Federal Reserve Notes

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FED PROPOSES END OF KEOGH DIFFERENTIAL

The Federal Reserve Board of Governors announced a proposal this month which would allow member banks to pay the same deposit interest rate as thrift institutions on long-term retirement accounts, effective July 6. Thrift-industry spokesmen criticized the action for undermining the present ¼-percent rate differential on savings accounts, but the Board noted that Congress gave preferred tax treatment to retirement accounts "to encourage saving for retirement, and not to extend a competitive advantage for a particular class of financial institution."

Banks now may pay a maximum 7½-percent rate on individual retirement accounts (IRAs), established for persons not covered by on-the-job retirement programs, and on Keogh accounts, similar plans for self-employed persons. Under the Board proposal, the maximum rate would go to 7¾ percent on July 6.

Over a 30-year period, a Keogh-account saver at a thrift institution could receive an additional $50,000, and an IRA-account holder $10,000 more, than a bank saver could obtain under the old 7½-percent ceiling. In the Board's view, "Such a penalty for choosing deposits at a particular type of institution is clearly inconsistent with the objectives of maximizing the total amount of earnings on retirement savings that the Congress sought."

The report noted that a large number of people eligible to establish IRA or Keogh accounts have not done so, perhaps because of lack of

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San Francisco Fed employee Christine McCoy unloads checks from one of the bank's new reader/sorters. Thanks to machines like this one, which is capable of sorting up to 110,000 items an hour, the bank processed a record 1.2 billion checks last year.

RESERVE BANK MOVES CHECKS FASTER

Last year the Federal Reserve Bank of San Francisco handled 7 percent more checks than it did in the previous year—a total of 1.2 billion in all. Despite this substantial increase, the bank managed to stay ahead of the swelling tide of paper with the help of new high-speed reader-sorter machines.

Reader-sorters are computer-driven document processors for handling checks. The machines read and list the magnetic encoded numbers and amounts on checks, and then sort the checks by payor bank so they can be unloaded into shipment trays. The Federal Reserve Bank of San Francisco has utilized reader-sorters almost from their very inception, but not the type of sophisticated equipment now available. For example, new reader-sorters recently installed at Los Angeles, Seattle and San Francisco are at least 50 percent faster than previous equipment, with as many as 110,000 checks being handled every hour.

Senior Vice President Gerald R. Kelly, in charge of Branch Operations, says, "Because of equipment upgrading, there are fewer adjustments and returns, and items are easier to trace. Our new reader-sorters print eight-digit item numbers in sequence on all checks as they pass through the

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FED SETS UP NEW CONSUMER PROGRAM

The Federal Reserve Board of Governors this month established a program designed to improve member-bank compliance with consumer-credit laws and regulations. This scheme involves an advisory program for member banks, along with a special examination program to assess compliance of state member banks with consumer-credit protection laws.

Consequently, each Federal Reserve Bank will establish an advisory service for all member banks requesting advice on consumer-credit matters. On their visits, Fed staff specialists answer bankers' questions about consumer-credit laws and regulations, and discuss regulations, their current interpretations, background or any other areas which will assist bankers in understanding the regulations and compliance aspects.

The special examination program will begin with a test period running through the end of 1978. Reserve Banks will examine all state member banks in their Districts by the end of March 1978, with follow-up examinations if needed. Reserve Banks will conduct these compliance examinations utilizing specially-trained examiners from the System's commercial-bank examination force.

Under the new examination program, examiners who find what they regard as evidence of discrimination in credit transactions will report their findings to the appropriate Reserve Bank, and also to the member bank's board of directors. The Reserve Bank, in consultation with the Board's Division of Consumer Affairs, will determine in each case whether additional investigation is needed, and what if any corrective measures are needed.

In the event of overcharges, member banks generally will be required to reimburse customers for the amounts involved. In other violations, banks will be instructed to make prompt correction of their policies or practices so as to avoid similar future violations.

RESERVE BANK OPERATES SECURITIES HOT LINE

The Federal Reserve Bank of San Francisco has instituted a 24-hour-a-day telephone line at three of its branches—Los Angeles, San Francisco and Seattle—to provide commercial bankers and investors with the latest information on the government securities market. The recorded message provides highlight information on the types of securities being offered, interest rates from the latest Treasury auction, and other timely market news. The information is updated every time new offerings are made.

Commercial bankers and investors who have additional questions can stay on the line for further market data or consultation. The call is automatically transferred at the end of the recorded cycle to a bank specialist. Reserve Bank staff members are available to answer questions from 8 a.m. until 4:30 p.m. weekdays.

The securities hot line number is (213) 683-8563 in Los Angeles; (415) 392-6637 in San Francisco; in Seattle, (206) 442-1650 for information on Treasury issues, and (206) 442-1655 for information on savings bonds.

FED RULES ON "WILD CARD" CDs

The Federal Reserve Board of Governors has refused banks permission to renew or extend appreciably the "wild card" certificates of deposit which will begin reaching maturity this July. Wild cards are consumer savings instruments that were issued between July 1 and October 31, 1973, when there was no rate ceiling for certificates maturing in four years or more with minimum denominations of $1,000.

In its ruling, the Fed said that "banks presently have a large measure of flexibility under the existing rate structure to bid for funds in order to replace maturing wild-card deposits."

During the period when these certificates were issued, the Board limited the amount that an institution could issue to five percent of its total time and savings deposits. The rate ceilings imposed on wild cards on November 1, 1973 were 7¼ percent on four-to-six year maturities and 7½ percent on maturities of six years or more.

The total amount issued during the wild-card period approximated $3.3 billion. These certificates, which carry interest rates up to 9.3 percent, begin coming due on July 1. After conducting a staff study and consulting with other regulatory authorities, the Board of Governors decided that banks should be able to manage the problem of maturing certificates without undue difficulty.

The Board said that the current 7½-percent ceiling on time deposits of six years or longer compares favorably with rates on competitive instruments. It added that banks having problems with run-offs could be assisted on a case-by-case basis.

KEOGH DIFFERENTIAL

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commercial-bank advertising for such accounts due to their noncompetitive position. As of last December 31, banks had obtained only 35 percent of the IRA market, while holding 47 percent of total household time-and-savings accounts. The Fed also acted to make these retirement accounts more attractive for banks, in view of a Congressional report which showed that roughly half of all private-industry employees are not covered by retirement plans.

Persons eligible for IRA savings accounts are allowed tax-deferred contributions up to $1,500 annually, or 15 percent of gross income, whichever is less. The Keogh law allows self-employed persons to deposit tax-deferred contributions up to $7,500 annually, or 15 percent of gross income, whichever is less.

In addition to the higher savings rate, the Board proposed several other rulings applicable to new IRA and Keogh accounts, or to modifications of existing bank agreements. As of July 6, no minimum denomination would be required for this class of deposit. Also, a maturity of three years or more would be required, except that withdrawals could be made without early-withdrawal penalty if the depositor reaches the age of 59½ or becomes disabled.

FED UNDERTAKES CONSUMER SURVEY

The Federal Reserve Board of Governors has commissioned a survey to determine the public's attitudes about recent consumer-credit legislation.

Governor Philip C. Jackson, Jr., told members of the House Consumer Affairs Subcommittee that the Board wants to discover what problems consumers are facing in obtaining credit, and the extent to which consumer legislation is benefiting the public. As he noted, many bankers claim that consumers are not taking full advantage of much of the information banks are required to furnish under Truth in Lending and Equal Credit Opportunity legislation.

"It is our hope that the survey will enable us to understand better the various circumstances in which consumers use credit, to evaluate consumers' perceptions of and interest in the benefits that consumer-credit laws provide, and to gain insight as to how regulations can be more responsive to consumers' needs," Jackson told the panel.

The Survey Research Center of the University of Michigan is conducting the project for the Fed. About 2,500 consumers will be interviewed during the survey, which is scheduled for completion in July. Among the areas to be explored are the current use of credit, consumer knowledge and use of information and protection provided by laws and regulations, opinions about simplifying existing regulations, and consumer savings patterns. The interviews will also cover opinions on interest-rate ceilings and electronic funds-transfer systems.

Jackson told the subcommittee that the Board strongly supports the basic public purpose of consumer-credit legislation. However, he added that the Board has become increasingly concerned about the degree of complexity and overlap of existing laws, and hopes to obtain some simplification of the relevant legislation.

NEW STATE MEMBER—Yamhill County Bank (McMinnville, Oregon) is the first state-chartered bank in Oregon to become a member of the Federal Reserve System since 1969. Shown here are Angelo Carella, Vice President and Officer in Charge of the San Francisco Fed's Portland Branch (left), and Assistant Vice President Maynard Peterson (right) as they present the certificate of membership to Ivan Lowe, President of Yamhill County Bank. In accepting the certificate, Lowe said his bank was "proud to be a part of the Federal Reserve System and a member of the Federal Reserve Bank of San Francisco." Since its opening two years ago, the bank has doubled its deposits and increases its loans fivefold.

Photo courtesy of News-Register Publishing Company, McMinnville.

PORTLAND DEVELOPS MICROFICHE PROGRAM

The Portland Branch of the Federal Reserve Bank of San Francisco has developed a Computer Output Microfiche (COM) program that improves service to the financial community while eliminating thousands of pages of computer paper. The system condenses 690 computer data pages onto one four-by-six microfiche card.

Previously, the Branch generated thousands of pages of computer records routinely in the course of its check, automated clearing-house and government-payments operations. Data were transferred from computer disks to eleven-by-fourteen computer paper and kept on file as a permanent record. But under the new system, the data are reproduced on microfilm at about one-seventieth of the former size. About 40 percent of the computer output will not even need to be printed.

Angelo Carella, Vice President and Officer in Charge of the Portland Branch, says, "COM speeds up our reaction time so that we can resolve exceptions brought to our attention by commercial banks in the processing of cash letters. In most instances we have been able to respond on a same-day basis to inquiries concerning the receipt and credit of cash letters deposited with us."

Carella reported productivity benefits also from COM. The system enables the staff to retrieve data 20 percent faster than with the previous paper-based format, and "we expect further improvements as we gain more experience working with the new procedures."

As another key benefit, microfiche has begun to free up badly needed space. Over the next year, the new system should open up as much space as a large family room—over 440 square feet—that otherwise would have been devoted to computer-paper storage.

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CONSUMER LEASING RULES ADOPTED

The Consumer Leasing Act became effective on March 23, 1977—and with it, Federal Reserve regulations requiring the disclosure of terms under which bankers and others lease personal property.

The new Fed amendment to Regulation Z (Truth in Lending) carries out legislative provisions regarding the leasing of autos, furniture and other personal property. The act requires accurate disclosure of lease terms covering personal property leased primarily for personal or household use for more than a four-month period. The act covers personal property for which the total contractual obligation is less than $25,000.

Enforcement is the responsibility of the same agencies that handle Truth in Lending. For banks, these agencies are the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Federal Reserve System.

The main disclosure requirements include:

* A brief description of the leased property, adequate to identify it to both parties to the lease;

* Information covering the total amount of any payment or payments amount of any payment or payments at the consummation of the lease; the number, amount and due dates of periodic payments and their total; and the total amount of taxes, fees and other charges involved;

* Identification of those responsible for maintaining or servicing the leased property;

* Information concerning the determination of any penalty or delinquency charge;

* Information concerning the lessee's option (if any) to purchase the property, including price and other terms of purchase;

* A statement of the conditions governing termination of the lease, including determination of any penalty charges.

NEW BOOKLET AVAILABLE

A new 12-page booklet describing the history, purpose and operations of the Federal Reserve System is now available. For individual or bulk copies contact the Public Information Section, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, CA 94120. Phone (415) 544-2184.

CHECKS MOVE FASTER

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machines. This enables us to track documents in our processing stream so that we can respond more rapidly when commercial banks call us about exception items."

The equipment also boasts a vacuum-assisted document separator to reduce double feeds or so-called "piggy-backing." By preventing checks from sticking together, the equipment cuts down on tracking time in adjusting checks to cash letters. For a Federal Reserve Bank—where reduction of float is a primary concern—the equipment permits more handling of items on a "same day" basis and thus enhances availability of funds.

The San Francisco Reserve Bank's dollar volume of check collections exceeded $417 billion last year—up from $327 billion in 1975. According to the broadest measure of bank operating efficiency, aggregate output per manhour, the San Francisco Fed ranked first in the Federal Reserve System in 1976—with check operations being especially efficient.