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Federal Reserve Notes

FEDERAL RESERVE BANK OF SAN FRANCISCO • APRIL 1976

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FEDERAL RESERVE BANK
of San Francisco

MAY 7 1976

BOARD OFFERS "REDLINING" PROPOSAL

A new regulation to implement the Home Mortgage Disclosure Act of 1975—which requires disclosure of mortgage lending by geographic areas—has been offered for public comment by the Federal Reserve Board of Governors.

An estimated 4,400 commercial banks, 3,000 savings and loan associations, 470 mutual savings banks and 600 credit unions would be affected by the Board's proposed new Regulation C. The regulation would require subject institutions to disclose publicly where their mortgage loans are made. The Act grew out of allegations that there are mortgage credit shortages in some parts of large urban areas. The Act and the regulation specify that nothing in them is meant to encourage unsound lending practices or the allocation of credit.

Depository institutions subject to the Act are those with \$10 million or more in assets, those with offices in principal metropolitan areas, and those that are federally insured or regulated.

The Home Mortgage Disclosure Act of 1975 goes into effect on June 28, 1976. But the Board said that a transition is needed to give time for compliance. Disclosure statements would be due for some institutions by August 31, 1976. Reporting dates would differ for other institutions based on their fiscal year and other reporting considerations.

The Act has four principal provisions. It designates the mortgage loan information to be disclosed, and incorporates directions for determining what mortgage loan information should be

reported by census tract and what should be reported by zip code. It utilizes a sample form suggesting how required data may be reported and, finally, it establishes procedures to be followed by state-chartered depository institutions seeking exemption from the Act.

The information to be disclosed includes the following:

- *Loans on one-to-four family residences and on family residences of more than four units;
- *Loans on individual units of cooperatives and condominiums;
- *Secured and unsecured home improvement loans.

Junior mortgages as well as first mortgage loans would be covered, as would participating interests in mortgage loans to the extent of the participation. Refinancing of a mortgage loan would be covered, but extension of the maturity of a mortgage would not. No temporary financing, such as construction loans, would be included.

Complete mortgage loan data would be made available at the home office of each institution subject to the Act. In addition, at least one branch office in each SMSA would be required to make available mortgage loan data on properties located in that SMSA.

The Home Mortgage Disclosure Act makes the Board of Governors responsible for writing a regulation to implement it. The regulation is to be enforced by the Board, the other Federal bank regulatory agencies, the

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"BOOTSTRAPPING" RULE ISSUED BY BOARD

Bank holding companies will have to give the Federal Reserve Board of Governors 45 days prior notice when they plan to purchase their own stock above a certain "threshold" level.

The Board has issued an amended Regulation Y directed at "bootstrapping"—which refers to a holding company incurring substantial debt in order to purchase or redeem its own outstanding stock. This is generally done to help a shareholder or shareholder group gain control of the company. The purpose of the amendment is to assist the Board in supervising bank holding companies, since bootstrapping could have a significant impact on a company's capital structure.

The regulatory amendment will require advance notice of 45 days on such activities beginning May 15. Holding companies are required to notify the Board when the gross consideration in the transaction equals 10 percent or more of the company's net worth, or when the current transaction combined with the net consideration for similar transactions during
(continued on page 2)

Federal Home Loan Bank Board and the Administrator of the National Credit Union Administration.

The Board of Governors will accept comment in writing on the Act through May 3, 1976. In issuing the draft regulation, the Board urged the public to comment not only on provisions they believe should be changed or added, but also on provisions they believe should remain in the regulation. 

THE TWO COMES BOUNCING BACK

The two-dollar bill came bouncing back this month throughout the nation, and in the San Francisco Reserve District it got a strong welcome. Banks throughout the San Francisco Fed's nine-state area were ready on April 13 with supplies of twos for their customers.

At the San Francisco Fed and at commercial banks, television crews invaded lobbies to interview the public concerning their reaction to the two. The public generally was favorably impressed with the new bill.



Monty Hall

MONEY ORDERS FOR HOLDING COMPANIES

Bank holding companies would be able to sell money orders or money-order-like payment instruments of various denominations under a proposal being considered by the Federal Reserve Board of Governors.

The Board invited public comment on whether the proposed activity should be permitted under the Bank Holding Company Act. The Act provides that a bank holding company may acquire companies the Board finds to be "so closely related to banking or managing and controlling banks as to be a proper incident thereto."

The proposals were made in connection with applications made by two bank holding companies. The Board will consider whether this new activity can be expected to produce public benefits that outweigh any adverse consequences. 🏛️

With the cooperation of the San Francisco Fed, Monty Hall of "Let's Make a Deal" fame aired a special April 13 show to introduce the two to millions of viewers across America.

According to Senior Vice President Gerald R. Kelly, commercial banks have done an excellent job of supporting the debut of the two. "Now it's up to the public," said Kelly, "to see if they give the two a vote of confidence." 🏛️

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the past 12 months comes to 10 percent of the company's net worth.

The Board said it was aware that there are legitimate reasons for a bank holding company to buy its own stock. It added that it would require prior notification of transactions that may result in the following conditions:

- *The "bootstrapped" bank holding company is left with heavy debts and much reduced, very little or no equity.

- *Repayment and servicing of debt depend mainly on dividends the holding company receives from its subsidiary bank or banks, creating substantial pressure on them to pay excessive dividends to the parent company and possibly creating an unsafe or unsound bank condition.

- *The bank holding company's need to meet heavy debt service obligations encourages undue risk-taking aimed at increasing the earnings of its subsidiary bank or banks.

"The Board also wished to forestall bootstrapping due to the difficulties that may be encountered in unwinding such a transaction once it has taken place." The notice concluded, "When the required prenotification indicates that consummation of a proposed purchase of its own stock by a bank holding company would violate applicable law or create an unsafe or unsound condition, the Board would use its cease and desist power, if necessary, to prevent the transaction." 🏛️

EQUAL CREDIT HEARINGS HELD

The Federal Reserve Board of Governors held preliminary hearings late this month to receive public comments on recently passed amendments to the Equal Credit Opportunity Act.

The act went into effect last October and prohibited discrimination in the granting of credit on the basis of sex or marital status. New amendments to the act also prohibit discrimination in granting credit on the basis of race, color, religion, national origin, age, receipt of income from public assistance programs or exercise of rights under the Consumer Protection Act. The amendments go into effect on March 23, 1977. The Board of Governors is responsible for writing regulations to implement the amended legislation.

The purpose of the preliminary hearing is to enable consumers and businesses to express their views on the Equal Credit Act and specific credit issues before the final regulation is issued. The Board particularly asked for views on the following subjects:

- *Examples of existing discrimination based on race, color, national origin, religion, age, the receipt of public assistance income, and consumer rights activities;

- *Approaches to eliminating such discrimination;

- *Standards for a satisfactorily sound credit scoring system;

- *Standards for determining what constitutes negative scoring as it relates to the elderly;

- *Record-keeping requirements for creditors and the information creditors should be permitted or required to request;

- *Costs of implementing the Act and its impact on the availability and cost of credit to the consumer.

The Board also asked for comment on standards for determining what

SAVINGS BOND CHAIN-LETTER SCHEMES


Chain-letter schemes involving the use of United States Savings Bonds have reappeared in several areas of the country, according to Treasury and Federal Reserve sources.


Some promoters of the letters are trying to get individuals to participate in their schemes by falsely claiming they have the endorsement of the U.S. Treasury Department, and by cloaking their appeals in bicentennial and other patriotic labels.

"Many years of experience with chain-letter operations indicates that most participants lose their entire investment," the Fed said. "This outcome is inevitable because the supply of interested persons is soon exhausted and the chain breaks down."

Use of the mails to facilitate chain-letter transactions violates postal lottery and fraud laws. There is also the possibility that such schemes violate local anti-lottery laws, even if the mails are not used in any way.

"Chain-letter schemes hurt, rather than help the Savings Bond program," the Fed said. "Rather than encouraging persons to make genuine investments, they create the illusion that participants are both aiding their government and themselves. Even in the rare case where an individual receives some return, it is likely that he would quickly redeem the bonds. This places a further burden on the Treasury Department.

Banks and other issuing agencies are authorized by the Treasury to refuse applications where there is reason to believe the bonds will be used in a chain-letter scheme. 

classes of business credit might be exempted from all or part of the provisions when the intent of the legislation would not be served by strict adherence to the Act. In addition, the Board wanted to determine whether State laws are more protective, inconsistent or substantially similar to the Federal regulations. 

Welcome to the District SECURITY NATIONAL BANK

For a city that started as a railroad construction tent camp just 60 years ago, Anchorage has done some rapid catching up. And oil hasn't hurt it any. With the oil-rich North Slope just 600 air miles from the city, Anchorage has become corporate hub for the oil industry, and transportation, supply and service center for the entire state.

Within five years its population has grown by 50,000, so the city now numbers over 175,000. Anchorage boasts new jobs, new offices, new homes—and now a new bank to provide the banking services a progressive community needs.

Security National Bank is the first new National bank to be chartered in Alaska since before the 49th state entered the union in 1959. It is also the first in Alaska to offer customers 24-hour service with automatic teller machines. Two months after the first one went into operation at the main office, a second one was opened in a shopping center a few miles away. The bank stresses the kind of small-town, personal service that Alaskans value.

A driving force behind Security National Bank is Richard W. Fischer, a real estate appraiser and developer and former president of the Anchorage Borough Assembly who serves as the bank's Chairman of the Board. Wayne Littleton is President and Chief Executive Officer.

The banks' founders and directors have backgrounds as diverse as the state itself. In addition to Chairman Fischer and President Littleton, they include Charles Blomfield, an Anchorage architect; Dr. William Rader, an Anchorage psychiatrist; Dr. Arlon Tussing, a University of Alaska economist and staff member of the U.S. Senate Interior and Insular Affairs committee; and George Dickson, a lawyer whose firm has done most of the legal work in organizing the bank. Dickson currently fills a seat on the Anchorage assembly.


The Board is rounded out by Raymond J. Ellis, a certified public ac-



Wayne Littleton

countant; Amos C. Mathews, a retired army colonel who is now executive vice-president for Alaska Arctic Gas Pipeline, Co.; Charles Kennedy, a civil engineer, William Coghill, a retired army colonel now associated with the Alaska Railroad, and Richard Byerum, vice president and cashier for Security National Bank.

The bank's founders expect their institution to grow as the state continues to exploit its treasure trove of natural resources. The \$7-billion trans-Alaska oil pipeline is just the first of many projects to tap Alaska's wealth. Natural-gas reserves at Prudhoe Bay alone are estimated at 26 trillion cubic feet. More oil and gas resources await development along the Arctic coast in the 37,000 square mile Naval Petroleum Reserve No. Four, and off-shore drilling is proposed off both the northern and southern coasts of Alaska. The state is also a storehouse of hardrock minerals and hydroelectric power.

"With resources like that to bank on," says President Littleton, "we believe Alaska and Security National Bank have a great future. We look forward to sustained prosperity in the state by providing what we do best—financing the future of the state and serving our neighbors." 

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What A Difference A Year Makes PENNIES: FROM PINCH TO PLENTY

Remember the great penny shortage of 1974-75—when small change was doled out in bubblegum or stamps, when supermarkets raised banners "Bring us your pennies," and when one midwestern city had to be rescued by the airlifting of 70,000 pennies from Phoenix?

According to Senior Vice President Gerald R. Kelly of the Federal Reserve Bank of San Francisco, the penny pinch is officially over. Kelly reports that since mid-1975 the monthly flow of pennies from commercial banks to the Fed has gradually returned to normal conditions.

"Commercial banks presently have an adequate reserve of pennies in their cash vaults," he said. "The exceptional demand for pennies that drained their supplies in 1974 and early 1975 has tapered off, so they no longer have to order heavily from the Fed. In addition, the Bureau of the Mint has maintained a high level of production, easing the situation still further."

The penny crisis was precipitated by a sharp rise in the price of copper in late 1973 and 1974, which led to speculative hoarding of the metal and

anything made of it. At the height of the price upsurge, when copper reached \$1.52 a pound, the copper content of each penny approached the face value of the coin. Thus, speculators rushed to buy, causing pennies to disappear from circulation.

Even under normal conditions, the traffic in pennies at the Federal Reserve Bank of San Francisco is anything but small change. Commercial banks—and there are nearly 6,000 commercial banking offices in the nine-state area served by the San Francisco Fed—are continually depositing coins with, or withdrawing coins from, the Fed's offices at Los Angeles, Portland, Salt Lake City, San Francisco and Seattle. The coin flow fluctuates from month to month, reflecting seasonal variations in customer spending patterns.

Before the penny crunch, the San Francisco Fed received an average of \$300,000 back each month from banks which had pennies to spare. By mid-1974 the flow of pennies dropped to a trickle—down to an average flow of only \$40,000 monthly during the second half of 1974. While some banks had pennies in abundance, others were nearly bone dry.

In 1974 as a whole, the San Francisco Fed paid out about \$800,000 more in pennies than it received. But as copper prices dropped during 1975, pennies began to reappear, reaching commercial banks and then the Fed. Thus, for all of 1975 the San Francisco Fed received nearly \$500,000 more in pennies than it paid out.

During the 1974-75 period, the San Francisco Fed launched a penny campaign in cooperation with the U.S. Mint and thousands of commercial banks and schools throughout the West. More than five million pennies were returned to circulation during this drive. Yet despite the plenitude of pennies today, the Mint estimates that about 30 billion more are still lying unused in banks, homes and offices. Recycling existing pennies saves millions of dollars in production costs for pennies that really aren't needed—and at the same time, saves thousands of tons of copper.

The great penny crisis is now a memory for bankers, merchants and the general public, but pennies are still very much a concern of the Federal Reserve Bank of San Francisco. In December 1975, the bank handled over 900 tons of pennies—264 million coins in all. For the Fed's cash department, the shortage definitely is over.

