Federal Reserve Notes

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FED PROPOSES RESERVE CHANGES

The Federal Reserve has invited comments on a proposed revision of its Regulation D, that would implement changes in reserve requirements necessitated by the Monetary Control Act of 1980. In general, under the Act, reserve requirements for Federal Reserve member banks would be reduced over a four-year period, while requirements for other depository institutions with transaction accounts or non-personal time deposits would be phased in over an eight-year period.

The Fed thus proposes to reduce reserves for members by one-eighth every six months, starting September 4, 1980 and ending in April 1984. Non-members would be required to phase-in one-eighth of their total requirement each year, starting September 1, 1980 and continuing to August 31, 1988. The proposal sets specific phase-in procedures for agencies and branches of foreign banks, *de novo* banks, and new member banks.

The law sets reserve requirements, for gradual phase-in, at 3 percent on (initially) the first $25 million of transaction accounts and 12 percent on remaining transaction accounts. The initial requirement on non-personal time deposits would be 3 percent.

Based on December 1979 data, required reserves held at the Fed (when fully phased-in) would amount to about $13½ billion for member banks, compared to about $32½ billion last December. In addition, reserves of non-member institutions would amount to about $3 billion.

Under the Board's proposal, the term "transaction account" would include demand deposits, NOW accounts, ATS accounts, share-draft accounts and accounts subject to telephone or pre-authorized transfer or payment, plus all accounts that permit third-party payments through automated-teller machines or remote-service units. The Fed is seeking specific comments on the feasibility or desirability of exempting from transaction reserve requirements those accounts subject to a minimal number of telephone or pre-authorized transfers per month — perhaps one or two — for special purposes such as mortgage or utility payments.

A non-personal time deposit is defined by law as one that is transferable or held by a party other than a natural person. Since many institutions have issued time deposits that may be transferred by individual depositors, the Fed proposes to regard all time deposits in denominations under $100,000 issued to individuals prior to July 15 as personal time deposits. To be considered a personal time deposit thereafter, the certificate would have to be labeled non-transferable and be issued to and held by an individual.

Under the proposal, the minimum maturity of all time deposits would be changed from the present 30 days to 14 days, "to help improve the ability of domestic depository

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FED TO PHASE OUT CREDIT CONTROLS

The Federal Reserve has announced plans to phase out all the credit controls that were imposed March 14 as an anti-inflation measure. "Recent evidence indicates that the need for those extraordinary measures has ended," the Fed said in its July 3 statement. This last action follows a partial phase-out announced May 22.

Specifically, the Board said it would eliminate the remaining 5 percent marginal reserve requirement that had been set on managed liabilities such as large certificates of deposit, beginning on July 10. In addition, the Board will eliminate at the same time the 2 percent supplementary reserve requirement on large time deposits imposed in November 1978.

The Fed also scheduled elimination of the remaining 7.5 percent special deposit requirement that applied to growth in consumer credit. It said that no further special deposits would be required after the reporting period ending July 23. The special deposit requirement for increases in assets of money market mutual funds also was lifted, effective July 28.

The Board said the 6 percent to 9 percent voluntary limit on loan growth of banks and finance companies would be phased out after filing of June 30 reports. "The Board feels that normal competitive and market incentives can be relied upon to assure the flow of credit consistent with normal banking standards."

REGULATORS ADJUST RATE CEILINGS

The newly formed Depository Institutions Deregulation Committee has adjusted interest-rate ceilings on six-month and thirty-month savings certificates, and also has toughened the penalty for early withdrawals from all time deposits that are entered into, renewed or extended on or after June 2, 1980.

The committee took these actions as "a step toward giving the public a market return on savings," and within that context, to help "depository institutions compete for deposits more effectively, to enhance the ability of small banks to serve the agricultural and small-business needs of their communities, to help thrift institutions increase liquidity, and to permit banks and savings institutions to better serve the nation's needs for financing home-building and home ownership."

The committee consists of the Secretary of the Treasury and the chairmen of the Federal Reserve Board of Governors, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board and the National Credit Union Administration Board. The Comptroller of the Currency is a nonvoting member.

In an action which took effect June 2, the committee eliminated the full ¼-percent interest-rate advantage enjoyed by savings and loan associations on six-month certificates when the Treasury rate rises above 8¾ percent or falls below 7¼ percent. And under a new minimum-rate ceiling rule, the committee permitted all depository institutions to pay at least 7¾ percent on the popular $10,000 six-month certificates, regardless of how low the Treasury bill rate drops below 7¼ percent.

A differential favoring thrift institutions will be part of the ceiling structure only when the six-month Treasury bill rate is between 7¼ and 8¾ percent. Previously, banks could pay the same rate as thrifts only when the six-month bill rate was 9 percent or more. Incidentally, banks are always permitted to pay the thrift rate on IRA and Keogh (retirement) accounts and on governmental funds.

In addition, the Deregulation Committee is allowing banks, when the differential is in effect, to pay the same rate as thrifts when renewing maturing six-month certificates with the same depositor. Such renewals are allowed only one time per account during the period May 29, 1980 through November 30, 1980.

Under the revised format for six-month instruments, banks and thrifts at all times would be permitted to pay more than the Treasury-bill rate (auction average on a discount basis). Likewise, regardless of the average 2½-year yield for Treasury securities (as determined by the Treasury Department), thrifts would be permitted to pay at least 9½ percent on their 30-month, small-saver certificates, while banks could pay a minimum of 9¼ percent. Maximum interest rates on the 2½-year instruments can range to 12 percent for thrifts and 11¾ percent for commercial banks.

Rate Ceilings for 6-Month Money Market Certificates

6-MONTH TREASURY BILL RATE	COMMERCIAL BANK CERTIFICATE RATE	SAVINGS BANK CERTIFICATE RATE	DIFFERENTIAL
Above 8.75%	Treasury bill rate plus 25 basis points	Treasury bill rate plus 25 basis points	None None
8.50%–8.75%	Treasury bill rate plus 25 basis points	9.00%	0 to 25 basis points
7.50%–8.50%	Treasury bill rate plus 25 basis points	Treasury bill rate plus 50 basis points	25 basis points
7.25%–7.50%	7.75%	Treasury bill rate plus 50 basis points	25 to 0 basis points
Below 7.25%	7.75%	7.75%	None

NOMINEES SOUGHT FOR CONSUMER PANEL

The Federal Reserve Board of Governors is seeking nominations for its Consumer Advisory Council, which advises the Board on matters pertaining to consumer protection laws and other consumer-related matters.

From a list of nominees submitted in 1979 and 1980, the Board will make eight appointments to the 1981 Council. Nominations should be submitted in writing prior to August 1 to Janet Hart, Director, Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

The nominations should include the name, address and telephone number of the nominee; past and present positions held; and special knowledge, interests or experience relating to consumer matters.

The Consumer Advisory Council was established by Congress in 1976. Its 1980 chairman is William D. Warren, dean of the UCLA Law School, Los Angeles. Also serving on the Council from the 12th Federal Reserve District are Roland E. Brandel of Morrison & Foerster, San Francisco; Shirley T. Hosoi of Western Bankcorporation, Los Angeles; and Richard A. Van Winkle of Lockhart Finance Company, Salt Lake City.

Regarding withdrawal of funds before maturity from a post-June 1 time deposit, the new rules of the Deregulation Committee require a minimum penalty of three months' simple interest where the maturity of the deposit is three months through one year, and six months' interest in the case of a longer maturity. On time deposits with maturities of less than three months, the penalty is simple interest for the contracted maturity of the deposit. In the past, the minimum required penalty did not exceed interest accrued or already paid, but now the penalty may require a reduction in the principal sum of the account.

S.F. Fed President Balles meets with President Li Baohua of the People's Bank of China in San Francisco.

FED OFFICIALS VISIT CHINA

A Federal Reserve delegation headed by Chairman Paul A. Volcker, and including Governor Nancy H. Teeters and San Francisco Fed President John J. Balles, visited China in June to culminate an exchange of visits that brought China's central bankers to the United States in early May.

After beginning the trip June 13 with two days of meetings with bankers and businessmen in Tokyo, the Fed delegation arrived at Beijing and was greeted by Li Baohua, president of the People's Bank of China. The visiting Americans later toured the Great Wall and attended various business meetings and functions in Shanghai, Hangzhou (Hangkow), Guangzhou (Canton) and Hong Kong.

Others in the delegation were Thomas Timlen, first vice president of the Federal Reserve Bank of New York; Charles Siegman, associate director of the Board's Division of International Finance; and Hang-Sheng Cheng, assistant vice president and economist of the Federal Reserve Bank of San Francisco.

In May, President Li headed a group of Chinese central bankers which visited the San Francisco Fed and other Federal Reserve offices.

DISCOUNT WINDOW ACCESS EXPANDED

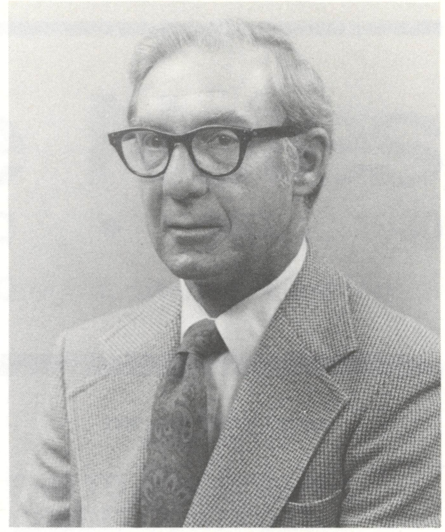
The Federal Reserve has moved to implement the March legislation which permits access to the Fed's discount window by all financial institutions holding transaction accounts or non-personal time deposits subject to reserve requirements. Previously, only Fed member banks could use that borrowing facility.

Under a proposed regulation, Federal Reserve credit would be offered under two major programs— 1) regular adjustment credit, and 2) extended credit, including seasonal credit and special credit for institutions facing "particular problems." The seasonal credit facility would be available to smaller institutions that lack ready access to national money markets or to special industry lenders. An arrangement for seasonal credit would take into account historical patterns of fluctuations in an institution's loans and deposits, together with evidence of recent or prospective changes in needs for funds.

Other extended credit would be available to accommodate the needs of depository institutions that may experience difficulties adjusting to changing money-market conditions over a longer period, particularly at times of deposit disintermediation. Other extended credit may also be provided to an individual institution that experiences financial strains arising from particular circumstances or practices affecting that institution — including sustained deposit drains, impaired access to money market funds, or sudden deterioration in loan repayments. All institutions would be expected to use "other reasonably available sources of funds" before turning to the Fed discount window for assistance.

The Fed emphasized that short-term adjustment credit would continue to be the primary form of Fed lending. It would be available on a very short-term basis to assist borrowers in meeting temporary requirements for funds, or to cushion more persistent fund outflows pending an orderly adjustment of a borrower's assets and liabilities.

The proposed regulation states that interest on adjustment credit under the program generally would be at the basic discount rate. However, the Fed would retain the option of imposing a surcharge in addition to the basic rate, as it did temporarily under this spring's credit-restraint program.



L. E. Gramley

GRAMLEY NAMED FED GOVERNOR

Lyle E. Gramley, a member of the President's Council of Economic Advisers, was sworn in May 29 as a governor of the Federal Reserve Board by Vice President Walter F. Mondale.

Gramley succeeds Philip E. Coldwell, whose term expired January 31. Gramley's 14-year term will end in 1994.

The new governor is no stranger to the Federal Reserve System. Gramley first became affiliated with the Fed in 1955 as a financial economist at the Kansas City Reserve Bank. He served as associate professor of economics at the University of Maryland in the 1961-64 period, and then shifted to the Board of Governors. He held senior research positions and statistical positions there until he was appointed to the President's Council of Economic Advisers in 1977.

RESERVE CHANGES

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institutions to compete with banking offices located abroad and with issuers of short-term paper in this country."

The Fed also proposes to initiate a 3-percent reserve requirement on certain Eurodollar activities to eliminate any artificial incentive that would favor raising funds offshore instead of in the domestic market.

In addition, the Fed is seeking specific comment on the following issues relating to reserve requirements:

- Whether required reserves should be based on deposits held two weeks earlier, as presently computed, or on deposits held in a current statement week.
- Whether institutions should be required to calculate reserve requirements on the basis of five weekdays within a statement week (or four, if a holiday is involved) in order to eliminate the possibility of some institutions artificially raising certain categories of accounts prior to weekends or holidays in order to lower reserve requirements.
- Whether to remove reserve requirements from demand deposits "due to" depository institutions.

ECCLES NAMED DIRECTOR

Spencer F. Eccles, president and chief operating officer of First Security Corporation and First Security Company, Salt Lake City, has been appointed a director of the Salt Lake City branch of the San Francisco Reserve Bank.

Eccles replaces Robert E. Bryans, former chairman of the board of Walker Bank & Trust Company, Salt Lake City, who is retiring from the Fed branch board after serving as director since January 1977. Eccles' term ends in 1981.

T-Bill Trading

The Federal Reserve Board said it has no objections to allowing the proposed futures unit of the New York Stock Exchange to trade contracts based on Treasury bills and bonds.

In a letter to the Commodity Futures Trading Commission, which regulates futures exchanges, the Fed indicated that its approval hinges on the Big Board's success in merging its unit with the American Stock Exchange's futures unit. Such a merger would avert Fed concern over "proliferation of contract markets" in trading of Treasury bills and bonds.

VIDEOTAPE PROGRAM

The Federal Reserve Bank of San Francisco has produced a series of 19 videotapes in its "Economic Issues" series, and is offering them on a free-loan basis to commercial-bank training departments, educational institutions and other interested groups. Each videotape runs between 15 and 25 minutes and features a Bank economist's discussion of some current issue of economic activity.

The topic of inflation receives considerable attention in these discussions, in such areas as the history of inflation, international sources of inflation, money demand and inflation, food-price increases, and the differences among price indexes. Monetary policy also is a major topic of discussion. Other tapes describe the international value of the dollar, the Japanese economy, the energy problem, housing prices, consumer debt, and the uses of economic analysis.

A complete listing of the three-quarter inch tapes in the Economic Issues series is available from the Public Information Section, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco 94120. Phone (415) 544-2184. Tapes can be borrowed from that unit, or from the Bank and Public Services Departments at the Bank's branch offices.

Federal Reserve Bank of San Francisco

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