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Address by

Irvine H. Sprague, Chairman
Federal Deposit Insurance Corporation

Before the

American Bankers Association
New Orleans Hilton
New Orleans, Louisiana

October 9, 1979

I don't know how you can do it all.

You have a responsibility as bankers to run your business.

You have a responsibility as citizens to keep up on critical issues concerning our Nation.

You must keep track of what legislative developments and actions of the regulators may do to you.

Today I will briefly run through some of the many issues facing the industry and then stand ready for questions. Also, my prepared statement, available in the Press Room, should answer in detail the questions you are going to ask.

We have a very distinguished panel:

William M. Isaac, Director of the Corporation
John J. Early, Director of the Division of Bank Supervision
Reford J. Wedel, Acting General Counsel
George W. Hill, Director of Liquidation
Stanley C. Silverberg, Director of Research
Henry Newport, Director of Consumer Affairs and Civil Rights

Before we go into banking issues, I want to take a brief moment to talk to you about doing business in Washington and how complex it has become.

It's a different government now. The problems are vastly larger, more numerous and complex. News coverage has intensified. Lobby groups have proliferated and refined their techniques. These changes have had a profound effect on Congress and the legislative process.

I know in my own case, I have found the changes dramatic. When I first came to Washington in 1956, there were relatively few staffers on the Hill and only a fraction of the subcommittees that exist today. The Administration had to deal with only a few key leaders.

Ten years later, the situation had changed somewhat, but basically while I was working in the White House, it was still possible to talk over debt limit legislation with the Treasury Secretary, and with Wilbur Mills and John Byrnes, for example, and usually, that was all you needed to work out a program that made economic sense and you had some assurance would pass.

CONGRESSIONAL CHANGES

Today things are radically different. Beginning with 1970, each congressional election has brought in a large influx of new members, and many of them had campaigned on the issues of reform and change. They ran independently without party discipline. Today 278 of the 435 Members of the House — more than 60 percent — were first elected in this decade. Fifty-five Senators -- well over a majority were also first elected in the 70's. And there has been a complete turnover of chairmen of the full committees. All 21 standing committees in the House and all 15 in the Senate have new chairmen in the 70's.

House newcomers, with their increasing numbers, voted themselves a bigger share of the leadership, created new subcommittees to address the Nation's complex problems, and limited the number of chairmanships that one member could hold. There are now more than 145 subcommittees in the House and 100 in the Senate, each with its own staff and its own projects, each initiating legislation and conducting oversight on a variety of important issues. House and Senate staff have nearly tripled from 6,200 in 1956 to 18,400 today.

In addition to legislation, Congress is giving more attention to the critical function of oversight — that is, seeing how the executive agencies are carrying out the laws already on the books. This is an important congressional function to help our elected Representatives and Senators carry out their legislative mandate. It also means an increasing work load for the agencies. We have had to report regularly and relentlessly to Congress.

SPECIAL INTEREST GROUPS

The growth in special interest groups makes things even more complex. In 1963 when I opened the California State office as Deputy Director of Finance, there were only two other States with offices in Washington. Now all 50 States have Washington offices, and cities are following this example. More than 75 individual cities now have offices representing their interests in Washington. Then you have the persons representing specific points of view -- for example, on abortion, busing, gun control, the environment — those who want to save cans and those who want to throw them away. Congressional records show that 4,500 lobbyists, compared to about 1,000 in 1956, are actually registered in Washington. Lawyer lobby firms continue to crop up all over the landscape. Major industries and individual corporations have large, sophisticated Washington operations.

The financial institutions industry is typical of this trend. There are currently twelve major trade associations representing these interests in Washington, with total budgets reported at $46 million and about 600 personnel. And these figures do not include lobby offices which represent individual banks. In addition to lobbying activities, these offices perform the very important function of keeping their membership informed and educated about legislation and regulatory activity.

The reported expense figures cover advertising, wages, gifts, contributions and entertainment. But these figures represent only a fraction of the outlays that actually bring pressure to bear on the House and Senate. The real pressure comes from the sophisticated system of contact bankers in every congressional district.

THE PRESS AND TV

Twenty years ago, there were only a few home town newspapers with Washington correspondents. Now virtually all large city and town newspapers either have their own bureaus in Washington or pay stringers for Washington news of special interest to their localities. There were more than 700 press persons accredited to the House and Senate press galleries in 1956. This has almost doubled today. Their in-depth reporting on local issues tends to divert attention of the Congress from great matters of national concern.

Lobbyists with their pressure and the press with their coverage subject Congress to greater scrutiny than ever before. Sunshine laws have made legislation and the regulatory process like operating in a goldfish bowl. Lobbyists or press jam the committee markup sessions so there is no room for the general public. This has had a profound influence on the way we do things. Sometimes the laws do not have their intended effect. This year alone the FDIC has responded to 196 Freedom of Information requests and most are from attorneys seeking disclosure for law suits — not from the press or public.

What all this means is that we do not have the kind of government we had 20 years ago or even 10 years ago. It is a different government altogether. It is much more difficult for this Administration — or any Administration — to deal simultaneously with the large and numerous issues that confront our Nation.

NATIONAL CONCERNS

Under the category of good citizenship, you should be interested in such major issues as the Panama Canal, energy, the Federal budget, inflation, the SALT treaty, peace in the Middle East, Cuba and a number of other issues.

Last week we all heard the President make a very compelling argument for ratification of the SALT II treaty. How do you balance your interest and effort? Is a change in the interest rate differential more important than these basic issues? You are leaders in this country, and this obligation upon you is very real. You must be concerned and involved, no matter what your party or your beliefs.

Now, to address some banking issues:

TRUTH-IN-LENDING - REGULATION Z

One issue I know you are interested in is the Truth-in-Lending Guidelines now being reviewed by the five Federal financial regulatory agencies under the aegis of the Federal Financial Institutions Examination Council. There was a real need for Truth-in-Lending legislation and I worked hard to have it enacted. A prized possession is the pen the President gave me the day the bill was signed. However, enforcement has been less than optimum and we are working to straighten that out. The Council last Thursday agreed to proposed Guideline changes and they will be put in the Federal Register as soon as all five agencies act. Last Friday the FDIC Board unanimously voted to put out for comment several proposed changes. The proposals:

(1) increase the error tolerance for an understated Annual Percentage Rate before reimbursement is required from 1/8 percent to 1/4 percent;

(2) give the agencies flexibility to use common sense and good judgment rather than rigid adherence to detailed Truth-in-Lending guidelines, particularly in highly technical areas.

(3) reimbursement would be required for all violations back to the last examination in which the creditor failed to correct a practice cited by the examiner.

In addition, we are asking for general comments on three additional matters:

(1) Should mortgage lending be treated differently for reimbursement purposes because of its unique characteristics?

(2) Should the five States which are permitted to enforce Truth-in-Lending be required to ask for reimbursement?

(3) Any information concerning the costs associated with reimbursement, and benefits accruing to bank customers.

The Senate has twice passed bills designed to simplify the Truth-in-Lending Act. S. 108, the current version, is now pending in the House, and the Senate Banking Committee has added the same text to S. 1347, the NOW-Regulation Q bill it reported two weeks ago. If the bill passes the Senate with Truth-in-Lending in it, that issue will be addressed in the House-Senate conference to work out differences in the legislation.

S. 108 would streamline required Truth-in-Lending disclosures and require the Federal Reserve to issue model forms for common credit transactions. The bill would simplify the Truth-in-Lending statement by eliminating certain itemizations and disclosing only totals. For example, for an auto credit purchase, the bill would eliminate disclosure of "cash price," "downpayment," and "unpaid balance of the cash price," in favor of a single disclosure of "amount financed." In addition, the bill would limit the civil liability of creditors who committed unwitting or technical violations of the disclosure requirements and would require reimbursement back to 1974.

Enactment of this legislation, which we support, would have no impact on our proposed Guideline changes.

CIVIL RIGHTS STATEMENT OF POLICY

The FDIC Board Friday approved a joint policy statement concerning bankers' responsibilities in the civil rights area.

The statement was developed under the aegis of the Examination Council, and our goal is to have it adopted by the Boards of all five financial institutions by next week. The statement of policy reaches such areas as lending and the provision of other financial services, including the impact of discriminatory mortgage and other lending practices on neighborhoods and communities. It also addresses the issue of employment opportunity without discrimination.

The five regulatory agencies are issuing the statement to reiterate their commitment to effective enforcement of the various civil rights laws of the Nation. The statement says, and I quote: "The agencies believe that illegal discrimination is contrary to the best interests of not only the people discriminated against but also the financial institutions themselves."

FIRIRCA

After FIRIRCA, the International Banking Act and other Acts were passed by Congress last year, we all breathed a sigh of relief expecting our efforts this year to be confined to follow-up regulations. Now legislation affecting your industry is piling up again for several reasons: bills that were pending in the last Congress are being considered by the new Congress; the Court of Appeals decision on automatic transfer of savings, remote service units and credit union share drafts made legislation in this area a priority, and its consideration has raised other associated issues.

FIRIRCA, as you know, was an omnibus bill, and perhaps it would be useful briefly to review the major provisions of its 20 Titles:

> TITLE I gives new supervisory powers to Federal regulators. It restricts overdrafts of executive officers and directors, and places limitations on loans to executive officers, 10 percent shareholders, and companies they control. It requires that all loans in excess of $25,000 to insiders or companies they control must be approved in advance by the bank's board of directors. In addition, the Federal Reserve is given authority to order bank holding companies to divest a subsidiary which is a safety and soundness risk to the holding company.

TITLE II prohibits management interlocks among depository institutions in the same SMSA or adjacent city, town or village. All management interlocks between depository institutions or holding companies with $1 billion in assets and another institution or holding company with $500 million or more in assets are prohibited, regardless of geographical location. However, institutions with less than $20 million in assets are restricted only in the same, contiguous or adjacent city, town or village. Interlocks already in existence are grandfathered for 10 years.

TITLE III includes FDIC housekeeping amendments and makes it a Federal crime to kill, forcibly assault, resist, oppose, impede, intimidate or interfere with an attorney, liquidator, examiner, claim agent, or other employee of a Federal financial regulatory agency who is performing official duties.

TITLE IV authorizes the public sale of Government-issued gold medals.

TITLE V establishes a three-person National Credit Union Board to regulate Federal credit unions. The Board is now in place.

TITLE VI requires persons who seek to buy control of an insured bank to give the appropriate Federal regulator prior notice and opportunity to disapprove the acquisition.

TITLE VII parallels Title VI but for savings and loan associations.

TITLE VIII prohibits preferential treatment for loans to insiders where correspondent relationships exist.

TITLE IX requires every insured bank to report annually a list of its major stockholders and the aggregate amount of all its loans to officers and major stockholders, their affiliated companies, and political or campaign committees. This information is for public disclosure.

TITLE X established the Federal Financial Institutions Examination Council.

TITLE XI protects the financial records of bank customers from governmental access.

TITLE XII permits mutual savings banks to convert to a Federal charter, subject to supervision by the Federal Home Loan Bank Board.

TITLE XIII extends NOW account authority to New York State.

TITLE XIV increases deposit insurance on time and savings deposits of IRA and Keogh accounts from $40,000 to $100,000.

TITLE XV has miscellaneous provisions including a section legalizing institutions with national bank charters limited to trust activities and another section prohibiting credit card surcharges.

TITLE XVI extends Regulation Q for two years to December 15, 1980. It also eliminates the differential on transaction accounts.

TITLE XVII provides additional asset powers for Federal savings and loan associations.

TITLE XVIII establishes a central liquidity facility for credit unions.

TITLE XIX extends Export Import Bank authority.

TITLE XX provides consumer protection for electronic funds transfers.

FDIC regulations to implement appropriate provisions of the law are now adopted except for Titles VIII and IX which the agency is currently working on.

<u>NATIONWIDE NOW ACCOUNTS</u>: The Senate Banking Committee two weeks ago marked up the NOW account legislation, S. 1347, and in the process rolled in a group of unrelated matters in an attempt to give us a Christmas tree before Thanksgiving.

The legislation as introduced would authorize NOW accounts nationwide (except for California unless State law approves), phase out deposit rate ceilings over a 10-year period and legalize credit union share drafts, bank automatic transfer services and savings and loan remote service units.

Under the phaseout provision, existing rate control authority would remain unchanged for the first two years. In the third through tenth years, ceilings on all deposits subject to ceilings would be raised by at least one-half percent a year unless the Federal Reserve, in consultation with other regulators, determines that economic conditions would threaten the viability of depository institutions.

Amendments agreed to included one directing Federal regulators to lower the minimum denominations on all certificates of deposit to $1,000 in at least two years. However, regulators could postpone such action if they make a finding that the action would have an adverse economic effect. The Senators also incorporated into this bill, S. 108, the Truth-in-Lending Simplification Act, already passed separately by the Senate, the Arkansas usury bill, and legislation giving the Comptroller rulemaking authority to implement FIRIRCA.

I believe that NOW accounts should be affirmatively authorized nationally by Federal law because it is the most practicable and acceptable action to take and the one most likely to be enacted into law within the time available to us.

Last month the House passed by 367-39 a bill to extend NOW accounts nationwide in September 1980 and authorize credit union share drafts, bank automatic transfer services and savings and loan electronic terminals. In April, the Court of Appeals had ruled that these kinds of services violate existing law. The case is now before the Supreme Court, which is expected to make a decision whether to review the issue by early November.

Because of the wide disparity between the House and Senate bills, there is a good chance we may end up with only simple legislation to overturn the court decision.

FEDERAL RESERVE MEMBERSHIP: A major issue is the Federal Reserve membership legislation. The Senate Banking Committee held hearings in September and new Federal Reserve Chairman Paul Volcker recommended that the central bank be given standby legislative authority to establish supplemental reserve requirements as a safety net which the Federal Reserve could use to adjust its reserve base following the significant reserve reductions which would be made by pending legislation. The requirements would be in the very low range, 0-2 percent, and the Federal Reserve would pay interest on the supplemental reserves balances at a fair market rate. In order to trigger this supplemental reserve, a larger than usual majority of Federal Reserve Governors would have to support it. This position was supported by the ABA's Banking Leadership Conference. Prospects for Senate action are unclear because of the income loss to the Treasury.

The House passed H. R. 7 by a vote of 349-20 in July which would retain the current voluntary system unless Federal Reserve coverage of deposits fell below 67.5 percent. Coverage is now 70.3 percent. Until mandatory reserve requirements are triggered into effect, only Federal Reserve member banks will be required to post reserves on transactions deposits. If coverage reaches the trigger level, all financial institutions, including thrifts, would be required to post reserves on transaction deposit balances above $35 million. Reserves could range from four to 12 percent. Existing reserve requirements on time and savings deposits would be eliminated, but the Federal Reserve would have authority to impose reserves, in consultation with Congress, on large short-term, nonpersonal time deposits provided that the United States reaches an international agreement on Eurocurrency reserves.

Should no legislation be enacted, we can anticipate further erosion in Federal Reserve membership.

INTERNATIONAL BANKING ACT AMENDMENTS: Earlier this month, the House and Senate passed and President Carter signed into law a measure extending the deadline for insuring certain existing foreign branches to January 31, 1980. As you know, insurance of foreign branches is a new area in American banking law mandated by the International Banking Act of 1978. Our new Regulations were effective in June, but we will need the extra time this bill will give us to perform thorough and proper examinations before we grant insurance at foreign branches. This concerns foreign branches engaged in domestic retail deposit-taking activity -- that is, the taking of initial deposits of less than $100,000. The extension in the new law, Pub. L. 96-64, applies only to foreign branches in existence on September 17, 1978, which filed for insurance by September 17, 1979, and which have not had their applications denied by the FDIC. There are 17 such foreign banks with 20 branches. Hereafter foreign branches must have filed for and obtained insurance before they may begin domestic retail deposit activities, in the same manner as domestic banks.

Under FDIC rules, all branches of a foreign bank engaged in domestic deposit activities within one State will be required to obtain Federal insurance unless the branch limits its deposit activity to initial deposits of $100,000 or more. A foreign branch which receives initial deposits of less than $100,000 must become insured if it is located in a State that requires State banks to have deposit insurance.

BANK HOLDING COMPANY AMENDMENTS: The House is considering legislation to amend the Bank Holding Company Act of 1956 to limit the property, casualty and life insurance activities of bank holding companies and their subsidiaries.

A bill was reported September 11 by the House Subcommittee on Financial Institutions Supervision, Regulation and Insurance for full committee consideration. There has been no action on similar legislation in the Senate.

The House Subcommittee has also scheduled hearings for mid-October on bills which would amend the Bank Holding Company Act to control the acquisition of banks by bank holding companies and would move towards restricting activities of bank holding companies.

We are also in the preliminary stages of looking at possible legislation to allow bank holding company acquisitions across State lines under specific, narrowly defined crisis situations.

NATIONAL BANK ACT AMENDMENTS: The House Financial Institutions Supervision, Regulation and Insurance Subcommittee reported a bill September 26 to amend the National Bank Act to refund to the Comptroller of the Currency the $2.7 million in funds left over from national banks closed before 1934. The Comptroller's Office was in charge of national bank liquidations until the FDIC began operations in January 1934.

The legislation would also clarify the Comptroller's general rulemaking authority and permit the national bank regulator to extend the period during which national banks may hold real estate from five to ten years. Similar legislation is now part of the Senate NOW account-Regulation Q bill.

REGULATORY REFORM: The same House bill would also include a regulatory reform measure requiring Federal regulators to show the need and purpose of a particular regulation as well as what alternative regulations were considered. In addition, the regulatory burdens to all parties should be minimized and the duplication and inconsistencies between regulations issued by Federal agencies reduced to the extent possible. We are already doing this at the FDIC.

My first day as FDIC Chairman, I set up a Task Force to analyze FDIC regulations to trim down, eliminate, clarify and generally improve our regulations. Twenty-one regulations have been reviewed at this point, two have been totally deleted; one substantially shortened and a fourth proposed regulation withdrawn.

NATIONAL BANK UNDERWRITING OF REVENUE BONDS: Another bill scheduled for hearings in mid-October by the House Financial Institutions Subcommittee would authorize national banks to underwrite and deal in revenue bonds issued by State and local governments. Supporters of this bill are attempting to attach it to other legislation which they know will pass the House.

INTEREST TAX EXEMPTION: Congress also has before it a number of bills sponsored by more than 200 congressmen which would exempt the first $100 of interest income ($200 for joint returns) from taxation. This would cause a substantial drain on Treasury revenues — about $1 billion a year — and would not really do the smaller saver much good.

The Administration opposes the tax exemption because there is virtually no incentive to increase savings, the exemption runs counter to Administration proposals to phase-out interest rate ceilings, it would not reduce the cost of mortgage funds and it would be regressive in impact, providing greater benefits to higher bracket savers.

This proposal is expected to be offered as an amendment to H. R. 3712, a bill to limit the use of State and local government tax-exempt bonds to finance single and multi-family housing and disallow the issuance of single-family housing bonds after 1982. The House Ways and Means Committee has reported H. R. 3712 and it is expected to be voted on the House floor in several weeks.

FOREIGN ACQUISITION OF U. S. BANKS: At an ICC meeting in September, Federal regulators agreed to establish a central clearing and information collection system on foreign ownership of U. S. banks. The Federal Reserve will be lead agency in this effort.

Congress has expressed a particular interest in this area and there are several bills pending in the House and Senate which would impose a moratorium on acquisitions of U. S. banks by foreigners.

FINANCIAL PRIVACY: The Administration sent Congress last week two proposed bills to protect consumer financial privacy.

One bill, the Fair Financial Information Practices Act, gives the consumer the right to know what is in his credit files and what the information is being used for. The other, the Privacy of Electronic Fund Transfers Act, would restrict access to computerized financial transactions as they occur.

The legislation would allow consumers denied credit to see the relevant information in their files, to copy and correct it if necessary. Access to financial records by third parties would be banned except for legitimate business purposes. Otherwise, financial records would have to be subpoenaed and the consumer would have the right to challenge disclosure in court after being notified by his financial institution.

The Administration's privacy package would reverse the Supreme Court decision which held that individual financial records were the property of the financial institutions not the customer.

STUDENT LOAN PROGRAM: Congress has under consideration a number of education bills. One major controversy is whether the Guaranteed Student Loan Program will be reorganized.

A bill reported by the House Education and Labor Committee would hold the special allowance at three percent and tighten loan collection procedures. The Administration proposes to place the Guaranteed Student Loan Program under direct Federal administration, reduce school subsidies and raise the special allowance from three to seven percent. The Administration version will be the subject of a hearing by the Senate Labor and Human Resources Subcommittee on Education tomorrow.

BANK ADVERTISING: In recent months, Congress has also taken a look at bank advertising and promotions for deceptive and misleading practices. The House Subcommittee on Commerce, Consumer and Monetary Affairs held two days of hearings on the subject last month. Federal regulators told the Subcommittee they believe existing law and regulation are sufficient.

ARKANSAS USURY BILL: On September 24, the House passed by voice vote a bill to authorize business and agricultural loans in the amount of $25,000 or more at a rate of five percent in excess of the applicable Federal Reserve discount rate on 90-day commercial paper, notwithstanding State usury statutes. The legislation would permit State override of the legislation. Similar provisions are part of the Senate Banking Committee's NOW account bill, S. 1347.

It is aimed at giving lenders interim relief from Arkansas' constitutionally imposed ten percent ceiling. I support this temporary redress measure until the people of Arkansas themselves have the opportunity to pass judgment on a comprehensive solution proposed by their consititutional convention and scheduled for a vote next year. In general, however, I do not think the Federal Government should interfere with what traditionally has been a State prerogative.

Two weeks ago I met with members of the Administrative Conference of the Arkansas Bankers Association to discuss the peculiar problem of Arkansas; namely, that federally-chartered financial institutions are at least partially exempt from usury ceilings while their State counterparts are not exempt. As this competitive inequality between Federal- and State-chartered institutions concerns banks, savings and loan associations, and credit unions, last Thursday, I referred the problem to the Examination Council. I hope we will soon develop a uniform approach that will be reasonably satisfactory.

FLOOD PLAIN ZONING:

At the direction of the Flood Disaster Protection Act of 1973, the FDIC and the other financial regulatory agencies adopted regulations prohibiting insured banks and savings and loans from making loans secured by improved real estate or mobile homes located in designated flood hazard areas unless the community where the property is located is participating in the national flood insurance program. Subsequent law eliminated that prohibition and, instead, directed the financial regulatory agencies to require lenders, as a condition of making or renewing a loan to be secured by improved real estate or a mobile home located in an area having special flood hazards, to notify the purchaser or lessee of the special flood hazards and whether Federal disaster relief assistance will be available to such property if a flood occurred.

Although, from time to time, we hear complaints that the flood insurance regulations inhibit lending and development, the statutory policy to discourage uncontrolled development in flood-prone areas and to encourage effective land-use procedures in order to reduce dependence on disaster relief is well established. No significant changes in this general policy are anticipated.

Litigation is currently pending in Mississippi (not involving any insured banks) in which property owners who sustained damage in the spring floods of 1979 and who had failed to obtain flood insurance are suing their lenders who failed to provide the required notifications regarding property in flood prone areas. This is a novel approach and the courts must ultimately determine if property owners have a private right of action against their lenders in such cases.

BANKRUPTCY ACT: The comprehensive bankruptcy law revision enacted by the previous Congress went into effect October 1. The act, of course, has important implications for bankers who constitute one of the Nation's largest groups of creditors. The law seeks to define the rights of creditors and debtors and to give debtors a better chance at a fresh start after bankruptcy. One of the means of doing this is the law's exemption from seizure of certain property of a bankrupt, including $7,500 equity in a home for a single person and $15,000 for a couple. It will take some experience under the new law to see exactly what the effects will be. Our FDIC staff will be keeping an eye on it.

HOME MORTGAGE DISCLOSURE ACT

The FDIC is participating in a study of The Home Mortgage Disclosure Act, jointly with the Federal Home Loan Bank Board. One major thrust of the study is to see how agencies can improve their use of Home Mortgage Disclosure Act data. The Act expires June 28, 1980, and I am committed to its renewal. This study will help us decide whether that law should be amended and if so, how.

In particular, we will be looking at this issue of central processing of Home Mortgage Disclosure Act data reported by banks. The question is whether the cost can be justified by the benefit, especially in terms of improved monitoring of the Community Reinvestment Act. We expect to have the final report of the Home Mortgage Disclosure Act study within the next several weeks, and then we will begin our process of considering possible recommendations to Congress.

COMMUNITY REINVESTMENT ACT

We now use Home Mortgage Disclosure Act data as reported by individual banks in reviewing the bank's performance under the Community Reinvestment Act.

As you know, the CRA law requires each Federal financial supervisory agency to use its authority to encourage financial institutions to help meet the credit needs of the local communities in which they are chartered, consistent with safe and sound operation of institutions. We are required to review Community Reinvestment Act performance during regular examinations and to consider whether community needs are being met when the agency is acting on a branch, merger or other deposit facility application by the bank.

Thus far, the impact of the Community Reinvestment Act has been mostly on the mutual savings bank industry. In New York, two applications were contested on Community Reinvestment Act grounds, and the FDIC Board denied one application and approved the other. There are now 17 contested applications in the pipeline and some involve commercial banks. Although this area is still new and evolving, it is clear that commercial banks will feel the impact of Community Reinvestment Act activity as well. Some banks are taking the initiative, using their Community Reinvestment Act statements as marketing tools to show how they are serving their communities and to seek more business. I think it's a good idea. FDIC is going to enforce the Community Reinvestment Act, so you might as well take all the advantage of it you can.

MC FADDEN ACT

The President will present to Congress in November his analysis of the effects of the McFadden Act on the present financial, banking, and economic system and any recommendations for change. The report is being prepared in consultation with a task force headed by the Department of the Treasury, and including the three Federal bank regulatory agencies and the Department of Justice.

The Treasury currently is circulating among the members of the task force for their evaluation and recommendations an overview paper discussing issues and options raised in the background papers prepared by those members. Among the issues identified as being especially important are the possible effects of branch banking systems and increased size of banking institutions on the safety and soundness of banks, convenience and needs of the public for banking services, local availability of credit, costs of providing and prices of banking services, viability of small banks, dual banking system, and undue concentration of power.

The options being evaluated range widely from the maintenance of the status quo to the authorization of unrestricted nationwide branching for banks. Between these two extremes they shade through deployment of EFT terminals under rules less restrictive than those currently applying to conventional branches, exemption from McFadden restrictions for non-household services only, expansion only within State borders, expansion interstate only within natural markets such as SMSAs, expansion only into contiguous States, and removing the prohibition against interstate expansion of bank holding companies.

We are to complete our evaluation of these options this week. The Treasury then will prepare suggestions for the President's Report to Congress.

CAPITAL STUDY: The FDIC has also undertaken a special study on the subject of adequacy of bank capital for the Federal Financial Institutions Examination Council, and we hope that the study will give us a better grasp of the problem and how to deal with it. Director Bill Isaac is taking a special interest in this study.

FINANCIAL FUTURES MARKET: Federal regulators through the Examination Council are now taking a look at whether there should be a uniform policy on bank involvement in the financial futures market. Among the questions being discussed are: whether additional disclosures of this activity should be required, what sort of accounting procedures should apply to this activity, or whether there should be an outright ban.

CREDIT LIFE INSURANCE FEES: A subcommittee of the Examination Council is preparing a report on credit life fees to the Council's permanent task force on bank supervision. It will address the issue of whether the proceeds of credit life insurance should go to banks, or to the individual owners.

IRS SHORT TERM CD PROPOSAL: The Internal Revenue Service abandoned its proposal which would have taxed the interest earned but not yet received from short-term certificates of deposits. Instead, the IRS has issued a new proposal which stated that interest income on CDs of one year or less would be taxable in the year the interest is actually received or credited. The new proposal would apply to MMCs as well as other short-term deposit arrangements, entered into after last December 31, which give a single interest payment at maturity. IRS asked for comment on the proposal until October 19, but the basic decision has pretty well been made. We strongly supported this action.

SMALL SAVERS MMCs AND OTHER INSTRUMENTS: Federal regulators May 30 announced a series of regulatory changes designed to help small savers obtain higher returns on their deposits. We monitor the flows constantly and are planning to consult toward the end of this year to determine whether further adjustments in interest rate ceilings would be appropriate.

The six-month $10,000 money market certificates which were first issued in June 1978, continue to experience phenomenal growth, reflecting consumer interest in a higher return on their savings and imaginative marketing techniques by financial institutions. Figures as of August 31, show that commercial banks had $71.8 billion outstanding and mutual savings banks had $26.7 billion outstanding in these certificates, and savings and loans had $91.4 billion for a total of $190 billion. The counterpart four-year certificates of deposit which were authorized May 30 got under way July 1, and they have not caught on as well.

The problem is outside the banking community. Money market funds which pay much higher rates than passbook accounts and savings certificates are attracting billions of dollars away from financial institutions. Money market funds have grown to almost $34 billion, a $4 billion hike in July alone. The return on money market funds is now about 10-1/2 percent. They can be bought in denominations as low as $1,000, and they are usually fully liquid.

CONCLUSION

I have tried to give you a comprehensive survey of banking issues now pending in Washington, whether in the form of legislation or otherwise. As you can see, we have not been short of things to do. Banking is in an era of transition, inspired to a major extent by the exciting technological and other innovations of the industry itself and by economic developments beyond anyone's control.