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# Federal Reserve Notes

FEDERAL RESERVE BANK OF SAN FRANCISCO • FEBRUARY 1977

Serving Alaska, Arizona, California, Hawaii, Idaho, Nevada, Oregon, Utah & Washington

Federal Reserve Bank of San Francisco

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## FED BANK WIDENS SCOPE OF OPERATIONS

The Federal Reserve Bank of San Francisco, in its 62nd year of operations, provided central-banking services last year to the largest District in the Federal Reserve System. The Bank's service area includes the states of Alaska, Arizona, California, Hawaii, Idaho, Nevada, Oregon, Utah and Washington, plus the U.S. Trust Territories of American Samoa and Guam. This area includes 33 million people, 486 banks and 6,753 banking offices.

During the year, 3 national banks, 19 state nonmember banks and 2 trust companies were organized in the District. The number of Federal Reserve member banks and the number of member bank offices increased, to 144 banks and 4,884 offices respectively, but the number of bank holding companies supervised by the San Francisco Reserve Bank declined slightly, from 73 to 71, over the course of the year. The Reserve Bank sharply expanded the scope of its supervision of bank holding companies by implementing a program of annual on-site inspections and a comprehensive system for monitoring current developments at District financial institutions. These moves strengthened the Reserve Bank's "early warning" capability for detecting situations requiring supervisory attention.

In the international field, Bank staff supervised 22 Edge Act corporations—bank or holding company subsidiaries whose activities are confined solely to international banking. Its examiners visited three foreign countries to conduct examinations of branches and subsidiaries

of member banks and Edge corporations. Complementing these activities, President Balles made a month-long trip to six Pacific Basin countries to discuss regulatory problems with foreign central bankers and representatives of U.S. commercial banks.

The Bank's consumer affairs unit, organized during 1975, enlarged its scope of operations during the year. In effect, the unit has become the Western information center for Federal consumer-banking regulations. During 1976, the unit responded to more than 3,500 inquiries, handled approximately 300 consumer complaints, and made numerous educational presentations to creditor and consumer groups. Four Westerners now serve on the Federal Reserve's Consumer Advisory Council, established by Congress to advise the Board of Governors on regulations promulgated to implement the Consumer Protection Act and companion legislation.

The Bank's Computer Services Group helped make a success of a new Federal program for direct deposit of social-security checks, which involves 2,000 financial institutions and one million recipients in this District. The Bank is now able to transfer social-security payments directly from the Treasury to each recipient's checking or savings account in a financial institution of the latter's choice, thereby saving time and expense and eliminating the danger of loss or theft for those receiving social security checks. This program builds on the experience that the Bank's staff has already obtained with other automated recurring payment programs, such as Federal civil service retirement, railroad retirement, Feder-

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R.E. Bryans

## BRANCH CHAIRMEN, DIRECTORS NAMED

President John J. Balles has announced several reappointments for Branch Boards of Directors of the Federal Reserve Bank of San Francisco, along with one new appointment at the Salt Lake City office.

The new appointee is Robert E. Bryans, Chairman of the Board and Chief Executive Officer of Walker Bank and Trust Company, Salt Lake City. Bryans spent almost 30 years at the First National Bank of Casper, Wyoming, where he rose from teller in 1945 to President and CEO in 1970. Bryans took over his present position at Walker Bank and Trust in 1974. He has been active in many banking and civic organizations, and in 1970 was named Distinguished Businessman of the Year by the University of Wyoming's College of Commerce and Industry.

Also at Salt Lake City, Sam H. Ben- nion was redesignated Chairman of

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## INTEREST PAID ON DEMAND DEPOSITS?

The Federal Reserve Board of Governors this month released a major staff study which questioned the continued prohibition against the payment of interest on demand deposits.

The study argued that the prohibition has been eroded in recent decades by changing financial-market developments. For example, banks can pay interest on overnight funds loaned by banks and others. Some banks (and thrift institutions) pay on funds that can be used for third-party payments (NOW accounts). Also, many banks pay an implicit return on demand accounts in the form of free or below-cost services.

In the staff's view, any future payment of explicit interest on demand deposits is likely to be accompanied by a movement by banks to price checking and other services more nearly in line with costs. This would tend to curtail uneconomic use of certain bank services and would encourage an allocation of resources to uses more highly valued by the public.

However, the payment of explicit interest would temporarily reduce bank earnings—perhaps by as much as 5 to 20 percent of pre-tax earnings during the worst year of the transition. The largest transitional impact would be felt if interest were paid on all demand deposits and thrift institutions were also empowered to offer such deposits.

The study argues that transitional adjustments would be most difficult for those banks with both relatively low earnings and a relatively large amount of deposits eligible for interest, especially household demand deposits. About 370, or 2½ percent, of all commercial banks fall into such a category; most are very small banks.

In the staff's view, cost pressures resulting from the payment of interest on demand deposits could be partially offset by the payment of interest on member-bank reserve balances held at the Federal Reserve Bank. According to staff estimates, in the worst transition year a 2-percent interest

rate on reserve balances probably would more than offset the aggregate reduction in earnings resulting from either the nationwide extension of interest-bearing NOW accounts or the lowest estimated interest on all demand deposits.

Payment of interest on member-bank reserve balances would tend to promote competitive balance between member banks and other depository institutions, since the latter are now permitted to maintain the bulk of their reserves in interest-bearing form. Moreover, it would provide a compensating adjustment for the loss in revenue that nonmember institutions would experience if they were required to hold reserves against transactional balances at the Federal Reserve. In the staff's view, "From a monetary policy viewpoint, it would be desirable to require all institutions offering transactional accounts to hold reserves against such deposits either in vault cash or as balances at the Federal Reserve, and to set such requirement on a uniform basis."

The staff study argued that if explicit interest were paid on demand deposits, banks and other institutions would probably raise charges for checks and other bank services now offered free or below cost. This would tend to equalize rates of return for all depositors, to the extent that they receive the same interest and services are priced more in line with costs. However, it is virtually impossible to make a definitive judgment with respect to the distribution of gains and losses across depositor groups that would result from the payment of explicit interest and a probable increase in the cost of checks and other services. Some small depositors who write a large number of checks might be worse off than at present, if they cannot economize on check writing, while the largest gainers would appear to be those depositors with large and relatively inactive accounts.

Summing up, the staff study suggested that, "If explicit interest were paid on demand deposits, the most significant potential problem would lie in the transitional adjustments of banks and other institutions to the new competitive environment. Adjustment diffi-

## UTAH BANCORPORATION ACQUISITION APPROVED

The Federal Reserve Bank of San Francisco this month approved Utah Bancorporation's acquisition of Utah Valley Bank in Orem, Utah.


The Salt Lake City-based multi-bank holding company ranks fifth in size in the state. Prior to its latest acquisition, its subsidiary banks included Valley Bank and Trust Company (Salt Lake City), Weber Valley Bank (Ogden), and Bountiful Valley Bank (Bountiful). The holding company controls aggregate deposits of about \$178 million, or a little over 5 percent of Utah's total commercial-bank deposits.

Orem is the fourth largest city in Utah and is located about 35 miles south of Salt Lake City. The city is presently served by nine banking organizations, and the San Francisco Fed thus concluded that Utah Bancorp's acquisition would not have an adverse effect on existing competition in the market.

### FAIR CREDIT BILLING LEAFLET

An educational leaflet titled "Fair Credit Billing"—a short but relatively complete statement of consumer rights under the Fair Credit Billing Act—is now available from Federal Reserve Banks. Included in the leaflet are definitions of billing errors, what steps should be followed in case of error, how credit ratings may be affected by billing errors, what a consumer can do when billed for defective goods or services, and how to obtain further information.

Bankers who want a supply of this publication for lobbies, handouts or envelope stuffers may obtain them by writing or calling the Consumer Banking Affairs representative at any office of the Federal Reserve Bank of San Francisco.

culties could be mitigated by payment of interest on reserve balances; by a gradual phase-in through regulatory actions, such as use of a low, and perhaps gradually rising, ceiling rate; and by a delay in the effective date for interest on demand deposits following enabling legislation so as to permit banks to plan effectively for the new competitive environment." 

## Welcome to the District YAMHILL COUNTY BANK

Yamhill County Bank is the newest state member bank in the San Francisco Federal Reserve District—and it's also a fast-growing institution.

Little more than two years ago, the bank opened in temporary headquarters in the Willamette Valley community of McMinnville, Oregon. But last year alone, it more than doubled its deposits, to \$2.2 million, and increased its loans almost five-fold.

Chief organizer and founder of the bank is President Ivan T. Lowe, a veteran with more than 30 years of banking experience.



I.T. Lowe

## ARIZONA CHANGE BECOMES OFFICIAL

As of January 1, Arizona's five southeastern counties, previously served by the Federal Reserve Bank of Dallas, officially became part of the Twelfth Federal Reserve District.

The realignment brought another 107 commercial banking offices into the area served by the Federal Reserve Bank of San Francisco. Now all 16 of Arizona's banks and their 428 branches will be able to have almost all transactions handled by one Fed office—the Los Angeles Branch of the San Francisco Fed.

Banking offices in the five-county area account for about one-fourth of Arizona's total deposits. The region has a total population of roughly 700,000 and is anchored by Tucson, which is the largest city in the state after Phoenix. 🏛️

## FED BOARD REPORTS ON TRUTH IN LENDING

Reviewing the reports of Truth in Lending enforcement agencies, the Federal Reserve Board of Governors reported to Congress that lenders are achieving compliance "with the substantive requirements of the Act." These findings were disclosed in the

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"A group of Willamette Valley businessmen and I saw the need for a county bank in McMinnville," Lowe said. "We pooled our talents to form a new bank dedicated to serving the county-wide business community."

The members of Yamhill County Bank's Board of Directors reflect the wide range of the institution's interests. The directors are associated with such diverse activities as farming, ranching, communications, law, lumbering, and real estate.

Lowe began his banking career with U.S. National Bank in 1941, and after war service and university training, became associated with Citizens Valley Bank, San Diego Trust and Savings, and Canby Union Bank. His executive staff includes Vice President J. McPherson and Cash Officer L.E. Shaffer. 🏛️

Board's eighth annual Truth in Lending Report to Congress.

On the basis of more thorough examination procedures by the Comptroller of the Currency, fairly numerous instances of non-compliance among national banks were found, but many of these violations apparently were only technical, and did not have significant adverse impact on consumers. The Federal Deposit Insurance Corporation reported similar results. The violations it uncovered included failure to disclose the finance charge or annual percentage rate, incorrect computation of charges, and failure to notify consumers of their right of contract rescission.

In its Truth in Lending Report, the Board of Governors repeated its earlier recommendation that Congress simplify the Act in order to achieve better compliance and more efficient administration. The Board added that it will report back to Congress after reviewing both the Act and Regulation Z with regard to simplification of open-end credit and Fair Credit Billing provisions. 🏛️



Richard C. Dunn, Senior Vice President and Officer in Charge of the Los Angeles Branch, discusses the expansion of the Twelfth Federal Reserve District with (left) Edwin H. Jelliff, Executive Vice President and Treasurer of the Arizona Bankers Association, and (right) Edward M. Carson, Vice Chairman of First National Bank of Arizona and Past President of the Arizona Bankers Association.

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## Federal Reserve Bank of San Francisco

### FED BANK OPERATIONS

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al revenue sharing, and Air Force payroll and retirement programs.

In automated clearing-house (ACH) activities, the District cleared an average of 85,000 commercial items each month and 1 million government items per month during the latter part of the year. This work should grow considerably as the system expands to five clearing houses for commercial use, one for each of the Reserve Bank's five offices.

Branch operating personnel expanded on the gains they achieved in the productivity drive initiated during the 1974-75 period. According to the broadest measure of bank operating efficiency, aggregate output per man-hour, the San Francisco Reserve Bank ranked first in the Federal Reserve System in 1976, with cash and check operations especially efficient. Operational efficiency was helped by the adoption of new currency-counting equipment and high-speed check-processing machines.

In check processing, Bank staff handled over 1.2 billion paper checks, and dollar volume jumped 28 percent to \$417 billion. Almost all of the checks flowed through the Bank's network of check processing centers,

which make possible one-day check clearing as well as lower check-handling costs for commercial banks. During the year, the San Francisco RCPC expanded its immediate-payments boundaries to include banks located in Hawaii and Guam.

In other payments activities, District member banks settled over \$5.4 trillion through the Federal Reserve wire-transfer system—a 20-percent increase over 1975. Yet, in addition to this increased use of checks and electronic transfers, the Bank continued to handle substantial amounts of coin and currency, receiving and counting 1,389 million coins and 698 million pieces of currency.

In its role as fiscal agent for the U.S. government, the Reserve Bank handled a greater dollar volume but fewer pieces of paper than in the previous year. This included a 28-percent drop in the number of marketable Treasury securities handled, reflecting savers' decreased interest in such issues because of declining interest rates. The number of coupons processed under the food-stamp program dropped 18 percent, partly because of the growing use of larger-denomination coupons by food-stamp recipients. 🏠

### DIRECTORS NAMED

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the Board, and David P. Gardner was reappointed as Director. Bennion is President of the V-1 Oil Company of Idaho Falls, Idaho, and Gardner is President of the University of Utah.

At Los Angeles, J.R. Vaughan, President of Knudsen Corporation, was redesignated Chairman of the Board. Other reappointments at that office included Armando M. Rodriguez, President of East Los Angeles College, and Caroline Leonetti Ahmanson, President of Caroline Leonetti, Ltd., Women's Center for Self Improvement.

In the Northwest, Loran L. Stewart was redesignated Chairman at Portland, and Lloyd E. Cooney, Chairman at Seattle. Stewart is a director of Bohemia, Inc., the forest-products and marine construction firm, in Eugene, Oregon, while Cooney is President and General Manager of KIRO Radio-TV in Seattle. Other reappointments at Seattle included Douglas S. Gamble, President and Chief Executive Officer of Pacific Gamble Robinson Co., Seattle, and Harry S. Goodfellow, Chairman of the Board and Chief Executive Officer of Old National Bank of Washington, Spokane. 🏠