President John J. Balles has appointed Senior Vice President Kenneth A. Grant (Computer Services Group) to the Management Committee of the Federal Reserve Bank of San Francisco.

The Management Committee is the Bank’s top policy group. Its members include President Balles, First Vice President John B. Williams, Senior Vice President Kent O. Sims (District Departments) and Senior Vice President John J. Carson (Corporate Staff).

Grant is responsible for all automation services for the Bank’s five offices throughout the West. He joined the Reserve Bank’s staff in 1968, and has served in a number of areas involving research and computer-services activities.

Grant graduated from the University of California at Berkeley, receiving a B.S. degree in computer sciences. He has been actively involved in the Fed’s electronic-funds transfer efforts for a number of years, and serves on several Federal Reserve System committees.

MCA IMPLEMENTATION PROGRESSING SMOOTHLY

The Federal Reserve System has received a Congressional mandate to implement the Depository Institutions Deregulation and Monetary Control Act of 1980. To ascertain how this mandate is being carried out in the San Francisco (Twelfth) District, this publication conducted an interview with David J. Christerson, director of the District’s MCA Project Team. The first part of this two-part interview follows below.

Under the Monetary Control Act (MCA), the Fed finds itself dealing with many more depository institutions than it ever did before. What has the Federal Reserve Bank of San Francisco done to meet this new challenge?

One of the first things we did was to form an MCA Project Team to oversee implementation of this historic legislation throughout our nine-state district. That team includes 11 persons, mainly planning analysts. On a higher management level, we established an MCA Policy Committee chaired by the Bank’s First Vice President, John B. Williams, and including other senior Bank officers and the manager of the MCA Project Team. The Committee meets weekly to review various policy, operational, and planning proposals, as a means of insuring that all mandated applications under the MCA are being implemented smoothly in the nine western states. Finally, the Bank formed an MCA Advisory Group of 12 members, with equal representation from savings-and-loan associations (including mutual savings banks), credit unions, Federal Reserve member banks, and nonmember banks. This panel advises Bank management on various issues associated with MCA implementation.

The San Francisco Fed also has an MCA coordinator in each of its four branch offices, does it not?

Yes. That individual’s principal duty is to support the Districtwide effort by coordinating MCA implementation in each branch region. Each coordinator acts as liaison between the MCA Project Team and branch management and user departments. The four coordinators prepare operational-and budgetary-impact assessment reports, develop implementation plans, and coordinate the overall MCA effort at the branch offices.

Generally, how has the Fed managed to deal with this new group of reporting institutions?

First we had to identify and then obtain a better understanding of the new financial industries and institu-
MCA IMPLEMENTATION PROGRESSING SMOOTHLY
(Continued from page 1)

tions with which we would be working—while they had to obtain a better understanding of the Federal Reserve System. This meant opening a line of communication, which we did through our Outreach sessions in October 1980. After Outreach, we had to deal with the more technical side of the Act itself—the extension of reserve requirements to all depository institutions with transaction accounts and nonpersonal time deposits. This meant developing a series of technical seminars to inform institutions about reporting and reserve maintenance. Institutions with $15 million or more in total deposits began reporting on a weekly basis in November 1980. Smaller institutions with deposits between $2 million and $15 million started to report quarterly in January and began to maintain reserves in March 1981.

How has implementation of MCA affected the Fed’s operations departments?

Operating departments have been affected by three major events. First, on December 31, we opened access to our local Regional Check Processing Centers (RCPCs) throughout the District. On that date, all depository institutions with reserve requirements became eligible to deposit RCPC items at our District offices. On January 29, we opened access to, and began pricing, our wire-transfer and net settlement services. Our introduction into priced services has proceeded smoothly. An institution using wire-transfer and net settlement services, under our interim billing system, now receives a service-charge notification statement the day after it uses the service, and then an actual charge to its designated bank account on the following day.

Otherwise, how are things progressing in this new era of Fed relationships with all depository institutions?

Well, when you consider the magnitude of the Act, you’ll find that our District has done a very good job in meeting the Act’s challenges. Remember, the San Francisco Fed on passage of the Act, found itself dealing with 4,200 additional depository institutions nearly overnight. In looking back, I think our most difficult task involved implementing weekly reporting for institutions with over $15 million in deposits. This was our first real operating experience with these new reporting institutions. However, through a lot of hard work around the District by our Computer Services and Reserve Accounting departments, and by our Statistical and Data Services Department in San Francisco, we were able to meet our reporting deadlines and establish the necessary account relationships. After the experiences gained with the weekly reporters, reporting and reserve maintenance for the quarterly reporters went very smoothly.

How many institutions are now reporting and maintaining reserves?

There are 1,083 institutions with $15 million or more in total deposits reporting reserves on a weekly basis, and 766 smaller institutions ($2 million to $15 million in deposits) reporting reserves on a quarterly basis. Of that total, approximately 350 institutions are currently maintaining reserve accounts directly with the Fed.

What is the status of reporting requirements for those institutions with under $2 million in deposits?

The Board of Governors has deferred until November 1981 the reporting and reserve-maintenance requirements for nonmember depository institutions under $2 million in deposits. (Earlier this month, the Board extended the deferment from May through October.) A permanent exemption would require legislation, and the Board has indicated that it may recommend that Congress give serious consideration to a permanent exemption for smaller depository institutions.

Has the Fed overcome the major obstacles to MCA implementation?

Our major initial obstacle was knowing how to relate to a much-enlarged group of reporting depository institutions. To facilitate an understanding of the Monetary Control Act, the Bank conducted an extensive two-phase orientation effort for these institutions. I believe these sessions were very helpful in “breaking ice” and triggering what I now regard as effective communications between the Fed and this larger group of reporters.

FED CONSIDERS NOW ACCOUNT ELIGIBILITY

The Federal Reserve Board of Governors has proposed an interpretation of its rules to clarify what depositories are eligible to hold interest-bearing checking accounts at Fed member banks. The Board asked for comments by June 15.

The proposed interpretation would affect eligibility for Negotiable Order of Withdrawal (NOW) accounts, which depository institutions nationwide began offering at the first of this year. The Board’s proposal would preclude the need for Board review of numerous individual questions of eligibility.

Under the proposed interpretation, the following would be eligible to establish NOW accounts at member banks:

- Individuals, if the funds are not used primarily for business purposes.

- Non-profit organizations eligible for tax exemption under specified sections of the internal revenue code.

- Government units, if the funds are used for the purposes of schools, colleges, universities, libraries or hospitals.
FED LAUNCHES CHECK PRICING IN AUGUST

Open access to the check-clearing and collection services of the Federal Reserve System will begin next August 1 for all depository institutions. Paving the way for the inauguration of this new nationwide service, the Federal Reserve Board of Governors has set a schedule of fees for various cash items to reflect 1981 estimated costs plus a 16-percent adjustment to match private-sector charges.

The check fees have been rounded to the nearest one-hundredth of a cent per item. There is also a national surcharge of 0.64 cents per item for all consolidated shipments, instead of separate fees for each shipment destination. (A consolidated shipment consists of separate cash letters drawn on depository institutions in one Federal Reserve territory but arriving from another Fed office.) The surcharge will be added to the fee for direct deposits at the Federal Reserve office collecting the items.

Each depository institution is responsible for arranging and paying for the shipment of checks to its local Federal Reserve office. The Federal Reserve is then responsible for arranging and paying for the transportation of checks between Fed offices and paying institutions.

To assist depository institutions in reconciling service charges, the Federal Reserve Bank of San Francisco will calculate all charges for cash letters on the basis of volume counts reported by those institutions. The number of items included in each cash letter will be listed on the face of the cash-letter advice near the depositor’s nine-digit routing transit number. Item counts will be mandatory for all cash letters deposited after May 15, 1981.

As of last December 31, the Board of Governors authorized open access to the Fed’s Regional Check Processing Centers (RCPCs) for all nonmember depository institutions. Access to other check-clearing services will begin August 1.

In July, depository institutions will participate with Fed district offices in a "mock" billing of check services. Tests will probably cover a minimum of two billing cycles.

The Board has approved separate pricing for checks which cannot be processed on high-speed readersorter equipment because of being mutilated or altered to prevent computer processing. The fee for such a non-machinable cash item will be 7.99 cents. Such items may not be mixed with other types of cash letters.

The Federal Reserve Bank of San Francisco plans to use the same fee structure for all of its five offices—San Francisco, Los Angeles, Portland, Salt Lake City and Seattle. Pre-sorted packages containing checks drawn on only one depository institution in an individual Federal Reserve office’s territory will cost 0.58 cents per item for processing.

Depository institutions submitting items to their local Federal Reserve office on other institutions will be charged fees of 1.71 cents per RCPC item and 1.54 cents for each "city" item. City checks are drawn on financial institutions located in an area designated as a city-check clearing zone by the collecting Federal Reserve office, while RCPC checks are drawn on institutions located elsewhere.

Cash letters containing checks drawn on depository institutions located in other Federal Reserve territories will cost 4.12 cents per item for processing. The fee for a "mixed" cash letter will be 1.71 cents. (Mixed cash letters contain un-sorted city and RCPC checks, and may also contain checks drawn on depository institutions in other Federal Reserve territories.) At present, only depository institutions with less than 5,000 items to be collected each day (on the average) are eligible to deposit mixed cash letters at a local Federal Reserve office.

The Monetary Control Act of 1980 requires the Federal Reserve System to recover the cost of float. The System is now considering several pricing alternatives in this area.

Example of Check Collection Between Federal Reserve Offices

Traveler from New York

charge against account

cancelled check

charge to FRB account

presents cash letter

optional Direct Send cash letter

interdistrict cash letter

New York Federal Reserve Bank

Shop in San Francisco

deposits cash letter

credit to account

deposits check

credit to FRB account

interdistrict credit

San Francisco Federal Reserve Bank
CERTIFICATE RATES TAKE EFFECT EARLIER

The Depository Institutions Deregulation Committee has advanced, from Thursday to Tuesday, the effective date each week of the interest-rate ceilings on 26-week money-market (MMC) and 30-month small-saver (SSC) time deposits. The MMC rate ceilings are tied to the rate determined at the weekly Treasury-bill auction. The SSC rate ceilings, which change every other week, are based on the yield curve for outstanding Treasury securities of 30-months' maturity.

The committee took the action in response to institutions' request to eliminate the two-day lag between announcement of the certificates' ceiling rates after Monday's T-bill auction and the effective date of the new certificates. The change became effective April 7 and every subsequent Tuesday for 26-week certificates; and April 14 and every other subsequent Tuesday for the 2½-year certificates.

If a Treasury-bill auction is held on a Friday, the certificate interest-rate ceilings become effective the following day (Saturday).

Currently, commercial banks, mutual savings banks and savings-and-loan associations may pay 0.25 percent above the Treasury-bill rate for the money-market certificates, which involve a $10,000 minimum deposit. Different ceilings apply when the T-bill rate falls below 8.75 percent.

For the small-saver certificates, commercial banks may pay 0.25 percent below the average 2½-year yield for Treasury securities, and thrifts may pay 0.25 percent more than banks, up to a maximum of 11.75 percent and 12.00 percent, respectively. Also, floors exist for the SSC ceilings, so that they will not drop below 9.25 percent for banks and 9.50 percent for thrifts.

Depository institutions may obtain information concerning the new ceilings at the following Federal Reserve Bank telephone numbers, commencing at about 4 p.m. Pacific Time every Monday:

<table>
<thead>
<tr>
<th>Location</th>
<th>Phone Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Francisco</td>
<td>(415) 544-2477</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>(213) 683-8357</td>
</tr>
<tr>
<td>Portland</td>
<td>(503) 221-5928</td>
</tr>
<tr>
<td>Salt Lake City</td>
<td>(801) 322-7911</td>
</tr>
<tr>
<td>Seattle</td>
<td>(206) 442-1650</td>
</tr>
</tbody>
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For institutions located in Arizona, Alaska and Washington, the following toll-free numbers may be dialed: Arizona: (800) 421-8286; Alaska: (1-800) 426-0666; Washington: (1-800) 552-7244.

FED PROPOSES CHANGE IN WEEKLY REPORTING

The Federal Reserve Board of Governors is examining possible alternatives to its weekly reporting of nationwide money-supply figures.

In a recent letter to Sen. Jake Garn, chairman of the Senate Banking Committee, and former Banking Committee chairman William Proxmire, Reserve Board Chairman Paul A. Volcker said weekly money-supply statistics are "erratic and often poor indicators of underlying trends."

Volcker listed several possible alternatives:

- Delaying weekly publication an additional seven days to incorporate more data;
- Publishing only raw data without seasonal adjustments;
- Publishing money-supply data only once a month, or publishing averages of several weeks' data each week.

The Board is accepting public comment on whether to maintain its present policy of weekly reporting or to change its policy to some other alternative. Comments should be sent to Thomas D. Simpson, Banking Section, Division of Research and Statistics, Federal Reserve Board of Governors, Washington, D.C. 20551.