The Federal Reserve Bank of San Francisco made two senior-level appointments, effective July 1, with Kenneth A. Grant being promoted to Senior Vice President, Computer Services, and Vice President H. Peter Franzel assuming added responsibilities for Bank Operations at the Bank's San Francisco office. Both officers will report to First Vice President John B. Williams.

Grant, in his new position, will be responsible for all automation services for the bank's five offices throughout the West. Franzel will supervise the areas of payments services, custody services, and operations support at the San Francisco office.

Grant joined the Reserve Bank's staff in 1968. He served for three years in the bank's research department. In 1971 he was appointed Manager of Research Programming. He was promoted to Assistant Vice President two years later, in charge of the bank's information systems. Next, he was appointed Director of Computer Systems in 1976, and Vice President in 1978. At the age of 33, he is the youngest Senior Vice President in the Federal Reserve System.

Grant graduated from the University of California at Berkeley, receiving a B.S. degree in computer sciences. He has been actively involved for a number of years with the Federal Reserve System's efforts in the area of electronic-funds transfer.

Franzel joined the bank at its Seattle Branch in 1953, where he worked in several operating departments. He was appointed as Assistant Vice President at the bank's Salt Lake City Branch in 1970, and was transferred to San Francisco in 1976 as Assistant Vice President, in charge of Computer Services.

AGENCIES CHANGE SMALL SAVER RULES

Banks and thrift institutions announced new savings-account rates, effective July 1, following last month's adoption by the major Federal regulatory agencies of measures designed to help small savers obtain a higher return on their deposits. The measures, which affect all Federally insured commercial banks, savings-and-loan associations and mutual savings banks, include:

- An increase of ¼ percent in the maximum rate of interest that depository institutions may pay on passbook savings accounts. This raises the commercial-bank ceiling to 5¼ percent, and the thrift-institution ceiling to 5½ percent. The increase represents the first boost in the passbook rate ceiling since 1973.

- Creation of a new savings certificate with a maturity of four years or more, with a rate ceiling based on the yield for four-year government securities as determined each month by the U.S. Treasury Department. The commercial-bank ceiling is 1¼ percentage points below the yield on four-year governments, and the thrift-institution ceiling is 1 percentage point below the Treasury yield. Thus, the rate on the first (July 2) offering was set at 7.60 percent for banks and at 7.85 percent for thrift institutions. The rate does not float during the term of the deposit.

- Elimination of all requirements for minimum denominations on (Continued on page 4)
HOUSE COMMITTEE ACTS ON MEMBERSHIP

The House Banking Committee this month approved a bill designed to curb the exodus of banks from the Federal Reserve System, and to facilitate monetary policy under a more equitable set of ground rules. The Senate probably will take up the legislation later in this session.

The House bill, like its earlier versions, would reduce the amount of non-interest-bearing reserves that member banks must keep with Federal Reserve Banks. In addition, it would require non-member banks and some large mutual savings banks to set aside noninterest-bearing reserves as well.

The bill sets an initial 11-percent reserve requirement on the total amount of checking or similar transactions accounts of more than $35 million at every commercial bank and thrift institution. The proposed legislation allows the Fed to adjust the requirement between 4 percent and 12 percent.

The bill also sets an initial 3-percent reserve requirement on bank short-term (non-personal) time deposits totaling more than $10 million, although the requirement could be set anywhere between zero and 8 percent. Unlike earlier versions, the bill would not impose reserve requirements on savings deposits — other than those subject to automatic transfer or negotiable order of withdrawal — or on consumer time deposits of 180 days' maturity or less, or longer-term time deposits.

The bill in effect would impose reserve requirements on about 1,000 institutions — considerably fewer than the 5,500 member banks that now carry reserves with the Fed. Of that 1,000, about 700 would be Fed members and the rest would be mostly non-member commercial banks and a few mutual savings banks. While savings-and-loan associations and credit unions would not be exempt, none of them currently have a volume of transactions accounts in excess of the stipulated exemptions.

About half of the institutions, including all the savings banks, would be able to meet the requirements with the cash in their vaults. The rest would have to post interest-free reserves with Federal Reserve banks.

Under the bill, the Fed would lose about $1.2 billion in income from the shift in reserve requirements, but it would recover a significant portion of this amount by charging for services that it now provides free to members. The services would be made available to all depository institutions. The Fed also would begin charging for "float," the amount of money it credits banks for checks that have been paid but not yet cleared.

FED RULES ON EDGE CORPORATIONS

The Federal Reserve Board of Governors this month revised its Regulation K (International Banking Operations) to conform with the International Banking Act of 1978. Among other provisions, the new Reg K includes rules governing 1) the ownership of Edge Corporations (international banking and financial firms) and their U.S. operations, 2) overseas activities of Edge Corporations, Fed member banks and bank holding companies, and 3) lending limits and capital requirements for Edge Corporations.

The new Reg K enlarges the opportunities for Edge Corporations to operate in this country, by permitting them to open branches here with the Board's approval. Previously, Edges could not open domestic branches, although a U.S. banking company could establish separately incorporated Edges in various locations. The new authority thus makes it more efficient and less costly for Edge Corporations to operate in new U.S. locations.

The Board deferred action on another proposal that would have given Edge Corporations the authority to provide full banking services to customers principally engaged in international commerce. But the revised Reg K allows Edges to finance the production of goods and services for export. This may be done when the customer has obtained export orders, or when the items to be financed are directly identifiable as export items.

The Board also established prudential rules for Edge Corporations that accept deposits in the United States. Among other stipulations, it ruled that risk assets of an Edge engaged in banking may not exceed 7 percent of capital and surplus, and that credit extensions to one person by an Edge engaged in banking may not exceed 10 percent of the corporation's capital and surplus. In addition, it ruled that Edge deposits in the U.S. and abroad are subject to reserve requirements and interest-rate ceilings, in the same way as member-bank deposits.

Concerning foreign investment in Edge Corporations, the Board said that it "will impose conditions it regards as necessary to prevent undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices in the United States." A foreign financial institution will not be allowed to invest more than 10 percent of the institution's capital and surplus in an Edge Corporation.

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The Board's actions help meet the requirements of the International Banking Act of 1978, which represented the first significant amendment of the Edge Act since its enactment in 1919. In amending the Edge Act, Congress said that Edge Corporations should have sufficient powers to enable them to compete with foreign banks at home and abroad, and to provide all segments of the U.S. economy with the means to finance international trade — in particular, the export trade.
PARTEE LISTS BANKS' STRENGTHS, PROBLEMS

Commercial banks — "the department stores of finance" — tend to reflect the condition of the overall economy, Federal Reserve Governor J. Charles Partee told the Senate Banking Committee last month. He said that the banking system generally is in good shape to deal with a recession if it should come, although problems could arise for those relatively few banks that have not yet recovered from the earlier recession of 1973-75.

He warned, however, that inflation has been undermining the health of the banking system. "First, inflation creates conditions that may adversely affect the quality of bank loan portfolios." Inflation tends to generate ballooning credit demands, even while interest rates are rising. High interest rates and rising indebtedness, in turn, expose borrowers to the risk of heavy debt-servicing burdens, as happened with the financing of real-estate investment trusts several years ago.

Further, Partee said, inflation tends to put downward pressure on bank capital ratios. As evidence, he pointed to the decline in the ratio of equity capital to total assets, from 6.1 percent to 5.8 percent between the end of 1976 and the end of 1978. Inflation has been reflected in the heavy financing needed to accompany the sharp rise in dollar spending for goods and services, and this expansion in bank credit has outrun the internal growth of capital from retention of earnings.

Partee asked what banks and their regulators could do to limit the damage to the banking system and to the economy. "One thing that we can do is to make sure that banks employ prudent lending standards and hold their commitments within reasonable bounds... Second, banks must keep their capital ratios sufficiently high to cushion losses and maintain public confidence during adversity... Third, banks should be encouraged to employ the principles of diversification in all major aspects of their operations, both at home and abroad."

FED TO SURVEY CARIBBEAN DEPOSITS

The Federal Reserve Board of Governors this month authorized a one-time deposit survey covering 23 member banks that have Caribbean branches with more than $400 million in deposits of U.S. residents. The need for more information became apparent when, in the first quarter of 1979, Caribbean branches accounted for roughly four-fifths of the total $5.3 billion increase in offshore dollar-denominated deposits at all foreign branches of U.S. banks.

Many U.S. depositors apparently hold large sums in the Caribbean branches, and thus are able to escape domestic interest-rate limitations on short-term or demand deposits. In the Fed's view, these practices could have a significant effect on the behavior of the monetary aggregates, because many of the deposits are used as substitutes for domestic deposits that are counted in the M, measure (currency plus demand deposits).

The survey will request information on overnight and call accounts, which include highly liquid interest-bearing deposits that cannot be offered domestically because of Regulation Q (interest rate) restrictions. The survey will also seek data on accounts that are available for payment in immediately available funds during the next business day — accounts which are substitutes for domestic demand deposits and security-repurchase agreements. Another question will concern accounts that are analogous, on the domestic scene, to individual automatic-transfer accounts and corporate automatic-repurchase facilities.

SUPREME COURT RULES ON FOMC DISCLOSURE

The U.S. Supreme Court voted this month to set aside a lower-court ruling which would have forced the Federal Reserve System's Open Market Committee (FOMC) to expedite disclosure of its monetary-policy decisions. The top tribunal told the lower court to reconsider the case, weighing the Fed's argument that postponing release of FOMC directives until they have been supplanted by the following month's decisions is permitted under an exemption to the Freedom of Information Act.

In its brief, the Federal Reserve argued that immediate release of information would have a destabilizing "announcement effect" on financial markets, because market participants would move quickly to adjust their holdings of government securities in anticipation of the Fed's market transactions.

The Fed also contended that immediate disclosure would give large institutional investors an advantage over small investors, because they could analyze the information quickly and act more rapidly than others. Further, with immediate disclosure, the government's interests could be jeopardized by additional borrowing costs of perhaps $300 million a year, because sharp fluctuations in interest rates on government securities could cause dealers and purchasers to demand a higher yield to compensate them for the additional risk involved.

Ruling for the Supreme Court majority, Justice Harry Blackmun said, "We think that if the domestic directives contain sensitive information not otherwise available, and if immediate release of these directives would significantly harm the government's monetary functions or commercial interests, then a slight delay in the publication of the directives would be permitted."
FED SEEKING CONSUMER ADVISORS

The Federal Reserve Board of Governors is seeking public nominations for appointments to its Consumer Advisory Council. The Council meets four times a year, generally for a day and a half each time, to advise the Board on its responsibilities regarding consumer-credit legislation and regulation.

Those wishing to submit nominations should provide information on the nominee's past and present positions, as well as information on his or her special knowledge, interests or experience relating to consumer matters. Nominations should be received no later than August 6, 1979.

The present Council is composed of 27 members with a wide range of experience in the area of consumer credit. Westerners represented on the Council include Chairman William D. Warren, Dean of the U.C.L.A. School of Law (Los Angeles), Roland E. Brandel, Partner, Morrison and Foerster (San Francisco), Richard H. Holton, Professor of Business Administration at the University of California (Berkeley), Percy W. Loy, President of Kubla Khan Food Company (Portland, Oregon), and Richard A. Van Winkle, President of Lockhart Finance Company (Salt Lake City).

Nominations for the Council should be submitted in writing to Ms. Anne Geary, Assistant Director, Division of Consumer Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SMALL SAVERS (Continued from page 1)

consumer-type time deposits — except that the $10,000 minimum will continue to be required for the six-month money-market certificate.

• Adoption of a new early-withdrawal penalty, applicable to all time-deposit contracts entered into on or after July 1, and to existing time deposits renewed or extended after that date. The minimum penalty will be three months' loss of interest for deposits maturing in one year or less, and six months' interest loss for longer-maturity deposits.

In a related development, the agencies ruled that depository institutions may accept deposits that have been pooled by depositors to reach a minimum denomination requirement. However, these institutions may not solicit or promote such pooled deposits in any way.

The agencies plan to consult again on the question of rate ceilings later this year. At that time, they will determine whether further adjustments in ceilings will be appropriate to meet the needs of small savers.