

Federal Reserve Notes

FEDERAL RESERVE BANK OF SAN FRANCISCO Federal Reserve Bank San Francisco MARCH 1978

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PARTEE ADDRESSES BAY AREA LEADERS

Federal Reserve Governor J. Charles Partee told San Francisco Bay Area community leaders this month that the nation must resist increased inflationary pressures while dealing with other economic problems at the same time. Partee was the featured speaker at a luncheon hosted by the Federal Reserve Bank of San Francisco for about 150 financial, business, labor, consumer, media and government leaders.

Other speakers included Chairman Joseph F. Alibrandi and President John J. Balles of the Federal Reserve Bank of San Francisco. The luncheon followed the bank's annual Joint Directors meeting, which was attended by the directors from each of the bank's five offices.

In his talk, Governor Partee argued that the country cannot focus single-mindedly on any one problem, but must consider the relationships between unemployment and inflation, between interest rates and monetary growth, and between short-term and longer-term economic performance. But he emphasized the special danger of inflation in the present economic environment.

Partee cited several other major developments affecting the future of the national economy. The first is the shortage of energy and other key materials for an expanding economy. The second is the sharp decline in the birth rate, with a resultant weakness in child-oriented markets for goods and services, and with an expansion in the number of women entering the job market.

The Fed official also noted the continuing shift in population to the Sunbelt—the West and the South. The shift repre-



LUNCHEON SPEAKERS—(From left) San Francisco Reserve Bank Board Chairman Joseph F. Alibrandi, Federal Reserve Governor J. Charles Partee, and Bank President John J. Balles spoke at luncheon for Bay Area leaders.

sents an important economic opportunity for the growing regions, but it imposes costs on both the developing and the mature areas of the country.

Still, Partee argued, the key problem today is the inflationary bias of the economy, evidenced by the upward spiral of wages and prices. He said that the basic inflation rate is now in the range of 6 to 6-1/2 percent, with little or no sign of moderation.

"Policymakers must be very cautious in efforts to squeeze down on the rate of inflation through broad fiscal and monetary measures," Partee said. "To attempt to force deflation by substantially cutting down on the growth in money and credit,

or by curtailing Federal fiscal programs ahead of the economy's ability to take up the slack, runs the grave risk of curbing the growth of spending by a good deal more than the moderation likely to be achieved in inflationary pressures. It is the modern analogy of pushing on a string."

Partee concluded that progress in reducing the basic inflation rate requires a change in public priorities and a comprehensive attack on the root causes of inflation, on an item-by-item and program-by-program basis. "The Federal Reserve cannot do the job alone," he said. "There must be an all-out war on inflation by business, labor and consumer groups as well as by government."

SUMMARY OF KEY FED DEVELOPMENTS

SECURITIES TRANSACTIONS

The Board of Governors has proposed a regulatory change that would require state member banks to establish uniform records and procedures for securities transactions conducted by trust departments for bank customers. The revision, which affects the Fed's Regulation H (Membership of State Banking Institutions), parallels proposals offered by the Comptroller of the Currency and the Federal Deposit Insurance Corporation. The changes were proposed following a Securities and Exchange Commission study of bank securities activities. For further information, contact the San Francisco Reserve Bank's Supervision, Regulation and Credit Department (415) 544-2238.

COMMUNITY REINVESTMENT HEARINGS

Hearings on the Community Reinvestment Act (CRA) will be held in San Francisco on April 12-13 at 10 a.m. in the Ceremonial Courtroom of the Federal Building, 450 Golden Gate Avenue. CRA—part of the Housing and Community Development Act—was signed into law last October. The Act requires Federal regulators to encourage the lenders they supervise to meet all community credit needs that are consistent with prudent financial operations. It further requires regulators to consider lenders' records in meeting such needs when considering applications for new or expanded activities.

The hearings are being held in five cities throughout the country to help federal regulatory authorities develop regulations to carry out CRA. The meetings involve the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board, with the latter organization sponsoring the San Francisco meeting. For further information, contact Robert J. Lawrence, Deputy Staff Director for Management, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, (202) 452-3766.

FEDERAL RECURRING PAYMENTS

The Federal Reserve Bank of San Francisco has mailed revised copies of Circular 11 (Federal Recurring Payments) to all member and nonmember banks in the District. Circular 11 contains Treasury Department regulations governing the handling of recurring payments, such as monthly social security checks. The changes clarify the responsibilities of a financial organization which receives credit payments containing erroneous information. The revisions also deal with the procedures to be followed for collecting credit payments which come due after the death or legal incapacity of a designated recipient or beneficiary. Questions regarding Circular 11 may be addressed to the Check Officer at the nearest Federal Reserve office.

REGULATION Y AMENDMENT

The Board of Governors is considering an amendment to Regulation Y (Bank Holding Companies) that would allow bank holding companies and their subsidiaries to sell money orders and similar instruments directly to consumers. Sale of Travelers' checks, U.S. Savings Bonds, and consumer-oriented financial management courses also would be covered by the proposed amendment. The Board issued the proposal in connection with an application by Citicorp (New York) to engage in such activities in Utah. For further information, contact the Reserve Bank's Supervision, Regulation & Credit Department (415) 544-2235.

ECONOMIC REVIEW COPIES AVAILABLE

The Winter 1978 issue of the Reserve Bank's *Economic Review* has just been released. It contains articles on developing the mineral resources of the deep seabed, on timber-cutting policies in the National Forests, and on the impact of pollution-control legislation on business capital spending. Copies are available on request from the Public Information Section, Federal Reserve Bank of San Francisco, San Francisco P.O. Box 7702, San Francisco CA 94120. Phone (425) 544-2184.

FOREIGN ASSET CONTROL REGULATIONS

The Federal Reserve Bank of San Francisco has sent copies of amendments to the Foreign Assets Control Regulations and the Cuban Assets Control Regulations to all member and nonmember banks in the District. The amendments, which consisted primarily of technical revisions, were issued by the Office of Foreign Assets Control, Department of the Treasury. For additional information contact the Credit Unit at the Reserve Bank's San Francisco office (415) 544-2230.

LOANS TO EXECUTIVE OFFICERS

The Board of Governors has raised the limit, from \$1,000 to \$5,000, on the amount of credit that member banks can offer to their own executive officers through credit cards and similar plans. This step was taken through an amendment to Regulation O (Loans to Executive Officers of Member Banks). The Board said that the adjustment was merited because consumer prices have increased and bank credit cards have gained wider acceptability since the \$1,000 limit was established in 1967. Questions on the amendment can be addressed to the Reserve Bank's Law Department (415) 544-2254.

REPORTS OF CONDITION AND INCOME

The Federal Reserve and other bank regulatory agencies are now making available preliminary data from the Reports of Condition and Income filed by insured commercial banks. The preliminary data, provided in computer-tape form, will be available from 40 to 60 days earlier than the "subscription service" computer tape now offered to the public by the Federal Reserve. The new procedure will begin with commercial-bank reports for December 1977, which should be available in preliminary form around the end of March. Computer tapes, priced at \$50 for the Report of Income and \$50 for the Report of Condition, can be obtained from the Division of Administrative Services, Board of Governors of the Federal Reserve System, Washington D.C. 20551. 

FED PROVIDES COMPLIANCE SERVICE

Since 1968, Congress has passed more than a dozen laws and amendments to protect the rights of consumers in credit transactions. Keeping up with this massive body of law and regulations is a demanding job even for consumer-credit specialists. Many banks—especially small and medium-sized institutions—do not have sufficient resources to analyze and adapt to the regulations.

Consequently, the Federal Reserve Bank of San Francisco and other components of the Federal Reserve System have developed a two-pronged program to aid banks that need assistance with questions of consumer-credit compliance. One facet is an advisory and educational service to inform member banks about the provisions of consumer-credit legislation. The second part of the program is a series of special examinations of state member banks to determine compliance with the laws and regulations.

Since the inception of the program, members of the San Francisco Reserve Bank's Consumer Affairs staff have logged more than 60,000 miles through this District to offer on-site assistance to banks. Staff members have visited more than 30 percent of the national banks and almost 70 percent of the state member banks in the District. By the end of this month, all state member banks will have been examined for compliance with consumer-credit laws.

The statutes and amendments covered by the compliance examinations include Truth in Lending, Fair Credit Billing, Equal Credit Opportunity, Real Estate Settlement Procedures, Fair Housing, Home Mortgage Disclosure, and Consumer Leasing.

According to Credit and Consumer Affairs Officer W. Gordon Smith, the Fed can help banks answer a number of questions regarding consumer-credit compliance.

"Because of the complexity of the consumer-credit laws and regulations, banks have welcomed the Fed's educational and advisory service. The service has helped make member banks more aware of the legal requirements of consumer-credit protection, and it has also helped them develop appropriate pro-

NEW CHECK DIGIT TO REDUCE EXCEPTIONS

The Federal Reserve System will implement at midyear a new program designed to reduce the volume of check-processing exception items. Under this program, a new digit will replace the dash in the routing-number portion of the MICR line at the bottom of each check. (MICR stands for Magnetic Ink Character Recognition.) The addition of this "check digit" will enable banks to reconstruct any single digits which high-speed check sorters cannot read, or to detect and reject any items which the sorters misread.

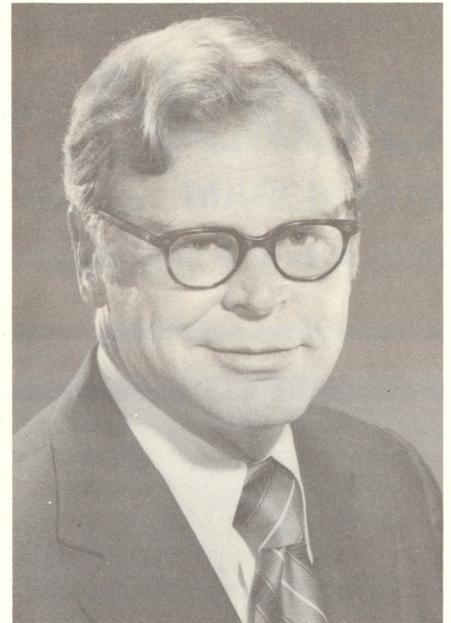
Checks currently held in stock may be used until supplies are exhausted, regardless of the July 1 implementation date. However, all depository institutions should specify the new nine-digit routing symbol on all orders placed for checks which are to be used after July 1. The new checks should not be circulated before that date.

The Federal Reserve Bank of San Francisco has issued an Information Bulletin (October, 1977) with details on the Check Digit Program. In addition, the American Bankers Association has produced a publication entitled, *Routing Number Excerpts from the Final Report of the ABA/FRS Check Digit Task Force* (No. 069700) which is available for five dollars from the ABA Order Processing Department, 1120 Connecticut Avenue, N.W., Washington, D.C. 20036. Information on the program is also available from the Check Officer at any Federal Reserve Office. 

cedures, policies and forms for meeting these requirements," Smith notes.

The San Francisco Fed has tailored its advisory consultations to meet the individual needs of each member bank. Consultations range from brief sessions with a few bank personnel to lengthy discussions with large groups.

For further information, contact Ms. Janet Sheffield, Consumer Affairs Unit, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, California, 94120, or call (415) 544-2224.



R. H. Holton

HOLTON APPOINTED TO CONSUMER COUNCIL

The Federal Reserve Board of Governors last month appointed five new members to its Consumer Advisory Council, including Richard H. Holton, Professor of the School of Business Administration, University of California at Berkeley. Holton was dean of that school from 1967 to 1975, and previously (1963-65) he was Assistant Secretary for Economic Affairs of the U.S. Department of Commerce.

The Consumer Advisory Council, which meets four times each year, was established by Congress to advise the Board of Governors regarding the implementation of legislation passed under the Consumer Credit Protection Act.

The Council is chaired by Leonor K. Sullivan, a former Congresswoman from Missouri, who was a principal author of the Truth in Lending Act. The Vice Chairman is William D. Warren, Dean of the School of Law, University of California at Los Angeles.

In addition to Holton and Warren, three other Westerners serve on the 28-member Council. They are Roland E. Brandel of San Francisco, a partner in the law firm of Morrison and Foerster; Robert R. Dockson of Los Angeles, President and Chief Executive Officer of the California Federal Savings and Loan Association; and Percy Loy of Portland, President of the Kubla Khan Food Co. 

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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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SECURITY PACIFIC APPLICATION APPROVED

The Federal Reserve Bank of San Francisco has approved the application of Security Pacific Corporation to engage in the underwriting and reinsurance of credit-related life, accident and health insurance through two of its subsidiaries. The subsidiaries—Central Plains Life Insurance Co. and Central Plains Insurance Co.—plan to underwrite and reinsure credit-related life, accident and health insurance in Arizona and Oregon, along with accident and health insurance in California. Banks and other lenders generally offer these types of insurance to borrowers, as a means of assuring loan repayment in the event of a borrower's death or disability.

In announcing its ruling, the Reserve Bank noted that credit-related insurance falls under the heading of activities which the Federal Reserve considers to be closely related to banking. However, the Bank said that applications will be approved only when an applicant can demonstrate that approval will benefit the general public.

Security Pacific Corporation is the second largest banking organization in California. It controls one subsidiary bank, Security Pacific National Bank of Los Angeles, with total domestic deposits of \$11 billion. The holding company, through its subsidiaries, also engages in mortgage lending, leasing, consumer finance and insurance agency activities.

PAMPHLET AVAILABLE ON HOUSING RIGHTS

The Board of Governors has issued a new pamphlet entitled, "The Equal Credit Opportunity Act and . . . Credit Rights in Housing." The booklet seeks to educate consumers and lenders about the major housing-related provisions of the Equal Credit Opportunity Act. That piece of legislation forbids discrimination in credit transactions on the basis of sex or marital status, race, color, religion, national origin, age, receipt of income from public-assistance programs, and good-faith exercise of rights under the Consumer Credit Protection Act.

Other consumer pamphlets available in this series include:

- The Equal Credit Opportunity Act and Age
- The Equal Credit Opportunity Act and Incidental Creditors
- The Equal Credit Opportunity Act and Women
- Fair Credit Billing
- If You Borrow to Buy Stock
- What Truth in Lending Means to You.

Copies of these consumer pamphlets may be obtained, singly or in bulk, upon request from the Consumer Affairs Unit, Federal Reserve Bank of San Francisco, San Francisco, California 94120. Phone (415) 544-2224. 

COLDWELL QUESTIONS BHC LEGISLATION

The Federal Reserve Board of Governors and the Justice Department told Congress this month that proposed legislation to restrict bank holding-company acquisitions and activities was not necessary because the present system provides better service to the public.

The legislation would prohibit any bank merger or holding-company acquisition resulting in the control of more than 20 percent of the banking assets in any state. It would also tighten the regulatory standards for approving nonbanking activities of bank holding companies.

Federal Reserve Governor Philip E. Coldwell told the Senate Banking Committee that a percentage limit on control of assets would interfere with the right of a state to determine the banking structure that would fit its needs. Coldwell said, "The Board feels that the present case-by-case approach better serves the public interest, since it provides the Board the needed flexibility to weigh the unique competitive, structural and other important factors associated with a given state."

John H. Shenefield, the head of the Justice Department's antitrust division, added that the department still supported its 1970 decision advocating increased flexibility in bank holding-company activities to foster increased competition.