

Federal Reserve Notes

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NEW FED ACTIONS ON CONSUMER FRONT

The Federal Reserve Board of Governors last month submitted to Congress a number of recommendations for simplifying the wording of the Truth in Lending Act. The proposed changes grew out of the concern expressed by Senate Banking Committee Chairman Proxmire, that the Act's complex disclosure requirements "may impose significant costs and other burdens on competitors despite their good-faith efforts to comply with the law."

In submitting the Fed's recommendations, Vice-Chairman Stephen S. Gardner said "The Board believes that adoption of its recommendations for simplification would not deprive consumers of essential information needed to shop for credit or to understand their credit arrangement, such as the amount of credit, finance charge, annual percentage rate, and repayment terms."

In his correspondence, Gardner suggested:

*Elimination of itemization of certain charges which ordinarily would have to be disclosed if they were to be excluded from the finance charge.

*Elimination of the requirement for disclosure of the type of security taken in connection with a credit transaction.

*Elimination of certain requirements regarding clear identification of property taken in security for a closed-end transaction, to make them inapplicable to those items which are being purchased as part of the credit transaction.



S.S. Gardner

Several other possible areas of simplification, Gardner wrote, "involve potential adverse impacts on consumers that should be weighed carefully against the benefits of simplification. . . ." One of these would limit the penalty provisions to violations that actually interfere with the consumer's ability to make meaningful comparisons of credit terms. Other areas which probably require further study include Federal pre-emption of State Truth in Lending laws, disclosure of certain terms involved in closed-end credit transactions, and coverage of credit for agricultural purposes.

In another discussion of consumer-credit legislation, Governor Philip C. Jackson reported to the Senate Banking Committee on steps taken to reduce the complex regulatory framework in this field. Following up on Governor Gardner's point, he noted that the Federal Reserve has made recommendations for statutory simplification of those aspects of the



P.C. Jackson

Truth in Lending Act applicable to closed-end credit.

He added that as more experience is gained under the Fair Credit Billing Act, similar recommendations may be made for simplification applicable to open-end credit extensions. An earlier recommendation, limiting creditor liability only to acts that significantly injure or mislead consumers, also offers some hope that the new law can be simplified.

Jackson argued that consumer statutes and regulations are complex because "the credit system in America is complex beyond the ability of any one person or organization to completely understand. Ours has become such a credit-oriented society that the purchase of practically any kind of good or service may directly or indirectly involve the use of credit."

He noted that any statute or implementing regulation tends to be as
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BALLES CITES CASE FOR FED INDEPENDENCE

San Francisco Rotarians heard last month the case for a strong and independent monetary authority, as presented by President John J. Balles of the Federal Reserve Bank of San Francisco.

"The central bank has a difficult job in achieving the sometimes conflicting goals of economic growth, high employment, and a strong dollar at home and abroad," Balles said. "That task would be made even more difficult if our nation followed the example of others and placed the Fed under direct Executive or Congressional control."

Balles pointed out that the two industrial nations with the strongest central banks—Germany and the United States—are also the two with the strongest records of curbing inflation. "In some other countries, in Latin American and elsewhere, where the monetary authority has always been dominated by the Executive or the Legislature, triple-digit inflation holds sway, bringing economic and political chaos in its wake."

The independence of a governmental agency can never be absolute, Balles continued. The Federal Reserve System is subject not only to the provisions of the Federal Reserve Act, but also to the Employment Act of 1946 and other statutes.

Balles noted that the Fed has certain reporting responsibilities.

"Chairman Burns, for example, travels up to Capitol Hill every quarter to discuss the course of monetary policy, and to provide growth projections for the major monetary and credit aggregates for the year ahead. This approach is effective because it provides ample scope for the exercise of Congressional oversight, yet keeps political pressures away from day-to-day involvement in the details of monetary policy."

The Fed president argued that the nation's system of monetary management has been working just the way

CAPITAL STRUCTURE AMENDMENTS ISSUED


The Federal Reserve Board of Governors last month issued new rules to provide banks with new flexibility in adding to their capital structure. The new amendments affected Regulation D (reserve requirements) and Regulation Q (interest on deposits). The Comptroller of the Currency and the Federal Deposit Insurance Corporation issued similar rules for institutions under their jurisdiction.

The most significant change in the regulatory amendments adopted—from those proposed last July 2—was the introduction of a five-year minimum maturity requirement for any note in a serial issue. Another new provision allows Federal Bank regulators to waive certain repayment requirements in exigent circumstances.

The principal amendments provide that:


1. An issue of subordinated debt to be used as an addition to the capital of a state member bank will be free of reserve requirements and interest rate ceilings if the issue has an *average* maturity of seven years or more.
2. No note in a serial issue may have a maturity of less than five years.
3. In emergency circumstances, the appropriate regulatory agency may waive requirements that scheduled repayments be made at least annually and in amounts not less than in the previous year.

the founders of the Federal Reserve intended. "Certainly policymakers have stumbled on some occasions, but it's hard to imagine that our problems would have been solved if we'd followed the suggestion of the Fed's critics and turned control of the monetary authority over to the Executive branch or to Congress.

"If the spending propensities of Federal officials had been given freer rein through easier access to the 'printing press,' the inflationary tendency that has weakened our economy over much of the past decade probably would have been aggravated even more," he concluded. 

4. The issuing bank must obtain the approval of the appropriate regulatory agency for any redemption of an issue prior to maturity.

5. Under certain limited circumstances, regulators may make exceptions to the rule that an obligation that is exempt from reserve requirements and interest-rate ceilings must have a minimum denomination of \$500.

The Board also issued criteria for evaluating requests by state member banks for approval of new subordinated notes and debentures as an addition to each issuing bank's capital structure. "The application of these criteria is intended to encourage the accumulation by state member banks of an adequate cushion of equity capital, to protect against excessive concentrations of debt repayments in any one year, and to promote safe and sound banking practices," the Board stated. 

FED CUTS SECURITIES REPORTING PAPERLOAD

The Federal Reserve Board of Governors has cut reporting requirements for the regulation of securities credit, through amendments to its Regulation G. The change cuts in half (to about 350) the number of persons subject to the regulation, which governs securities credit by lenders other than banks and broker-dealers. The lenders still covered account for 98 percent of this type of credit.

The Fed's action is part of its continuing effort to reduce the reporting burden on the public, and to deregulate lenders over whom regulatory control is no longer essential. The major amendments propose:

*Reduce the frequency of reporting by Reg G lenders from a quarterly to an annual basis.

*Decrease the number of persons subject to the regulation. A lender now is not subject to the regulation unless credit extended or arranged is \$100,000 in any calendar quarter (instead of \$50,000), and unless the amount of credit outstanding exceeds \$500,000 (instead of \$100,000) at any time during the calendar quarter.

(continued from page 1)

complex as the system it is designed to regulate. "We feel that the best solution to this problem for the future is to limit legislative corrective action to those particular fields where significant public abuse has developed."

In a separate action, the Federal Reserve Board of Governors asked for comments on a revised Regulation B, as a means of implementing the 1976 amendments to the Equal Credit Opportunity Act. Written comments are requested by September 1, 1976, and the amendments become effective March 23, 1977.

The original Equal Credit legislation prohibited discrimination in credit transactions on the basis of sex or marital status. The 1976 amendments extended its provisions to include discrimination based on such other factors as race, color, religion, age, national origin, receipt of income from public assistance programs, and good-faith exercise of rights under the Consumer Protection Act.

The Board's Regulation B and the proposed revision both were written upon the mandate of Congress to implement new legislation. The Board's regulation would continue to be enforced by the twelve Federal agencies designated in the Act, which regulate all the various types of consumer-credit activities, from bank credit cards to air fares to home mortgages.

In addition to broadening the classes against which discrimination in credit transactions is prohibited, Reg B's principal provisions also would include a change in the record-retention exemptions for special-purpose credit programs, methods of handling adverse actions, and assistance in formulating applications. (For example, creditors who used a proposed model application form would be assured of being in compliance.) The proposed regulation also includes a lengthy discussion of age discrimination; for example, information on age would be restricted to the assessment of creditworthiness, and could not be used arbitrarily to cut off or diminish credit due to an appli-

SAN FRANCISCO MEMBERSHIP FIRST

Pacific Securities Depository Trust Company, the first limited-purpose trust company in San Francisco, last month became the first such institution in the West to become a member of the Federal Reserve System.

Just what is a securities depository? The answer requires a brief recollection of the famous back-office "paper crunch" that was a feature of the "go-go" securities markets of the late 1960s and early 1970s. Willing buyers and willing sellers flocked to the market in unprecedented numbers, only to run head-on into a back-office settlement mechanism woefully inadequate to the challenge of twenty-million-share days.

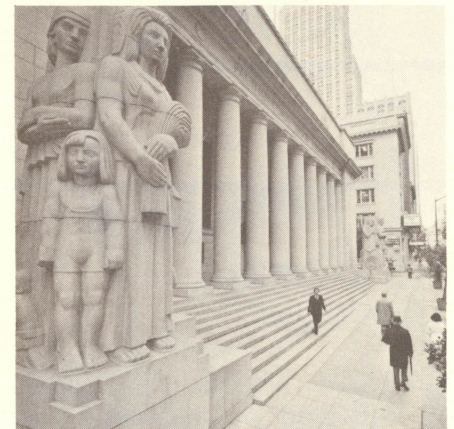
To meet the crisis, securities firms developed securities depositories, which are forerunners of today's limited-purpose trust companies. At these depositories, members handled transactions with other members via book-entry adjustment, *without* the costly and time-consuming physical handling of securities. The counting, validating, controlling, storing, and transporting of certificates thus could be greatly reduced or eliminated for depository members.

Bankers entered the picture in strength in the early 1970s, after the Justice Department urged all financial institutions to utilize securities depositories as a means of combating theft. The American Bankers Association supported this position, arguing for the immediate development of a national system of regional securities depositories, as well as the ultimate elimination of all physical handling of securities. Banking authorities in California, New York and Illinois conferred trust-company status upon depositories in their respective jurisdictions.

Pacific Securities Depository Trust Company, wholly-owned by the Pacific Stock Exchange, is the first limited-purpose trust company in the West to become a member of the Federal Reserve System. In addition, proposed rules with respect to creditors' requests for information would be broadened to take account of the 1976 amendments. 🏛️



H.W. Bineault



Pacific Stock Exchange

ic Stock Exchange, opened for business in December 1974. It is a highly specialized bank which operates on a limited-profit basis, drawing revenue from customers' dues, and custody and activity fees. It takes clients' securities into custody, thereby immobilizing them, and facilitates their transfer via the kind of book-entry accounting used by the Federal Reserve for government securities. The Pacific Clearing Corporation, also wholly-owned by the Exchange, handles settlement of Trust Company securities transactions.

Henry W. Bineault, president of Pacific Securities Depository Trust, hopes to capitalize on the expertise of the Federal Reserve Bank of San Francisco. He believes that System membership will help him expedite securities transactions and provide better service to his broker and bank customers. "The appearance of San Francisco's first limited purpose trust," says Bineault, "is designed to provide both added strength and flexibility to the Western financial community." 🏛️

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400 Sansome St., San Francisco, CA 94120

Federal Reserve Bank of San Francisco

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FED SPEAKERS TALK MONEY

One subject that always comes up when bankers and business people get together is money. To help the discussion along, the Federal Reserve Bank of San Francisco maintains a Speakers Bureau—comprised of operations officers and economists—who can make dollars and sense out of central-banking operations.

Although the Fed touches the lives of most Americans because of its role as the nation's central bank, many individuals still are not exactly sure of what the System does. But last year, for example, the Federal Reserve Bank of San Francisco:

*Received and counted nearly 1½ billion coins valued at \$221 million

*Handled 732 million pieces of currency worth over \$10 billion

*Transferred over \$4½ trillion on its computerized funds network

*Processed over a billion checks representing about \$325 billion.

*Issued, received and redeemed almost \$400 billion in Savings Bonds, Savings Notes and other Treasury Issues.

WELCOME TO THE DISTRICT New Members

Anaheim National Bank - Anaheim, CA.

Pacific Securities Depository Trust Company - San Francisco, CA.

Valley Bank & Trust Company - South Salt Lake City, UT.

New State Nonmember Banks

Alaska Pacific Bank - Anchorage, AK.
Capital Bank of Commerce - Sacramento, CA.

Columbia Pacific Bank & Trust Company - Portland, OR.

Delta Pacific Bank - Pittsburg, CA.

Diablo State Bank - Danville, CA.


Farmers State Bank - Farmersville, CA.

Lincoln Mutual Savings Bank - Spokane, WA.

Pioneer Bank - Salt Lake City, UT.

The Women's Bank - San Diego, CA.

All this, of course, was in addition to the Bank's major responsibilities in the areas of bank supervision and monetary policy.

If your community group or service club would like a presentation on these activities, contact the Bank and Public Relations Department of your nearest Fed office. The numbers to call are: San Francisco, (415) 544-2350; Los Angeles, (213) 683-8358; Seattle, (206) 623-4373; Salt Lake City, (801) 328-9240; Portland, (502) 228-7558. 

The Economy and Economic Policy

August 16, 1976

"Surely we Americans have done something right over the past two centuries to create our present \$1.7-trillion economy as well as the highest standard of living ever recorded. One of the things we've done right is to learn from experience, and to maintain the strength of those institutions that contribute to a strong and growing economy. We've learned how to guard against the ravages of recession, and we've recently begun to make progress too against the ravages of inflation — but I would argue that an independent central bank is the centerpiece in the fight against both of those evils. Our operating techniques change over time; for example, Chairman Burns now makes a formal report to Congress every quarter on the future direction of monetary policy. That approach is effective because it provides ample scope for the exercise of Congressional oversight, yet keeps day-to-day political pressures away from the details of Federal Reserve policy. I would say, let's give our support to this and the other institutions that keep America strong, and our tricentennial report will be even better."

John J. Balles