

Federal Reserve Notes

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GARDNER SEES STRONG BUSINESS CLIMATE

The national economy should improve as a consensus is reached on major economic-policy issues, Federal Reserve Vice-Chairman Stephen S. Gardner told an audience of 140 Federal Reserve officials and San Francisco Bay Area community leaders this month. The luncheon meeting was held in conjunction with the annual joint meeting of Directors (from the Headquarters Office and Branches) of the Federal Reserve Bank of San Francisco.

Joseph F. Alibrandi, Chairman of the Reserve Bank's Board of Directors (and President of Los Angeles-based Whittaker Corporation) and President John J. Balles of the Federal Reserve Bank of San Francisco also spoke briefly at the luncheon meeting.

Gardner listed a number of problems confronting the nation, such as lagging productivity, energy shortages, a tax structure hindering capital investment, and a Federal budget which fails to balance even at full employment. But he said that a stronger business climate was now evolving, especially because of the views held by Presidents of both parties on the need for a revised tax structure and for an end to government deficits and regulatory burdens.

Gardner's audience included a diverse group of Bay Area financial, business, academic, professional and government leaders. The Federal Reserve directors in the audience also represented a diverse cross-section of the community. For example, four women were numbered among the directors—the largest number in any Federal Reserve district. 🏦



S.S. Gardner



J.F. Alibrandi



J.J. Balles

BURNS DESCRIBES MEMBERSHIP PROBLEM

Federal Reserve Chairman Arthur Burns told the Senate Banking Committee this month that the continued attrition in Federal Reserve membership is a matter of major concern to the nation's banking system. Last year alone, 46 banks gave up membership and 8 banks left the System as a result of mergers with nonmember banks.

"These banks have left mainly because of the high cost of the non-interest earning reserves that they are required to hold as members of the Federal Reserve," Burns said in his testimony. "Not a few of the banks that dropped out of the System, being financially weak, faced a desperate need to cut costs and to improve profits."

Roughly two-thirds of a group of 250 banks which withdrew from the System during the past decade cited reserve requirements as the reason, according to a study conducted by the Federal Reserve.

In 1960, member banks comprised 46 percent of all commercial banks, but in 1976 they amounted to only 39 percent of all banks. Over the same timespan, the member-bank share of total domestic deposits dropped from 84 percent to 74 percent.

Noting these trends, the Chairman said, "Unless the trend toward non-membership is reversed, the soundness of the banking system will be jeopardized by the fact that so many banks will not have direct access to the Federal Reserve discount win-

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JACKSON URGES SIMPLIFIED CREDIT

Steps should be taken to simplify the complex field of consumer-credit legislation, Federal Reserve Governor Philip C. Jackson, Jr., told the Consumer Affairs Subcommittee of the House Banking Committee last month.

"While it supports the basic public purpose of consumer-credit legislation, the Board of Governors has become increasingly concerned about the degree of complexity and overlap of existing laws and hopes the situation can be clarified and simplified," Jackson said. "Congress and the Board have received a substantial quantity of complaints, particularly from small creditors, stating that they have difficulty understanding and complying with all of the laws. Some responsible observers are now questioning whether the existing regulatory framework is providing benefits to the public commensurate to its costs."

The Board of Governors first began to regulate consumer-credit practices in 1968, when it was assigned the responsibility for developing regulations to enforce the Truth in Lending Law. Since that time, ten more laws have been passed in the consumer-credit field, and nine of them have required implementing regulations. Official interpretations of the regulations and court decisions further complicate the issue.

As a result, Jackson said a system has evolved which places, layer upon layer, state laws and regulations, federal laws and regulations, staff interpretations, and state and federal court decisions.

In this complex situation, he said it is not surprising that the loan officer of a small bank may be hard-pressed to comply. Such an officer may have not only the responsibility of keeping abreast of consumer-credit regulations, but also such varied duties as making installment loans, buying dealer paper, overseeing credit-card operations, making home mortgage loans, extending construction credit and arranging for credit insurance.

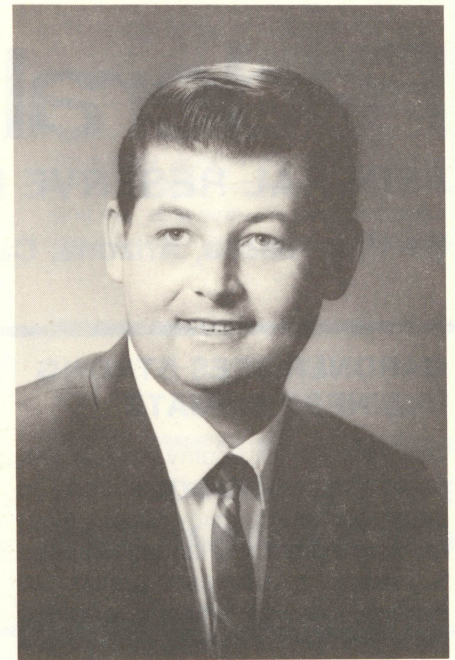
Jackson argued that the public would benefit if a determination were made regarding the proper role of the states versus the federal government in consumer-credit protection statutes. This determination should include not only which law should govern these activities, but also which jurisdiction (state or federal) should police credit-granting organizations in each state.

As another simplification measure, Jackson recommended that penalties provided as a result of private or class-action suits be restricted to substantive violations that impair the consumer's capacity to comparison-shop for credit. Technical violations of the statutes could be handled by administrative measures.

Jackson listed several Federal Reserve actions which deal with the complexity of consumer credit-laws. The Board of Governors last year established a Consumer Advisory Council representing a broad spectrum of consumer and creditor interests. Council study groups are now planning to make on-site investigations of large and small creditors, to analyze the ramifications of consumer-credit laws. In addition, the University of Michigan is conducting a survey for the Board to evaluate consumers' perceptions of consumer-credit laws, as a means of determining how regulations can be more responsive to consumer needs.

Again, the Board has issued sample forms to assist creditors—especially small businessmen—in dealing with consumer-credit problems. By using these forms, creditors can submit information without fear of violating technical provisions of consumer-credit statutes or regulations.

As supervisor of state member banks, the System also is expanding its compliance and enforcement activities under the various consumer-credit statutes. This move should improve public understanding of the impact that consumer-credit statutes and regulations exert on commercial banks and the public. ❧



P. Carter

Welcome to the District NATIONAL BANK OF LONG BEACH

National Bank of Long Beach, a new Federal Reserve member bank, may be short on tradition because it opened for business only in January. But it is certainly long on experience in the banking field; President Perry Carter and his four officers together have a total of 80 years' experience in commercial banking.

Carter himself has dealt with all phases of banking, including administration, operations and lending. His career spans two decades and includes banking experience with several independent California banks. Most recently he served as President of The Bank of Montecito.

Norman E. Miller is Vice President and Cashier, while Robert P. Johnston is Vice President - Loans. Anna B. Padilla, the Operations Officer, will be primarily responsible for supervision of operations and personnel.

The bank is now housed in temporary quarters, but it has drawn up plans for a permanent headquarters. Meanwhile, the bank offers a full line of services, including such features as extra late hours and Saturday banking at its drive-in and walk-up window. ❧

\$2 BILL CAMPAIGN SCORES IN OREGON

The two-dollar bill has been ignored in many parts of the nation after a rousing bicentennial debut last April. But the Federal Reserve Bank of San Francisco and some enterprising Oregon businessmen have been keeping the two in the spotlight.

Angelo Carella, Vice President and officer in charge of the Portland Branch, credits Percy Loy as the catalyst for the Oregon program. Loy is a member of the Federal Reserve System's Consumer Advisory Council and president of Portland-based Kubla Khan Food Company.

"At Loy's initiative, a representative group of leading retail merchants in the Portland area met at our branch last month and pledged cooperation in promoting use of the two," Carella said. "We held our ceremony in front of a cart loaded with \$400,000 in twos, and this captured widespread media and public attention."

Soon thereafter, the Plaid Pantry chain announced a "Lucky \$2 Bill Contest" that enabled customers to win up to 151 times the value of a bill with the right serial number. Each week the chain used \$2 bills in making change, and these included 47 bills with serial numbers that paid off to those persons holding them. In its advertising, Plaid Pantry prominently mentioned the potential savings to the Government which would be achieved with full utilization of the bill, and it solicited the public's help in circulating \$10 million in new twos during the month of March.

Other Oregon merchants involved in this campaign are changing their use of cash drawers, making room for twos by placing twenties underneath the drawer. Others have gone to drawers that can accommodate the two-dollar bill without any other adjustments. Comments received from merchants have shown that some of their original concerns for the difficulties in handling this denomination were unfounded. In fact, some retailers say that their clerks like to use the



M. Timothy Carr, Operations Officer at the Portland Branch of the Fed, fans a hand of \$2 bills over 50 "bricks" which contain \$400,000 in new twos. This promotion was used to kickoff a campaign to encourage Portland merchants to circulate two-dollar bills.

\$2 bill because of the ease in making change, which results in reduced check-out lines.

Carella reports that during the three-week period following the public announcement of the campaign, payouts of \$2 bills by the Portland branch averaged \$60,000 daily compared with a previous daily average of \$19,000. The Plaid Pantry stores distributed an average of \$35,000 per day during the first two weeks of their promotion.

Not only at Portland but also at other branches of the Federal Reserve Bank of San Francisco, the virtues of the two have been publicized through feature stories in major dailies and on radio and television. For example, Senior Vice President Wes DeVries, officer in charge of the San Francisco Branch, has become a "regular" on this subject on Bay Area radio and television stations.

"I try to point out that twos could be a valuable addition to our currency," DeVries said. "Banks can contribute by ensuring utilization of the bill in their own organizations and by encouraging the public to make maximum use of the two." Meanwhile, DeVries says, bankers and the public

MEMBERSHIP PROBLEM

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dow." The availability of the discount window—demonstrated so dramatically during the near-crisis period of 1974—contributes importantly to the stability of the nation's banking system. Correspondent banks cannot always be counted on to supply such assistance to nonmembers, he noted.

Consequently, Burns argued that membership in the Federal Reserve must be made more attractive—"perhaps by providing for lower reserve requirements or allowing the System to pay interest on the reserve balances that member banks maintain."

System spokesmen have argued consistently that the burden of reserve requirements is borne unevenly between Federal Reserve members and nonmembers with state charters. For example, nine states require reserve percentages that are lower than those of the Federal Reserve on all classes of deposits, while 22 states permit commercial banks to hold securities or other interest-earning assets as a portion of their reserves.

The situation has been aggravated by the recent environment of inflation and high interest rates. Treasury bill rates averaged only 2 percent during the 1950's, but they have approached or exceeded 6 percent during much of the 1970's. Thus, member banks now forego more earnings than formerly by maintaining reserves at Federal Reserve Banks instead of investing them in bills. 🏦

can rest assured that plenty of twos are on hand for their convenience.

The Treasury and the Federal Reserve frequently have pointed out that the two-dollar bill can save taxpayers up to \$7 million annually in production costs alone. One-dollar bills consume up to 60 percent of the total currency production time at the Bureau of Engraving and Printing, so greater use of twos could mean considerable savings in paper, ink, labor and press time. Warehousing, shipping, handling, sorting and counting costs could also be slashed. 🏦

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RCPCs HELP IMPROVE CHECK-CLEARING TIME

With 43 regional check-processing centers fully in place, the Federal Reserve System improved its check-clearing times more last year than at any other time since the 1972 introduction of automated RCPCs. This improvement was highlighted in a study prepared by Phoenix-Hecht Inc., a Chicago cash-management firm.

The study said that clearing times had improved generally among banks in 103 cities across the country, but added that the greatest 1976 reduction in check-clearing float had occurred among major metropolitan cities with RCPCs. When RCPCs were first begun, check volume was outstripping the capacity of new processing facilities and clearing times were lengthening, but the collective efficiency of RCPCs has now caught up with the growing check volume, the authors said.

Some of the most improved clearing times last year were those for checks drawn on East Coast banks and deposited on the West Coast. For example, checks drawn on a New York bank and deposited in San Diego cleared more than one-half day sooner than they did in 1975, improving to a 3.15-day average.

Between two 1976 survey dates, clearing times from Los Angeles to New York improved 0.02 day to a 1.62-day average. Checks drawn on a San Francisco bank and deposited in New York cleared in an average of 2.75 days, down 0.27 day from the earlier 1976 study.

The authors of the study did not compile any nationwide averages. However, they noted that based on 1975 Federal Reserve check-clearing volume of \$4.2-trillion, each 0.01-day improvement in check-clearing time would represent a \$42-billion reduction in clearing float.

In each study, checks drawn on 109 banks in 103 cities are deposited daily in banks around the country for ten consecutive days. Using the times stamped on the check when deposited and when presented for payment, average clearing times for each set of origin-destination cities are calculated, and the historical data base is used to smooth out one-time aberrations such as poor weather or transportation difficulties. 🏛️

OPEN MARKET RULE CHANGE

A rule change governing the purchase of Federal agency securities was implemented late last month by the Federal Open Market Committee. Henceforth, the Federal Reserve will limit its purchases of Federal agency securities to those agencies that are not eligible to borrow funds from the Federal Financing Bank.

The Federal Financing Bank opened in 1974 to handle financing operations for such agencies as the General Services Administration, the U.S. Postal Service, the Washington Metropolitan Area Transit Authority, the Export-Import Bank, the Farmers Home Administration and the Government National Mortgage Association. Securities of these agencies will no longer be purchased by the Fed, although the System may purchase securities of the Federal Financing Bank itself.

The securities of such government-sponsored agencies as the Federal Home Loan Banks, the Federal National Mortgage Association, the Federal Land Banks, the Federal Intermediate Credit Banks and the Banks for Cooperatives will continue to be eligible for System purchase. 🏛️