

# Federal Reserve Notes

FEDERAL RESERVE BANK OF SAN FRANCISCO • NOVEMBER 1978

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## FED RELEASES PRICING PROPOSALS

The Federal Reserve Board of Governors released this month a preliminary schedule of prices for Federal Reserve check and automated clearinghouse services. The schedule was developed by the Board and the 12 Federal Reserve Banks as part of a comprehensive plan to provide a greater competitive equality among financial institutions.

The Fed does not plan to implement these prices for payments-mechanism services until effective steps have been taken to alleviate the burden of membership in the Federal Reserve System. Meanwhile, it is developing pricing schedules for other services, such as the processing of coin and currency, wire transfers of funds and safekeeping of securities.

The pricing of Federal Reserve services is part of an over-all effort to modernize the Fed's role in the nation's financial system. In a package submitted to Congress last July, the Fed outlined proposals for interest payments on member-bank reserves, universal reserve requirements, and access to Fed services, as well as pricing for those services.

The proposed pricing schedule for check-collection services is based on the volume of Federal Reserve check clearings during the first half of 1978. The prices are meant to recoup both the direct and indirect costs of providing such services. These costs have been adjusted upward by 11 percent to reflect additional costs that would be borne in the private sector—such as capital costs, taxes, an allowance for dividends, and provision for reserves.

Prices for automated clearing and

## SCHMIDT APPOINTED TO ADVISORY COUNCIL

Chauncey E. Schmidt has been appointed to the Federal Advisory Council for 1979 by the Board of Directors of the Federal Reserve Bank of San Francisco. Schmidt is Chairman of the Board, President and Chief Executive Officer of the Bank of California and its holding company—BanCal Tri-State Corporation.

He replaces Gilbert F. Bradley, Chairman of the Board and Chief Executive Officer of Valley National Bank of Arizona. Bradley served three one-year terms on the Federal Advisory Council. In 1978, his fellow members elected Bradley President of the Council.

The Federal Advisory Council provides a link between the banking and financial community and the Federal Reserve Board of Governors. It is composed of 12 members representing each of the districts in the Federal Reserve System. By statute, the council meets with the Board of Governors at least four times a year in Washington, D.C. It advises the Board on a wide range of topics, including overall banking and monetary objectives, the Fed's administration of its policy instruments, and the regulation of member-bank activities. The council also discusses the effects of monetary policy on commercial banking and the money market.

settlement services have been calculated to be competitive with check prices. The Fed has established ACH prices at this level to encourage banks and their customers to take advantage of the potentially lower cost of electronic fund transfers, while still affording room for competing ACH services to develop in the private sector.



**C.E. Schmidt**

Before joining the Bank of California in 1976, Schmidt was President of the First National Bank of Chicago. He is a graduate of the U.S. Naval Academy and the Harvard Graduate School of Business Administration. He is a member of the Association of Reserve City Bankers, as well as a member of the International Monetary Conference, the American Bankers Association, the Advisory Council on Japan-U.S. Economic Relations, the Stanford Research Institute Council, and the Japan-California Association. He is a director of the Bay Area Council, the California Roundtable, and the San Francisco Chamber of Commerce. He is also a member of the Advisory Board of the Pacific Rim Bankers Program, the Board of Governors of the San Francisco Symphony Association, and the Executive Board of the Bay Area Council of the Boy Scouts of America. 🏠

Before a final decision is made on pricing, the System will decide whether to establish different prices for different zones in some Federal Reserve Districts. Meanwhile, it has asked for comments on the initial pricing proposals to be sent to the Secretary of the Board (Washington, D.C. 20551) or to any Federal Reserve office. 🏠

## SUMMARY OF KEY FED DEVELOPMENTS

### **TT&L PROGRAM BEGINS**

The Treasury Tax and Loan Investment (TT&L) program began on November 2. Under the program, the Treasury earns interest by investing its operating cash balances, and at the same time, pays fees for certain services which it formerly received free from financial institutions. In addition, the Treasury amended its regulations dealing with the maturity limitation on commercial and agricultural paper and bankers' acceptances used as collateral security. As of November 2, the maturity of such collateral was extended from one year to two years. For further information, contact the Fiscal Department at your nearest Federal Reserve office.

### **HOLDING COMPANY APPLICATIONS**

The Board of Governors made several technical changes last month affecting the registration of bank holding companies and applications for expansions. The Board set specific time limits for action on requests to reconsider Board decisions on applications, to ensure that prompt attention is given to such requests. It also announced time limits for public comment on holding-company applications, to facilitate processing of applications and scheduling of hearings. In a further step, the Board eliminated the requirement that new bank holding companies must file certain registration forms with the Board within a 180-day period. Instead, the Board will collect essential registration data from responses to a standard letter sent to all new bank holding companies. The changes became effective October 19. For further information, call the Reserve Bank's Bank Holding Company Section (415) 544-2235.

### **DATA PROCESSING RATING SYSTEM**

The Federal Reserve and other regulatory agencies adopted a joint system for rating data-processing centers last month, in line with an earlier agreement to eliminate separate examinations by more than one regulator. The system resembles the uniform interagency bank-rating system which provides an overall evaluation of bank performance (see *Federal Reserve Notes*, June and October 1978). Each rating is based upon the evaluation of four critical functions—audit, management, system development and programming, and computer operations. The ratings of these four functions then are combined into a composite rating from 1 (the highest) through 5 (the lowest). For additional information, contact the Reserve Bank's Supervision, Regulation and Credit Department (415) 544-2242.

### **CONSUMER COMPLAINTS**

The Board of Governors has issued a new pamphlet entitled "How To File A Consumer Credit Complaint." The pamphlet includes a tear-off form that can be used by consumers in making complaints involving commercial banks. Free copies of the pamphlet are available through the Reserve Bank's Supply Department (415) 544-2016. For further information, call Consumer Affairs (415) 544-2224.

### **TRUST DEVELOPMENTS**

The Federal bank regulatory agencies—the Federal Reserve, Comptroller, and FDIC—this month announced several actions affecting trust-department activities. The regulators revised an earlier proposal to establish uniform standards for recordkeeping, confirmation and other procedures followed by trust departments in handling securities transactions. The agencies asked for comment on this proposal by December 18.

In a separate action, the agencies announced that they will use similar forms in a revised annual survey of trust assets. The survey has been designed to "provide more meaningful information regarding the extent of investment authority and control over trust and agency assets administered by banks and trust companies." The report will be limited to assets over which these institutions exercise "investment discretion"—where they have authority to buy and sell securities for an account or make recommendations for purchases or sales. For the first time, the survey will cover state-chartered trust companies that are members of the Federal Reserve System, in addition to trust departments of Fed member banks. For further information, contact the Reserve Bank's Supervision, Regulation and Credit Department (415) 544-2238.

### **CAPITAL STOCK**

The Reserve Bank's Circular 25 (Capital Stock) has been updated to reflect the current practice of automatically charging or crediting a member bank reserve account for increases and decreases in capital stock and accrued dividends. Before adoption of this new system, a bank had to authorize any changes affecting its capital stock. For further information, contact the Reserve Bank's Budget & Expenditures Department (415) 544-2403.

### **EQUAL CREDIT OPPORTUNITY**

The Board of Governors has proposed several amendments to Regulation B (Equal Credit Opportunity). One amendment would bring arrangers of credit, such as real estate brokers, within the scope of the regulation. Other amendments would eliminate the business-credit exemption, first from recordkeeping and notification requirements in certain transactions under \$100,000, and second from restrictions against asking an applicant's marital status. The Board proposal also would require creditors to give applicants for business credit prompt notice—oral or written—of action taken on an application or an existing account. Written comments should be submitted by December 26 to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, with reference to Docket #R-0185. For further information, contact the Reserve Bank's Consumer Affairs Unit (415) 544-2224.

### **HOLIDAY NOTICE**

All offices of the bank will be closed Monday, December 25, and Monday, January 1, in observance of Christmas and New Year's Day.

## Welcome to the District LIBERTY BANK OF SEATTLE


Liberty Bank of Seattle, although one of the newest member banks in the San Francisco Reserve District, has been in existence for ten years, and has an impressive growth record to its credit. Since 1968, the bank has doubled its deposits to almost \$16 million.

To attain that kind of growth, President Jones C. Purnell says that he and his Board of Directors have followed established banking rules without sacrificing a compassionate attitude toward community risk-taking. "We are here not only to take people's deposits but also to put some of it back to help build up the community—yet we have a responsibility to shareholders and that means we can't make unbankable loans. A minority Board of Directors scrutinizes profits just as hard—maybe harder—than any other board."

Liberty Bank's Board of Directors is headed by Dr. James E. Jackson, Chairman; Dr. Robert Joyner, Vice-Chairman; and Mardine Purnell, Secretary-Treasurer. The bank's officers, in addition to President Purnell, are Milton H. Bledsoe, Jr., Senior Vice President and Cashier; Betty Willis, Operations Officer; and James W. Burton, Loan Officer.

Jim Purnell is a firm advocate of minority banking, nationally as well as regionally. He is immediate past president of the National Bankers Association—an organization dedicated to increasing the number of minority banks throughout the country. He says, "Minority banks not only cater to the smaller personal and business-loan customer, but they are also natural conduits for attracting more funds into the inner-city communities which most of us serve," he says.


Purnell expects minorities to close the capital and opportunity gap—but "through hard work, not gifts." He continues, "Our young people are showing a new level of interest in entering the economic mainstream and learning the intricacies of the financial world. Give us that equal opportunity and we will do it on our own."

"We have the capital in our communities. It is just a matter of pooling it and getting it properly directed. We minorities buy nearly \$250 billion worth of consumer goods annually. If we could retain just 10 percent of that in our communities for capital development, we would be on the road to reducing the poverty level among Blacks and other minorities." 

## S.F. FED HOLDS ACADEMIC CONFERENCE

Over 30 teachers and researchers from academic institutions throughout the West attended the Fall Academic Conference sponsored by the Federal Reserve Bank of San Francisco this month. In opening remarks, Fed President John J. Balles encouraged the participants to continue their close scrutiny of the conduct of monetary policy.

"This region has always attracted some of the finest minds in monetary economics," Balles said. "The Federal Reserve System generally—and our own bank especially—should rely more on research being conducted at the West's colleges and universities. We should look more seriously at the various criticisms that have been raised from time to time by you and your colleagues."


The Fed convened the Academic Conference as a means of maintaining a free exchange of ideas between the Reserve Bank's staff and academic economists. Conference participants included professors from the University of California, the University of Southern California, the University of Nevada, Stanford University, the University of Oregon, the University of Washington, Claremont Men's College, and two Stanford-based institutes—the Hoover Institution and the National Bureau of Economic Research. During the two-day meeting, seven papers were presented on various aspects of monetary policy, both domestic and international. The conference ended with a roundtable discussion on current monetary policy developments. 

## PORTLAND BRANCH HOSTS CONSUMER TALK

The Portland Branch of the San Francisco Reserve Bank and the University of Oregon's College of Business Administration co-sponsored two seminars last month, as a means of giving creditors and the public a better understanding of consumer-credit protection laws.

The seminars, held in Eugene and Portland, involved panel discussions with authorities from the fields of education, banking, business and government. Federal Reserve Governor Philip C. Jackson, Jr., covered consumer protection from the standpoint of the regulator. Executive Vice President Daniel Dinges of First National Bank of Oregon and Vice President Jo-Gus Turner of U.S. National Bank of Oregon represented the regulated industry—lending institutions. Eric Sten, Oregon's Assistant Attorney General in charge of Consumer Protection, provided a perspective from the beneficiary of the regulations—the consumer.

According to Vice President Angelo Carella, officer in charge of the Portland Branch, the two meetings attempted to resolve some of the controversial aspects of consumer legislation. "No one can argue with the good intentions of Congress in passing these laws," Carella said. "But some argue that these laws have been ineffective or have only created new problems. Others contend that these laws sometimes cancel each other out or create unintended costs for the economy."

Dean James Reinmuth, of the University's Business Administration School, noted that the "need for some regulation is evidenced by the fact that consumer installment credit outstanding has risen from \$4 billion in 1946 to over \$185 billion in 1977—an incredible increase of over 4,500 percent." The participants generally agreed on the value of consumer credit legislation, but they urged authorities to make the regulations less complex and to avoid areas of overlap and duplication. 

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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 Public Information Section, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, California, 94120.

FIRST CLASS MAIL  
U.S. POSTAGE  
PAID  
PERMIT NO. 752  
SAN FRANCISCO, CALIF.

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## Federal Reserve Bank of San Francisco

### BOARD CANCELS REGULATION E

The Federal Reserve Board of Governors cancelled one of its regulations this month, as its first action under a program to clarify and simplify all Fed regulations. The affected regulation (Reg E) governed the purchase by Federal Reserve Banks of short-term state or local securities issued in anticipation of tax or other assured receipts.

Regulation E has been on the Federal Reserve's books since 1915. It has not been used since 1933, when the Federal Reserve Act was amended to give the System alternative means of purchasing such securities, called warrants, in the open market.

Separately, the Board decided against taking any action at present to amend its Regulation C, which implements the Home Mortgage Disclosure Act. The Act will expire in June 1980 unless extended by Congress. To assist Congress in making its decision, the Federal Reserve and other regulatory agencies are conducting studies of the cost and benefits resulting from the required disclosures about the volume of local mortgage lending.

In its review of the 26 Federal Reserve regulations, the System is trying to determine not only the costs and

### FED POSTS RECORD DISCOUNT RATE

The Federal Reserve System raised its discount rate to a record high 9½ percent at the beginning of this month. The one percent increase, from 8½ percent, was the largest ever made by the Fed.

The increase was part of a package of moves, announced jointly by Federal Reserve Chairman G. William Miller and Secretary of the Treasury W. Michael Blumenthal, to stem declines in the exchange value of the dollar. They said that "recent movement in

benefits of regulation, but also whether each regulation, in whole or in part, is required by law. In addition, it is trying to determine whether underlying statutes need revision, and whether there are more desirable alternatives than regulations to resolve issues. The review process may involve improving the format of regulations, simplifying the language, and eliminating sections found not to be required by law—and, as in the present case, cancelling obsolete regulations. The Fed may also make recommendations to Congress for statutory changes needed to permit regulatory modernization. ☸

the dollar exchange rate has exceeded any decline related to fundamental factors, is hampering progress toward price stability, and is damaging the climate for investment and growth."

As part of the credit-tightening program, the Federal Reserve imposed a 2-percent supplementary reserve requirement on banks' large certificates of deposit. Previously, reserve requirements on large CD's ranged from 1 percent for longer-term deposits to 6 percent on deposits with less than six months' maturity. The Fed said that this action would help to moderate the recent rapid expansion of bank credit, and would also lead banks to borrow funds from abroad, thereby strengthening the dollar by improving the demand in financial markets overseas for dollar-denominated assets.

Additionally, the U.S. arranged facilities—totalling \$30 billion in marks, yen, and Swiss francs—for a coordinated program of market-intervention activities to support the dollar. Among other steps, the Federal Reserve practically doubled its reciprocal currency (swap) arrangements with the central banks of Germany, Japan and Switzerland, to \$15 billion. Also, the Treasury announced that it would increase its gold sales to at least 1½ million ounces monthly, beginning in December. ☸