Federal Reserve Notes

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VOLCKER TESTIFIES ON MEMBERSHIP

Federal Reserve Chairman Paul Volcker told the Senate Banking Committee late this month that a purely voluntary approach toward bank reserve requirements is not practicable at the present time. He added that it is more fruitful to concentrate on mandatory approaches, as proposed in pending legislation.

Volcker argued that expeditious handling of reserve-requirement legislation is essential "to forestall a new wave of withdrawals from Federal Reserve membership." He added that Treasury revenues would suffer also from such heavy withdrawals, because reduced membership would cut into the substantial annual flow of payments from the Federal Reserve to the Treasury.

The Fed chairman said that questions could be raised about the volume and distribution of reserve balances that would be held by Federal Reserve Banks under proposed legislation. He noted that those balances provide the "fulcrum" for the efficient conduct of monetary policy. But he claimed that the proposed ratio of reserve balances to total commercial-bank deposits might be set too low. With such a relatively low reserve base, large and erratic daily fluctuations in routine factors (such as currency in circulation) could exert a magnified effect on the money supply and thereby weaken the Fed's monetary control.

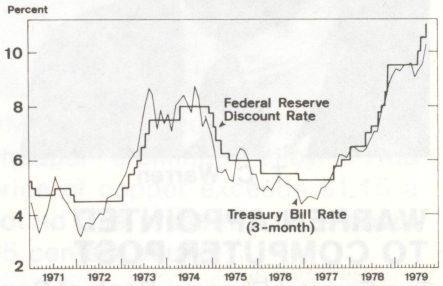
Volcker proposed adding a provision to the pending legislation to give the Fed standby authority to force all depository institutions to hold supplementary deposits at Reserve Banks. Under this plan, the Fed would pay a market yield on these deposits, comparable to the yields on U.S. government securities. He said that the standby authority would not be used unless the Fed found that "monetary policy could not be effectively implemented with the reserve balances required under the other provisions of the legislation."

Volcker approved in principle the proposed provisions that would provide wider access to Fed services (including the discount window) and that would impose charges for Fed services. He said that this approach could contribute to the efficiency and safety of the nation's financial system.

FED INCREASES DISCOUNT RATE

The Federal Reserve System raised its discount rate from 10½ percent to 11 percent in mid-September. The Board of Governors, in approving the action initiated by the regional Reserve Banks, said, "Action was taken against the background of recent increases in other short-term interest rates, to bring the discount rate into closer alignment with short-term rates generally, and to discourage excessive borrowing by member banks at the discount window."

The discount rate is the rate at which Fed member banks can borrow from their regional Reserve Banks. The rate has risen



sharply over the past year, reflecting the upsurge in short-term market rates over that period. For example, the Treasury bill rate (at about 10½ percent) and the prime business-loan rate (at 13½ percent) are both at least 3½ percentage points higher than they were a year ago.

A tighter monetary policy, plus a strong increase in credit demands throughout the economy, have helped push rates to their present level. The most important factor, however, has been a rise in inflation expectations — with lenders demanding more for the use of their money, and borrowers being willing to pay higher rates, because of the near-certainty that the loans would be paid back in cheaper dollars.

In recent testimony before the House Budget Committee, Federal Reserve Chairman Volcker said that he didn't know whether needed Fed restraint on monetary growth would result in further increases in short-term interest rates: "That will depend on the course of economic activity, credit demand and other factors." He added that there won't be any "sustained decline in nominal interest rates in the absence of a discernible slowing in the underlying trend of inflation."

T. C. Warren

WARREN APPOINTED TO COMPUTER POST

The Federal Reserve Bank of San Francisco this month appointed Thomas C. Warren to the post of Vice President of Computer Operations. Warren will report to Senior Vice President Kenneth A. Grant, along with Vice President Hector M. Martin, whose promotion was announced last month.

Warren is responsible for all applications systems, database administration, and systems programming support for the Reserve Bank's San Francisco office. Martin's responsibilities include District-wide computer operations as well as computer software functions at the Bank's offices in Los Angeles, Portland, Seattle and Salt Lake City.

Warren has had 18 years of business experience in data processing, most recently as Vice President of Systems and Programming at Glendale Federal Savings and Loan Association. He studied at the University of California and the University of Southern California, recently completing USC's winter executive program at the Graduate School of Business Administration.

Reporting to Warren will be S. Lee Flynn, Director of Computer Systems, and Technical Support Officer David Q. Ong. Also in the Systems area, reporting to Flynn, will be Systems Officers Joseph D. Riera and Charles Bowman. In the operations area, reporting to Martin, will be Operations Officer Patrick Tong.

RICE DISCUSSES BANK ADVERTISING

Federal Reserve Governor Emmett Rice told the House Commerce Subcommittee this month that Congress should avoid imposing stricter laws regulating bank advertising. He said, "The cost burden of a complex regulatory scheme, which will ultimately be borne by depositors and borrowers, must be weighed carefully against the perceived benefits to the public."

Rice pointed out, "Regulation Q contains the general requirement that a member bank's advertisements must not be inaccurate or misleading." He added that the Fed, under its Truth-in-Lending authority, can require banks and other creditors who advertise credit terms to make complete disclosure of related terms.

Rice identified four "troublesome" areas of banking practices. These included:

- Failure to disclose contract terms governing the use of new deposit accounts, or failure to give reasonable advance notice to existing depositors of any change of contract terms;
- Describing checking-account services as free when hidden charges exist;
- Attaching, freezing, or closing a depositor's account without promptly notifying the depositor;
- Imposing a longer waiting period than necessary for operational reasons before depositors can withdraw funds deposited in check form.

Rice concluded that many members of the Fed's Consumer Advisory Council favored the implementation of guidelines and policy statements to correct these practices. He added, however, that they opposed the issuance of new regulations.

PUBLICATIONS AVAILABLE FROM FED

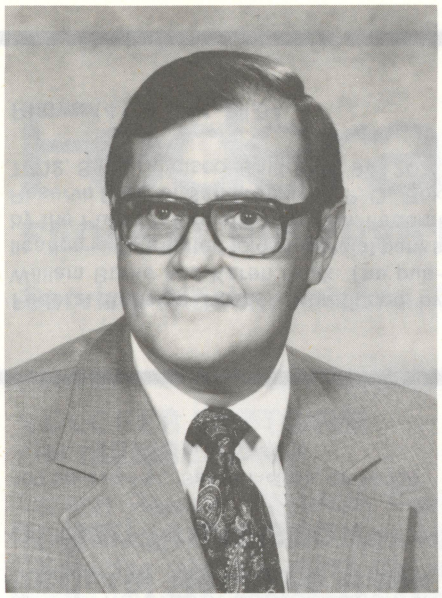
A Guide to Federal Reserve Regulations, which gives a general overview of the subject in easy-to-understand terms, is available through the Federal Reserve Bank of San Francisco. The rules deal with such matters as the use of credit in securities transactions, holding-company activities, consumer-credit transactions, interest on savings deposits, the clearance and settlement of checks, and other payments involving the use of Federal Reserve facilities. For copies of this publication contact the Public Information Section of the Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco 94120. Phone (415) 544-2184.

Another pamphlet *The Equal Credit Opportunity Act and... Credit Rights in Housing* is also available from the Fed. This booklet seeks to educate consumers and lenders about the major housing-related provisions of the Equal Credit Opportunity Act. That piece of legislation forbids discrimination in credit transactions on the basis of sex or marital status, race, color, religion, national origin, age, receipt of income from public-assistance programs, and good-faith exercise of rights under the Consumer Credit Protection Act.

Copies of this pamphlet may be obtained, singly or in bulk, upon request from the Consumer Affairs Unit, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, California 94120. Phone (415) 544-2224.

HOLIDAY NOTICE

The Salt Lake City Branch office of the Federal Reserve Bank of San Francisco will be closed Monday, October 8 for Discovery Day. All other offices of the Bank will remain open.



P. Van Vechten

NEW MEMBER BANK OPENS IN OREGON

Emerald Empire Banking Company, a new state-chartered member bank of the Federal Reserve System, opened last month in Springfield, Oregon. The bank is located in the fast-growing Willamette Valley, near Eugene, Oregon.

The bank is headed by President Peter Van Vechten, assisted by Vice President and Cashier Mac Villines and Vice President/Credit Administrator Jerry Burke. The bank will break ground for a 7,500-square foot permanent structure next month.

TREASURY-FED STUDY PUSHES DOLLAR COIN

A joint Treasury-Federal Reserve study recommended this month that the government start replacing dollar bills with the Anthony dollar coin and later with the two-dollar bill. In describing the study to the House Subcommittee on Consumer Affairs, the Federal Reserve's William H. Wallace, Staff Director for Federal Reserve Bank Activities, noted that the new dollar coin "is 6½ times more cost-effective to provide as a circulating medium than a dollar note," so that substitution of the coin for the note could save the taxpayer $50 million a year.

The task force recognized that it might be fighting tradition by trying to displace the dollar bill. Thus the study said, "A strategy of coin-for-paper displacement seems the more practical one in the context of balancing the conflicting elements of government cost avoidance and public preferences."

The study contained a number of other recommendations designed to improve the nation's system for producing coins and currency. Annual production costs to the Treasury run about $35 million for coins and $72 million for paper money.

Other major proposals included:

- Making one-cent coins from a cheaper aluminum alloy if the price of copper exceeds $1.15 a pound (the present cost is about 95 cents a pound);
- Eliminating the half-dollar coin because of its cumbersome size and weight, as well as general lack of circulation (it accounts for only about one percent of total coinage demand);
- Changing the printing method used to make one-dollar bills, by shifting from engraving to an offset-printing method for making the backs of the bills, to save money and deter counterfeiting;
- Intensifying current studies of the use of plastic-like materials for printing currency in order to increase its durability and use in vending machines.

COLDWELL ON ANTHONY COIN

We should modernize our currency by promoting the one-dollar coin and the two-dollar bill. Both have the potential for major improvement in currency use and efficiency in production, and we are approaching a watershed point to encourage their use.

It is apparent that currency habits are deeply ingrained in our people and that new currency and coin units are not immediately embraced as circulation mediums. Without forcing actions it may be some period of time before we reorient our thinking to reach for a coin instead of a one-dollar bill and accept the two-dollar bill as the lowest denomination note. The savings in production and efficiency of use in these new units make it important that we encourage their use as promptly as possible.

The time will come in early 1980 when the supply of dollar coins will be high enough to warrant discontinued production and supply of the dollar bill. At that time, I believe we should meet commercial-bank needs with dollar coins and two-dollar bills.

Federal Reserve Governor Philip E. Coldwell
Bank Administration Institute Conference (September 13, 1979)

PAMPHLET AVAILABLE

A pamphlet called "The Dollar of the Future" is available in large quantities to banks to help promote use of the new Anthony dollar by their customers. The colorful publication describes the coin and tells of the advantages of its use. It can be used alone as a counter promotion piece or in conjunction with a promotional poster also available from the Fed.

For copies of either, write or call the Public Information Section, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco 94120. Phone (415) 544-2184.

Federal Reserve Bank of San Francisco

400 Sansome St., San Francisco, CA 94120

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Phone (415) 544-2184

SCHULTZ TALKS TO WEST COAST LEADERS

Federal Reserve Vice Chairman Frederick H. Schultz visited California this month, to discuss current policy issues with San Francisco and Los Angeles community leaders. In those talks, he repeated many of the themes he covered in a recent interview with the **Florida Banker** (July 1979) — monetary policy, System independence, and membership legislation.

Schultz said, in his magazine interview, that the Federal Reserve has the flexibility to move more rapidly in monetary policy than Congress can in fiscal policy, but that it can't go in a completely different direction. He added that the Fed has the responsibility to do something about inflation. "But the Fed can't do it all. It's very important that we have a firm fiscal policy on the part of our elected officials, the Administration and the Congress, which will enable us to carry out a monetary policy that can be effective."

Turning to the question of membership legislation, Schultz said that all financial institutions should have some reserve requirement covering all their transactions balances, both from an equity standpoint and from a monetary-policy standpoint. He added that the reserve requirement needn't be very high, but that he would want to include balances in banks, thrifts and other institutions handling transactions balances.

At the same time, he argued in favor of measures that would make Federal Reserve membership more attractive. For example, strong consideration should be given to paying interest on required reserves. He said that this step could be costly to the Treasury at the present time, but he added, "My feeling is that we should try to go in that direction as soon as possible."

In the area of regulation, Schultz said that he will consider any proposed regulations in terms of how much additional paperwork they will create. He agreed with the view that "we are impeding the efficiency of the economic system with the tremendous amount of regulation and required paperwork." He added that excessive red tape is a long-term problem which requires constant attention — "We should keep that problem constantly in mind and whittle away at it."

FILM ON FED AVAILABLE TO BANKS

A 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.