--prime rate			
To small businesses	n.a.	9.95	9.91
To large businesses	5.25	10.50	10.25

1/ Loans of \$10,000 to \$25,000 maturing in one year or less.

NOTE: Except for the prime rate on loans to large businesses, the interest rates shown on this release are based on a survey conducted jointly by the Federal Reserve System and the Federal Deposit Insurance Corporation at 370 insured commercial banks. All rates except the prime rates represent simple unweighted averages of the "most common" effective annual rate on loans made during the first full calendar week of the month in each loan category. The "most common" rate is defined as the rate charged on the largest dollar volume of loans in the particular category during the week covered in the survey. Consumer instalment loan rates are reported on a Truth-in-Lending basis as specified in the Federal Reserve Board's Regulation Z.

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The prime rate on loans to small businesses, as provided for in the dual prime rate structure established by the Committee on Interest and Dividends in the interest rate criteria for commercial banks, issued April 16, 1973, is the best rate charged by a bank to its most credit-worthy local customers. For the Committee's purposes, a small business is defined as any domestic commercial, industrial, or agricultural borrower whose total borrowings outstanding at any one time over the preceding 12 months (exclusive of long-term real estate mortgage debt) did not exceed \$350,000 and whose assets do not exceed \$1 million. The figure shown is the simple unweighted average of the rates in effect on the last business day of the first full calendar week of the month; the range of variation of these rates is considerable. The large business prime rate is the rate most commonly quoted by large banks on that date. Since the prime rate information has not been converted to an effective rate basis, the rates shown are not directly comparable to the other rates shown on this release.