

# Federal Reserve Notes

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## S.F. FED SETS UP OUTREACH PROGRAM

The Federal Reserve Bank of San Francisco has developed a number of programs to assist depository institutions in complying with the new procedures mandated under the terms of the Monetary Control Act. Under the Act, Congress attempted to improve the effectiveness of monetary policy by applying new Federal Reserve reserve requirements to all depository institutions with transaction (check-type) accounts and non-personal time deposits.

To implement this goal, the Act authorized the Federal Reserve to collect reports from all depository institutions. And among other key provisions, the MCA provided non-member institutions with access to Federal Reserve borrowing privileges and other Fed services, and required the Federal Reserve to set fees for these services.

Beginning September 22, the Federal Reserve Bank of San Francisco has organized a series of orientation sessions for top executives of depository institutions located in the San Francisco Reserve District — the nine westernmost states (see list of sites below). These sessions, held in 26 locations throughout the District, have been designed to provide executives with an overview of the implementation of the MCA.

In addition to these general orientation sessions, a series of seminars on reporting and reserve accounting will be held in all Reserve Bank offices in the week of October 13. Later, technical seminars will be

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G. H. Weyerhaeuser

## WEYERHAEUSER HEADS SEATTLE BOARD

George H. Weyerhaeuser has been named Chairman of the Board of Directors of the Seattle Branch of the Federal Reserve Bank of San Francisco. Weyerhaeuser is President, Chief Executive Officer and Director of the Weyerhaeuser Company, a forest-products company with 49,000 employees and \$4.5 billion in annual revenues.

The Tacoma executive was appointed to the Seattle Board by the Federal Reserve Board of Governors, to fill out an unexpired term ending December 1981. He replaces Lloyd E. Cooney, Seattle broadcasting executive, who recently resigned from the board. He also replaces Cooney as Seattle board chairman, an annual position, at the designation of the Board of Directors of the San Francisco Reserve Bank.

Weyerhaeuser graduated with honors from Yale University in

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## DEREG COMMITTEE RULES ON NOW RATES

The Depository Institutions Deregulation Committee (DIDC) ruled that banks and savings institutions will be able to pay as much as 5¼ percent on check-type NOW accounts beginning in 1981, but it left intact current interest-rate ceilings on regular savings accounts. In another key decision, the committee agreed to permit the continued use of premiums or gifts that institutions offer to people who open new accounts or add to existing ones.

The DIDC ruled that the ceiling rate on "negotiable order of withdrawal" accounts — NOW accounts — will be raised to 5¼ percent, effective December 31. The rate on "automatic transfer from savings" accounts — ATS accounts — will remain at 5¼ percent. Similarly, ceilings were left unchanged on other types of interest-bearing transaction accounts, at 5¼ percent for commercial banks and 5½ percent for thrifts.

The committee also said that it intends to raise passbook-account ceiling rates as soon as is "prudently practicable." It hopes to be able to do so before September 30, 1981, when by law it is required to vote on raising passbook rates.

On the "freebie" question, the DIDC permitted the continued use of premiums or gifts, but required that the stated cost reflect the complete cost of the merchandise. Such costs would include shipping, packaging and other handling expenses, as well as any

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## FED ATTACKS CHECK FLOAT

In an effort to tighten its check-clearing procedures and significantly reduce "free float," the Federal Reserve has launched a two-tiered program involving the streamlining of transportation procedures, electronic clearance of larger checks, and revising of time schedules by which depositing banks receive credit for funds they deposit.

Currently, average daily float is running at about \$5 billion. The Fed hopes the new procedures will reduce float to a daily average of about \$2 billion. Based on an average federal-funds rate of 11.2 percent last year, Fed economists estimate the Fed could have earned \$650 million from float and, indirectly, saved taxpayers that amount by following its usual policy of turning over most of its revenues to the U.S. Treasury.

Float occurs in the Fed's check-clearing operations when the system credits one bank's account for a check drawn on another bank before it debits the other bank's account. In the interim, both banks have use of the funds so that, in effect, the Fed is extending an interest-free loan to one of the two banks.

Under the plan adopted by the Board of Governors, the interdistrict transportation system for moving checks is being upgraded to provide for a quicker return of checks among banks using the Fed service. Also, the Fed is examining ways to clear checks for large amounts electronically, rather than waiting for the checks to be returned physically to the regional Fed bank for the institution on which the checks are drawn.

In addition, the Fed has proposed to slow the schedule by which the depositing banks receive credit for funds they deposit. The new schedule, expected to be put into effect in September 1981, would be based on the actual time it takes to clear checks.

Last spring as part of a major revi-

## WEYERHAEUSER

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1949, with a degree in industrial administration. He has been associated with the Weyerhaeuser Company since 1947, and has been President and CEO since 1966. He holds directorships in a number of major companies, including the Boeing Company, the Standard Oil Company of California, and the Safeco Insurance Company.

Weyerhaeuser is a trustee of the Rand Corporation, the Charles Wright Academy, the Taft School, and the Weyerhaeuser Company Foundation. He is a member of the Advisory Board of the University of Washington's School of Business Administration, and of the Board of Visitors of the University of Puget Sound Law School.

The Tacoma executive is also noted for his memberships in a number of major national and international organizations. These include the Council on Foreign Relations, the Emergency Committee for American Trade, the Japan-California Association, the Business Council, and the Business Roundtable.

tion in banking laws, Congress directed the Fed to eliminate check float or start charging institutions for it, because float could be regarded as a government subsidy to the private banking industry. The law also required the Fed to impose charges on services, such as check-clearing, that it previously provided free.

As a result of the congressional order, the Fed said it would try to eliminate nearly all free float from its check-clearing operations by the middle of 1982. Some float is expected to remain beyond that date, and the Fed has proposed to start charging institutions explicitly for this remaining float. Interest on float would be charged at the prevailing market rate for federal funds — the unused reserves lent by depository institutions to one another.

At present, the Fed clears about 44 percent of all the nation's checks.

## PRICING COMMENT SOUGHT BY FED

The Federal Reserve announced that public comment on its proposed pricing schedule for services ends October 31, with the phase-in of fees due to begin in January.

Mandated by the Monetary Control Act of 1980, prices would be based on all direct and indirect, long-run costs incurred for the various services, plus a 12 percent "markup" that takes into account the financing and tax costs that a private firm would encounter if it offered similar services. The same prices would apply to all depository institutions.

Federal Reserve services to be covered under the proposed pricing schedule include check-clearing, currency and coin, wire transfers, automated clearinghouse services (ACH), settlement services affecting accounts held by the Federal Reserve, securities safekeeping, noncash collection and Federal Reserve float.

The Fed plans to publish final pricing regulations in January. Pricing of wire transfer and net settlements, which are wire transfers done by privately owned groups, should begin during January. Pricing of checks and ACH services is scheduled for April. They could range from a fraction of a cent a check to seven cents a check, depending on distance, degree of computerization and other factors. The pricing of currency and coin would follow in July, and securities and noncash collection in October.

Charges for float (the interest on items credited by the Fed to one depository institution before being collected from another) won't be instituted until mid-1982. Meanwhile, the Fed has announced a two-step program to reduce float by improving its interdistrict transportation system for moving checks, and by modifying its time schedules, beginning in Septem-

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## FED OUTLINES BORROWING, RESERVES PLANS

In carrying out provisions of the Monetary Control Act (MCA) of 1980, the Federal Reserve has revised its regulations covering reserve requirements of depository institutions (Reg D) and access to the Fed's discount window (Reg A).

Depository institutions offering transaction accounts or nonpersonal time deposits — all of which are now subject to reserve requirements — became eligible to use the Fed's credit-extension facilities beginning September 1. Previously, discount-window services were limited to Fed member banks.

Under Reg A, Federal Reserve credit will be offered under two major programs — adjustment credit and extended credit. Adjustment credit will be made on a very short-term (overnight) basis to help depository institutions adjust to sudden changes in their need for funds. Extended credit will be available to assist institutions in coping with unusual credit needs due to particular problems covering somewhat longer periods:

The Fed said it would offer temporary adjustment credit to nonmembers only if they are unable to gain timely access to their special-industry lenders, such as Federal Home Loan Banks or the Central Liquidity Facility of the National Credit Union Administration. Nonmembers seeking extended credit from the Fed will be consulted in regards to why funds are not available from other sources.

In amending Reg D to conform to MCA, the Fed listed reserve requirements to be imposed after a phase-in period. The reserve requirement on the first \$25 million of an institution's transaction accounts will be 3 percent. Reserves of 12 percent must be held on transaction accounts above \$25 million.

The reserve requirement on nonpersonal time deposits with original maturities of less than four years will be 3 percent, while similar deposits with maturities of four

years or more will be zero percent. Eurocurrency liabilities will have reserve requirements of 3 percent.

Under the Act, transaction accounts include demand deposits, NOW (negotiable order of withdrawal) accounts, ATS (automatic transfer from savings) accounts, share-draft accounts, and accounts permitting telephone or pre-authorized transfers of payments to third parties. Up to three telephone or pre-authorized transfers a month are allowed before such accounts are regarded as transaction accounts. Thrifts nationwide may offer interest-bearing checking (NOW) accounts for the first time starting next January 1, and this transaction account will be subject to the Fed's full reserve requirement at that time.

A nonpersonal time deposit is defined as one which is transferable or held by a party who is not a natural person. Time deposits do not become transferable by reason of being pledged for a loan, or due to transfer following death, bankruptcy or judicial attachment. As a transitional measure, the Fed said it would regard all time deposits issued to individuals prior to October 1, 1980 as personal time deposits, even if they are transferable. Personal time deposits are not subject to reserve requirements.

New Fed constituents with deposits in excess of \$1 million will begin an eight-year phase-in of reserves starting November 13, 1980. On that date, most institutions must set aside one-eighth of the reserve requirement applicable to them. Subsequently, they will post an additional one-eighth of their total reserve requirement in September during each of the following seven years.

Institutions with \$5 million or more in total deposits will have to report reserves on a *weekly* basis beginning November 13. Smaller institutions, with \$1 to \$5 million in deposits, must report *quarterly* beginning January 1, 1981. Some 11,400

institutions, mostly credit unions, with total deposits below \$1 million are exempt from reserves-posting requirements and reporting until at least May 1981.

At the same time, Fed member banks will begin a four year phase-down of reserve requirements, because their present requirements are considerably higher than the ones stipulated in MCA. Beginning November 13, reserve requirements will be reduced by one-fourth during the first 10 months, and one-eighth every succeeding six months thereafter.

Roughly 18,000 institutions will be subject to reserve requirements, including about 5,400 Fed members, 9,000 nonmembers and, initially, about 3,400 savings and loan associations and mutual savings banks. One major purpose of uniform reserve requirements is to assist the Fed in carrying out its Congressional mandate for effective monetary control.

Reserve requirements can be satisfied by vault cash as well as by balances held at a Federal Reserve Bank. Nonmember institutions may hold their reserves directly with the Fed, or indirectly by passing the reserves through another institution.

The first period for reporting deposits and determining the status of institutional reserves begins October 30, 1980. The Federal Reserve Bank of San Francisco is mailing reporting forms, manuals and other material to all depository institutions in the 12th District during September.






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## PRICING COMMENT

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ber 1981, for making funds available to institutions that have presented checks for clearance (see story, page 2). Interest on float would be charged at the prevailing market rate for federal funds.

In situations where an institution with only a small reserve balance (or none) wishes to obtain services directly from a Federal Reserve Bank, the local Fed bank could establish the need for a clearing balance. Size of the balance would be set in advance to minimize reserve deficiencies, with adjustments on a monthly or less-frequent basis. Required clearing balances would receive an earnings credit equal to the weekly average of the 91-day Treasury bill rate. Also, institutions could use the reserve account of another institution (with prior authorization) to pay for Fed services.

According to Fed proposals, fees would be imposed nationwide for services that are uniform across the Federal Reserve System, such as wire transfer and ACH services. However, differing schedules would be used where significant cost differences exist among Federal Reserve districts or offices, such as coin-wrapping and securities and noncash collection at the district level, and currency and coin shipping at the office level. 


## DEREG COMMITTEE

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advertising-type fees paid to a promotional agency.

The DIDC ruled, moreover, that dollar limits on premiums could be raised to \$10 for deposits of less than \$5,000, and to \$20 for deposits of \$5,000 or more. Each depositor would be permitted only two gifts per year.

The committee in effect prohibited finders fees for amounts under \$100,000 — specifically, by regarding such fees as deposit interest and thus including them under the appropriate ceiling-rate regulation. However, it listed two possible exceptions to this rule. Institutions could pay incentive bonuses to employees, provided such bonuses weren't related to any specific deposits but rather to some total amount of deposits. Also, institutions that had obtained 25 percent or more of deposits through finders fees could be permitted a phase-down over a two-year period.

The DIDC asked for comments on this subject, especially with respect to depository institutions' ability to identify the deposits obtained through finders fees and the individuals to whom the fees were paid. The purpose would be to minimize problems for specific institutions that have been heavily dependent on finders fees for an extended period. 

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## Federal Reserve Bank of San Francisco

## OUTREACH PROGRAMS

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held at those offices, about four to six weeks prior to the time at which various Fed services are offered to depository institutions under new pricing schedules. Meanwhile, an MCA Information Desk has been set up at each Fed office to answer questions.

The schedule of general-orientation sessions follows:

San Francisco Zone — Reno (September 22), Honolulu (September 22), Sacramento (September 23), Fresno (September 24), San Jose (September 25), San Francisco (October 1-3).

Los Angeles Zone — Bakersfield (September 22), Santa Barbara (September 23), Las Vegas (September 24), Tucson (September 25), Phoenix (September 26), Van Nuys (September 29), Los Angeles (September 30), Riverside (October 1), Newport Beach (October 2), San Diego (October 3).

Portland Zone — Portland (October 1), Pendleton (October 2), Eugene (October 3).

Salt Lake City Zone — Salt Lake City (September 22), Boise (September 23), Pocatello (September 24).

Seattle Zone — Yakima (September 25), Spokane (September 26), Seattle (September 29), Anchorage (September 30). 