

# Federal Reserve Notes

FEDERAL RESERVE BANK OF SAN FRANCISCO

APRIL 1978

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## FED AUTHORIZES ACH, BANKWIRE SERVICES

The Federal Reserve Board of Governors this month authorized Federal Reserve Banks to provide services necessary to create a nationwide network for making electronic payments. The Board also approved other Federal Reserve services to facilitate member banks' transfers of funds over Bankwire, a privately operated wire network.

These actions, according to the Board, should "enhance and improve financial services to individuals and to financial institutions; encourage the use of electronic movement of funds as a more efficient and less costly alternative to check payments; and stimulate the development of non-governmental services that will lower the cost of banking services to the public." The Board's actions implement proposals that were issued for public comment last December.

Under the new system, the Federal Reserve will provide clearing and settlement services for electronic payments made through local or regional automated clearinghouse associations (ACH's). These facilities thus could be connected into a national network for making funds transfers electronically rather than by check. This nationwide exchange of payments will begin next month, and probably will be completed by yearend.


An automated clearinghouse association is a group of banks and other depositories which initiate and receive electronic funds transfers authorized by customers of member financial institutions. The Federal Reserve currently operates 32 of these clearinghouses for the sorting and clearing of payments instructions recorded on magnetic

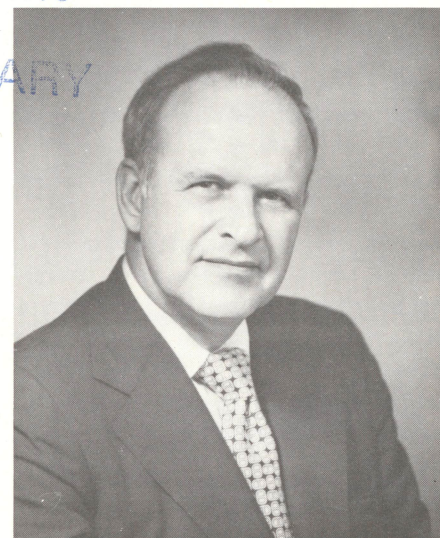
tapes. Most such transactions today are cleared locally, but the planned nationwide ACH connection will make possible the interchange of payments by some 9,000 banks and 1,000 thrift institutions that are members of the National Automated Clearing House Association.

Government payments through ACH's, such as direct deposits of social-security checks, now total around seven million a month. The nation's commercial volume totals less than one million items each month.

The Board of Governors changed its original plan of providing the interregional linkup free of charge, and will develop a pricing schedule for ACH services. These charges would be considered along with possible charges for all Reserve Bank services, with an allowance possibly being made for balances held by users at Reserve Banks.

Under the second Board action, the Federal Reserve would provide net settlement services to member banks to complete transfers of funds made over the Bankwire communications network. Bankwire, which is operated by the Payments and Communications Administrative Communications Corporation, provides transfers of funds among some 200 banks throughout the country.

Under the terms of the new arrangement, member banks will appoint Bankwire as their agent. Settlement for funds transfers will be made by the crediting or debiting of member-bank reserve accounts, with Bankwire being responsible for supplying whatever information is needed to make settlement. Member banks will begin participating in this system as soon as final legal arrangements can be made. 



P. Coldwell

## COLDWELL NOTES STRONG FED RESULTS

In a report on Federal Reserve operations to the Senate Banking Committee, Federal Reserve Governor Philip Coldwell said recently that Reserve Banks spent \$685 million in 1977 -- an increase of only 4.1 percent over 1976 operating expenses. "This modest growth was achieved despite an expansion in the volume of our operations of more than 7 percent and increases in resource costs also in the 7-percent range," he added.

Coldwell noted that Reserve Bank operating expenses are projected to increase by 5.4 percent in 1978, compared with average annual increases of 13.6 percent in the 1970-74 period and 7.7 percent in the 1974-77 period. Reserve Bank employment, after an 8.1-percent decline over the past three years, is projected to drop by an additional 2.0 percent in 1978.

In 1977, the volume of measurable Federal Reserve output increased about 7

(Continued on page 4)



## DEBT COLLECTION FACT SHEET ISSUED

The Federal Reserve Board of Governors has issued a fact sheet on the new Fair Debt Collection Practices Act, to assist banks in complying with the law. The Act, which became effective last month, makes it illegal for "debt collectors" to adopt abusive or deceptive debt-collection practices. A debt collector is defined as anyone who regularly collects consumer debts for someone else. The Act exempts bank trust-department activities, as well as most activities by a bank when it is collecting debts on its own behalf in its own name.

Any consumer who believes a bank has violated the Fair Debt Collection Practices Act may lodge a complaint with the nearest Federal Reserve Bank or with the Board in Washington. The Federal Reserve will follow up on all such complaints or refer them to the appropriate regulatory agency. Regulatory agencies may issue cease-and-desist orders to halt violations, and may require affirmative corrective action.

As the fact sheet points out, the law requires a debt collector to notify a consumer in writing of the amount of the debt, the name of the creditor, and the steps the consumer may take to dispute the debt. This should be done at the outset of the debt-collection process, but no later than five days afterwards. Upon written request, a debt collector must halt communications with a consumer except to inform the individual that there will be no further communication or to detail what further steps will be taken to close the case. A debt collector must also use payments made by the consumer as the latter directs.

The Act prohibits certain practices, such as contact by the debt collector with third parties. For example, an employer cannot be contacted except to find out where a consumer lives. The Act also forbids communicating with the consumer at any unusual time or place -- for example, at work, if there is reason to believe that the employer does not allow such contact.

According to the fact sheet, the legislation is designed to protect consumers,

## TREASURY PROPOSES NEW DOLLAR COIN

The U.S. Treasury Department has proposed minting a new dollar coin -- larger than the quarter but smaller than the half-dollar -- to eliminate what it called "the cumbersome size and weight of the current dollar coin." More importantly, the Treasury said that a practical dollar coin could displace one-dollar notes, at substantial cost savings. Increasing demand for ones otherwise may necessitate a \$100-million expansion of printing facilities by the Bureau of Engraving and Printing.

About 60 percent of the Bureau's current production time is consumed by printing one-dollar bills. Each of these notes wears out in approximately 18 months and costs close to two cents to produce. But coins, which last at least 15 years each, have a tenfold service-life advantage.

"Considering the cost of the coin compared to the note, each coin would save over 80 percent of the production costs for the notes displaced," the Treasury said. "With nearly three billion \$1 Federal Reserve Notes in circulation today, only modest displacement by \$1 coins could result in savings of hundreds of millions of dollars in costs."

The Treasury also sees the \$1 coin as supplementing the two-dollar note. The latter was introduced in 1976 to help relieve increasing demands for the one-dollar note. Increased use of the two could save taxpayers up to \$7 million annually in production costs alone.

The Treasury stated that it does not intend to stop printing one-dollar notes in the near future, despite the cost-effectiveness of such a step. It added, however, that it plans to continue encouraging the use of the two. 🏛️

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but also to protect reputable debt collectors so that they are not competitively disadvantaged by unscrupulous practitioners. 🏛️

## WEST LEADS IN NEW BANK GROWTH

The West accounted for almost one-fourth of all new bank activity last year, as 35 banks opened for business in the San Francisco Federal Reserve District. Nationwide, 145 new banks began operations, according to figures released by the Comptroller of the Currency.

There were 14,709 commercial banks operating in the United States at year-end 1977. The San Francisco District accounted for only 541 of these banks, or about four percent of the national total. However, Western banks operated 6,808 banking offices, reflecting the strength of branch banking throughout this District.

California accounted for 15 of the 35 new District banks last year. Oregon and Utah each reported seven openings, while Washington had four and Arizona and Idaho, one each. Only Texas (17), Illinois (13) and Florida (10) ranked with the Western states in this regard.

The West also performed well from the standpoint of Federal Reserve membership, in the face of an unfavorable national trend. After mergers and consolidations, the number of Federal Reserve member banks increased from 144 to 148 in this District during the year. At the same time, the number of member-bank offices increased by two percent to 4,979. 🏛️

### BANKS JOINING FEDERAL RESERVE SYSTEM IN 1977 Twelfth District

#### State Member Banks

Yamhill County Bank (McMinnville, Oregon); Heritage Bank & Trust (Salt Lake City, Utah); Sandy State Bank (Sandy, Utah); Utah Independent Bank (Salina, Utah).

#### National Banks

Pioneer National Bank (Yakima, Washington); Citizens National Bank of Idaho (Boise, Idaho); Fidelity National Bank (Concord, California); National Bank of Long Beach (Long Beach, California).

#### Trust Companies

Independent Bankers Trust Company (San Rafael, California).



## SUMMARY OF KEY FED DEVELOPMENTS

### **INSIDE INVESTMENT INFORMATION**

The Federal Reserve Board of Governors has issued a policy statement alerting state member banks to penalties that can arise from the misuse of inside investment information. The Board offered examples of steps that could be taken to avoid violation of Federal law in this field, including the development of written policies and procedures to prevent the misuse of material inside information.

The policy statement primarily affects trust departments of state member banks. Federal law generally prohibits persons who possess material inside information about securities from purchasing or selling those securities prior to public disclosure of such information.

The Board urged each state member bank to adopt written policies and procedures to ensure that privileged information is not misused. It also urged banks to review present policies and procedures to make sure this purpose is achieved. For further information, contact the Supervision, Regulation and Credit Department at the San Francisco Reserve Bank. (415) 544-2264.

### **DISHONORED ITEMS**

Effective last month, Federal Reserve Banks no longer handle as cash items checks that have been dishonored on two separate occasions. The first time an item does not clear, the paying bank should mark its face with a star to indicate that it is a dishonored item. The second time this occurs, the paying bank is required to star the item again and also invalidate the MICR routing number. The dishonored check should then be returned to the depositor. For further information, contact the Check Officer at the nearest Federal Reserve office.

### **EQUAL CREDIT AMENDMENT MAILING**

The San Francisco Reserve Bank has mailed copies of an amendment to Regulation B (Equal Credit Opportunity) to all member and nonmember banks and branches in the District. The amendment, which deals chiefly with credit-card transactions, specifies what constitutes adverse action in a credit transaction at the point of sale. The adopted amendment is one of two alternative proposals published for comment by the Board of Governors last fall. For further information, contact the Consumer Affairs Unit at the San Francisco Office (415) 544-2226.

### **REPORTING PROCEDURES FOR MUNICIPAL SECURITIES**

The Federal Reserve this month implemented an amendment outlining reporting procedures for bank holding companies and subsidiaries that deal in municipal securities. The requirements facilitate compliance with rules, set by the Municipal Securities Rulemaking Board, which concern the qualifications of municipal securities' principals and representatives. Inquiries can be directed to the Bank Holding Company Unit at the San Francisco Reserve Bank (415) 544-2235.

### **OVER-THE-COUNTER STOCKS**

The Board of Governors has proposed a change in its regulations G, T and U, affecting the Board's list of Over the Counter (OTC) stocks that are subject to margin requirements. The amendment would require dealers to submit bids and offers for an OTC stock to an automated quotation system, in order to be counted as market makers in that stock. The best-known system of this type of NASDAQ -- National Association of Securities Dealers Automated Quotations. The NASDAQ system, which links major brokers throughout the country, publishes information on all stocks on the Board's list. At present, dealers are required to publish bids and offers on a regular basis, generally through "pink sheets," but most such published data has been made redundant by the development of NASDAQ. For further information, call the Consumer Affairs Unit at the San Francisco Office (415) 544-2226.

### **MAIL CODING PROGRAM**

Early this year, the San Francisco Reserve Bank instituted a mail-coding program to speed up the processing of registered and certified mail, so as to expedite the crediting of banks' accounts. However, many commercial banks are not complying with the coding program. When dispatching certain items -- such as savings bonds, savings stamps, Treasury and Agency coupons, securities, letters of credit, currency and coin, and government deposits -- banks and thrift institutions should identify containers with the proper code. In addition, containers should hold only one type of shipment. The Reserve Bank has sent out letters reminding banks about the mail-coding program. Questions about the program can be addressed to the mail section of your nearest Fed office.

### **FOREIGN OFFICES OF NONBANKING SUBSIDIARIES**

The Board of Governors this month proposed a set of rules by which nonbanking subsidiaries of U.S.-based bank holding companies may establish new foreign offices. This would formalize current procedures as an amendment to the Board's Regulation Y. The Board said that confusion over procedures has created the mistaken impression that domestic nonbanking subsidiaries of bank holding companies cannot set up new offices abroad. Under the proposed procedure, a bank holding company would have to notify the appropriate Reserve Bank 45 days before the opening of any office of this type. However, it would not have to publish a notice of its intentions in general circulation newspapers in communities to be served. Such publication notices are required when opening a new domestic branch.

### **MEMORIAL DAY HOLIDAY**

All offices of the Federal Reserve Bank of San Francisco will be closed on Monday, May 29, in observance of Memorial Day.



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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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## HOLDING COMPANY INSURANCE RULES

The Federal Reserve Board of Governors has proposed a regulation which could prohibit bank holding companies from selling insurance to themselves and to nonbank subsidiaries. The revision was prompted by a series of decisions by the U.S. Court of Appeals that upheld Regulation Y but required certain changes in keeping with the court's rulings.

Despite the restrictions, the revised regulation would allow a bank holding company to handle any insurance for the holding company's banking subsidiary. A holding company could also sell insurance that is directly related to a credit extension by a bank or bank-related firm or to the provision of other financial services.

The revised Reg Y also would eliminate a second type of insurance known as "convenience" insurance. This is defined as any type of insurance provided by a bank holding company simply for the convenience of customers.

The courts have also directed the Fed to reconsider insurance regulations which authorize bank holding companies or their subsidiaries to sell insurance in communities with population of 5,000 or less. The Board said it would reconsider this matter in the near future. 

## COLDWELL (continued from page 1)

percent, while the aggregate unit cost of operations decreased by more than 2 percent. These measurable activities included clearing checks, processing currency and coin, and issuing and redeeming Treasury and other Government agency securities.

For 1978, Coldwell projected a 10-percent increase in output per hour, in line with the gains achieved in each of the past several years. "This productivity gain, adjusted for the substitution of capital for labor, yields a total factor productivity increase of 8.3 percent, which is considerably larger than estimates of productivity growth for the private sector."

Coldwell reviewed the status of several projects which will involve increased Federal Reserve responsibilities during 1978. In the area of bank supervision, the System is instituting an annual inspection of most bank holding companies with consolidated assets over \$300 million, and is implementing a standardized holding-company examination report. (Both programs were implemented in the San Francisco Reserve District in 1977.)

The System also is involved in the Treasury's check-truncation effort, whereby tapes and microfilm copies of paid checks are sent to the Treasury for processing while the original checks are sent to a government facility for storage.

## BANK PRACTICES UNDER STUDY

Consumer-affairs examiners from several regulatory agencies recently surveyed about 900 commercial banks regarding certain practices followed in handling consumer accounts. The study was undertaken to comply with the Federal Trade Commission Act's charge to regulators to identify "unfair or deceptive banking practices." Federal Reserve researchers are now analyzing the data, and will present their findings and recommendations to the Board of Governors later this year.

The survey covered four specific bank practices which can create problems for consumers. The first such practice was failing to tell new customers about the contract terms governing the use of accounts or failing to give reasonable advance notification to existing depositors regarding changes in contract terms. A second practice was advertising "free" checking-account services when a bank actually imposes charges or preconditions before the depositor receives no-cost checking.

Another criticized practice was attaching, freezing or closing a depositor's account without prompt notification of the customer. A fourth such practice was imposing an inordinately long waiting period before customers could withdraw funds deposited in the form of checks.