FED DEVELOPS EFT REGULATIONS

The Federal Reserve Board of Governors took several steps this spring to implement the Electronic Fund Transfer Act (EFTA), which becomes fully effective in May 1980. (The Act is Title XX of the Financial Institutions Regulatory and Interest Rate Control Act of 1978 — FIRA.) To implement the legislation, the Board began the process of amending its Regulation E as a means of protecting the public in the transfer of funds by electronic means.

In March, the Board published final rules under two provisions of the Act which became effective early this year. These rules — the initial parts of Reg E — limit consumers' liability for unauthorized use of an EFT card and specify the conditions under which EFT cards may be issued.

This month, the Board issued certain proposals to implement the disclosure requirements of the EFT Act, regarding the terms and conditions of the EFT services offered to consumers by financial institutions. The issues involved include: exemptions from the Act's requirements, timing of initial disclosures, documentation of transfers, availability of preauthorized credits, means of stopping pre-authorized credits, procedures for pre-authorized debits of varying amounts, and procedures for resolving errors.

Separately, the Board of Governors proposed a change of its rules that would make written notice of loss or theft of an EFT card effective when the consumer mails or other-wise transmits the notice. The purpose would be to help consumers who act promptly to take advantage of a $50 limit on potential liability provided by Congress for unauthorized use of EFT cards. Under the legislation, consumer liability is limited to $50 when consumers give notice to financial institutions within two business days of learning of loss, theft or unauthorized use of an EFT card. Delayed notification means a higher liability.

In recent Congressional testimony, Federal Reserve Governor Nancy Teeters argued against proposed legislation which would accelerate the effective date of the Electronic Fund Transfer Act (EFTA) from May 1980 to September 1979. She said that the Board's timetable for publishing regulations under the Act is so tight that final regulations will not be completed until December. She added, "Based on our experience in implementing consumer-protection legislation, we believe that a shorter rule-writing timetable would not be in the public interest."

In additional testimony, Teeters asked Congress to amend the EFTA to conform with similar provisions in the Truth-in-Lending and Fair Credit Billing laws. For example, she recommended amendment of the EFTA to provide a flat $50 loss liability, instead of the stepped liability which increases with a delay in notification.

The Electronic Fund Transfer Act was designed to protect consumers in their use of electronic transfers, which may eventually replace checks as a means of transferring funds. Consumers may make such transfers by using EFT cards, or by authorizing financial institutions to make mortgage, utility or other payments. Consumers also may use EFT services to authorize direct electronic credits to their accounts, such as for salary payments or social-security benefits.

Consumers can use EFT cards to make payments — for instance, by using the card at the point of sale to debit an account at a financial institution for the purchase of goods and services. In this case, the EFT card authorizes funds to be taken directly out of the customer's account, in contrast to the use of a credit card, which creates a debt that the customer pays at a later time. Consumers also may use an EFT card at automated-teller machines to withdraw cash from an account.
The Federal Reserve Board of Governors acted this month to speed up money flows in the nation's payments system, mainly by revising operating schedules at the Fed's automated clearinghouses (ACH's). Automated clearinghouses move funds by electronically transmitted payment instructions that take the place of paper checks.

Under the new arrangements, two improvements will be made to the time schedules in order to make funds availability and deposit deadlines more competitive with check collection schedules. The first will provide Twelfth District financial institutions with four additional hours for initiating interregional debit and credit payments, such as direct deposit of payroll and preauthorized bill payment. For example, if payday is Friday and the employees are to have access to their wages on that day, the financial institution that is initiating the payments on behalf of the employer will be able to deposit the payments instructions at the ACH by (day) 7:00 a.m. Pacific Time, Thursday, instead of the former 3:00 a.m. Thursday deposit deadline for originators in the San Francisco Head Office territory.

The second improvement allows some types of "time critical" payments, such as cash concentration transfers made in the interests of improving cash management, to be handled even more expeditiously. For example, a Twelfth District financial institution in the Head Office territory collecting funds on behalf of a corporate customer from another financial institution can initiate interregional debits to those accounts as late as 7:00 p.m. Pacific Time, Thursday for Friday settlement. At present, such cash concentration debits must be initiated at the same time as other ACH payments. This change will allow corporations to collect funds from any financial institution in the nation on an overnight basis.

The improvements in ACH service adopted by the Board will be subjected to a pilot test and subsequently phased in over a period of several months. In the pilot program, three to five ACH's will exchange payments to test the feasibility of the new time schedules. The remaining ACH's will be phased into the new procedures according to schedules to be determined by the local Federal Reserve Bank and the local ACH Association.

In a related move, the Board announced the beginning of a pilot "electronic settlement" program later this year. The program will discontinue the normal process of clearing large corporate checks of $100,000 or more. After such a check reaches the first bank, electronic means will be used for the rest of the clearing process under the new plan.

The Board said that the change was necessary because problems with weather and with airline flights had delayed the check-clearing process recently, and because the situation could worsen if fuel problems intensify. The large checks involved in this plan account for only 0.1 percent of total check volume, but in some Federal Reserve districts they account for roughly half of the dollar value of all checks cleared.

These improvements in the payments mechanism call attention to the growing magnitude of non-check means of payments. In 1978, the System handled 147 million ACH clearings, along with 29 million wire transfers of funds, which are primarily bank-to-bank transactions.

Check payments of course remain the predominant method of funds transfer used by the general public, with the Federal Reserve alone processing more than 14 billion commercial-check items in 1978.

Previously, any excess of book value over market value of a defaulted municipal general-obligation security was recognized as a loss at the time of default, and was eliminated from the bank's reported assets.
Stella B. Hackel, Director of the Mint, holds the new Anthony dollar coin in her left hand and a half-dollar coin in her right. The new dollar coin is larger than a quarter and much smaller than the half dollar.

ANTHONY DOLLAR AVAILABLE JULY 2

The Treasury Department will release the Susan B. Anthony dollar coin to the public on July 2. The Treasury plans to have more than 500 million coins available at that release date.

The Federal Reserve Bank of San Francisco is now ready to ship the new coins to member and nonmember banks. The coins released through the Fed are being produced by the San Francisco and Denver Mints, and thus will carry the "S" and "D" Mint marks. Orders for the coin should be placed in the same manner now used for coin and currency orders from this Reserve Bank. Nonmember banks should place orders through their correspondent banks.

The standard ordering and depositing units for the new Anthony dollar coin will be $2,000 per bag. Further information on shipments can be obtained from the Cash Department at any Federal Reserve office.

To help publicize the new coin, the Federal Reserve is making available to the public a Treasury pamphlet entitled, "The Dollar of the Future." Free copies of the pamphlet are available, individually or in bulk, to schools, financial institutions, and community groups. For copies, write or call the Public Information Section, Federal Reserve Bank of San Francisco 94120, P.O. Box 7702, San Francisco, Phone (415) 544-2184 — or call the Bank and Public Services office at any Federal Reserve office.

CONSUMER HANDBOOK IS NOW AVAILABLE

A new consumer education publication entitled "Consumer Handbook to Credit Protection Laws" is now available from the Federal Reserve Bank. This handbook, published by the Board of Governors, explains consumer rights under the major credit protection laws and how borrowers can use them to shop for credit, apply for it, keep up credit standings, and complain about possible abuses. It explains how the Equal Credit Opportunity Act affects women and other minorities. It also describes what goes into a consumer's credit history — and what he or she can do to correct mistakes in credit bureau records.

Copies of this publication are currently available. For copies, write or call the Public Information Section, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, 94120, Phone (415) 544-2184 — or call the Bank and Public Services office at any Federal Reserve branch.
FED, TREASURY ACT ON FUTURES TRADING

The Federal Reserve Board of Governors and the U.S. Treasury Department this month cautioned the Commodity Futures Trading Commission (FTC) to proceed gradually in authorizing additional contracts for Treasury futures. The agencies began to study this problem last fall, when a rapid expansion of futures trading raised questions about the safety of the market.

Treasury futures contracts are agreements to buy or sell these securities at a specified price at a future date. Trading in futures contracts for government securities first developed in 1975.

In their recommendation, the agencies said that they wanted to ensure that there would be a deliverable supply of securities adequate to cover futures contracts, thus minimizing the potential for market manipulation. They added that they hoped to head off trading regulations by the CFTC that would constrain the Treasury's debt-management flexibility.

The Fed-Treasury statement expressed the fear that investors would not be able to distinguish futures contracts on government securities from the underlying securities themselves. Specifically, investors might not recognize that futures, with their highly leveraged nature, could be extremely risky — as opposed to Treasury securities, which are the safest possible investment.

CREDIT-SCORING SYSTEMS EXAMINED

The Federal Reserve Board of Governors last month amended its Regulation B (Equal Credit Opportunity) to clarify the definition of "creditor." In addition, it sought comment on how the anti-discrimination rules of Regulation B should be applied to certain practices of creditors who use credit-scoring systems. Under credit scoring, a creditor applies numerical weights to pieces of information supplied by each credit applicant, with the object of building up a "score" that can help predict the likelihood that the applicant will repay the credit.

The Board's amendment made it clear that the definition of creditor includes not only those who grant credit but also those who regularly refer customers to creditors. Examples of the latter would include automobile dealerships, home-improvement contractors and real-estate brokers who regularly steer customers to creditors.

The Board also requested comment on how the specific anti-discriminatory rules of Regulation B should be used to avoid discriminatory results when credit-scoring systems are followed. (Reg B also contains a general anti-discrimination rule — that there should be no discrimination on the basis of sex, marital status, age, race, and other factors.) The specific practices in question are:

1. Assigning a score to the number of jobs (or sources of income) that an applicant has;
2. Not assigning a score to an applicant's income from part-time employment, pension or alimony;
3. Giving only judgmental reasons for adverse action on a credit application, rather than reasons arising from the creditor's scoring system;
4. Selecting reasons for adverse action from among the 20 reasons in a model statement included in Regulation B, even though the attributes included in the creditor's actual scoring system are not reflected in the model statement.

Further information on this subject can be obtained from the Consumer Affairs Unit of the Federal Reserve Bank of San Francisco, at (415) 544-2224.