

Federal Reserve Notes

FEDERAL RESERVE BANK OF SAN FRANCISCO

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Federal Reserve Bank of San Francisco

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FED PROPOSES REG Z CHANGES

The Federal Reserve Board of Governors has proposed a revision of Regulation Z (Truth in Lending) to simplify the calculation of annual percentage rates for graduated-payment mortgages. (With a graduated mortgage, payments increase annually during the first five or ten years of a mortgage.) Under this amendment, irregular payment amounts and irregular payment periods would be considered "regular" for the purpose of calculating the annual percentage rate. The amendment would apply to all mortgages with monthly payments, a maturity of 15 years or more, and a minor variation in a payment period.

The Board also amended Reg Z, effective immediately, to require certain lenders to retain all records of credit transactions in their possession for more than two years. It applies to all creditors and lessors under the supervision of the Federal Reserve, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board and the National Credit Union Administration.

These agencies have proposed a uniform statement that calls for reimbursement to consumers for certain violations of Reg Z. This reimbursement could extend to violations that occurred more than two years before discovery. The amendment requires creditors and lessors to retain credit transaction records until final action has been taken on the uniform statement and one examination has been completed under those guidelines. Comment on the rule is being accepted until July 14, 1978. For further information on this amendment or other Reg Z matters, contact the San Francisco Reserve Bank's Consumer Affairs Unit (415) 544-2226. 🏠

FED REVIEWING ALL REGULATIONS

The Federal Reserve Board of Governors has undertaken a major review of its regulations and related interpretations, with a view to streamlining and modernizing necessary regulations, and eliminating those not required by law. Chairman G. William Miller told the Senate Banking Committee that "we are going in for zero-based regulating." He said that the Fed aims to alleviate the burden of regulatory paperwork on the nation's banks.

Governor Philip C. Jackson heads a task force which is carrying out the review. The group will attempt to redraft the Board's 26 regulations to improve their format, their public benefits, and their relevancy to current policy goals. The full Board then will make recommendations to Congress for any statutory changes needed for modernizing the System's regulations.

This is the first review of its kind in Federal Reserve history. While some regulations are relatively recent, many others are much-amended versions of rulings first issued several decades ago.

The review will take place in two stages. The first stage will encompass regulations affecting commercial banks, bank holding companies and other institutions outside the Federal Reserve. The second stage will cover all other Fed regulations, interpretations, policy letters and operating circulars.

The review will cover the legal requirements as well as the costs and benefits of each regulation. In addition, it will determine whether statutes underlying the regulations need revision, and whether nonregulatory alternatives are available for resolving the issues covered by



P. C. Jackson

those regulations. The task force would attempt to ensure that any improvements made now would be preserved as future regulatory changes are made.

In a separate but related move, the Board early this month approved actions to reduce the reporting burden on commercial banks. The Fed stopped collecting annual data, previously required of all banks, on outstanding loans to customers other than dealers for the purpose of buying or carrying securities. The Fed also halted the monthly collection of data on such loans for a sample of 72 large banks.

In addition, the Fed reduced statistical reporting for some 240 member banks who report interest rates charged on various types of consumer loans. These reports were put on a quarterly rather than a monthly basis, and some smaller banks were dropped from the reporting panel. The Board said that the revision will call for only about one-third as much reporting as previously. 🏠

SUMMARY OF KEY FED DEVELOPMENTS

POLICY ON TAX TRANSACTIONS

The Board of Governors has issued a proposed policy statement on tax transactions between state member banks and their parent holding companies. In the Board's view, a bank holding company should serve as a source of strength for its subsidiary banks and should not exercise its control to their detriment. The Fed criticized the accounting practice whereby assets and income are transferred from subsidiary banks to the parent company without offsetting benefits to subsidiaries. The Board also encouraged holding companies to develop written tax agreements with their bank subsidiaries that specify intercorporate tax-settlement policies. For further information, call the Bank Holding Company Section at the Federal Reserve Bank of San Francisco (415) 544-2235.

REGULATIONS Q & D

The San Francisco Reserve Bank has distributed material on revisions in Regulation Q (Interest on Deposits) and D (Reserves of Member Banks) to all member banks and branches in the District. The information covers automatic transfer services for individual customers from savings to checking accounts (effective November 1) and member-bank participation in the new Treasury Tax and Loan Investment program (effective July 6). Additional information on the former program can be obtained by calling the Reserve Bank's Law Department at (415) 544-2254 and information on the latter program can be obtained by calling the Fiscal Department at (415) 544-2453.

IRA & KEOGH ACCOUNTS

The Board of Governors has announced that member banks can pay up to 8-percent interest on all Individual Retirement Accounts (IRA) and Keogh Accounts with 3-year maturities. (These retirement accounts are open to individuals who are ineligible for corporate pension funds.) Last month the Board raised the ceiling rate for these accounts from 7 $\frac{3}{4}$ to 8 percent, but made the new rate applicable only to funds deposited on or after June 1. However, because of bank complaints about the problems caused by this "split" rate, the Board amended its ruling to allow the higher rate for both new and outstanding deposits.

SECURITIES CREDIT TRANSACTIONS

The Board of Governors has approved amendments to the Fed's Regulations G, T and U, covering requirements for the inclusion of stocks on the Board's list of Over the Counter stocks. Copies of the amendments have been mailed to all member and nonmember banks in the District. For further information, contact the Consumer Affairs Unit at (415) 544-2226.

12TH DISTRICT HOLIDAYS

All of the Reserve Bank's offices will be closed on Tuesday, July 4, in commemoration of Independence Day. The Salt Lake City office also will be closed on Monday, July 24, in observance of Pioneer Day.

GENERAL INSURANCE

The Board of Governors is considering whether bank holding company subsidiaries should be authorized to act as general agents in towns with less than 5,000 people, in accordance with its Regulation Y. Recent court decisions have raised the question whether insurance agency activities could be considered closely related to banking, and thus permissible for holding company subsidiaries to undertake. For further information, call the Reserve Bank's Bank Holding Company Section at (415) 544-2235.

SHIPMENT OF SECURITIES

A number of bearer securities and coupons have been lost in transit after being forwarded by depositing banks to the San Francisco Reserve Bank through ordinary mail. Use of ordinary mail greatly increases the risk of loss or theft. Financial institutions can avoid unnecessary risk by shipping valuables — particularly those securities in bearer form — by registered mail or armored car. Also, as noted in the April 1978 *FED Notes*, banks can speed up the processing of registered and certified mail and expedite the posting of credit to their accounts by coding their mail. Questions about the mail coding program can be addressed to the mail section of your nearest Fed office.

SUBORDINATED CAPITAL LOANS

The Board of Governors has proposed an amendment to its Regulation T (Margin Requirements) that would permit any broker or dealer subject to the regulation to make a subordinated capital loan to another broker or dealer. At present, only members of national securities exchanges may make such loans. For further information, contact the Bank's Consumer Affairs Unit (415) 544-2226.

BANKERS ACCEPTANCES

The Board has adopted an interpretation that increases the number of bankers acceptances eligible for discount by Federal Reserve Banks. (A bankers acceptance is a time draft, primarily used to finance the shipment or storage of goods.) The interpretation, which is effective immediately, makes bankers acceptances secured by field-warehouse receipts covering readily marketable staples acceptable as collateral for Federal Reserve loans to member banks. For further information, contact the Credit Unit at the San Francisco office (415) 544-2230.

CHECK ALERT

Some checks sent to the Reserve Bank for processing have been printed on red paper that produces illegible copies when microfilmed. Federal regulations require banks to maintain the original or a copy of most types of checks written for more than \$100. If a bank allows its depositors to use checks which cannot be microfilmed effectively, it must make sure to maintain sufficient documentation to comply with the regulation. For further information, contact the check department at your nearest Fed office.

FED BACKS DOLLAR COIN

A new dollar coin could save taxpayers millions of dollars, increase bank efficiency and offer numerous advantages to retailers, Federal Reserve Governor Philip Coldwell told a House subcommittee in testimony backing the proposed coin. "A circulating dollar coin would result in significant cost savings to the Federal Reserve, potentially exceeding \$30 million each year," Coldwell said. "And because Federal Reserve earnings in excess of costs are almost all returned to the Treasury, these Federal Reserve savings would be passed on to the government."

Coldwell noted that the Federal Reserve spent \$48 million in the last fiscal year for the printing of new currency. (This cost represented about 7 percent of the total operating costs of the System.) About \$28 million of the \$48-million total was needed to print nearly two billion one-dollar notes.

But he argued that only about \$5 million would be needed annually to maintain the same size pool of dollar coins. Although coins cost more to produce than currency, they also last much longer — 15 years or more on the average, compared to 1½ years for the average piece of currency. Thus he concluded, "If coins only replaced half the dollar notes, the savings in production costs would still amount to \$11 million annually."

The Fed official also said that that the Federal Reserve would realize savings in lower handling costs for the coin, compared to the costs of handling notes. Currency is difficult to sort and verify, and the process for destroying unfit currency is particularly cumbersome and costly.

However, he cautioned that the projected savings would be contingent upon the new dollar coin circulating and replacing dollar notes. He called for a major effort to promote the circulation of the new coin — including a marketing program, a coordinated retail-industry utilization effort, and a financial-industry program to encourage utilization.

Coldwell noted that the new coin offers important advantages to retailers. Coins



P. Coldwell

do not stick together or fold, and they should facilitate change-making. The new coin also should work well in cashier machines that automatically dispense the coin portion of a customer's change.

"We believe it is vitally important that these potential advantages be investigated and fully communicated to the retailing community if the proposed new coin is to succeed," Coldwell concluded. "If the legislation is enacted, we would strongly urge the Treasury Department to undertake such a program, and will offer the cooperation and assistance of the Federal Reserve System in carrying out the effort." ❧

LEASING PAMPHLET NOW AVAILABLE

Truth in Leasing, the latest in a series of consumer-education pamphlets that explains the Consumer Leasing Act, is now available free of charge from Federal Reserve Banks. The Consumer Leasing Act is designed to help consumers compare the cost of one lease with another, or with the cost of buying for cash or on credit. The pamphlet covers such matters as the type of leases covered by the law, costs of leases, terms of leases, aspects of open-end leases and balloon payments, limits on balloon payments, and ways of shopping for a lease. Copies of the pamphlet are available, singly or in bulk, from the Supply Department of the San Francisco Reserve Bank. For further information, contact the Bank's Consumer Affairs Unit at (415) 544-2226. ❧

NEW DATA-PROCESSING EXAMINATION POLICY

Federal regulatory agencies last month established a joint policy for the examination of data-processing centers. The new program was designed to eliminate separate examination of data processors by more than one Federal bank or thrift-institution regulator, as a means of improving the utilization of the regulators' examination staffs.

The policy statement was adopted by the Federal Reserve Board of Governors, the Comptroller of the Currency, and the Federal Home Loan Bank Board. The Federal Deposit Insurance Corporation is expected to act on the policy statement in the near future.

The policy statement specifies:

—Data centers that are operated by a bank or thrift institution supervised by one of the Federal regulators will be examined by that regulator.

—Other data processing centers serving Federally insured banks or thrift institutions will be examined by a joint examination team including representatives of several agencies, or by one of the regulators on behalf of the others.

—Agencies examining data processors on behalf of the others will be rotated every two years.

—If, however, the examining agency regards the data processor's overall condition as less than satisfactory, the processor will be examined jointly until its condition improves to the satisfactory level.

—All insured banks or thrift institutions served by an examined data processor will receive the examiner's conclusions and recommendations. The examiner's reports dealing with matters of a proprietary or competitive nature will be distributed only to the Federal regulators.

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.

Phone (415) 544-2184

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of San Francisco**

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NEW MAILING SYSTEM INSTALLED

The Federal Reserve Bank of San Francisco will begin a new program on July 1 to improve the distribution of regulations, operating circulars and other materials to financial institutions in this District. The program was designed to standardize the means of disseminating this type of material, and thus reduce the flow of paper throughout the District.

In the past, regulations or circulars sometimes were sent to head offices only, and sometimes to all branches. But a new procedure became necessary after a number of banks pointed out that branch distribution hindered head-office internal control procedures. For that matter, most regulations and circulars do not apply to branch offices.

As of July 1, all regulations and circulars will be sent only to head offices of member banks, nonmember banks, and other financial institutions. Each bank will receive a single copy of each regulation at its head-office address. Multiple copies will be made available for internal distribution to those banks which have made the necessary arrangements with the Fed. Any bank that wants to receive multiple copies should contact the Corporate Services Department, Federal Reserve Bank of San Francisco, PO Box 7702, Rincon Annex, San Francisco 94120, (415) 544-2556. 🏛️

COURT SUPPORTS BANK AUTO LEASING

The Supreme Court this month let stand a lower court ruling permitting national banks to continue in the auto-leasing business. The original ruling, handed down last November by the U.S. Court of Appeals in San Francisco, found that auto leasing is a financial activity related to the business of banking, and thus is consistent with the National Bank Act.

Suit had been brought by a group of independent auto leasers against two Western banks several years ago. Those firms had argued that auto leasing is a business activity having "definite commercial, rather than financial, overtones," and thus was outside the proper realm of banking. They said that the two banks in the case had utilized their superior financial resources to dominate the smaller competition.

But the appeals court maintained that a bank's role in an auto-leasing agreement is principally one of financing. In most cases, the customer decides with the auto dealer which vehicles the customer would like to lease, and the bank then purchases them. In the court's view, the bank only provides money against the prospect of receiving payments in the form of rent.

Bank activity in the auto-leasing field has grown sharply in recent years, from very low levels at the beginning of the decade—especially in the West. 🏛️

BANK-AIDED PLACEMENTS SEEN AS NO PROBLEM

A study by the Federal Reserve and other regulatory agencies has found no evidence that potential conflicts of interest in bank-assisted private placements harm any parties to those transactions. According to the document, interlocking directorates between commercial-bank advisers and other parties in private-placement transactions are not likely to result in significant harm.

The new study found that growth continued to occur last year in the volume of private placements — directly placed securities exempted from the registration requirements of the Securities and Exchange Commission. All of the increase over 1976 was in placements assisted by advisers, which rose from \$18 billion to \$22 billion. However, the commercial-bank share of all private placements declined from 7.3 percent to 6.7 percent over the year.

The report noted that 34 banks offer private-placement adviser services. All the institutions offering the service were among the nation's 100 largest banks, and 24 were among the 40 largest.

The study had been requested last December by House Banking Committee Chairman Reuss from the Federal Reserve Board of Governors, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. 🏛️