AGENCIES AUTHORIZE NEW TIME CERTIFICATES

Federal regulatory agencies this month authorized commercial banks and thrift institutions to offer customers two new types of higher-yielding time deposits, effective June 1. With this new authority, financial institutions should be able to compete for funds more effectively, and thus assure an adequate flow of credit into housing in a period of rising market interest rates.

The Federal Reserve System, the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board jointly approved a short-term money-market certificate tied to the six-month Treasury bill rate, and an eight-year certificate with a fixed maximum rate of interest. Savings banks and savings-and-loan associations will be permitted to pay interest rates one-quarter percent higher than commercial-bank rates.

The agencies noted that open-market rates on Treasury securities now exceed the maximum rates that banks and thrift institutions are permitted to pay on comparable deposit maturities. Consequently, in recent months, deposit inflows into thrift institutions have slowed sharply as investors put their funds directly into marketable securities. "The two new certificates will provide these institutions with the tools to make them more competitive with interest rates in the open market," the regulators explained.

The money-market time certificate, although issuable only in non-negotiable form, will have many of the characteristics of a six-month Treasury bill. It will be issued with a six-month (26-week) maturity. At least $10,000 must be deposited, but the new instruments may be issued in any denomination above that amount. The maximum permissible rate of interest will be tied to the rate established for the six-month Treasury bills issued on or immediately prior to the date of deposit. (The appropriate bill rate would be the auction average on a discount basis, and not the coupon equivalent rate.) However, the quarter-point differential would be retained for savings banks and S&L's.

Treasury bills are normally auctioned each Monday, and are issued three business days later. The ceiling rate on the money-market certificates will be adjusted weekly, effective the day the new six-month bills are issued. Renewals for another 26-week period may not be at a rate in excess of the applicable six-month Treasury-bill rate in effect at the time of renewal. In other respects, the new instrument would be like any other time deposit; for example, compounding of interest is permitted.

The long-term (eight-year) instrument will be issued for at least $1,000 at a maximum rate of 7% for commercial banks and 8 percent for savings banks and S&L's. This certificate should help financial institutions compete more effectively for funds, and also help them lengthen their deposit structure, thereby contributing to greater stability in the cost and availability of funds.

Both new time-deposit categories will be subject to existing penalties for early withdrawal. The penalties are a reduction of interest to the passbook rate and forfeiture of three months' interest at that rate. All interest must be forfeited if the amount withdrawn has been on deposit three months or less.

One result of these actions will be an increase in the Federal Funds Rate, which has increased at least 2 to 2½ percentage points above their 1977 lows, so that commercial paper (for example) is now selling at close to 7 percent. Most long-term rates meanwhile have risen at least one full percentage point above their 1977 lows, so that high-grade utility bonds now yield almost 9 percent.

Commenting on these developments re-
SAVINGS TO CHECKING TRANSFERS
The Federal Reserve Board of Governors has approved a plan to permit individual depositors at member banks to transfer funds automatically from their savings to their checking accounts, beginning this November. (The proposal was discussed in the February 1978 Federal Reserve Notes.) The automatic-transfer service will provide depositors with an alternative to two services already permitted under Board rules—transfers from savings by telephone, and preauthorized bill payments. It will also provide an alternative to automatic overdraft plans, under which banks automatically make loans to cover customers’ checks.

According to the Board, automatic transfers will not seriously affect the flow of funds to thrift institutions. But the Board said that competitive and other developments will remain under continuing review and will be considered again within a year of the November start-up date. In making its decision, the Board reviewed nearly 1,400 responses to its original proposal. A majority of the respondents favored the proposal, including almost all of the consumers responding. For further information, contact the San Francisco Reserve Bank’s Legal Department: (415) 544-2254.

LIST OF OTC STOCKS
The Board of Governors has published a revised list of over-the-counter (OTC) stocks that are subject to Federal Reserve margin regulations. The regulations limit the amount of credit a person or firm may obtain to buy or carry securities. Currently the margin limit—the maximum credit allowable—amounts to 50 percent of each transaction. For further information, contact the San Francisco Reserve Bank’s Consumer Affairs Unit: (415) 544-2226.

FLOOD INSURANCE PROGRAM
The Board of Governors has amended Regulation H (Membership in the Federal Reserve System) to enable state member banks to make loans secured by improved real estate or a mobile home in a community that does not participate in the National Flood Insurance Program. The amendment, which is effective immediately, brings the regulation into conformity with new provisions of the National Flood Insurance Program. As a condition of such loans, the Board requires banks to notify the purchaser or lessee of a property if disaster relief will be available in the event of a flood. Banks still would not be allowed to make such loans in communities participating in the National Flood Insurance Program, except in the case of individual properties covered by Federal flood insurance. For further information, call the San Francisco Reserve Bank’s Legal Department: (415) 544-2254.

MARGIN CREDIT FOR NONCONVERTIBLES
The Board of Governors has proposed an amendment to Regulation T (Credit by Brokers and Dealers), which would permit nonconvertible corporate-debt issues sold on the Over the Counter (OTC) market to be purchased with a 30-percent margin. The amendment would extend margin credit to OTC nonconvertibles as well as to bonds listed on national securities exchanges. The margin requirement would remain 50 percent for convertible corporate bonds and stocks on the Board’s OTC list or for those registered on a national exchange. For further information, call the Reserve Bank’s Consumer Affairs Unit: (415) 544-2226.

SAVINGS BONDS INSTRUCTIONS
The San Francisco Reserve Bank has mailed revised Treasury guidelines for processing and handling savings bonds to all issuing agents of U.S. Savings Bonds in this District. The revisions became effective May 1, and cover such matters as redemptions, adjustments, spoiled bonds, interest on backdated securities, shipment of bonds, and undeliverable bonds. The October 1977 issue of Instructions to Qualified Issuing and Paying Agents of U.S. Savings Bonds will be amended to reflect these changes. For further information, call the Fiscal Department at your nearest Federal Reserve office.

DIRECT DEPOSIT PAYMENTS
Navy retirement benefit payments are now part of the recurring government-payments program. After an earlier trial run, electronic payments under this program were begun this month. These payments have now been combined with other recurring government payments for settlement on the thirtieth of each month. For further information, contact the ACH (Automated Clearinghouse) unit at your nearest Federal Reserve office.

GUIDE TO FED REGULATIONS
A Guide to Federal Reserve Regulations, which gives a general overview of the subject in easy-to-understand terms, is now available through the Federal Reserve Bank of San Francisco. The rules deal with such matters as the use of credit in securities transactions, holding-company activities, consumer-credit transactions, interest on savings deposits, the clearance and settlement of checks, and other payments involving the use of Federal Reserve facilities. Copies of the guide will be sent automatically to those on the Federal Reserve Notes mailing list. For more copies, write the Public Information Section, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, CA. 94120, or call (415) 544-2184.
FED CHANGES
CREDIT RULES

The Federal Reserve Board of Governors this month announced several changes in its regulations governing consumer credit—Regulation B (Equal Credit Opportunity) and Regulation Z (Truth in Lending).

Regulation B prohibits creditors from discriminating against credit applicants, establishes guidelines for gathering and evaluating credit information, and requires written notification when credit is denied. Regulation Z prescribes uniform methods of computing the cost of credit, disclosure of credit terms and lease terms, and procedures for resolving billing errors on certain credit accounts.

In a move to eliminate state and Federal conflicts, the Board adopted a supplement to Regulation Z, spelling out criteria under which states may apply for exemption from the consumer-leasing requirements of that regulation and the Truth in Lending Act. The exemption would be based on the Board’s findings that state law imposes substantially similar requirements to, or confers greater consumer benefits than, the relevant Federal law—and also that state law makes adequate provision for enforcement. The Director of the Board’s Consumer Affairs Division would have the authority to make such findings.

In a separate announcement, the Board put forth a revision of its interpretation of Reg Z to cover all cases in which a debt is repaid in varying amounts. Under Reg Z, creditors are obligated to disclose detailed information regarding the schedule of payments required to settle a debt.

This poses a problem where payments are of different amounts. Thus, in certain specified types of transactions, a creditor henceforth will be permitted to give the customer an abbreviated schedule of payments. In other cases, however, the full schedule of payments would have to be set forth on the reverse of the disclosure statement or on a separate page.

In another move, the Board announced a revision in its procedures for issuing

FED ANNOUNCES
CALL-REPORT REVISIONS

The Federal Reserve and other bank regulatory agencies this month announced several changes in “call reports”—the reports of condition and income made quarterly to regulators for supervisory purposes. The revisions will become effective with the December 1978 reports.

The changes chiefly affect about 150 U.S. banks with foreign offices, and secondarily, banks with assets of $300 million or more. For smaller banks, the major effect will be a reduction in reporting requirements.

The regulatory changes were designed to elicit more detailed information on the foreign operations of major U.S. banks. These banks henceforth will have to provide separate information on their foreign-office and domestic-office operations. In some cases they will have to distinguish between domestic and foreign customers. In addition, all banks with assets of $300 million or more will have to provide more detailed information on short-term money-market transactions.

The Federal Reserve, along with the Comptroller of the Currency and the Federal Deposit Insurance Corporation, began this major overhaul of the call reports several years ago. These agencies issued a first set of revisions in 1976, and they are now developing a simplified report of condition for small banks, for implementation in 1979.

official staff interpretations of Regulations B and Z. Previously, these interpretations were effective upon publication in the Federal Register, but this did not provide sufficient opportunity for public comment.

To remedy this situation, the Board henceforth will issue all official staff interpretations of these regulations with an effective date 30 days after publication in the Federal Register. If an interpretation is challenged before the effective date, it will be reissued for public comment before final action is taken.

Welcome To The District
NORTHWEST COMMERCE BANK

A new state member bank—Northwest Commerce Bank—opened late last month in North Bend, Oregon. “Northwest Commerce will be a full-service bank for the growing southern Oregon area,” says President Larry F. Dowd. “We expect to expand rapidly along with our marketing area.”

Northwest Commerce is the only local bank based in North Bend, a coastal community near Coos Bay. The bank opened in April in temporary quarters, but will have a permanent home ready later in the year.

President Larry Dowd is associated with the real-estate firm of Property Specialists, Inc. He has had 24 years of banking experience, beginning in Great Falls, Montana. Executive Vice President Willard (Bill) Curtis is the Chief Executive Officer. A native of Illinois, he has had experience in all phases of banking over the past 17 years, primarily in the Middle West.

Curtis was instrumental in guiding Northwest Commerce Bank to membership in the Federal Reserve. “We expect Fed membership services to boost our asset growth and earnings potential,” Curtis says.
AGENCIES ADOPT NEW BANK RATING PLAN

The Federal Reserve System, along with the Comptroller of the Currency and the Federal Deposit Insurance Corporation, this month adopted a uniform interagency system for rating the condition and soundness of the nation’s commercial banks.

The rating system has two main elements. First, examiners or reviewers would assess five critical aspects of a bank’s operations and condition. These are the adequacy of a bank’s capital; the quality of its loans and investments; the ability of its management and administration; the quantity and quality of its earnings; and the level of its liquidity.

Secondly, examiners or reviewers would combine these basic factors into a composite overall rating of the bank’s condition and soundness. Banks will be placed in one of five groups, ranging from banks that are sound in almost every respect (Group 1) to those with excessive weakness requiring urgent aid (Group 5).

Up to now, the three agencies used somewhat different rating techniques, and hence found it difficult to provide Congress with meaningful reports on the soundness of the nation’s banking system. But from now on, by agreeing on the basic factors characterizing a bank’s condition, supervisors should be able to make comparable judgments about all Federally insured banks.

NEW TIME CERTIFICATES

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crease, to 8 percent, in the maximum permissible rate that depository institutions may pay on any new time deposits by governmental units, other than a six-month money-market time deposit. Similarly, the maximum permissible rate will increase to 8 percent on Individual Retirement (IRA) and Keogh accounts with maturities of three years or more. These ceiling rates are fixed at the highest rate a Federally-insured bank or savings and loan may pay on any deposit of less than $100,000 with a maturity of over six months.

ECONOMIC REVIEW

Copies are now available of the Spring 1978 Economic Review, which contains four articles on the topic of “Information and Market Efficiency.” For copies, write the Public Information Section, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, CA 94120, or call (415) 544-2184.

DISCOUNT RATE

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cently in a speech to Los Angeles community leaders, San Francisco Reserve Bank President John J. Balles said, “The Fed does not take some perverse pride in watching interest rates go up. It acts to tighten money only as a means of preventing excessive growth of money and credit and thereby curbing inflation—the nation’s No. 1 problem, according to 82 percent of the people surveyed in a recent Harris poll. The alternative is to watch the distortions of inflation bring about a recession and more joblessness.”

Balles noted that pressures on short-term rates can arise because of a tighter monetary policy, and also because of a rising demand for funds in a strong business expansion. But he added, “Relatively few people clearly understand the long-term effects of price expectations on interest rates, and the way in which such expectations can offset other market influences. Indeed, if the Fed happened to ease money considerably in today’s circumstances, long-term rates at least probably would go up rather than down, because of an expectation of worsening inflation.”