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Federal Reserve Notes

FEDERAL RESERVE BANK OF SAN FRANCISCO • JUNE 1977

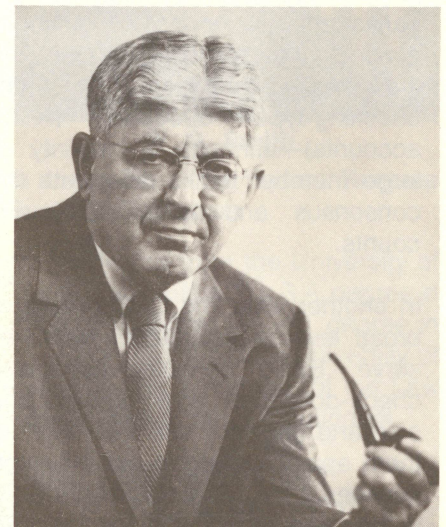
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Federal Reserve Bank
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JUN 8 1977

BURNS DISCUSSES NOW LEGISLATION IN SENATE BANKING HEARINGS

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A. F. Burns

Federal Reserve Chairman Arthur Burns told the Senate Banking Committee this month that the Federal Reserve supported an Administration bill that would permit depository institutions nationwide to pay interest on consumer checking-type accounts (NOW accounts) and to receive interest on their required reserve balances.

He said that the proposed legislation (S. 1664) addressed two problems: "First, the distortions caused by the rather haphazard spread of the payment of interest by depository institutions on transactions balances; and second, the withdrawal of banks from Federal Reserve membership because of a growing sensitivity to the financial costs of membership."

Burns argued that the two major elements of the legislative package should be considered in an integrated way. "Despite our concern about the piecemeal and capricious manner in which the nation's financial institutions have been moving toward the payment of interest on transactions balances, we could not support nationwide extension of NOW account authority if that action were not coupled with action to lighten the burden of Federal Reserve membership."

The draft bill authorizes NOW accounts (negotiable orders of withdrawal) for all insured commercial banks, mutual savings banks, savings and loan associations, and credit unions. (The latter could issue both NOWs and share-draft accounts, or SDAs.) These interest-bearing

checking accounts would be limited to the use of individuals. The ceiling rate payable on NOWs or SDAs would be set (for a three-year period) by an inter-agency committee at a uniform figure below the bank savings-deposit (Regulation Q) rate, currently 5 percent.

In another major innovation, the legislation would impose uniform reserve requirements on NOWs and SDAs for all depository institutions. The Federal Reserve Board of Governors would set these requirements, within specified limits ranging from 3 to 12 percent of relevant deposits. Fed member banks' reserve requirements would continue to range between 3 and 10 percent for other time and savings deposits, and would range between 7 and 22 percent for demand deposits, but with a 5-percent minimum for banks with less than \$15 million in net demand deposits.

The reserve requirements against NOWs and SDAs would be phased in over a three-year period for those institutions offering NOWs and SDAs which do not now belong to the Fed. The reserves could be held directly with the Federal Reserve, or indirectly with other regulatory institutions for redeposit with the Fed.

The other major feature of the bill involves the authorization of payment of interest on reserve balances, at rates determined by the Federal Reserve Board. However, the aggregate interest paid in any year could not exceed 10 percent of Reserve Banks' net earnings for the previous year,

before payment of interest on reserve balances. In setting this interest rate, the Fed would be expected to consider the possible effects on Treasury revenues and on banks' revenues—as well as the effect on the Federal Reserve membership problem.

In his testimony, Chairman Burns expressed reservations about that particular part of the legislation. He urged Congress to set the maximum payment to depository institutions at 15 percent instead of 10 percent of Reserve Bank earnings.

He said that at the present level of earnings, the indicated maximum could not exceed \$600 million—roughly equal to 2¼ percent of required reserve balances. "Given the host of prevailing uncertainties," he said, "the Board doubts that the proposed 10-percent ceiling will prove adequate for coping with unavoidable cost problems of member banks." He estimated that overcoming the burden of membership alone would require about \$500 million in interest payments. ☞

SURVEY SHOWS MEMBER BANKS FAVOR PAYMENT OF INTEREST ON RESERVES

Editorial Note: The member-bank survey described in the following article was conducted in late April and early May, prior to the Administration's submission of specific legislative proposals to Congress.

Chief executive officers of member banks in the San Francisco Federal Reserve District overwhelmingly favor the payment of interest on member-bank required reserves, and they also favor being able to count interest-earning assets as part of their required reserves. However, member banks generally oppose paying interest on their demand deposits, or even the widespread adoption of consumer checking-type accounts (NOW accounts)—although a majority of large member banks differ with the consensus and favor NOW accounts.

In another area, the CEO's report a broad level of satisfaction with Reserve Bank services—especially check-collection, wire transfer, and coin and currency services. Most of them appear willing to pay for such services if the Federal Reserve were to pay interest on their reserve balances.

These findings resulted from an opinion survey of District member banks, conducted by the Ad Hoc Membership Committee of the Board of Directors of the Federal Reserve Bank of San Francisco. The committee includes representatives of both large and small banking systems, as well as businessmen and academics, to ensure a wide diversity of views on the membership issue.

The chairman of the committee is Ronald S. Hanson, President of the First National Bank of Logan, Utah. Other Head Office committee members include Charles R. Dahl, President of Crown Zellerbach Corporation, and Dorothy Wright Nelson, Dean of the University of Southern California Law Center.

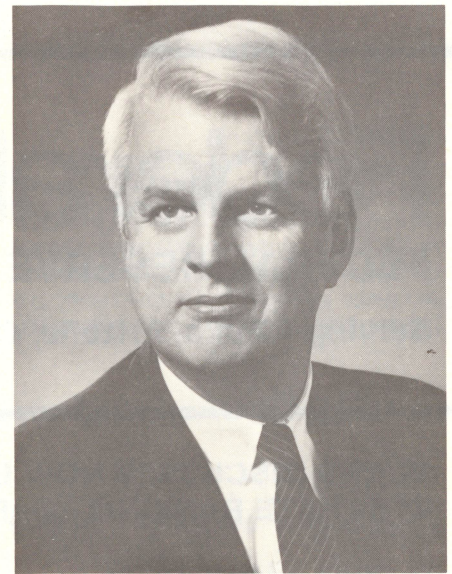
Five other committee members represent Branch Office Boards of Directors. They include J. R. Vaughan, President of Knudsen Corporation, and Rayburn S. Dezember, Board Chairman and President of the American National Bank, Bakersfield (Los

Angeles Branch); Robert F. Wallace, Board Chairman of the First National Bank of Oregon (Portland); David P. Gardner, President of the University of Utah (Salt Lake City); and Lloyd E. Cooney, President and General Manager of KIRO Radio and Television (Seattle).

Survey questionnaires were sent to the chief executive officers of the 147 member banks in the San Francisco Federal Reserve District, and 124 banks responded, for an 84-percent response rate. High response rates were recorded for all three size categories—large banks (deposits of \$500 million and over), medium-sized banks (deposits of \$50 million to \$500 million), and small banks (deposits of \$50 million and under).

The major difference in response by size of bank occurred in reference to the question about interest-earning demand accounts (NOW accounts). Two-thirds of the large banks, which hold the bulk of all member-bank deposits, favored the adoption of NOW accounts, while only a small minority of the medium-sized and small banks favored this proposal. In regard to the question of paying interest on demand deposits, a significant proportion (37 percent) of the large banks favored the change, while the vast majority of small banks strongly opposed the proposal. Banks holding more than three-fifths of all member-bank deposits favored both nationwide NOWs and the payment of interest on demand deposits.

These differences reflected the nationwide split in thinking between large and small banks on the issue. The American Bankers Association, representing many large as well as small banks, recently accepted the concept of interest-paying consumer checking accounts under certain specified preconditions. However, the small-bank dominated Independent Bankers Association has continued to oppose any such concept. 🏦



G. R. Kelly

KELLY APPOINTED SEATTLE BRANCH HEAD

Senior Vice President Gerald R. Kelly has been appointed Officer-in-Charge of the Seattle Branch of the Federal Reserve Bank of San Francisco, effective July 1, 1977. He replaces Vice President James J. Curran, who is resigning to accept a position with a commercial bank in Seattle.

Kelly, a 24-year career officer with the San Francisco Fed, has extensive experience in all aspects of operations. Prior to his current assignment, he was Senior Vice President (Branch Operations) at the San Francisco Head Office. He previously served as Senior Vice President-in-Charge of the Los Angeles Branch. Kelly is a graduate of the Pacific Coast Banking School.

The Seattle Branch serves most of the state of Washington and all of Alaska. The area served by the Branch includes 952 commercial banking offices. 🏦

PUBLICATION AVAILABLE

"The Monetarist Controversy" is a new Federal Reserve Bank of San Francisco publication featuring a paper by Professor Franco Modigliani with discussion by Professor Milton Friedman. To obtain a copy, write or phone the Public Information Section, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco 94120, phone (415) 544-2184.

OVER ONE MILLION DIRECT DEPOSITS

Every month, over one million government payments are being deposited directly at financial institutions in the San Francisco Federal Reserve District—and most of them are going to commercial banks.

According to Treasury Department data, the million mark was reached in April, when 1,008,605 payments were made at District institutions. Commercial banks received 908,000 or 90 percent of these direct deposits. Savings-and-loan associations received 85,000 direct deposits (8 percent), with the remainder being split among mutual savings banks, credit unions and others.

Under the Treasury's direct-deposit program, an individual can have government payments transferred directly to his savings or checking account in a designated financial institution by electronic means, instead of receiving his checks by mail. The program covers such recurring payments as social security, supplemental security income, civil service retirement, railroad retirement, and revenue sharing payments. Every month, about \$3.5 billion is disbursed nationwide in this fashion.

Direct deposit offers a number of advantages aimed at saving time and cutting down on paperwork. It eliminates problems of theft and loss, delays in getting the deposit to a financial institution and standing in line, and problems of receiving or depositing a payment when the recipient is out of town.

In April, California led the way in the number of direct deposits with 570,263, followed by New York with 464,671. Two other District states besides California had more than 100,000 direct deposits—Washington and Arizona.

According to the Treasury, almost one-sixth of the 36 million monthly payments eligible under direct-deposit programs are actually handled electronically. In the San Francisco District the proportion is even higher, with roughly one out of five

SMITH NAMED CREDIT, CONSUMER OFFICER

W. Gordon Smith has been named District Credit and Consumer Affairs Officer by the Federal Reserve Bank of San Francisco. In his new position, he supervises activities involving the discount window, consumer-affairs regulations, and securities-credit regulations at the five offices of the San Francisco Fed.

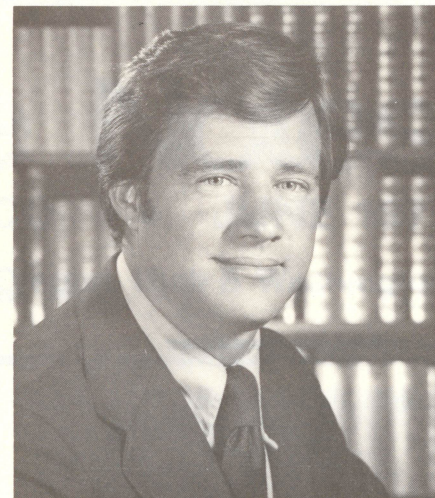
Smith previously served as the Bank's Assistant General Counsel, representing the bank in litigation and contract negotiations and providing general legal advice. He also assisted the bank's Supervision, Regulation and Credit Department in administering laws and regulations governing banks and bank holding companies.

Smith has served in a number of other areas since joining the bank in 1968, including Manager of Personnel, Fiscal Officer, and Cash Officer. In 1974, he served as administrative assistant

payments being made electronically. Among individual states, Florida leads the list with 30.2 percent of its eligible government payments being handled through the direct-deposit program, but it is closely followed by Arizona, Utah, and Washington.


In coming months, the Treasury Department will intensify its efforts to convince more individuals to utilize the system, through a program called SPREDD (Systematic Promotion of Effortless Direct Deposits). Contacts will be made with local-government officials, social-service organizations and groups representing the aged, to create more awareness among senior citizens of the benefits of electronic transfers. The Treasury is asking commercial banks and financial institutions to join in the project by organizing promotions of their own.

The promotions emphasize the safety and convenience of the program, especially for senior citizens. This month, direct-deposit staffers will accompany all checks made to those who are eligible for the program. In addition, the Treasury has announced that direct deposit will be extended to Veterans Administration payments programs, being operative nationwide by this fall.



W. G. Smith


to a member of the Federal Reserve Board of Governors.

He graduated from the University of Texas at El Paso with a B.A. degree in 1963, and earned his J.D. degree in 1972 from Golden Gate University of Law. He was a member of the Law Review staff at that institution. 

NEW TIME-DEPOSIT RULE TAKES EFFECT

A Federal Reserve ruling announced earlier this spring takes effect on July 6, permitting member banks to pay the same deposit interest rate as thrift institutions on long-term retirement accounts. The Board of Governors, by amending its Regulation Q, has established a new category of time deposit for so-called IRA and Keogh funds deposited with member banks.

Banks henceforth may pay a maximum 7¼-percent rate on individual retirement accounts (IRAs), which are established for persons not covered by on-the-job retirement programs—and also for Keogh plans, which are similar plans for self-employed persons. Up to now, banks could pay no more than 7½ percent on such accounts.

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. 

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Federal Reserve Notes is produced by William Burke, Ronald Getz and Karen Rusk. The publication is distributed to commercial banks by the Research Information Center, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, California, 94120.

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Federal Reserve Bank of San Francisco

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EQUAL CREDIT PAMPHLETS AVAILABLE

The rights of women and senior citizens under recently enacted credit legislation are explained in two free pamphlets produced by the Federal Reserve System. Another new pamphlet describes the meaning of the act for professional people and small retailers.

The pamphlets—available to bankers, service organizations, community groups and others—are entitled "The Equal Credit Opportunity Act. . . and Women," "The Equal Credit Opportunity Act. . . and Age," and "The Equal Credit Opportunity Act and. . . Doctors, Lawyers, Small Retailers and Others."

The Equal Credit Opportunity Act prohibits discrimination against any applicant for credit on the basis of such factors as age, sex, marital status, race, color or religion. The act does not change the basic standards of creditworthiness, such as the ability and willingness of individuals to repay their debts. However, it aims to prevent arbitrary denial of credit on the basis of other factors.

"Equal Credit and Women" provides definitions of creditworthiness, and explains how to apply for credit, how persons are rated as credit risks, and

BRANCH DATA EXCHANGE PROGRAM EXPANDS THROUGHOUT DISTRICT

A record 171 banks participated in the Federal Reserve Bank of San Francisco's Branch Data Exchange (BDX) program in 1976—a 43-percent increase over the previous year. The BDX program helps banks measure their market position, the success of advertising efforts, and the efficiency of individual branches.

The program was established in California five years ago, and has since expanded to two other states. In California, 118 banks accounting for over 95 percent of the state's total banking deposits take advantage of BDX. Oth-

er participants include 15 out of 16 banks in Arizona, and 38 out of the 84 banks in Washington.

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BDX participants initially provide the San Francisco Fed with an authorization to exchange data with other branch-banking systems. Next, they supply the Fed with individual branch data, in the form of a schedule, punched cards, or tape for each survey date. The information is processed and compiled into a confidential report for each bank, detailing the bank's comparative position for each county or market subarea where it has an established branch. Surveys are conducted semiannually in June and December.

how to establish a credit history. The pamphlet on age also provides general rules for rating individuals as credit risks, and notes special considerations older citizens should know about. The third pamphlet contains similar information for certain types of lenders, such as professionals, small retailers and other providers of credit.

For further information about the BDX program, contact the Bank and Public Services Department at the nearest Fed office or—in San Francisco—Paul Van Etten, Manager of Banking and Statistical Reports, (415) 544-2183. 🏦

For copies of the pamphlets, contact the Consumer Banking Affairs representative at any office of the Federal Reserve Bank of San Francisco. 🏦

For further information about the BDX program, contact the Bank and Public Services Department at the nearest Fed office or—in San Francisco—Paul Van Etten, Manager of Banking and Statistical Reports, (415) 544-2183. 🏦