Federal Reserve Notes

FEDERAL RESERVE BANK OF SAN FRANCISCO • DECEMBER 1979

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C. C. Maier

C. L. Ahmanson

MAIER, AHMANSON TO HEAD S. F. BOARD

The Federal Reserve Board of Governors has named Cornell C. Maier and Caroline Leonetti Ahmanson as Chairman and Deputy Chairman, respectively, of the Board of Directors of the Federal Reserve Bank of San Francisco. Both appointments are for one-year terms.

Maier is Chairman of the Board, President and Chief Executive Officer of Kaiser Aluminum and Chemical Corporation (Oakland). Mrs. Ahmanson is Chairman of the Board of Caroline Leonetti, Ltd. (Hollywood).

Maier will move from Deputy Chairman to Chairman of the San Francisco Reserve Bank's Board, replacing Joseph F. Alibrandi, President and Chief Executive Officer of Los Angeles-based Whittaker Corporation. Mrs. Ahmanson will move from the Bank's Los Angeles Branch Board, where she has served 3½ years as a director and for the past two years as chairman. In San Francisco, she will begin a three-year term as board member, replacing Dorothy Wright Nelson, Dean and Professor of Law, University of Southern California Law Center.

Maier became President of the Kaiser firm in January 1972, Chief Executive Officer the following July, and Chairman of the Board in 1978. His firm has assets in excess of $2 billion, and is engaged in the production of aluminum, industrial and agricultural chemicals, and refractories, and in international commodity trading and real-estate businesses in the U.S. and 17 other countries.

A native of South Dakota, Maier joined Kaiser Aluminum in 1949 immediately following graduation from the University of California with a degree in electrical

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INTEREST CHARGES MADE ON OVERDRAFTS

The Federal Reserve Bank of San Francisco last month announced a policy change regarding overdrafts in reserve accounts held with it by member banks, Edge corporations engaged in banking, and certain branches and agencies of foreign institutions. Beginning January 1, the Bank will implement general guidelines calling for the imposition of interest charges on recurring overdrafts in such accounts when they do not result from errors by the Fed.

In line with a System-wide policy designed to discourage overdrafts, the Reserve Bank will review problem cases on a case-by-case basis. Recognizing that overdrafts at times result from occurrences not subject to the direct control of the overdraft bank, the Reserve Bank at its discretion may waive charges if such extenuating circumstances exist. Also, the Reserve Bank will not consider a member bank's past history of overdrafts when determining the imposition or waiver of charges.

In a letter announcing the policy change, President John J. Balles said that the Reserve Bank in the past attempted to discourage overdrafts largely through "discussion and counselling," and by requesting banks to review their internal procedures and take steps necessary to avoid future overdrafts. However, over the past several years the volume and

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GUIDELINES SET FOR FUTURES CONTRACTS

The Federal Reserve and other bank regulatory agencies issued guidelines last month for commercial banks that engage in futures, forward and standby contracts for U.S. government and agency securities. The new policy becomes effective on January 1 for contracts outstanding at that time and for those entered into subsequently.

Futures contracts are standardized contracts traded on organized exchanges to purchase or sell a specified security on a future date at a specific price. Forward contracts are over-the-counter contracts for forward placement or delayed delivery of securities in which one party agrees to purchase and another to sell a specified security at a specified price for future delivery. Standby contracts are optional-delivery forward contracts arranged between securities dealers and customers, instead of being traded on exchanges.

The agencies noted that banks can use financial futures contracts effectively to hedge their risk of losses due to changes in interest rates, but the agencies added that improper use of such contracts may increase the risks associated with interest-rate changes. Such activities thus should "be conducted in accordance with safe and sound banking practices."

The agencies also said that such transactions should be of a size reasonably related to a bank's business needs and to its capacity to fulfill obligations incurred. Again, the positions taken in futures, forward and standby contracts should be such as to reduce a bank's exposure to loss through interest-rate changes affecting securities in its portfolio. Standby contracts calling for settlement in excess of 150 days ordinarily will be viewed as inappropriate.

The policy statement provided a 10-point set of guidelines that should be followed by banks authorized to participate in these markets. The guidelines include directives on the role of bank boards of directors; record keeping; monitoring of such activities; valuation of contracts; treatment of fee income; disclosures of activities in futures, forward and standby contracts; monitoring of credit risk exposure; and internal bank controls.

The agencies said that they will closely monitor bank transactions in financial futures. Depending on what this monitoring discloses, they might find it necessary to establish position limits or take other supervisory precautions against unsafe or unsound practices. A similar policy statement for bank trust departments and trust companies may also be issued at a later time.

REGULATIONS SET ON GUARANTEED LOANS

The Federal Reserve and other member agencies of the Federal Financial Institutions Examination Council this month approved a new policy covering U.S. government-guaranteed loan programs. The policy is designed to provide more uniform and effective supervision of financial institutions participating in these loan programs and to help assure sound and prudent financial operations by such institutions.

Guaranteed-loan programs provide lenders with a partial guarantee of principal and interest, and allow for the separate sale of the guaranteed portions of the loans to third parties. Guarantees of principal and accrued interest usually cover up to 90 percent of the total involved. Sales of the guaranteed portions of these loans to third parties generally take the form of 100-percent guaranteed certificates of participation.

The new policy covers three areas: asset liquidity, accounting for fee income, and portfolio management. Regulatory authorities have long been concerned about the effects of loan purchases on the liquidity of purchasing institutions. Since no normal secondary market currently exists for the guaranteed portions of such loans, these investments may not be as readily marketable as investments which have both a market and a uniform pricing structure. To discourage excessive reliance on this type of loan, the new policy thus restricts consideration of the guaranteed portions as liquid assets in agency formulas monitoring institution liquidity.

The new policy also requires selling institutions to recognize, as income, only servicing fees and premiums as they are earned. This corrects a potential accounting problem arising when selling institutions attempt to accelerate income by charging a loan premium in lieu of regular servicing fees, or by booking the present value of part or all of the anticipated service fee as current income. Such practices tend to distort a selling institution's income statement for both current and future periods, and may lead an institution to originate and sell loans solely to bolster current income.

Regarding portfolio management, the regulatory authorities announced that examiners henceforth will evaluate each institution's origination and servicing practices. This will help ensure that institutions do not service a greater number of loans (or loans more remotely located) than would normally be considered prudent.

BANK ANNOUNCES SENIOR PROMOTIONS

The Federal Reserve Bank of San Francisco this month announced promotions of four senior staff officers. The promotions involved Joseph R. Bisignano, from Director of Economic Analysis to Vice President and Associate Director of Research; William M. Burke, from Director of Public Information to Vice President, Economic Information; Jack H. Beebe, from Assistant Vice President to Director of Market Studies; and W. Gordon Smith, from Assistant Vice President to Director of Credit and Consumer Affairs.

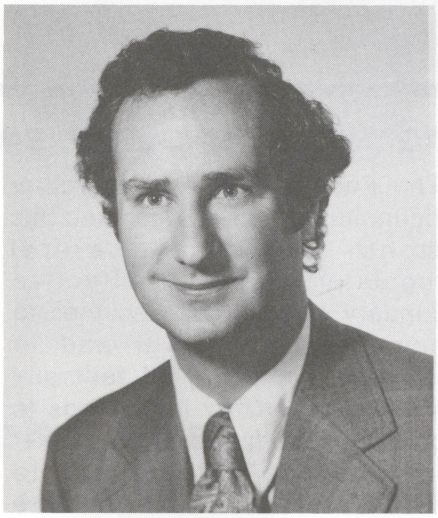
Bisignano joined the Bank in 1972 and assumed his present position in 1978, directing work in the areas of monetary studies, economic analysis and forecasting. He obtained his Ph.D. from Stanford University, and also holds an M.B.A. from Columbia University. Prior to joining the Bank, he taught Economics at Rutgers University and Stanford University. Bisignano was also a consultant to the Bank for International Settlements (Basle, Switzerland) during 1979.

Burke joined the Bank in 1963 and assumed his public-information post in 1975. He obtained his Ph.D. from Georgetown University, and has worked in the area of economic research with the U.S. Department of Commerce, the Bank of America, the Social Security Administration, and the Conference Board.

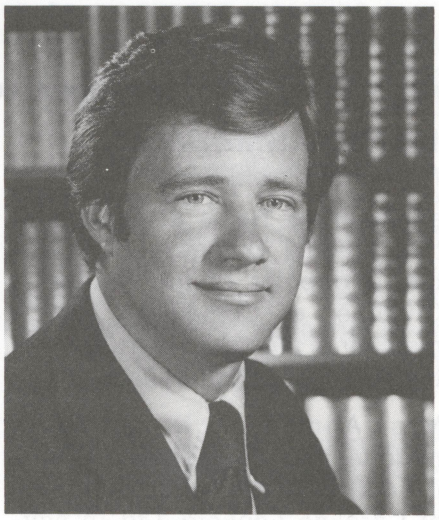
Beebe joined the Bank in 1976 and assumed his present position in 1978, supervising work in the areas of regional and banking studies. He obtained his Ph.D. from Stanford University, and also holds an M.S. in Operations Research from the University of Texas. Prior to joining the Bank, he taught at California State Polytechnic University, San Luis Obispo, and worked at FRS Associates, Menlo Park, in the area of corporate planning and institutional-investment management.

J. R. Bisignano

W. M. Burke



J. H. Beebe



W. G. Smith

Smith joined the Bank in 1968, and assumed his present position in 1977, supervising discount-window activities, consumer-affairs regulations, and securities-credit regulations at the Bank's five offices. He received his J.D. degree from Golden Gate University Law School, and was a member of the Law Review staff at that institution. He has served in a number of areas at the Bank, including Assistant General Counsel, before taking on his present responsibilities in the area of credit and consumer affairs. In 1974, he was an administrative assistant to a member of the Federal Reserve Board of Governors in Washington.

INTEREST CHARGES

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complexity of banking transactions has increased appreciably, resulting in increased turnover in reserve balances maintained with Reserve Banks. These developments have greatly increased the potential for overdrafts, and thus necessitated a new policy.

The policy change will affect only a few banks, but it provides the Federal Reserve with a specific approach for dealing with those banks that continue to incur overdrafts. Questions on this subject may be directed to the Officer in Charge of the Branch in which a reserve account is maintained, or to John K. Davis, Assistant Vice President in San Francisco (415) 544-2485.

Federal Reserve Bank of San Francisco

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MAIER, AHMANSON

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engineering. He is a member of the national Business Roundtable, a director of the California Chamber of Commerce, and a member of the board of trustees of the National Urban League.

Mrs. Ahmanson is active in national and regional civic affairs, in addition to serving as Chairman of Caroline Leonetti, Ltd., a self-improvement educational organization. She serves on the Board of Directors of Walt Disney Productions and on the City of Los Angeles Economic Advisory Council. She has received presidential appointments as a member of the National Council on the Humanities and as an executive-board member of the Peace Corps' National Advisory Council.

On the regional scene, she serves on the Boards of Trustees of the California Museum of Science and Industry, the Los Angeles County Museum of Art, and the Performing Arts Council of the Music Center. In addition, she is a Director of the Los Angeles Area Chamber of Commerce and of the Greater Los Angeles Visitors and Convention Bureau, and is a Vice President of the Los Angeles World Affairs Council.

AGENCIES ANNOUNCE SMALL-SAVER AIDS

The Federal Reserve and other financial regulatory agencies this month announced several regulatory changes, effective January 1, which are designed to help the small saver and to increase the ability of federally insured depositary institutions to compete for funds with market instruments not subject to interest-rate ceilings. The changes, which include the creation of a new intermediate-term certificate tied to the yield on Treasury securities, represent a further step in a move to higher interest-rate ceilings begun earlier this year.

The new certificates, with maturities of 2½ years (or more), will have a floating rate ceiling tied to the yield on 2½-year Treasury securities. Thrift institutions may offer a ceiling rate ½ percentage point below the 2½-year Treasury rate, while for banks the ceiling rate will be ¾ percentage point below the Treasury rate. There are no minimum-deposit requirements, and compounding will be permitted. The new certificate replaces the existing 4-year floating-rate time deposit which had been established in mid-1979.

The ceiling rate will be set monthly for new deposits, based on the rate announced by the Treasury three business days before the beginning of each month, and it will apply to all new deposits issued throughout the month. The rate on outstanding deposits of this type will not change during the life of the deposit.

The regulatory agencies also increased by ¼ percentage point the ceiling rate on deposits maturing in 90 days to one year. The new ceiling for commercial banks is 5¾ percent, while thrifts may pay up to 6 percent.

A third regulatory change will permit banks to pay the same rate as thrifts on 2½-year certificates when the deposits involve government accounts or certain retirement accounts (the so-called IRA and Keogh accounts). Banks will also be permitted to pay the same as thrifts on IRA/Keogh and governmental-unit deposits of $10,000 or more placed in six-month money-market certificates, regardless of the level of the Treasury-bill rate. However, the thrifts' differential continues to apply for other depositors of six-month money-market certificates when the Treasury rate is below 9 percent.