

Federal Reserve Notes

FEDERAL RESERVE BANK OF SAN FRANCISCO • NOVEMBER 1976

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MOST DIRECT DEPOSITS IN WEST GO TO BANKS

Nearly five million persons are participating in the social-security direct-deposit program, and most of these people are having their "checks" sent to commercial banks. In the West, banks are receiving close to 90 percent of all direct payments, and the proportion is almost as high elsewhere in the nation.

Under the program, individuals who receive social security or supplemental security income can have their payments transferred directly to their savings or checking accounts in designated financial institutions. Eligible institutions include commercial banks, savings-and-loan associations, mutual savings banks, credit unions and others.

When the program started, the Treasury Department mailed the recipients' checks directly to their accounts at designated financial institutions. In the next phase, the Treasury tried to eliminate paper checks, and as a result, more and more payments are now being made electronically on tape through the electronic funds-transfer system operated by the Federal Reserve System.

Direct deposits on computer tape have substantial benefits for the recipients and the Federal Government. There is no problem of theft or loss, no delay in getting the deposit to the bank or standing in line, and no problem of receipt or deposit when the recipient is out of town. The system also can save the Treasury, the Federal Reserve System, and financial institutions considerable expense by

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ALIBRANDI, MAIER NAMED TO HEAD BOARD

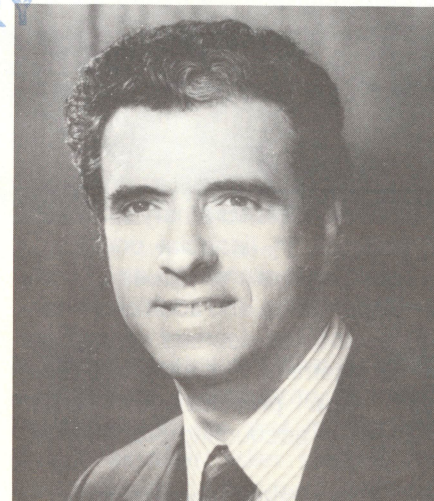
The Federal Reserve Board of Governors this month appointed Joseph F. Alibrandi and Cornell C. Maier as Chairman and Deputy Chairman of the Board of Directors of the Federal Reserve Bank of San Francisco. Their terms are effective January 1, 1977, when Alibrandi replaces O. Meredith Wilson, who is retiring, and Maier steps into Alibrandi's former position as Vice Chairman.

Alibrandi is president and chief executive officer of the Los Angeles-based Whittaker Corporation. The corporation is engaged in five principal business areas, including metals, textiles, chemicals, marine-recreation, and technology and life sciences.

Alibrandi received his Bachelor of Science degree from the Massachusetts Institute of Technology, and currently serves on the Corporation Development Committee and the Sloan School Visiting Committee at MIT. Active in professional and civic affairs, he serves on the Executive Committee of the Business Advisory Council of the University of California at Los Angeles. He is also a lifetime member of the American Institute of Aeronautics and Astronautics, the Air Force Association, and the Navy League of the United States.

Maier is president and chief executive officer of Kaiser Aluminum and Chemical Corporation. He heads a diversified \$2-billion organization with operations in 28 states and 14 nations.

Maier joined Kaiser Aluminum in 1949 immediately following graduation



J.F. Alibrandi



C.C. Maier

from the University of California, where he earned a degree in electrical engineering. His experience spans virtually every major activity in the corporation's operations. Maier moved into the company's international operations in 1964 and served successively as deputy managing director of James Booth Aluminum Ltd., in Great Britain; as managing director of Kaiser Aluminum Werke, Inc., in Germany; and as vice president and European Regional manager of Kaiser Aluminum International.

BOARD RULES ON SECURITIES

The Federal Reserve Board of Governors recently issued rulings on three separate matters involving the securities industry.

The Board amended its Regulation F (Securities of State Member Banks) to make its reporting requirements conform to comparable rules of the Securities and Exchange Commission. Under the amended Regulation, which became effective November 15, state member banks subject to Regulation F will file expanded quarterly reports.

The reports will include a condensed balance sheet, a summary statement of changes in financial position, a narrative analysis of results of company operations, and additional financial disclosures deemed appropriate by management. The amended regulation also provides for certain changes in accounting procedures.

The adopted amendment is similar to the changes in Reg F that were proposed by the Board last February. However, the due date of the new quarterly report will be 45 days after the end of the quarter, instead of 30 days as originally proposed.

The Board meanwhile deferred action for one year on a proposal to make underwriting and dealing in Federal Government securities and municipal securities a permissible activity for bank holding companies.

Unlike their subsidiary commercial banks, holding companies at present are precluded from underwriting and dealing in such securities. The Municipal Securities Rulemaking Board (MSRB) currently is drafting rules to govern the conduct of municipal-securities dealers, in accordance with the instructions MSRB received when it was created by Congress last year. Consequently, the Board of Governors is deferring its decision on bank holding companies until actions by the MSRB make reconsideration appropriate. The Board explained that possible regulatory changes by the MSRB might significantly alter present banking-industry practices.

RCPC EXPANDS TO HAWAII

The San Francisco Regional Check Processing Center (RCPC) expanded its immediate-payment boundaries this month to include banks located in Hawaii and Guam.

With the expansion to Hawaii and Guam, the San Francisco Branch has launched the final phase of its RCPC program. This means that all eligible San Francisco territorial items now have an immediate-credit availability when deposited before 12:01 a.m. Extending these boundaries also makes all banks in the Hawaii and

In a third ruling, the Board amended its Regulation T, which governs the extension of securities credit by brokers and dealers. The Board adopted an amendment—effective January 1, 1977—to prevent the excessive use of credit in connection with the issuance, endorsement or guarantee of puts and calls (options to sell or buy stock).

The amendment's principal effect will be to set the level of margin required for the writing of uncovered operations at 30 percent of the market value of the underlying security. When an option is "uncovered," it means that the seller doesn't presently own the stock he promises to deliver at the time the option is sold.

A 30-percent margin is the current minimum requirement of the major stock exchanges, so the ruling is not expected to affect current industry practices to any significant extent. But it would prevent the exchanges from relaxing their margin requirements in the future. In addition, other exchanges that begin engaging in options trading would have to follow the same guidelines.

No margin will be required when the option is "covered"—that is, when the security itself, or its equivalent, is held in the option writer's account. The amendment will apply to brokers and dealers when they deal in options written by their customers. Under a previous Board ruling, no credit may be extended by brokers and dealers to their customers for the purchase of options.

Guam area eligible to deposit with the San Francisco RCPC.

RCPCs were developed by the Fed to accelerate the handling, clearing and settlement of checks through computerized, round-the-clock centers which are geared to process overnight the millions of checks flowing into Federal Reserve offices nationwide. The operation here is but one circuit in an RCPC network drawing on approximately 45 such centers at Federal Reserve designated sites throughout the nation.

At all offices in the 12th District, the RCPC program was developed in phases; and, with this latest announcement by the San Francisco Office, the three-year program of providing RCPC service for the entire District has been completed.


Those banks interested in depositing with this program should call the check officer at any office of the bank.

DESERET BANCORP MOVE APPROVED

The Federal Reserve Bank of San Francisco approved last month an application by the Deseret Bancorporation of Pleasant Grove, Utah, to become a bank holding company.

The bank holding company was formed through acquisition of all voting shares of the successors of a merger involving the Bank of Pleasant Grove, the State Bank of Lehi (Lehi, Utah), and Mountain View Bank (American Fork, Utah). A proposed new bank, Geneva State Bank of Orem (Orem, Utah) is also a part of the acquisition.

The combined units would represent the twelfth largest banking institution in Utah. The Bank of Pleasant Grove has deposits of \$18.2 million, while State Bank of Lehi and Mountain View Bank have deposits of \$12.4 million and \$4.7 million, respectively.

All of the existing institutions are unit banks located in the Provo, Utah, banking market. Geneva State Bank of Orem will also be located in this banking market. 

BOARD PERMITS AUTO LEASING

The Federal Reserve Board of Governors decided this month that automobile leasing will continue to be an allowable activity for bank holding companies. Many auto dealers had opposed this move because of fears of increased commercial-bank competition.

Auto leasing has been a permissible activity since 1974, when the Board of Governors first permitted bank holding companies, under certain conditions, to handle the leasing of real or personal property. However, the National Automobile Dealers Association sought judicial review of this leasing regulation, and the courts remanded the matter to the Board for hearings.

The Board concluded that auto leasing by bank holding companies is essentially a financial rather than a commercial transaction.

"Leasing is an alternate method of financing the purchase of an automobile without the necessity of a large initial down payment," the Board found. "To the customer it is a means of obtaining the possession and use of an automobile through deferred payment. To the bank it is another in a spectrum of methods of new-car financing that includes installment-credit transactions, floor planning and commercial lending to independent lessors."

In making its decision, the Board concluded that holding-company leasing activity does not cause unfair competition, and is not contrary to the provisions of the Consumer Leasing Act of 1976. 🏠

MAKING CHANGE WITH \$2 BILLS

There are only two cash amounts which actually require \$1 bills: \$1 and \$3. Other amounts can be made up without using \$1 notes; in fact, any amount from \$1 to \$20 can be made without \$1's, as follows:

- \$1—Two \$.50's or four \$.25's
- 2—\$2
- 3—\$2 and two \$.50's
- 4—Two \$2's
- 5—\$5
- 6—Three \$2's
- 7—\$5 and \$2



Present at the opening of Vista National Bank were (from left) President Charles Wenz, Pamela Bates (Miss Vista), Mayor Lloyd Tracy, and C.R. Allen, Chairman of the Board of Vista National Bank.

Welcome to the District VISTA NATIONAL BANK

The growing city of Vista—the "Hub of North San Diego County"—is the home of a new locally-owned independent bank and Fed member. Vista National Bank officially opened its doors for business on September 24 with a capitalization of \$1,250,000, 555 stockholders, 5 board members, and an operating staff of 13.

"When our stock subscription was oversubscribed in 17 days," says Vista President Charles F. Wenz, "I knew we were operating in a healthy atmosphere."

The bank presently is housed in a

2,000-square-foot modular building which serves as temporary quarters. The facility is the first in Vista to provide sit-down teller stations for individualized customer service. Plans for a permanent headquarters building are already on the drawing boards.

Vista National Bank is known as "Your Home Town Bank"—and for a very good reason. The five Board members are all long-time area residents. Chairman C. Robert Allen, Board Secretary Frank W. Allen, Dr. J. Paul Featherstone, Marjorie Thibodo, and Charles Wenz are all intimately aware of the growth potential of Vista. Backing up President Wenz are William T. Devan, Vice President and Cashier; David L. King, Assistant Vice President and Loan Officer; and Aurora A. Casebolt, Operations Officer.

"Progress to date has been very gratifying," President Wenz says. "Right now we're still in our temporary home, but the initial deposit strength and community interest have been overwhelming. We're proud to have the opportunity to serve the community of Vista and the surrounding North County area. As a new locally-owned and locally-managed independent bank, I'd say we have our roots in a community with a pretty promising outlook. 🏠

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Federal Reserve Bank of San Francisco

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DEPOSITS (continued from page 1)

eliminating the need for processing many millions of checks.

About 772,000 individuals are participating in the program in the Twelfth Federal Reserve District, which includes Alaska, Arizona, California, Idaho, Hawaii, Nevada, Oregon, Utah, and Washington and Pacific territories. Over 693,000 of these payments—or 90 percent—are being deposited in commercial banks. Savings and loans are receiving about 68,000 direct payments or 9 percent of the total. The remaining one percent is split between credit unions and mutual savings banks.

The social-security direct-deposit program began this year on a limited geographic basis, and has since expanded nationwide. Payments are made to recipients of retirement income, supplemental income, disability benefits, and coal-miner health benefits. Direct-payments programs are also underway or in the planning process for several other retirement programs—for the Air Force and Federal civil service, as well as for railroad workers. The Veterans Administration, now conducting a pilot program, plans to expand it to cover all VA compensation and pension payments before September 1977.

Twelfth District states presently account for almost one-fifth of the direct deposits under the social-security program. In the January-October period, California led the way with 428,468 payments out of the nearly 772,000 deposited with financial institutions throughout the nine-state district. Washington with 115,895 was next.

Thus, a number of programs are now gearing up for electronic payments, and are expected to grow dramatically over time. The number of people receiving electronic payments could increase by over a million in this one month alone. 

VARIABLE RATE DISCLOSURE RULES

The Federal Reserve Board of Governors has proposed new disclosure rules, covering the procedures bankers should use for informing their customers about variable-rate clauses in loan contracts. The changes would amend Regulation Z—Truth in Lending.

Two years ago the Board proposed certain disclosure rules covering the conditions under which the interest

rate on a loan might be changed, and the range within which that rate could vary. In light of the growing use of variable-rate loans—particularly in mortgages—the Board recently proposed additional disclosure requirements.

The new amendments call for disclosing the manner in which the change in the annual percentage rate might be implemented. This could be done, for example, by shortening or lengthening the maturity of the loan, by changing the amount of periodic payments, or by changing the amount due at maturity if the loan is not entirely repaid by periodic payments.

Another proposed rule would cover the effect on the periodic payment resulting from a change in the annual percentage rate when there is no change in the loan maturity. When there is no change in the periodic payment, the lender would have to inform the debtor how a variation in the annual percentage rate would affect the maturity of the loan. These disclosure requirements would apply to a typical home-mortgage loan contract containing a variable interest-rate provision. They would not apply to other transactions such as single-payment loans and loans payable upon demand. 