TRUTH IN LENDING
UNIFORM GUIDELINES

The five Federal agencies that regulate banks, thrift institutions, and credit unions have asked for public comment on proposed uniform guidelines for the enforcement of Truth in Lending legislation.

In addition to the Federal Reserve System, the enforcement agencies include the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the National Credit Union Administration.

In a joint statement issued by the Federal Reserve System, the agencies said that the guidelines are intended to "promote improved and uniform enforcement of the Truth in Lending Act through corrective action, including reimbursement, for borrowers who have been overcharged or otherwise harmed by violations of the Act."

Over the last decade, the statement continued, a dozen Federal consumer-protection laws and clarifications have been enacted. The body of law has become so large and complex that standard enforcement criteria have become necessary in order to "provide notice to consumers and creditors of the type of action that can be expected when violations resulting in overcharges are found."

The proposed guidelines cover broad aspects of Truth in Lending, but the agencies specifically asked for comment on several questions believed to be of "particular interest." A prominent example is Guideline 4, which covers violations involving improper disclosure of the annual percentage rate (APR) or finance charge. Among other points, the agencies proposed:

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BURNS MEETS BAY AREA COMMUNITY LEADERS

Federal Reserve Chairman Arthur F. Burns met with San Francisco Bay Area community leaders last month at a luncheon sponsored by the Federal Reserve Bank of San Francisco, and fielded questions from the audience on a wide range of business and financial issues. He emphasized the need for dealing with inflation, creating a more favorable business-investment climate, solving the energy problem, and curbing mounting Federal budget deficits.

"I believe that there is a growing realization that if we’re going to have jobs in this country, we have to encourage business investment," Burns argued. "The fundamental duty of the government is to establish the kind of environment that encourages businessmen to invest and create those jobs."

On the inflation problem, he said, "This country has gotten into the habit of running into deficits not only when the economy is weak but when it is strong. To make a lasting impression on unwinding inflation, we’re going to have to work hard on bringing down the budget deficits."

Burns said he sensed a certain uneasiness among business and financial leaders as well as consumers. This erosion of public confidence makes it even more imperative for the nation to get its priorities straight and put its fiscal house in order.

The Chairman restated many of the themes he had emphasized during a speech a day earlier at Gonzaga University in Spokane, Washington. At Gonzaga, the Chairman said that contrary to a widely held impression, the profits being earned by business are at an unsatisfactory level. This condition could be an insurmountable barrier to the achievement of full employment.

"My own judgment is that a deep-rooted concern about prospective profits has in fact become a critical factor affecting economic performance in our country."

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* When the annual percentage rate is understated and the finance charge is either correct or not disclosed, the creditor would be allowed to charge no more for the credit than the understated APR indicates.

* When the APR is correctly disclosed but the finance charge is understated, the creditor would be required to pay the difference between the actual and the understated finance charge to the customer.

* When both the APR and finance charge are understated, the creditor would be required to take corrective action based on the largest overcharge.

The agencies also proposed three ways to correct an understated APR. Creditors could pay a lump-sum rebate along with reducing the amount of each remaining payment, reduce the number of remaining payments, or only reduce the amount of each remaining payment.

Specific comment was also sought on four other guidelines: Guideline 1 (Intentional Violations), Guideline 2 (Unintentional Violations), Guideline 3 (Period for Which Corrective Action is Required) and Guideline 5 (Violations Involving the Improper Disclosure of Credit Life, Accident, Health or Loss of Income Insurance).

The deadline for public comment is December 6. Comments should be directed to the Interagency Enforcement Policy—Regulation Z, Washington, D. C., 20219.

PUBLICATION AVAILABLE

A summary of the proceedings of the Ninth Pacific Trade and Development Conference focusing on mineral resources in the Pacific area will be available soon from this Bank. For copies contact the Public Information Section, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, 94120, phone (415) 544-2184.

FED SETS DATE FOR DIVESTITURE PLANS

The Federal Reserve Board of Governors this month asked bank holding companies that are required to carry out divestitures by the end of 1980 to submit action plans by June 30, 1978.

Although the date is voluntary, the Board said it might later impose a mandatory deadline to facilitate timely action on the divestitures and head off a last-minute flurry of submissions. The Board added that it wanted to avoid situations where bank holding companies might have to sell off properties at a disadvantage to meet the legal deadline set by the Bank Holding Company Amendments of 1970.

Under the 1970 legislation, firms that had become bank holding companies have 10 years to divest their non-bank activities or get Board approval for keeping them. Some 357 companies with 754 subsidiaries fall into this class. So far the Board has ruled that about a fourth of them are engaged in permissible activities. That leaves about 500 subsidiaries that must be either divested or reviewed by the Fed to see if they can be lawfully retained.

In a letter sent to the chief executive officers of the holding companies affected by the law, the Board said that it has no authority to extend the December 31, 1980 divestiture deadline. The Board added that the voluntary mid-1978 date was set to encourage holding companies to disclose their plans for divestiture or retention, so that complex or novel circumstances could be evaluated as early as possible.

"Divestiture plans should set forth, in as much detail as is presently known, the manner in which the company intends to accomplish the divestiture and the estimated time required to complete the process," the Board stated. "Progress reports will be requested at appropriate intervals."

The Board added that filings by banks generally will be considered in the order they are received. The earlier a company files, the earlier it may expect to receive final Board action on its proposal.

"We're proud to be part of the banking scene in Utah," summed up Jacobson. "We plan to bring our customers the highest-quality banking services on the market."
TEACHERS BECOME BANKERS FOR A DAY

Some 60 teachers from the greater Los Angeles area did some role-switching this month to discover first hand what it’s like to be a banker.

It happened at a series of workshops sponsored by the Los Angeles Branch of the Federal Reserve Bank of San Francisco and the California Bankers Association. Also participating were the Centers for Economic Education at four California State University campuses—Dominguez Hills, Long Beach, Northridge and Los Angeles.

“This marks the first time that the California Bankers Association and the Federal Reserve have undertaken a joint project of this nature,” said Senior Vice President Richard Dunn, Officer in Charge of the Los Angeles Branch. “The community stands to gain when professionals get together to exchange ideas about a subject as important as economic education for the young. I know that we at the Fed gained a great deal from this experience, and I believe that the teachers at the workshops did too.”

The series of workshops focused on a simulation game produced by the Minneapolis Federal Reserve Bank, entitled “You’re The Banker.” Its purpose is to instruct in the fundamentals of banking, as well as the effects of money on the economy.

Three workshops were held in Torrance, Van Nuys and Los Angeles, attended by 60 teachers from the Los Angeles Unified School District and an equal number of local bankers. Each game involved at least two bankers and two teachers.

To begin the game, participants drew cards which presented them with loan situations that might occur during an actual banking transaction. Players then assumed the banker’s role and made appropriate lending decisions. At the end of each round, participants went through a separate deck of cards indicating the effect of the player’s decisions on bank earnings and community economic welfare. Random events also were injected into the game to make it more realistic.

The learning process for participants is twofold. They must maximize the earnings of “their” bank. But they must also maximize the welfare of the community in which their bank operates. Teachers find this approach to be very useful for presenting complex educational materials in an interesting manner for classroom application.

The game can be ordered for $15 per set from the Office of Public Information, Federal Reserve Bank of Minneapolis, Minneapolis, Minnesota, 55480. 

ALIBRANDI, MAIER AGAIN HEAD BOARD

Joseph F. Alibrandi and Cornell C. Maier were redesignated this month as Chairman and Deputy Chairman of the Board of Directors of the Federal Reserve Bank of San Francisco by the Board of Governors of the Federal Reserve System. The one-year terms are effective January 1, 1978. Maier was also reappointed to a three-year term as Director of the bank.

Alibrandi is president and chief executive officer of Los Angeles-based Whittaker Corporation. He received his Bachelor of Science Degree from the Massachusetts Institute of Technology, and currently serves on the Corporation Development Committee and the Sloan School of Management Visiting Committee at MIT. Active in professional and civic affairs, he serves as Chairman of the Business Advisory Council of the University of California at Los Angeles, and is a member of the Board of Directors of the School of Business Administration at the University of Southern California.

Maier is president and chief executive officer of Kaiser Aluminum & Chemical Corporation. He joined Kaiser Aluminum in 1949 immediately following graduation 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 division 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.

NOTE

An article in last month’s Federal Reserve Notes inadvertently left United California Bank out of the list of major banks participating in the San Francisco Reserve Bank’s computer-interface program. The new service enables member banks to connect their computers directly to the nationwide network known as Fed Wire. The service is operated by the Federal Reserve System to transfer an average of $120 billion in funds throughout the country on each business day.
CHANGES PROPOSED IN REPORTING RULES

Federal regulatory agencies last month proposed new reporting rules, in order to obtain additional financial data from large banks and those with foreign operations. The rules were proposed by the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency.

The reporting changes would affect banks with foreign offices and those with consolidated total assets of more than $300 million. About 140 banks have foreign branches, subsidiaries or branches, or Edge Act subsidiaries. Another 280 banks that meet the asset-size criterion would also be affected.

Banks would be asked to provide separate subsidiary-income statements for domestic and foreign-office operations, and new loan and deposit schedules for foreign offices. Within these reports, certain types of accounts would be broken down between foreign and domestic customers.

The proposed changes would be implemented with the March 1978 income and condition reports. Additional detailed supplements would also be required for loan interest and fees, and for Federal funds and related transactions.

The regulatory agencies plan to propose changes in lease-accounting rules by year-end. This would help bring bank reports into line with recent standards proposed by the Financial Accounting Standards Board.

Under the proposals, smaller banks would no longer have to file detailed reports on Federal-funds transactions. Moreover, the regulatory agencies are considering introducing a condensed version of a condition report to help reduce the reporting burden for small banks. The condensed version would eliminate details that seldom occur in the reports of small banks.

The agency proposals are part of a full-scale revision, begun two years ago, of the basic statements of bank condition and income. The revision is designed to increase the effectiveness of bank supervision, make more information available about commercial-bank domestic and foreign operations, and improve the flow of information on banking and monetary developments.

BURNS MEETS
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In response to questions on the energy crisis, Burns said that the country must move decisively to establish a predictable and reasonable course of action. He said that business people are rightly uneasy about the uncertainties surrounding energy, environmental codes, and proliferating government regulations.

"We have still not adjusted to the past quadrupling of oil prices," Burns declared. "This is one of my deepest concerns—to solve the energy problem. We waste too much energy. If we're going to bring inflation under control, we have to deal with the energy question. Otherwise we will only deepen our trade deficit and intensify inflation."

Turning to monetary policy, he said that the Federal Reserve fully appreciates the critical linkage between money creation and inflation. He added that the Fed has no intention of letting the money supply grow at a rate that will add fuel to the fires of inflation.

The Chairman recognized the grave fears of many business people but reaffirmed his confidence in the ability of the American people to overcome the crises now facing the country.

"This is the greatest country in the world for businessmen to invest in," he concluded. "If I were a businessman, I would not sell the dollar short."