CONGRESS PASSES FOREIGN BANK BILL

Congress this month passed legislation providing for Federal regulation of foreign banks' U.S. affiliates, and restricting the ability of foreign banks to establish new branches in this country outside of their home states. The bill next goes to the White House for the President's signature.

Under this legislation, the Federal Reserve System would be given authority to set reserve requirements for any U.S. affiliate—either Federally or state chartered—whose parent company has $1 billion or more in worldwide assets. Foreign bank affiliates subject to such reserve requirements also would have access to Federal Reserve services, although affiliates would not be required to become Fed members. The Federal Reserve would be allowed to establish reserve requirements for state-licensed subsidiaries only after consulting with state bank-supervisory agencies.

The legislation would restrict the operations of any new U.S. branches established by a foreign bank after July 27, 1978—the bill's "grandfather" date. (The grandfather principle permits institutions established before a certain date to remain free of later restrictions.) A foreign bank would be permitted to establish branches outside of its home state, but the new branches would be limited to accepting foreign-source and other deposits related to international financial transactions. A foreign bank would be allowed to designate its home state and to conduct a retail business in that state.

In recent testimony before the Senate Banking Committee, Federal Reserve Chairman Miller said, "Foreign banks in this country can no longer be characterized as specialized institutions engaged principally in foreign-trade financing on the periphery of our banking system. Those days are long since past. On the contrary, what we have today is a diverse array of institutions operating on a very large scale in a wide range of markets for banking services in this country.

"At the wholesale level, the foreign banks are competing directly and successfully for the business of multinational corporations. Foreign banks are important participants in U.S. money markets and are also major traders in the U.S. foreign-exchange market. And at the retail level, foreign banks are becoming increasingly important, especially in California."

Miller noted that most of the 122 foreign banks operating in this country have worldwide assets of more than $1 billion, and that 45 of those banks have worldwide assets of more than $10 billion. Between 1973 and 1978, foreign banks' combined assets in the U.S. jumped from $37 billion to $90 billion. This spring, business loans of foreign banks amounted to about 20 percent of all such loans made by large banks in this country. In California, their business-loan share was 33 percent; and in New York, 37 percent.

Miller added, "It is incongruous that institutions such as these can operate on such a scale in this country without being subject to Federal regulation of their entry and activities, and without being subject to the rules of the central bank."

He said that the Federal Reserve's legislative recommendations have consistently been grounded on the principle of national treatment or nondiscrimination—which means that the foreign-banking community should be incorporated into the U.S. banking system on an equal footing with domestic banks.

BANK REALIGNS OPERATING FUNCTIONS

The Federal Reserve Bank of San Francisco has realigned its operating functions in San Francisco, primarily by creating a Bank Operations Division under Senior Vice President Richard T. Griffith. In addition, Griffith becomes a member of the bank's Management Committee.

Other members of the Management Committee include President John J. Balles, First Vice President John B. Williams, Senior Vice President John J. Carson (Corporate Staff), and Senior Vice President Kent O. Sims (District Departments). Corporate Staff functions include budget, personnel, purchasing and similar responsibilities. District Department functions include economic research, bank supervision, statistical services, and related responsibilities. Both Griffith and Carson report to First Vice President John Williams under the new arrangement.

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SUMMARY OF KEY FED DEVELOPMENTS

INTEREST PENALTY

The Board of Governors has proposed a change in its Regulation Q (Interest on Deposits) to lighten the penalty required for early withdrawal of funds from certain types of time deposits. The proposal is expected to benefit particularly depositors with long-term Individual Retirement Accounts (IRAs) and Keogh Plan retirement accounts. IRA and Keogh plans are special accounts developed to encourage retirement savings by individuals who are not covered by regular pension plans.

The proposal would affect two types of deposits: (1) deposit contracts which provide that the maturity of existing funds on deposit is extended whenever additional deposits are made in the account, and 2) notice accounts, which have no specific maturity date but permit withdrawal of funds only after a certain period (such as 90 days) following written notice of withdrawal. For further information, call the San Francisco Reserve Bank’s Law Department at (415) 544-2254 or 544-2256.

REG Z “COOL OFF” PERIOD

The Board of Governors has adopted an amendment to Regulation Z (Truth in Lending) that deals with the “cooling off” period available to consumers when they pledge their homes as security for consumer loans. Under the original regulation, a lender must give notice that the borrower has a three-day period in which to cancel any transaction. But this “right of rescission” requirement has tended to prevent creditors from offering “open end” credit (such as credit cards or overdraft checking) when secured by personal residences, because of the impracticality of permitting the consumer to cancel each and every transaction.

The new rule waives the notice requirement in open-end credit transactions when the creditor and seller are not the same—for example, when a person uses a bank credit card to purchase merchandise from a store. The amendment is effective this month.

The creditor still must notify the customer that he has a right to cancel a transaction under certain circumstances. The customer also must be notified once a year that his home has been pledged as security. For further information, call the Reserve Bank’s Consumer Affairs Unit at (415) 544-2226.

SUBORDINATED LOANS

The Board of Governors has adopted an amendment to Regulation T (Credit by Brokers and Dealers) permitting any broker or dealer to make a subordinated capital loan to another broker or dealer. Previously, only members of national securities exchanges could make such loans. The amendment went into effect July 12. For further information, call the Reserve Bank’s Consumer Affairs Unit at (415) 544-2226.

CONSUMER CREDIT REPORT

The Board of Governors has extended for three years its monthly survey of consumer credit at commercial banks. It also made a number of changes to simplify the report and reduce the reporting burden on banks. The revisions were made because distinctions among certain kinds of consumer credit were becoming blurred by changing market practices. For the new report, the Board eliminated the number of loans made by banks for new cars, used cars and mobile homes, and consolidated check-credit and credit-card figures. The Board reduced the number of data items from 39 to 12, and reduced the number of reporting banks from 567 to 298. The new form will be used for the first time for the October report. The report will be designated F.R. 2571 instead of F.R. 571, and it now will be called the “Commercial Bank Report of Consumer Installment Credit.” For further information, call the Reserve Bank’s Statistical and Data Services Department at (415) 544-2186.

CIRCULAR INDEX AVAILABLE

The list of current circulars of the Federal Reserve Bank of San Francisco (as of July 1, 1978) has been distributed to District Banks. This index (Circular A) lists each Bank circular, along with the subject it covers and its effective date. If you are missing circulars bearing the effective dates shown in Circular A, contact the Supply Department at your nearest Reserve Bank office.

CHECK VERIFICATION

The Board of Governors has proposed an amendment to its Regulation Y that would make check verification a permissible activity for bank holding company subsidiaries. The Board acted after receiving an application from Barnett Banks of Florida, Inc., to provide a check-verification service through a newly formed subsidiary. The subsidiary would charge subscribing merchants a fee for guaranteeing payment on validly authorized personal checks, and would pay the merchants for checks that turned out to be bad. For further information, call the Reserve Bank’s Bank Holding Company Section at (415) 544-2235.

DISTRICT HOLIDAY

All offices of the Federal Reserve Bank of San Francisco will be closed on Monday, September 4, in observance of Labor Day.
REALIGNMENT
(Continued from p. 1)

The bank’s new Bank Operations Division encompasses three functions—custody, payments and computer services. Vice President Warren H. Hutchins is in charge of Custody Services, which includes cash and fiscal responsibilities. Donald K. Carson has joined the bank as Vice President - Payments Services, and in that capacity oversees check processing, automated clearinghouse and related functions. Kenneth A. Grant has been promoted to Vice President of Computer Services. He supervises computer operations, computer support and computer services. The bank has promoted William V. Ott to Director of Computer Systems, and David Christerson to Systems Officer of Computer Services Support. Hector M. Martin continues as Director of Computer Operations.

The bank also assigned Vice President Claude Woessner as officer in charge of a Federal Reserve fiscal resource-sharing project. This assignment involves coordination between the San Francisco District and two other districts in the development and implementation of a new automated fiscal system.

In the Corporate Staff area, the bank has promoted John K. Davis to Accounting Officer. He supervises Budget and Expenditures and General Files.

In Branch Operations, H. Peter Franzel has been promoted to Vice President - Branch Operations. Franzel assumes senior supervisory responsibility for the operations analysis and transportation functions, in addition to his current assignment of District-wide operations support.

The realignment of functions at the San Francisco office followed the retirement of Senior Vice President Wesley G. DeVries. He was responsible for the Reserve Bank’s provision of cash, fiscal, check-processing and other services throughout an area that covers northern California, western Nevada and Hawaii. DeVries retired with 33 years of service in San Francisco and at the bank’s offices in Portland and Los Angeles. He assumed charge of the San Francisco operations in 1973.

TWO HOLDING COMPANY REQUESTS APPROVED

The Federal Reserve Bank of San Francisco has approved the applications of two organizations—Cottonwood Bancorporation and First Bancorporation—to become bank holding companies in the Salt Lake City area. The former organization controls Cottonwood Security Bank, and the latter controls Utah Firstbank.

More than 20 banking organizations currently operate in the Salt Lake City metropolitan banking market. In approving the applications, the Reserve Bank said that these two institutions represent an additional source of banking services and thus would have a favorable impact on competition in that market.
BOARD SEeks MEMBERS FOR CONSUMER COUNCIL

The Federal Reserve Board of Governors is now accepting nominations from the public to fill several upcoming vacancies on its Consumer Advisory Council. The terms of 9 of the 28 current members expire at year-end, and the new members will serve for the 1979-81 period.

The Consumer Advisory Council was established by Congress, at the Board’s suggestion, to provide advice on the System’s responsibilities under the Consumer Credit Protection Act and on other consumer-related matters. The Council generally meets with the Board four times each year. The meetings are open to the public.

Six persons from the San Francisco District currently serve on the council. The term of one of these council members—Joseph F. Holt III, Special Projects Officer for Weyerhaeuser Mortgage Company in Los Angeles—will expire at year-end. The other Council members from the West are William D. Warren, Dean of the UCLA School of Law, Los Angeles; Roland E. Brandel, Partner, Morrison & Foerster, San Francisco; Robert R. Dockson, Chairman and Chief Executive Officer, California Federal Savings and Loan Association, Los Angeles; Dr. Richard H. Holton, Professor, School of Business Administration, University of California at Berkeley; and Percy W. Loy, President of Kubla Khan Food Company, Portland, Oregon. Dean Warren is also Vice-Chairman of the council.

Nominations for the Consumer Advisory Council should be submitted to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C., 20551, by September 1, 1978. The nomination should include a brief biography of the candidate, along with information on the individual’s special knowledge and experience relating to consumer matters.

TWO VISITING SCHOLARS NAMED

John L. Scadding and William H. Oakland have been appointed to five-month terms as Visiting Scholars at the Federal Reserve Bank of San Francisco. The Visiting Scholar position was inaugurated at the San Francisco Fed to encourage creative research and the interchange of ideas by practicing economists.

Dr. Scadding is Associate Professor of Economics at Scarborough College at the University of Toronto. He served as Assistant to the Director of Economic Research for the Ontario Committee on Taxation, and was an economist with the Canadian Prices and Incomes Commission in Ottawa. From 1968 to 1975, he was Assistant Professor of Economics at Stanford University. He then joined the Council of Economic Advisors in Washington, D.C., as Senior Staff Economist. Dr. Scadding assumed his present position at the University of Toronto in 1976.

Dr. Oakland is Professor of Economics and Public Administration at Ohio State University. From 1964 to 1973 he was Assistant Professor and then Associate Professor of Political Economy at Johns Hopkins University. He assumed his present position in 1973. Dr. Oakland has been a consultant to a number of government agencies and private organizations including the U.S. Department of Transportation, the Maryland Council of Economic Advisors, the Economic Development Administration, the U.S. Environmental Protection Agency, the National Science Foundation, and the U.S. Department of Housing and Urban Development.

Since the Visiting Scholar program was initiated, economists from Brown University, Stanford, Ohio State, the University of Oregon and the University of Chicago have been named to the position. Recent Visiting Scholars have included Dr. Milton Friedman, the 1976 Nobel Laureate in Economics.