

# Federal Reserve Notes

FEDERAL RESERVE BANK OF SAN FRANCISCO • SEPTEMBER 1976

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## WESTERN LOAN RATES RISE IN SUMMER PERIOD

Business borrowing costs increased at West Coast banks in the early summer period, reflecting a generally rising trend in prime business-loan rates.

The upturn in rates represented a reversal of the downward rate movement that had been evident since early last fall. However, the reversal apparently was only temporary, since banks lowered their prime rate twice in August and September.

According to the quarterly survey conducted by the Federal Reserve Bank of San Francisco, the average rate on regular short-term business loans reached 8.15 percent in the first half of August—a rise of 40 basis points from the May survey period. (One hundred basis points equal one percentage point.) Rates on revolving-credit loans averaged 7.73 percent, a 58-basis point increase.

The rate increase was greater on loans of \$500,000 and over than on smaller-size loans. Typically, small bank loans adjust more slowly than large loans to shifts in basic rate trends, either in an up or down direction.

In the August 1-15 survey period, the thirteen banks in the survey reported 1,958 short-term and revolving credit loans, for a total volume of \$836 million. Both the number and dollar amount of loans were larger than they were three months earlier, but lending activity continued to lag behind year-earlier levels, somewhat surprisingly for a business-recovery period. 🏦

## TREASURY'S BOOK-ENTRY PROGRAM EXPANDS

Later this year, the Treasury Department expects to offer 52-week Treasury bills in book-entry form only, and in mid-1977 these mandatory procedures will cover 26-week and 13-week bills as well. These moves represent decisive steps toward the Treasury's long-range goal of eliminating the issuance of all definitive securities in connection with new public-debt borrowings.

Book-entry securities are not represented by engraved pieces of paper. They are maintained as computerized records by Federal Reserve Banks and branches in the names of member commercial banks. Member banks, in turn, keep separate accounts for securities they own, as well as for the securities they hold for individuals, corporations, other investors, and correspondent financial institutions. An investor in marketable Treasury securities may choose, as his securities custodian, any bank or other financial institution that maintains book-entry procedures.

Book-entry offers important benefits to all participants in the Government securities market by substantially increasing operating efficiency. This procedure reduces piece counting during processing, audits and examinations, and it also eliminates coupon cutting and physical inventories.

The procedure reduces risks in security and handling. There is no piece of paper to be lost, stolen, destroyed or counterfeited. Payment at maturity is automatic and does not require presentation of a security. Over four-fifths of the marketable public debt is already in book-entry form.

In announcing this latest phase of the book-entry program, the Treasury disclosed that certain institutional investors required by law or regulation to hold actual documents would be able to obtain physical certificates in the \$100,000 denomination, but only for a limited period of time.

According to Treasury plans, any subscriber who elects not to purchase T-bills through a commercial bank or other financial institution will be able to establish an individual book-entry account with the Treasury. This service will be provided at no cost to subscribers, who may present tenders and payments either through a Reserve Bank or directly to the Treasury in Washington, D.C. In general, the Treasury's direct-account system is designed to serve the non-trading investor, who plans to retain T-bills until maturity. It does not provide secondary-market facilities such as those available through member banks.

Since 1968, when the book-entry program was first initiated, the number of securities in this form has grown dramatically. Eight years ago, about 15 percent of total holdings were in book-entry form. This year book-entry accounts for 82 percent of the \$397 billion in marketable government securities.

The Federal Reserve Bank of San Francisco invites banking institutions to discuss any difficulties encountered due to legal or other impediments in making full use of the book-entry procedure. Comments or inquiries can be directed to the nearest Fed office. 🏦

## COLDWELL NOTES CHANGE IN BANKING

The banking environment is changing because of increased public scrutiny, Federal Reserve Governor Philip Coldwell told a Virginia banking school last month. One of the major aspects of this new situation is the growing involvement of more and more regulators in the banking industry, he added.

"For some of the new entrants into bank regulation, banking is just another industry to be treated the same as other industries in its dealing with the public," Coldwell said. For example, bankers are required to disclose their positions with sufficient clarity that investors and depositors can make fully informed judgments on the strengths and weaknesses of particular banks.

"Some of these new regulators discount the argument that banking data should be confidential to protect customer relationships, or to maintain confidence in the integrity of the institution. So you, as the bankers who must live under this environment, should be actively participating in the definition of the public interest in this field."

Coldwell noted that another public-interest problem concerns the implementation of policies needed to achieve non-discriminatory access to credit. "The fundamental public-interest objective is that credit be extended without discrimination. The problems arise in the means to assure this and the potentials for interference with the legitimate measuring of credit worthiness, as well as the degree and type of monitoring required."

Referring to the pressure for increased competition in financial markets, Coldwell said, "Whatever your definition or your position, I urge you to make your voices heard in defining the competitive environment within which the banking industry must operate in the years to come, because both banking competition and regulation are to a considerable extent reflective of a well-defined, enunciated, and evaluated public interest." 🏦

## Welcome to the District THE "ACTION BANK"

The city of Anaheim boasts the slogan "Program for Progress," and many of its municipal vehicles bear the standard "City of Action." So it seemed only natural when a new, progressive bank with Anaheim in its name opened for business last month, that it should promote its corporate image with the fitting words: "The Bank of Action."

All this corporate vigor at Anaheim National Bank is the work of not one, but two chief executive officers. They are John Dailey and James Ledbetter, who together bring more than 41 years of banking experience to the Anaheim scene. Coincidentally, both began their careers in the 1950's with

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## FCA PUBLICATIONS NOW AVAILABLE

More information is now available on the Federal Reserve's Functional Cost Analysis Program, which was described in the June issue of this publication. This free service has been available for the past decade to Federal Reserve member banks.

In addition to the 1975 Average Banks report, the following FCA publications are now available:

- \* 12th District Unit Banks
- \* 12th District Group I Banks (under \$50 million)
- \* 12th District Group II Banks (\$50 million to \$200 million)
- \* 12th District Group III (over \$200 million)
- \* Billion-dollar Banks (Nationwide)
- \* Performance Characteristics of High Earning Banks (Nationwide)

To obtain a free copy of any of these reports, write to:

Functional Cost Analyst  
Bank and Public-Relations  
Federal Reserve Bank  
of San Francisco  
P.O. Box 7702  
San Francisco, CA 94120

the Southern Arizona Bank and Trust Company, and then advanced separately through several southern California banking institutions. Dailey is now Anaheim National's President and Board Chairman, while Ledbetter is Executive Vice President and Vice Chairman of the Board. Vice President Shirley Jones backs up the new management team.



**J.C. Dailey**



**J.E. Ledbetter**

The bank's goal is to recycle funds in the community. This community orientation is strengthened by the local ties of the board of eight directors, all of whom reside in the close-knit cities of Anaheim, Orange and Santa Ana. Management has gathered an operating staff of 15 experienced bankers to provide extra service. The bank boasts extended weekday banking hours, Saturday opening, drive-up teller facilities, and a "welcome area" for customers in its new building. 🏦

## IRA CEILINGS UNDER SCRUTINY

The Federal Reserve Board of Governors has announced that it will give further consideration to the question of whether commercial banks should be permitted to match thrift institutions in the rates of interest they can pay on Individual Retirement Accounts (IRAs).

IRAs are retirement savings deposits that can be established by individuals not covered by an employer retirement plan. Individuals can deposit up to \$1,500 a year, or 15 percent of gross income—whichever is less—under special tax arrangements. Member banks may pay up to 7¼-percent interest on four-year time deposits or up to 7½-percent on time deposits of six years or more. Thrift institutions may pay one-quarter percent more.

Although the Board's findings are still inconclusive, it has unearthed evidence that banks may lose out to thrift institutions in competing for IRA deposits because of the present interest-rate differential.

"In enacting the IRA provisions, it was the intent of Congress that individuals whose employers do not have private retirement plans should be encouraged to provide for their retirement needs through the establishment of IRAs," the Board stated. "In order to accomplish Congress's intent, as a matter of public policy the Board believes that IRA participants should be permitted to obtain the highest rates of interest permissible on their retirement savings regardless of where the deposits are maintained. In the Board's estimation, a differential on IRA deposits may be viewed as inconsistent with the objective of providing IRA depositors with the means of obtaining the highest earnings possible on funds saved for retirement purposes."

The Board indicated that further monitoring would be conducted before a final conclusion is reached. Possible action would be appropriate, the Board concluded, in early 1977 when Congress is considering an extension of interest-rate ceilings for financial institutions. ❧

## BDX—ANOTHER FED BANKING SERVICE

Have you ever wondered how well your bank or branch has been performing in relation to local-area competition? If you're a banker in California, Arizona or Washington, you can find out by taking advantage of BDX. That's the Federal Reserve Bank of San Francisco's Branch Data Exchange program.

The program, which is unique to this Federal Reserve Bank, is provided free-of-charge as a service to Twelfth District banks. BDX provides participants with information not readily available from other sources for the measurement of market penetration, success of advertising efforts, adequacy of services, and general branch efficiency.

A semi-annual survey gives each bank management a tool to measure the relative performance of various competing offices in respective county or statistical areas. Reports show, for individual banks and branches, market shares for key deposit and loan categories, changes from previous periods, and operating characteristics.

The program originated at the request of marketing representatives from several California banks, and has since proven to be well suited to branch systems as well as unit banks. From an initial enrollment of just over 20 banks in 1972, BDX has increased fivefold. At the end of 1975 there were 59 banks participating in the program in California, 13 in Arizona, and 26 in Washington.

To take advantage of BDX, all a bank has to do is provide a letter authorizing the exchange of data with other participants. The next step is to complete and return data, preferably monthly averages, in schedule or punched-card format for each banking office. To protect the confidentiality of data, the San Francisco Fed releases individual branch information only to authorized participants that have a presence in respective market areas.

Planning has already begun for the next survey for BDX, covering data for

## NEW SEASONAL BORROWING RULES

The Federal Reserve Board of Governors has liberalized the conditions which govern seasonal borrowing by member banks from the 12 Federal Reserve Banks. The change is designed to help member banks that are subject to significant seasonal-loan demand or deposit fluctuations—particularly smaller banks—to meet the financial needs of their communities.

The revised Regulation A will permit a member bank to be eligible for seasonal credit from the Fed, even though it maintains a portion of its liquid assets in the form of Federal funds, so long as such holdings conform to the bank's normal operating experience. (Fed funds are loans of excess reserves to other banks.) In the past, seasonal credit at the discount window was not available to banks while they were net lenders of Fed funds.

The new rules also liberalize seasonal borrowing in other ways. Formerly, a bank qualified for seasonal-borrowing assistance if its need for funds in its peak season exceeded five percent of average total deposits in the preceding year. The new rules lower this formula to four percent of the first \$100 million and include somewhat higher percentages for larger deposits. Also, in computing eligibility for seasonal assistance, the revision reduces from eight to four weeks the minimum period during which the seasonal need must be evident.

The revised seasonal-credit arrangement normally will not be made available to banks with deposits of \$500 million or more. Smaller banks in areas which are subject to seasonal peaks in credit demands, such as farming areas, should be the principal beneficiaries of the new rules. ❧

year-end 1976. A list of present participants, along with other BDX information, is now available from the Bank and Public Relations Department at your nearest Federal Reserve office. You can also contact Paul W. Van Etten, Manager of Banking and Statistical Reports at (415) 544-2183, or Diane Fong at (415) 544-2176. ❧

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## NEW REG Z CHANGES ON CHARGE ITEMS

The Federal Reserve Board of Governors has adopted changes in its Regulation Z (Truth in Lending) for identifying transactions charged to consumers using open-end charge accounts, such as credit-card or department-store accounts.

The new provisions state that in a two-party transaction (generally involving only the customer and the merchant) if the seller cannot provide a description of the property or services otherwise required to identify the transaction on a billing statement, a voucher number may be used instead.

If, however, the customer cannot identify the transaction from the voucher number, the creditor would be required to treat any resulting inquiry from the customer as a billing error. This would trigger the billing-error settlement procedures under the Fair Credit Billing Act, including: no finance charge on the transaction until the matter is settled, an additional period free of finance charges if the creditor normally allows such a period after billing, and provision of a copy of the sales voucher to the customer without charge.


The amendments also provide that, when a transaction did not take place

## COUNTERFEIT DISPLAY ATTRACTS ATTENTION

It may be part fake, but the San Francisco Fed's Counterfeit Currency Exhibit rates as a genuine attraction for bankers and their customers—and it's available free to all Federal Reserve members in the Twelfth District.

The self-contained educational exhibit displays real and counterfeit bills side by side—in an attractive 16-by-28-inch unit just a little larger than an attache case. Each bill is keyed to a button. It's then up to the viewer to test his ability in distinguishing the genuine from the counterfeit bills. A light flashes when a genuine bill is selected, while a buzzer sounds in the case of a dud.


at a seller's fixed business location, an appropriate identifying designation may be used for transactions that take place by mail, by phone, or at a customer's home.

In the case of purchases in a foreign country, Reg Z now allows the creditor to identify the transaction by date of debit, instead of date of purchase, and requires the creditor to treat any resulting inquiry by the customer as triggering the Fair Credit Billing Act billing-error procedures. 

**Federal Reserve Bank  
of San Francisco**  
400 Sansome St., San Francisco, CA 94120



The displays are available exclusively to District member banks (and branches) for up to one week's time. The Fed pays all costs, including shipping charges. The compact exhibit is especially suitable for display in bank lobbies on counters, racks or stands.

For information on the Counterfeit Currency Exhibit, contact the Bank Relations Department at your nearest Federal Reserve office. Because of heavy demand for these displays, requests are filled on a first-come, first-served basis. 

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