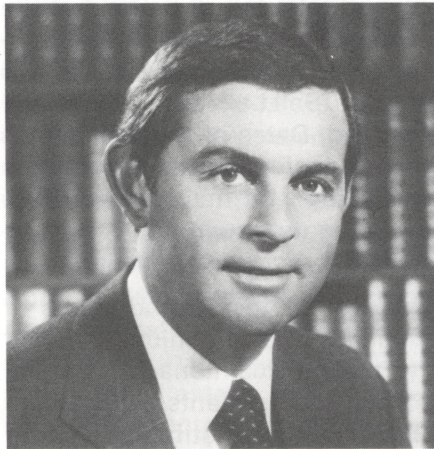


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Federal Reserve Notes

FEDERAL RESERVE BANK OF SAN FRANCISCO • NO. 4, 1980

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C. E. Schmidt

SCHMIDT REAPPOINTED TO FED ADVISORY BODY

Chauncey E. Schmidt has been reappointed to the Federal Advisory Council for 1981 by the Board of Directors of the Federal Reserve Bank of San Francisco. He is chairman of the board, president and chief executive officer of the Bank of California and its holding company — BanCal Tri-State Corporation.

The Federal Advisory Council provides a link between the banking and financial community and the Federal Reserve Board of Governors. It is composed of 12 members representing each of the districts in the Federal Reserve System. The Council advises the Board on a wide range of topics, including overall banking and monetary objectives, the Fed's regulation of member-bank activities, and the effects of monetary policy on financial institutions and the money market.

Before joining the Bank of California in 1976, Schmidt was presi-
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VAUGHAN, METTLER RETURN TO FED BOARD

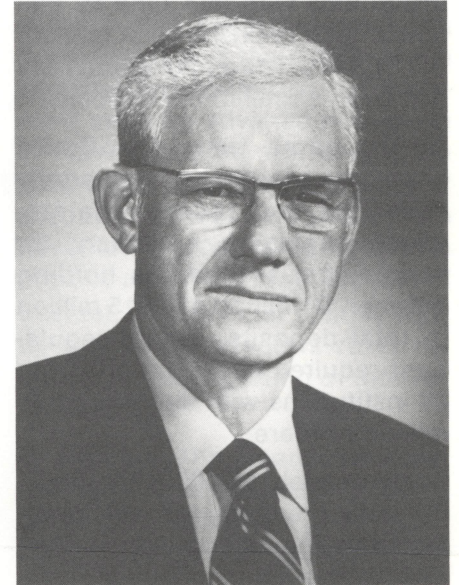
Southern California businessman J.R. Vaughan and Ole R. Mettler, a Central Valley banker, have been re-elected to the Board of Directors of the Federal Reserve Bank of San Francisco by Twelfth District member banks.

Mettler, president and board chairman of Farmers & Merchants Bank of Central California in Lodi, won his bid for a Class A Directors' seat, representing District member banks, in a contest with W. Peter Ramberg, vice chairman of the board and chief executive officer of Alaskan National Bank of the North of Fairbanks. Vaughan, chairman of the board of the Los Angeles-based Knudsen Corporation and senior member of the law firm of Richards, Watson, Dreyfus and Gershon, was unopposed for a second term as a Class B Director, representing non-financial businesses in the 12th District.

Both terms, which begin January 1, are for three years.

Vaughan has been associated with the Federal Reserve Bank of San Francisco since 1973, when he was appointed a director of the Los Angeles branch. He became a director of Knudsen Corporation in 1962 while serving as a practicing partner in the law firm of Vaughan, Brandlin, Robinson and Roemer. He later became vice president of finance, and then president, chief executive officer and chairman of Knudsen.

A native Californian, Vaughan attended Loyola Marymount University where he earned A.B. and J.D.



J. R. Vaughan



O. R. Mettler

degrees. He is a member of the State Bar of California, Economic Round Table, Rotary Club, and Board of Visitors of Loyola Law School. Active in professional and civic affairs, Vaughan is currently a director of the National Dairy

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SMALL INSTITUTIONS GAIN FED EXEMPTION

With the aim of exempting many small financial institutions from reserve maintenance and reporting requirements, the Federal Reserve Board of Governors has simplified procedures under the Monetary Control Act of 1980.

The Board deferred, until next May, all reserve and reporting requirements for nonmember depository institutions with less than \$2 million in total deposits as of December 31, 1979. The earlier cutoff level had been \$1 million in deposits.

At the same time, the Board adopted a procedure for quarterly reporting and reserve maintenance, beginning in January, for nonmember institutions holding between \$2 million and \$15 million in total deposits. Earlier regulations required weekly reports from all institutions with deposits of \$5 million or more.

Approximately 17,000 institutions, primarily credit unions, will be affected by the deferral of reporting and reserve requirements for nonmembers with less than \$2 million in deposits. Previously, about 11,400 such institutions with total deposits below \$1 million were exempted.

Another 10,000 institutions with deposits between \$2 million and \$15 million will be covered by the quarterly reporting and reserve-maintenance requirement. Consequently, the simplified procedures will relieve reporting burdens for 27,000 institutions. These institutions, although numbering about two-thirds of the total covered by the new law, hold 4.3 percent of all deposits.

Also exempt from reserve requirements under the new guidelines are "bankers' banks." These are depository institutions, such as corporate-central credit unions, that primarily serve other financial institutions. In amending its Regulation D, the Fed stated that a bankers' bank could qualify for exemption if it had been organized solely to do business with other

MCA Update

financial institutions, was owned primarily (75 percent or more) by the financial institutions with which it does business, and does not do business with the general public.

A banker's bank may act as a pass-through agent for the reserves of other institutions if it enters into an agreement with the Federal Reserve to accept responsibility for correctly maintaining passed-through reserves, and if the Federal Reserve (after consultation with the appropriate supervisory agency) is satisfied with the quality of the management and financial resources of the bankers' bank. The Board emphasized that it does not intend to involve itself in the direct supervision of such institutions, but would look to the National Credit Union Administration and the Federal Home Loan Bank to review requests from constituent institutions that wish to qualify as bankers' banks.

As a result of information gathered at MCA orientation meetings and from analysis of other data, the Board decided that it could adopt simplified procedures for a larger number of small institutions without any substantive impact on the System's ability to control the monetary aggregates. Under the MCA mandate, Federal Reserve reserve requirements were extended to all depository institutions offering transaction (check-type) accounts and non-personal time deposits.

Fed member banks have continued with weekly reporting of deposit levels and reserves. Nonmember institutions with more than \$15 million in total deposits began making weekly reports for deposits as of October 30, and began maintaining the newly mandated reserves on November 13.

The new rules governing the maintenance and reporting of reserves do not affect the U.S. agencies and branches of foreign banks or Edge Act corporations.

MCA WORKSHOPS SLATED FOR EARLY JANUARY

Workshops detailing MCA-mandated reporting and reserve requirements for non-Fed member institutions holding between \$2 and \$5 million in total deposits have been scheduled for the first half of January at all Federal Reserve Bank cities of the 12th District.

The seminars for quarterly-reporting institutions will be held at the Federal Reserve Bank of San Francisco and its branch offices at Los Angeles, Salt Lake City, Seattle and Portland. Dates of these meetings shall be included in an information package to be mailed to all new constituents required to report reserves on a quarterly basis.

This will be the second series of seminars held in conjunction with the reserve maintenance and reporting requirements extended to all depository institutions under the Monetary Control Act. Operational and procedural workshops for institutions holding more than \$5 million in deposits were held in October at San Francisco, Los Angeles, Portland, Salt Lake City, Seattle, Spokane, Fairbanks, Anchorage, Honolulu and Phoenix.

Following the October reserves-reporting seminars, the Federal Reserve broadened its group of *quarterly* reporting institutions to include those with deposits of between \$2 and \$15 million. Previously, all institutions with deposits of \$5 million or more were required to issue *weekly* reports on reserves starting in January. Weekly reporting is now limited to institutions with deposits in excess of \$15 million.

The Federal Reserve Bank of San Francisco began its MCA sessions in September with a series of general orientation meetings for top executives of depository institutions located in the 12th District — the nine westernmost states including Alaska and Hawaii. Next, the October seminars provided detailed information on reserve maintenance and reporting requirements.



VAUGHAN, METTLER


(Continued from page 1)

Council and Southern California Building Funds. He also serves as trustee of the Pacific Legal Foundation and Mount St. Mary's College.

Mettler joined Farmers & Merchants Bank in 1960 as president and was elected chairman of the board in 1977. He is a past-president of the California Bankers Association and the Independent Bankers Association of Northern California.

A graduate of the University of California, he has served on numerous committees associated with the American Bankers Association — the Executive Council, Governing Council, Agriculture Committee, Agriculture Credit Task Force and Communications Task Force. He also served on the Executive Council of the Western Independent Bankers Association and has been active on several key committees of the California Bankers Association.

A native of Lodi, Mettler has served on the University of California's Agricultural Advisory Committee. He also has been a trustee of Elmhurst College.

He is director of Lodi Memorial Hospital, president and director of the East-Side Winery, and a director of the Independent Bankers Association of Northern California, Northern California Fruit Co., California Future Farmers of America Foundation, Lodi Grape Festival and National Wine Show, and San Joaquin County Farm Bureau. 

Meanwhile, an MCA Information Center has been set up at each Fed office in the District to answer questions pertaining to the Act. Here are the numbers to call:

San Francisco	(415) 544-2128
Los Angeles	(213) 683-8592
Portland	(503) 221-5909
Salt Lake City	(801) 355-3131, ext. 218
Seattle	(206) 442-2754
	(206) 442-0630
	(206) 442-7910

NOW GUIDELINES SET BY FED STAFF

The Federal Reserve Board staff has issued guidelines for member banks to use in determining customers eligible for "negotiable order of withdrawal" (NOW) accounts when such accounts can be offered nationwide after December 30. The guidelines are nearly identical to those currently used by banks that already offer NOW accounts in New England, New York, and New Jersey.

The Federal Deposit Insurance Corporation and Federal Home Loan Bank Board retain a similar authority for institutions subject to their jurisdiction.

Under the Depository Institutions Deregulation and Monetary Control Act of 1980, banks may offer an interest-bearing checking, or NOW, account only to individuals and to non-profit organizations operated primarily for religious, philanthropic, charitable, educational or similar purposes. Added to the list of eligibles by the Fed staff were "fraternal organizations," which Congress unintentionally omitted from the DIDMCA.


Meanwhile, the Depository Institutions Deregulation Committee established an interest-rate ceiling of 5¼ percent on NOW accounts at all depository institutions, effective December 31. The current 5-percent ceiling on such accounts, where already offered, remains in effect for the rest of 1980.

Depositors eligible to hold NOW accounts at Fed-member banks include individuals, sole proprietors, husband-and-wife unincorporated businesses, local housing authorities, residential tenants' security deposits, pension funds, trade associations, labor unions, independent school districts, redevelopment authorities, and certain escrow funds, trust and other fiduciary accounts (where the entire beneficial interest is held by individuals or qualifying organizations).

Accounts found ineligible for NOW accounts include real-estate in-

vestment trusts, credit unions, business and professional corporations, health and hospital plans, political parties, hospital districts, purchasing cooperatives, military exchanges, trustees in bankruptcy, partnerships operated for profit, and most state and governmental units. Yet to be decided by the Fed is whether non-profit hospitals can qualify for NOW accounts.


Earlier, the Board of Governors, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board and the Office of the Comptroller adopted a policy statement allowing advance promotion of NOW accounts, but only if the advertising makes clear that NOW accounts are not available before December 31. Where an institution plans to advertise a specific rate of interest, its ads must comply with its regulatory agency's rules regarding the advertising of interest on deposits.

In addition, the Board reminded member banks that under existing guidelines, advertising for automatic transfer accounts (ATS) should state that ATS consists of two separate accounts, and that ATS may not be advertised as an interest-bearing checking account. The Board said it is important to distinguish between ATS and NOWs, because each is covered by different reserve requirements. 

SCHMIDT REAPPOINTED

(Continued from page 1)

dent of the First National Bank of Chicago. He is a graduate of the U.S. Naval Academy and the Harvard Graduate School of Business Administration.

Schmidt is a director of the Association of Reserve City Bankers. He is also a member of a number of other organizations, including the International Monetary Conference, the American Bankers Association, the Advisory Council on Japan-U.S. Economic Relations, and the Stanford Research Institute International Council. He is a director of the Bay Area Council, the California Roundtable, and the San Francisco Chamber of Commerce. 

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INTEREST PREPAYMENT BANNED BY DEREG GROUP

The Depository Institutions Deregulation Committee (DIDC) has adopted a rule prohibiting the prepayment of interest to depositors, in either cash or merchandise, on all deposits of less than \$100,000.

"The Committee believes that the prepayment of interest, particularly in the form of merchandise, can result in confusion as to the actual rate of return earned on a deposit and presents increased problems of enforcing deposit interest rate ceilings," said the DIDC.

"Accordingly, depository institutions may pay interest, as it is earned, in the form of merchandise rather than in cash or in a credit to a deposit account. For purposes of determining compliance with interest-rate ceiling limitations, the cost of any merchandise given in lieu of cash interest must include the total cost of the merchandise."

The Committee also stated that an executive officer of an institution offering merchandise in lieu of cash interest "must certify that the total cost includes shipping, warehousing, packaging and handling fees, and that no portion of the cost has been attributed to development, advertising, promotional, or other expenses." The new rule prohibiting prepayment of interest on

FED PLACES LIMITS ON FOREIGN BANKS

The Federal Reserve Board of Governors has amended Regulation K to implement provisions of the International Banking Act (IBA) that limit the interstate banking activities of foreign banks in the United States.

The revised rules require a foreign bank operating in the United States to designate a "home state" if it engages in domestic deposit-taking activities. The rules also restrict the establishment of branches (but not agencies) of a foreign bank outside its home

deposits becomes effective December 31, 1980.

The DIDC also issued final rules concerning the payment of finders fees and premiums for deposits. Effective December 31, the Committee ruled that finders fees for deposits of less than \$100,000 may be paid only in cash and will be regarded as payment of interest to the depositor. Certain incentive plans for employees of institutions are exempted from this rule. For those institutions that have a history of obtaining, on the average, 25 percent or more of their domestic time and savings deposits through finders fees, the Committee proposed a two-year phaseout program.

state. A branch is an office that accepts deposits; an agency is an office that keeps credit balances but cannot accept deposits from U.S. citizens or residents. The Board has adopted minimum criteria for state regulatory agencies to assure that credit balances are distinguished from deposits.

Under the IBA, foreign banks cannot have branches outside the home state except those "grandfathered," i.e. those established or applied for prior to passage of the IBA on July 27, 1978. Foreign banks may continue to operate the grandfathered offices indefinitely. Meanwhile, the Board said it would regard offices of foreign banks that accept foreign-source deposits but not domestic deposits — as certain offices may do under California law — as agencies rather than branches.

Three basic rules cover home-state selection. If a foreign bank has one branch or one subsidiary bank and no other banking office in the U.S., the state with that branch or subsidiary is the foreign bank's home state. A foreign bank that has one or more deposit-taking offices in one or more states must select one of those states as its home state by next March 31, or have one selected for it by the Board. Foreign banks without a deposit-taking office in the U.S. need not select a home state.

