TAX AND LOAN SEMINARS PLANNED

The Federal Reserve Bank of San Francisco will hold a series of seminars early next year to acquaint financial institutions with the U.S. Treasury's new tax-and-loan (TT&L) account system, which is designed to channel Treasury funds into interest-earning accounts. Separate seminars will be held for commercial banks and thrift institutions in each of the areas served by the Bank's five branches.

Congress recently endorsed the Treasury's request for authority to invest its operating funds on a short-term basis, following procedures already adopted by corporations and state-and-local governments. The Treasury contended that it had been losing millions of dollars annually on interest-free accounts held in commercial banks.

Earlier, as a stop-gap measure, the Treasury accelerated its calls for remittance of funds held in tax-and-loan accounts. This policy brought about a sharp reduction in TT&L account balances at commercial banks and a correspondingly sharp increase in Treasury balances at Federal Reserve Banks.

Under the legislation passed earlier this year, the Treasury will earn a return on its operating cash balances in TT&L accounts. At the same time, it will pay fees to financial institutions for certain services which they provided without compensation in the past, such as handling Federal tax deposits, redeeming savings bonds, and issuing Treasury securities.

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MEMBER BANKS ELECT VAUGHAN AND METTLER

J.R. Vaughan and Ole R. Mettler have been elected to the Board of Directors of the Federal Reserve Bank of San Francisco by Twelfth District member banks.

Vaughan, who is Chairman, President and Chief Executive Officer of the Los Angeles-based Knudsen Corporation, was elected to a three-year term as a Class B Director, representing non-financial interests in the San Francisco District. Mettler is President and Chairman of the Board of Farmers & Merchants Bank of Central California in Lodi, California. He was elected to a three-year term as a Class A Director, representing District member banks. Both terms begin on January 1, 1978.

Vaughan and Mettler join seven other distinguished men and women who serve on the Board of Directors of the Federal Reserve Bank of San Francisco (see box). At this and other Reserve Banks, the Board of Directors brings management expertise to the task of overseeing Reserve Bank operations, and it also provides first-hand information on key economic developments in various areas of the West, complementing the Bank's internal research efforts.

In addition, the Board gives advice on the general thrust of monetary policy, especially with regard to the Bank's discount rate. The Board has specific responsibility for initiating changes in the discount rate, subject to review and approval by the Federal Reserve Board of Governors. The discount rate is the interest rate member banks pay when borrowing from the Fed for short-term adjustment purposes.

Head Office Directors are divided into three classes—A, B and C—with the first two classes elected by member banks and the third appointed by the Federal Reserve Board of Governors. Class A Directors represent the District's member banks and are usually

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Stephen S. Gardner, Vice Chairman of the Board of Governors, recently expressed Federal Reserve support for key provisions of legislation that would safeguard consumer rights in the emerging system of electronic funds transfers. But in his testimony, he urged Congress to avoid complex requirements that would burden suppliers unnecessarily or push up the cost of EFTs.

"The electronic funds transfer system opens up opportunities to broaden consumer payment alternatives and to improve consumer convenience and service while reducing the costs of making payments," Gardner testified. "Many people feel that EFT proponents have focused attention upon issues involving technology and marketing and have not paid sufficient heed to safeguarding consumers. This legislation is a most important step to balance these concerns."

In the Fed's view, Gardner said, consumers would be protected best by a competitive situation where both suppliers and purchasers are numerous. "Limits on the ability of institutions to offer EFT plans, whether imposed by legislation or by the nature of EFT technology including economies of scale, could result in the same sort of highly concentrated market that characterizes the bank credit-card industry. Such an outcome would probably not be in the public interest."

He said that the Fed supported the advance disclosure of EFT terms in easily understood language. The disclosure should include such items as a list of the consumer's rights concerning his or her EFT account. Gardner also favored the adoption of periodic statements describing account activity, which would serve many functions now provided by cancelled checks.

In a related matter, he said consumers should have the right to reverse an electronic funds transfer just as they can stop payment on a check. Because errors are bound to be made, consumers should be able to expect prompt correction of errors generated by EFT transactions.

Gardner argued, however, against requiring written documentation of sales loan, debit and credit transactions. Instead, he said, the consumer simply could be handed a receipt whenever a transaction was completed. Excessive documentation could result in only a slight increment in consumer protection while adding substantially to costs.

Gardner also opposed a prohibition against circulating EFT cards to consumers who had not requested them. He said this would impose a substantial barrier to entry into the EFT market, especially since a large base of cardholders seems essential to attract merchant participants. EFT cards are inherently safer than credit cards, he said, and they cannot be used without an access code or unless the consumer has a deposit account with the issuer.

The Fed Governor noted that EFT is developing at a more moderate and cautious pace than predicted. A major reason for this is the uncertainty surrounding the substitution of electronic systems for the traditional use of paper in bills, checks, receipts and ledgers.

"We are applying only a fraction of the technology we possess and businesses are reluctant to make the substantial investment necessary to utilize present knowhow," he warned. "We can speed the process by which we can realize the cost savings and conveniences that our inventive technology can bring to the simple, normal daily tasks of life by helping establish a legal framework for the rights, liabilities and responsibilities of participants in EFT."
HOLDING COMPANY EXAMS EXPANDED

The Federal Reserve Board of Governors will expand its inspections of bank holding companies beginning January 1, 1978, by examining these organizations annually instead of every three years. (This type of annual inspection was first adopted by the Federal Reserve Bank of San Francisco several years ago.) The Board will also use a standardized report to implement uniform procedures by all Reserve Banks.

These steps were designed to ensure that the scope of the inspection clearly reveals the condition of each holding company. Both the Comptroller of the Currency and the Federal Deposit Insurance Corporation have endorsed the Fed’s broadened inspection program.

The new program applies to all bank holding companies with assets of over $300 million, as well as companies with fewer assets that control credit-extending nonbank subsidiaries, such as finance companies and mortgage companies. Thus, about 225 organizations accounting for 85 to 90 percent of total bank holding company assets would be subject to Federal Reserve review every year. Companies with indebtedness that does not exceed 30 percent of stockholder equity, and whose subsidiaries together have outstanding credit under $10 million, would be exempt from the program. About 90 bank holding-company subsidiaries fall into this category.

“The development of numerous complex and diverse bank holding company structures and activities has prompted the expansion of the Board’s continuing program for their supervision and regulation. It is believed that the scope of the proposed inspection required by the new format—which includes a requirement for classification of the loans of nonbank subsidiaries that extend credit—would reasonably insure a determination of the financial condition of large bank holding companies,” the Board states.

The new examination report would include a statement of the bank holding company’s policies with respect to supervision of subsidiaries, a narrative financial analysis, and a review of the assets of credit-extending nonbank subsidiaries.

FED CONDUCTS CREDIT SURVEY

The Federal Reserve Board of Governors is polling nine major creditors to determine how consumers are exercising their rights under the Equal Credit Opportunity and Fair Credit Billing Acts, and how high compliance costs are for those who extend credit. The information obtained through the survey would help Congress and the Fed improve the implementation of these key pieces of consumer legislation.

The creditors being surveyed include four major retailers (Sears, Penney’s, Federated Stores and Alden’s), three bank card issuers (Bank of America, Maryland National Bank and First National Bank of Chicago), one travel-and-entertainment card issuer (American Express), and one oil company (Shell). The 20-question survey has been reviewed already by several major lenders to assure that it will meet the purposes for which it was designed.

The questions ask for information on the numbers of separate-history credit notices for married persons and notifications of specific reasons for credit denial which have been distributed, as well as the cost of each. The survey also queries creditors about the number of customers who formally raise questions about billing errors in their accounts.

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.

G. F. Bradley

BRADLEY RENAMED TO ADVISORY COUNCIL

Gilbert F. Bradley was reappointed last month to the Federal Advisory Council for 1978 by the Board of Directors of the Federal Reserve Bank of San Francisco. Bradley is Chairman of the Board and Chief Executive Officer of Valley National Bank of Arizona.

The Federal Advisory Council provides a link between the banking and financial community and the Federal Reserve Board of Governors. The Council is a 12-man body, with representation from each of the 12 Federal Reserve Districts.

By statute, the FAC meets with the Board of Governors at least four times a year in Washington, D.C. The Council advises the Board on a wide range of topics, including overall banking and monetary objectives, the Fed’s administration of its policy instruments, and the Fed’s regulation of member-bank activities. The Council also discusses the effects of Federal Reserve monetary policy on commercial banking and on the money market.

Valley National is the largest Bank in Arizona. Headquartered in Phoenix, the bank serves Arizona through more than 175 offices. Bradley was named Chairman and CEO of Valley Bank in 1975 after serving as President and Chief Administrative Officer. Over the years, he has gained recognition from a number of major civic groups—for example, being named Tucson’s “Man of the Year” in 1963. He was elected president of the Arizona Bankers Association in 1969.
HEAD OFFICE
BOARD OF DIRECTORS

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bankers. Class B and C Directors represent broader constituencies, such as agriculture, commerce, industry, services, labor, and consumers. Through this diversity in background and outlook, both the users and providers of banking services have a voice on the board.

All Head Office Directors serve a three-year term. Only Class C Directors can serve as Chairman or Deputy Chairman. These two appointments are made by the Board of Governors for one-year terms.

Each of the Reserve Bank’s branches outside San Francisco also has a Board of Directors, reporting to the Head Office Board. Branch Directors are appointed either by the Board of Governors or by the Head Office Board. The Branch Boards have oversight responsibility and provide Bank management with advice on monetary policy, business and financial conditions, and operational matters.

About 270 people now serve on Reserve Bank Boards throughout the nation, representing a wide range of backgrounds and professions. The Federal Reserve generally, and the San Francisco District in particular, have made strong efforts to recruit people with diverse backgrounds as a means of broadening the range of viewpoints available to the Federal Reserve. The first woman Director in the System, the first black Director, the first native American, the first Mexican American and the first Japanese American—all were appointed to Head Office or Branch Boards in the San Francisco District.

BRIGHTON BANCORP
APPLICATION APPROVED

The Federal Reserve Bank of San Francisco has approved the application of Brighton Bancorp to become a bank holding company, through the formation of a proposed new institution which would be known as Brighton Bank. The organization would join 20 other banking institutions which now serve the Salt Lake City metropolitan area.

According to the application, Brighton Bancorp will be capitalized at $500,000 and its bank will have capital of $1 million. The organization plans to provide additional services for the Salt Lake community, including extended banking hours during the week and banking on Saturday.