Federal Reserve Notes

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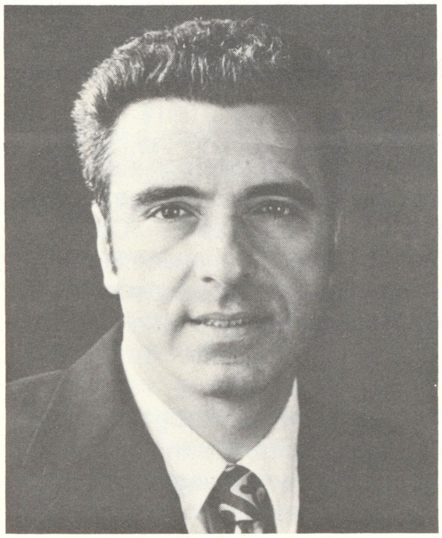
Annual Directors Meeting

ALIBRANDI QUESTIONS REFORM PROPOSALS

The nation would benefit from maintaining the present insulation between Congress and the conduct of monetary policy, Joseph F. Alibrandi told a luncheon meeting of bankers, executives and community leaders in San Francisco early this month. The meeting followed the Annual Conference of Directors of the Federal Reserve Bank of San Francisco.



J.F. Alibrandi

Alibrandi, who is President and Chief Executive Officer of the Whittaker Corporation and Deputy Chairman of the San Francisco Bank's Board of Directors, said the economy could be endangered if legislative proposals were enacted which go beyond Congress' present oversight function. This could lead to political intrusion into the monetary policy arena, he said.

"As soon as a government puts the power to print money in the same hands that spend it, you have sown the seeds of chaos," Alibrandi said. "In many situations overseas, destructive inflation has resulted from such a course."

Alibrandi analyzed other recent legislative proposals for bank reform and similarly found them wanting. In most of these cases, he argued, proposed reforms could be unnecessary or even counter-productive in terms of the nation's policy goals. He cited, for example, the proposal to divorce supervisory and regulatory functions from the Federal Reserve's monetary-policy functions.

"The proponents of this idea believe this will enhance the effectiveness of both activities, when, in reality, it will have the opposite effect, since the exercise of monetary policy without the close and detailed knowledge and understanding of the impact it will have on bank liquidity is foolhardy."

The Los Angeles-based executive outlined how the public interest is served by the contributions of the directors of regional Federal Reserve Banks. One of the primary duties of directors is to oversee central-banking services throughout each District bank's area—in the case of the San Francisco Reserve Bank, a nine-state area containing 33 million persons and almost 6,500 banking offices.

"Since most of our directors represent the private enterprise sector, I believe we bring to this task the practical bottom-line kind of effectiveness and cost consciousness that is characteristic of the business

(continued on page 2)

POOLED FUNDS RULES

The pooling of funds to earn interest rates higher than the limits set by Regulation Q on deposits of less than $100,000 would be prohibited under proposed rules issued this month by the Federal Reserve Board of Governors.

The difficulty arises from the fact that time deposits of $100,000 or more are not subject to the interest-rate ceilings that govern deposits of less than that amount. The guidelines are aimed at prohibiting the pooling of funds so as to contravene Reg Q's basic intent. Similar guidelines have been issued by the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board for the institutions they supervise.

"In high-interest rate periods, the practice has grown of pooling funds of less than $100,000 to make up deposits of $100,000 or more in order to gain interest rates higher than would otherwise be available," the Board said. "This practice could lead to disruptive shifts of funds among financial institutions."

The Board said its proposal was directed at rectifying situations in which a member bank has reason to believe that the objective of pooling is to circumvent Regulation Q rate ceilings. However, it would exempt four types of pooling that are not intended primarily for the purpose of achieving a higher rate of interest, and that do not interfere with the regulation of interest rates. The exceptions are:

* The combination of funds by

(continued on page 4)

BUSINESS BORROWING COSTS DECLINE

Business borrowing costs at West Coast Banks declined in the early winter months, reflecting relatively weak loan demand and a drop in the prime rate from the level prevailing last fall. According to the quarterly survey conducted by the Federal Reserve Bank of San Francisco, the average rate on regular short-term business loans reached 7.77 percent in the first half of February—a drop of 90 basis points from the November 1-15 period. (One hundred basis points equal one percentage point.) Rates on revolving-credit loans averaged 7.32 percent, an 83-basis point decline.

The rate decline was greater on loans of $1 million and over than on smaller-size loans. Typically, small loans at banks adjust more slowly than large loans to shifts in basic rate trends, in either an up or down direction.

In the February 1-15 survey period, the thirteen banks in the survey reported 1,867 short-term and revolving credit loans, for a total volume of $690 million. The number of loans was larger than the number reported three months earlier, but the dollar amount involved was smaller.

(continued from page 1)

sector, but that is all too often lacking in government operations."

Another major duty is to provide advice regarding the thrust of monetary policy. He pointed out that initiating changes in the Fed's discount rate is only a minor part of directors' duties. "The overriding job is to bring a commonsense, grassroots point of view to bear upon overall monetary-policy decisions," he said.

Alibrandi noted that outside directors can help the Fed anticipate changing trends in the economy, and can provide a useful insight into consumer and business psychology. "Bottom line, our job is to see that the bureaucracy doesn't spend its time talking to itself, thereby creating a short circuit, but rather listens to what the public has to say."

WELCOME TO THE DISTRICT

New National Banks

Northwest National Bank - Vancouver, Wash.
Security National Bank - Anchorage, Ak.

New Nonmember Banks

Bank of Selah - Wash.
Bank of Sumner - Wash.
Cache Creek Bank - Woodland, Ca.
Cooper State Bank - Apache Junction, Ariz.
First Security State Bank of Helper - Utah
Foothill Bank - Mountain View, Ca.
Pacific Valley Bank - San Jose, Ca.
Rocky Mountain State Bank - Salt Lake City, Utah
United Bank Alaska - Anchorage, Ak.

FED GATHERS EXPERTS' NUCLEAR ENERGY VIEWS

Eleven economists from a variety of educational and research institutions present their views on the energy problem in the report, "California Energy: The Economic Factors," which will be published next month by the Federal Reserve Bank of San Francisco.

This publication is designed to provide information on the economic aspects of energy usage and energy technology, with special emphasis on California nuclear power. The volume does not come to any single conclusion on the merits of this particular issue, since the authors' assessments of economic factors depend upon their different assumptions about future technical trends or risk probabilities. However, by making appropriate adjustments for the various authors' views, readers can draw their own conclusions from the array of information contained in these papers.

Copies of "California Energy: The Economic Factors" will be distributed automatically to the *Federal Reserve Notes* mailing list. Other readers can obtain single copies upon request to the Public Information Section, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, Ca. 94120. Phone (415) 544-2184.

TRAVEL AGENCY OPERATIONS VETOED

The operation of a travel agency is not a permissible activity for a bank holding company, the Federal Reserve Board of Governors ruled last month. The Board announced that it had considered two major issues: first, whether the activity was closely related to banking or managing or controlling banks, and second, whether the operation of a travel agency was properly incident to banking and in the public interest. The Board said that the only standard under previous criteria was whether banks generally had provided the proposed service.

"At the present time, the number of banks currently providing travel agency services number only about 150, or less than one percent of all commercial banks in the United States. They account for less than two percent of all travel agencies in the nation. Furthermore, nearly two-thirds of the travel agencies affiliated with banking organizations have been established within the past fifteen years."

In the Board's view, this demonstrated that an insufficient historical relationship existed between the operation of a travel agency and the nature of banking activities to meet the "closely relating to banking" test. This conclusion in itself ruled out travel-agency operations as a permissible activity, and made it unnecessary to consider the second issue of possible public benefits.

TWO-DOLLAR BILL BACK IN THE MONEY

When commercial banks open for business on April 13, a great many Americans will get their first glimpse in a decade of a two-dollar bill. That's the day when the bill makes its nationwide reappearance as an integral part of the country's currency system after a hiatus that dates back to 1966.

From a bicentennial standpoint, the date is also significant. The two-dollar bill bears a likeness of Thomas Jefferson on its face and a picture of the Signing of the Declaration of Independence on the reverse side. Appropriately enough, Jefferson's Birthday is April 13.

Senior Vice President Gerald R. Kelly, who is in charge of Branch Operations for the Federal Reserve Bank of San Francisco, views the introduction of the two as a double opportunity—a chance for commercial banks to provide a service for their customers and a chance for the Treasury Department to cut down sharply on rising production costs. "Widespread acceptance of the $2 bill can pay rich dividends," Kelly said, "in greater efficiency and productivity for the entire banking system."

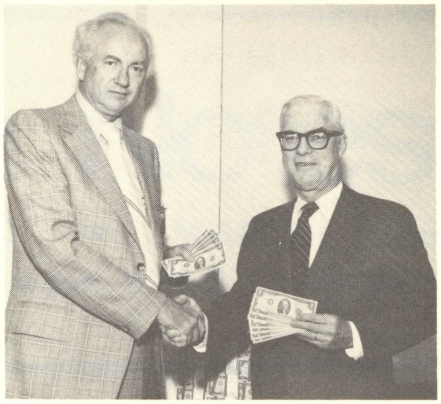
Kelly said that using the $2 bill can save taxpayers up to $7 million annually in production costs alone. At the present time one-dollar bills consume from 55 to 60 percent of the total currency-production time at the Bureau of Engraving and Printing. Acceptance of the twos could as much as halve the proliferation of one-dollar bills. The savings in paper, ink, labor and press time alone would be considerable—not to mention the additional benefits to the banking system of reduced warehousing, shipping, handling, sorting and counting.

It costs the government less than one cent to print a note, whether it's a $1 or a $100 bill. But from then on the tab for the $1 bill starts to mount up. For example, $100,000 in hundreds weighs about 2 pounds, but the same amount in ones comes to over 200 pounds and a stack 36 feet high.

The government hopes to improve this situation as soon as the two-dollar bill displaces ones. Starting April 12, some $60 million in twos will be released to commercial banks throughout the nine-state area served by the San Francisco Fed. This will enable commercial banks to have the twos on hand the following day to meet the public demand for the new denomination.

A second release will be made on

New two-dollar bills are shown by Richard Heldridge (left), President of the Community Bank of San Jose, and Wesley G. DeVries, Senior Vice President of the San Francisco Fed. Heldridge is also Treasurer of the California Bankers Association.



The two is a sure bet according to Senior Vice President Richard C. Dunn, Officer in Charge of the Los Angeles Branch, and Stafford R. Grady (right), Chairman of the Board and Chief Executive Officer of Lloyd's Bank of California. Grady is also President of the California Bankers Association.

Independence Day, again through the bank's branches in San Francisco, Los Angeles, Portland, Salt Lake City and Seattle.

"The support of the commercial-banking system is crucial to the successful introduction of this note," Kelly said. "Banks can contribute in two significant ways—first, by ensuring successful utilization of the two-dollar bill in their own organizations, and second, by encouraging the public to make maximum use of the two."

According to Kelly, evidence of strong public demand for the two is already apparent in the West. The San Francisco Fed has been flooded by calls and letters—some with checks—requesting twos. "We have informed the public through the media that individuals should call or visit the institution where they bank for further information on the availability of the new bill," he said.

To help banks publicize the new $2 bill, the Federal Reserve has published a new pamphlet on this subject called *Back in the Money.* Individual copies (or bulk shipments) may be obtained upon request from your nearest Fed office or:

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(continued from page 1)

member-bank trust department officers to make temporary use of idle funds from a number of trust accounts where the pooling is incidental to a bona fide trust relationship;

* A similar combination of funds by an attorney or individual acting in a custodial or fiduciary capacity for funds being held in escrow at a member bank;

* The consolidation of funds by an individual or organization that previously held its funds in various accounts;

* The offering of large certificates of deposit by member banks to those mutual funds which have a stated investment objective of investing in other than deposit obligations, and whose deposit obligations normally constitute a minimal percentage of the fund's overall portfolio.

Comment on the proposed Reg Q amendment will be accepted by the Board of Governors until May 10. The FDIC and the Federal Home Loan Bank Board set April 16 as their close-off date for comment.

FED RULES ON COVERING OVERDRAFTS

The Federal Reserve Board of Governors and the Federal Deposit Insurance Corp. announced proposals this month to allow their member banks to cover overdrafts by transferring funds automatically from a customer's savings account to a checking account. The proposals were designed to overcome the costly bookkeeping problems resulting from the growing use of overdrafts.

Under the plans, a depositor with savings and checking accounts at the same member bank would be permitted to have specified amounts of funds, in $100 multiples, transferred from the savings account in case of an overdraft; to authorize an automatic transfer of funds when the customer's checking-account balance falls below a predetermined level, and to allow removal of savings to the bank directly, without transfer to the checking account, in case of an overdraft.

To pay for the service, the proposals call for a depositor to forfeit at least 30 days' interest on the amount of savings funds transferred. In addition, as currently required, a bank would continue to reserve the right to impose 30 days' notice prior to a customer's transfer of funds from savings.

If the proposals are adopted, they would apply to all Federal Reserve member banks and FDIC-insured institutions. Comments on the proposals should be received by May 14.

CORRECTION

In the December 31, 1975 Comparative Statement of Condition, published in the Annual Report of the Federal Reserve Bank of San Francisco, the figure for "All other assets" in in error. The correct figure for "All other assets" is $243,071 (in thousands).

PACIFIC BASIN PUBLICATION STARTS

The Fed has started a new publication—*Pacific Basin Economic Indicators*—and copies are now available from the Public Information Section. The quarterly is a compendium of statistics giving annual rate of change data for 13 Pacific Basin countries on gross national product, money supply, international reserves, consumer prices, wholesale prices, manufacturing employment, industrial production, imports and exports. The countries included in the survey are Australia, Canada, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand and the United States.