

Federal Reserve Notes

FEDERAL RESERVE BANK OF SAN FRANCISCO SEPTEMBER 1978

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AUTOMATIC TRANSFERS DELAY REJECTED

The Federal Reserve Board of Governors has decided not to delay the effective date of its rule permitting automatic transfer of funds from savings to checking accounts. Several organizations had asked the Board not to allow this service to begin as planned on November 1.

Under the automatic-transfer arrangement, funds could be shifted automatically from savings to checking accounts to cover overdrafts or to maintain specified balances. The service would be available only to individual customers—not to businesses or government agencies.

In a letter to the Independent Bankers Association (IBA), the Board said, "The benefits that will accrue from the automatic-transfer service outweigh the possible benefits of further delay in the introduction of this service." The IBA had requested either a delay or the creation of a new bank savings-account category providing rate parity with similar thrift-institution accounts. Thrift institutions can pay up to a quarter percent more interest than commercial banks can pay on savings deposits.

In rejecting the IBA suggestion, the Board stated, "After careful consideration of the petition and other similar requests, we have determined it would not be appropriate. . . The Board has recently urged Congress to provide rate parity among all institutions for savings-type accounts that are tied to third-party transfer accounts. The Board believes legislative actions it has recommended con-

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Kent O. Sims (dark suit, center), Senior Vice President, greets a number of bankers representing Pacific Basin countries. To his left are Dr. Kermit Hanson, Dean, School of Business Administration, and Dr. Charles N. Henning, both from the University of Washington. To Sims' right is Assistant Vice President and Economist Hang-Sheng Cheng, who also participated in the conference.

PACIFIC RIM BANKERS MEET AT SAN FRANCISCO FED

Some fifty bankers from twelve Pacific Basin countries attended a conference this month at the Federal Reserve Bank of San Francisco, which featured briefings on a number of economic and financial issues. Participants included bankers from Australia, Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Taiwan, Thailand and the United States.

International economists from the San Francisco Fed made presentations at the conference on such topics as international lending, the growth of Third World debt, the assessment of lending risks, Asian financial markets and the structure of the Federal Reserve System. The program was held in conjunction with the Pacific Coast Banking School, which sponsors the Pacific Rim program administered by the Graduate School of Business Administration of the University of Washington.

Senior Vice President Kent Sims noted that the Reserve Bank had taken

an active part in both the 1977 and 1978 Pacific Rim programs. "We view the program as an extension of the Bank's ongoing involvement in economic research on the Pacific Basin, and as an opportunity to maintain active contact with banks in that region," Sims said. "The bank's interest in the Pacific Basin reflects the extensive and growing business and financial ties that the United States—and particularly the West Coast—maintain with these countries."

Assistant Vice President and Economist Hang-Sheng Cheng added that the Bank also publishes a quarterly statistical bulletin on the region—the *Pacific Basin Economic Indicators*—as well as a semi-annual *Bulletin of the Clearinghouse of Pacific Basin Central Bank Economic Research* and numerous economic studies of Pacific Basin countries. Copies of these publications are available from the Public Information Section, Federal Reserve Bank of San Francisco,

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SUMMARY OF KEY FED DEVELOPMENTS

TRUTH IN LENDING

The Board of Governors announced three actions affecting its Truth in Lending Regulation Z. The Board adopted an amendment that would simplify the computation of the annual percentage rate for graduated-payment mortgages, as well as for other long-term transactions that involve minor irregularities in the repayment schedule. Certain irregular-payment amounts and payment periods would be considered "regular" for the purpose of calculating the annual percentage rate. Unlike an earlier proposal issued last May, the final ruling applies to all long-term credit transactions with minor irregularities in the repayment schedule—not just mortgage credit—and applies to all contracts with maturities of 10 years or more.

The Board also adopted an amendment to permit creditors to use as many pages as necessary when disclosing schedules of variable payments. In doing so, the Board withdrew a proposed version that would have allowed the use of abbreviated schedules. In a third Reg Z action, the Board asked for comment on an interpretation which would require disclosure of loss of interest when a time deposit is used as security for a loan. Currently, lenders do not have to disclose such information when a loss results because of compliance with state law. For further information, contact the Reserve Bank's Consumer Affairs Unit (415) 544-2224.

LOST AND STOLEN SECURITIES

The Securities and Exchange Commission (SEC) is analyzing public comments regarding the continuation of its Lost and Stolen Securities Program. The SEC established a pilot program early this year for processing reports and inquiries dealing with lost and stolen securities. The commission will now decide if the program should be extended beyond its scheduled December 31 phase-out date. For further information, contact the Fiscal Department at any of the Reserve Bank's branches.

26-WEEK CERTIFICATES

The Board of Governors has published a statement to answer the most frequently-raised questions concerning the new 26-week savings certificate issued by banks and thrift institutions. This new category of time deposit can be issued in denominations of \$10,000 or more. The maximum permissible rate of interest is based on the rate established for six-month Treasury bills issued on or immediately prior to the date of deposit. The rate is calculated on the auction average on a discount basis—not the coupon equivalent rate. Savings banks and savings-and-loan associations are allowed a one-quarter point differential. The Board issued the guidelines after consultation with the Comptroller of the Currency. The Federal Deposit Insurance Corporation issued similar guidelines for nonmember banks, and the Federal Home Loan Bank Board did likewise for thrift institutions. For further information, contact the Reserve Bank's Law Department (415) 544-2254 or 544-2256.

CHECK COLLECTION CHANGES

The San Francisco Reserve Bank recently made several changes in check-collection procedures. The Salt Lake City Branch began offering a Fine Sort Deposit program. Under this program, commercial banks can presort certain checks, which qualifies them for later deadlines. Also, the Portland Branch changed its closing hour to 9 a.m. from 10 a.m. on Monday through Friday for checks payable in the city of Portland.

Moreover, the Reserve Bank announced that banks can now deposit postal money orders and government checks commingled with other RCPC items up to a daily average volume of 300 items at all offices. (RCPC's are Regional Check Processing Centers.) But banks can continue to meet the present 4 p.m. deadline by separately sorted postal money orders and government checks.

These changes were outlined in an updated Circular I (Collection of Cash Items) distributed to all District banks. The circular also outlines the procedures for processing government checks under the simplified "truncation" program. For further information, contact the Check Officer at your nearest Federal Reserve office.

RESERVES FOR FOREIGN BORROWINGS

The Board of Governors has changed reserve requirements on foreign borrowings to make it more attractive for member banks to borrow funds in the Eurodollar market. The amendment to Regulation D (Reserves) and M (Foreign Branches) was designed to improve the international position of the dollar. Specifically, the Board reduced from 4 percent to zero the reserve requirement on member banks' foreign borrowings—primarily Eurodollars—from their foreign branches and other foreign banks. It also reduced from 1 percent to zero the reserve ratio on foreign-branch loans to U.S. borrowers. The ruling also affects the U.S. offices of foreign-owned banking institutions, which have voluntarily maintained reserves on increases in net foreign borrowings since mid-1973.

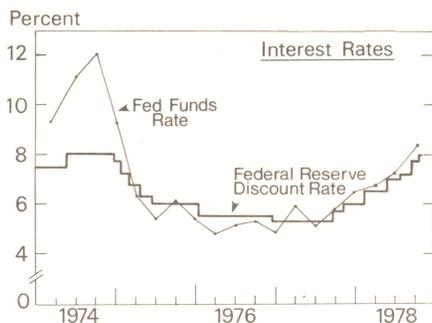
The Board said that its reserve reduction was intended to encourage member banks to substitute Eurodollar borrowings for domestic borrowings as a source of funds. It also reemphasized its previous request for U.S. banks not to solicit or encourage deposits by U.S. residents at their foreign branches unless such deposits serve a definite international purpose. For further information, contact the Reserve Bank's Supervision, Regulation and Credit Department (415) 544-2266.

HOLIDAY NOTICE

The Reserve Bank's Salt Lake City Branch will be closed on October 9 in observance of Discovery Day. All other Bank offices will remain open.

FED RAISES DISCOUNT RATE

The Federal Reserve raised its discount rate on member-bank borrowings late this month, from 7¾ to 8 percent, reflecting the continuation of the upward trend of interest rates that began in late 1977.



The Board of Governors, acting on requests from the directors of all twelve Reserve Banks, commented, "Action was taken in recognition of recent increases in other short-term interest rates, to bring the discount rate into closer alignment with short-term rates generally, and as a further step to strengthen the dollar."

The Fed in recent months has acted to curb inflation and to strengthen the dollar by limiting the growth of bank reserves. These actions thus have put upward pressure on the Federal-funds rate, the rate governing banks' overnight borrowings of unused reserves. By late September, the funds rate had risen above 8½ percent.

PACIFIC RIM

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P.O. Box 7702, San Francisco, Ca. 94120, whose phone number is (415) 544-2184.

He noted also that the Bank maintains a Pacific Basin Reading Room in its Research Library. The Reading Room contains current material on the Pacific Basin economies. The Research Library, which is located on the 8th Floor of the Insurance Center, 450 Sansome Street, San Francisco, is open to the public during business hours.

JACKSON ADDRESSES SALT LAKE MEETING

Federal Reserve Governor Phillip C. Jackson, Jr., in a Salt Lake City address this month, called for a concerted effort by all sectors of the economy to combat inflation and strengthen the nation's economic system. Jackson addressed an audience of Salt Lake City community leaders, meeting with head-office and branch directors of the Federal Reserve Bank of San Francisco.

Jackson argued that a viable economic system requires the support of all the individual members of the system. "The Fed is only part of the system," he said. "The real problem with inflation is that we are all too prone to shirk our responsibilities and shove them off onto somebody else. We're more prone to depend on government to solve all our problems, and then blame government when the problems are not solved."

The Fed governor said, "In my opinion, monetary policy must be very delicately and carefully administered today. It must lean against inflationary pressures. But monetary restraint must not brake so severely that it damages the economy and throws it into recession. Monetary policy has an important part to play in our fight against inflation. But it should not be left to do the job alone."

Jackson argued that the nation must reduce fiscal deficits in prosperous times. Otherwise the burden of debt could reach intolerable levels when an economic downturn arrives. "Unless we restrain the growth of government spending and encourage expansion of our private capacity, we cannot win the fight against inflation. But fiscal policy has the same constraints from overkill as monetary policy. It too must avoid going too far even in the right direction."

Jackson defended the Fed's role in providing central banking services, alluding to the distribution of coin and currency as an example. He said the Fed serves as a focal point in the nation's financial system by providing services to banks throughout the country in an efficient manner.



P. C. Jackson

"Competitive private banks cannot make the services available to rural communities at competitive prices," he said. He contended that this kind of burden could not be "turned over entirely to private banks in a non-controlled free-enterprise system."

Jackson said every country needs a currency—a sound one—and it needs a method of distributing that currency. "Who is going to do it?" he asked. "Our system dictates that the Fed will do it. And I think it does a good job of supplying the currency at relatively low costs."

BANK OF UTAH MERGER APPROVED

The Federal Reserve Bank of San Francisco has approved the merger of Bank of Utah and Bank of Northern Utah. Bank of Utah, headquartered in Ogden, operates 13 branches with deposits of over \$92 million. Bank of Northern Utah has its head office and sole banking operation in Clearfield, Utah. It has deposits of just over \$6 million.

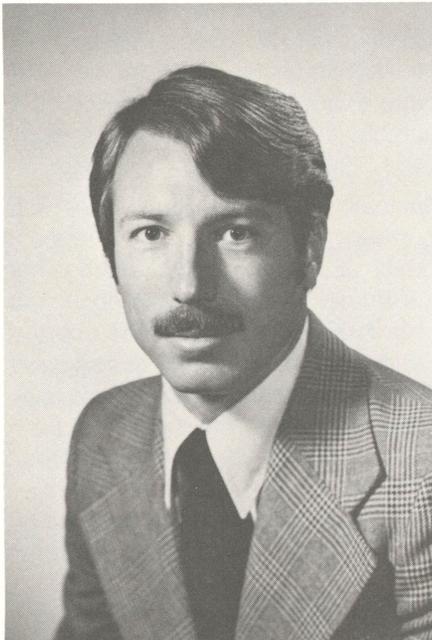
After the merger, the present office of Bank of Northern Utah will become a Bank of Utah branch office. Bank of Utah will continue as a state member bank of the Federal Reserve System.

Phone (415) 544-2184

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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M. J. Murray

MURRAY NAMED PERSONNEL DIRECTOR

The San Francisco Reserve Bank has promoted Michael J. Murray to Director of Corporate Personnel, where he is responsible for the development and implementation of District-wide personnel policies and programs. These include employment, training, employee relations, compensation, affirmative action, benefits, employee communication and policy administration. Murray previously served as Assistant Vice President of Personnel at the Bank's San Francisco office.

AUTOMATIC TRANSFERS

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tinue to be the most appropriate approach at this time for finding an early solution to any competitive problems that may be occasioned by the automatic transfer service."

The Board's analysis of its correspondence on this matter indicated that most financial institutions will be able to make the necessary operational changes to institute the new service by November 1. But it added that it would monitor the effects of automatic transfers, and make any necessary adjustments if the competitive situation should call for them. 🏦

The Bank also named Connie Russell as Personnel Officer at its San Francisco office. Ms. Russell was Manager of Compensation and Benefits in Corporate Personnel, and now assumes additional officer responsibilities in the personnel function. 🏦

NEW FILM ON FED NOW AVAILABLE

A new film describing the functions of the nation's central bank is now available from the Federal Reserve Bank of San Francisco. The film, which is entitled "The Fed... Our Central Bank," goes behind the scenes to show how the Fed helps keep the amount of money and credit in line with the nation's economic needs. The film also illustrates how the Fed clears checks, puts coin and currency into circulation, destroys old currency, supervises banks and administers consumer-credit laws.

Recently the film was selected by the International Communications Agency (formerly the United States Information Agency) as one of five U.S. government films to be shown in a traveling film festival in major foreign cities. It has also been nominated for an award by the prestigious C.I.N.E. festival.

Financial institutions, schools and other interested audiences can book the film by contacting the Public Information Unit, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, Ca. 94120, phone (415) 544-2184—or by calling the Bank and Public Services Department at any of the Bank's offices. 🏦