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Federal Reserve Notes

FEDERAL RESERVE BANK OF SAN FRANCISCO • May 1981

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SAN FRANCISCO FED CREATES NEW MCA ARM

The Federal Reserve Bank of San Francisco has made some organizational changes aimed at improving its relationships with depository institutions under the Monetary Control Act.

Effective June 1, a new Financial Services Department will begin developing and pricing the various operating services offered by the Reserve Bank to financial institutions. Heading the new department will be David J. Christerson, who presently is director of the Monetary Control Project Team for the San Francisco Federal Reserve District.

The present staff of the Bank's Business and Community Relations Department will become a part of the Financial Services unit.

The new department will be responsible for price administration, service relations, and the planning and development of additional Fed services.

As part of the departmental restructuring, Maureen Shields was appointed Financial Services officer. Serving previously as manager of price administration, she will be responsible for the District's overall product planning and price administration functions.

"This new organizational structure will carry the San Francisco Fed to step two in the MCA implementation process," said Christerson. "It provides us with an organization that will be dedicated to working with our priced services and our present and prospective users of those services."

It is anticipated, adds Christerson, that the Financial Services Department eventually will supplant the Bank's MCA Project Team, which was organized last year to launch implementation of the Monetary Control Act in the San Francisco Reserve District.

The new department will coordinate the activities of MCA field-service representatives at the Bank's offices in Los Angeles, Portland, Seattle and Salt Lake City.

S.F. FED HOLDS REG Z SEMINARS

The Federal Reserve held two seminars in San Francisco in early May, to provide creditors and regulators with information on a major revision of the Fed's Regulation Z, "Truth in Lending".

Conducting the educational seminars were two staff members of the Federal Reserve's Board of Governors—Lori Luck, a review examiner, and Jesse Filkins, an attorney. Representing the Federal Reserve Bank of San Francisco as seminar host was David Vandre, the Bank's manager of consumer affairs.

Nearly 400 persons attended the seminar for creditor institutions, while about 50 examiners and other supervisory-agency staff attended the separate seminar for regulators. Agencies represented included the Federal Home Loan Bank of San Francisco, the Federal Deposit Insurance Corporation, the Office of Comptroller of the Currency, the National Credit Union Association, and the San Francisco Fed.

The Federal Reserve has been working on the Reg Z simplification project for approximately four years. Though the new regulation became effective April 1, creditors have the option of continuing to comply with the existing regulation until March 31, 1982. This will allow time for creditors to become familiar with the new regulation and the new model disclosure forms, and to reprogram computers and retrain personnel.

Meanwhile, the Federal Reserve Board's staff is seeking comments through July 10 on the revised Regulation Z. This commentary will replace the more than 1,500 individual interpretations that the Board's staff had written under the former regulation. Copies of the proposed commentary are available from the Corporate Services Department of the Federal Reserve Bank of San Francisco (415-544-2262).

The Board's staff reviewed thousands of pages of comments from creditors and other interested parties. The simplified rules for disclosure of borrowing costs are designed to aid both consumers and creditors. The revised regulation approaches the disclosure of essential credit information in a straightforward manner, and reduces the number of technical disclosure burdens required of creditors for compliance. It should benefit consumers

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MCA DIRECTOR EXAMINES SERVICES

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 District, we conducted a two-part interview with David J. Christerson, director of the District's MCA Project Team. The first part of the interview ran last month, and the second part follows:

Wire transfers were the first Fed services to be priced and made available to all depository institutions. How are things working out in this area?

Open access to all depository institutions for our priced wire-transfer services commenced January 29, 1981. Prior to that, the Fed developed and fully tested the billing system and operational procedures with some mock runs, to ensure that we had a workable system in place. The wire-transfer service is now fully operational, and we do not foresee any major operating problems. I might add that the volume of transfers increased about 15 percent between February 1980 and February 1981. While we have historically projected a 10-to-15-percent annual growth rate in wire transfer volume, our February 1981 increase in volume is an indication of service acceptance by users in our District.

How are things progressing for the offering of the Fed's check services on August 1?

Right now, we are modifying our check-collection and clearing systems to include billing data. Fees for our check services will be based on the number of items and types of checks processed—i.e., city, regional (RCPC) or non-machineable. Each depository institution will be responsible for reporting volume on incoming cash letters. We are also developing our Phase II billing system around the Reserve System's billing standards. When we convert to the system on August 1, we will begin to bill for all services on a monthly basis. On July 2, 1981 a district-wide billing test will be conducted with depository institutions currently using our wire-transfer, net-settlement, automated-clearinghouse or check services. A minimum of two compressed billing cycles will be tested over a two-week period.

How about access to Fed services by smaller institutions which have a very small or no clearing balance on the Fed books?

Very few nonmember institutions will have to post reserves at theSan Francisco Fed to meet reserve requirements during the first year of the phase-in. Therefore, almost all small nonmember institutions wishing direct access to Fed services will need to open a clearing account, or arrange for entries to be posted to the account of another institution to pay for Fed services. Small member banks, which meet their reserve requirements with vault cash, will be affected in the same way.

How is the Reserve Bank's new MCA Advisory Group working out?

This panel represents the entire spectrum of depository institutions, from member commercial banks to nonmember banks, mutual savings banks, savings-and-loan associations and credit unions. We have received a lot of valuable input from the 12 persons serving on this panel. They have given us a chance to talk with representatives of the various financial industries affected by the MCA, regarding Fed services, monetary policy and regulatory issues. They have given us a good understanding of how new developments are affecting their respective industries. Topics discussed during our three meetings thus far have ranged from discount-window access to money-market mutual funds.

What is the Depository Institutions Deregulation Committee (DIDC)?

Established by the MCA, the DIDC consists of five voting members—the Secretary of the Treasury and the Chairmen of the Federal Reserve Board of Governors, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the National Credit Union Association. The Comptroller of the Currency is a nonvoting member. The Committee has the authority to prescribe rules governing the payment of interest and the establishment of classes of deposits or accounts, including limitations on the maximum rates of interest that may be paid. The DIDC is required to 1) provide for the orderly phase-out and ultimate elimination of interest-rate ceilings as rapidly as economic conditions warrant, 2) work toward providing depositors with a market rate of return with due regard for the safety and soundness of depository institutions, and 3) increase all interest-rate ceilings to market rates as soon as feasible, but not increase ceilings above market rates during the six-month period beginning March 31, 1980.

What major actions has the DIDC taken?

—Ruled that ceiling rates on money-market certificates will continue to be established by the results of the weekly Treasury auction of six-month bills;

—Revised terms on ceiling rates for small-saver certificates by establishing minimum ceiling rates of 9.25 percent for banks and 9.50 percent for thrifts, but leaving unchanged the existing "cap" of 12 percent for thrifts and 11¾ percent for banks;

—Ruled that the penalty for withdrawal of funds from a time deposit before its maturity will be an amount equal to three months simple nominal interest when the original maturity is one year or less, and six months simple nominal interest when the original maturity is longer—which means that (unlike the earlier rule) the penalty could require a reduction in the principal sum of that account;

—Ruled that the minimum required penalty for early withdrawal of funds from an IRA or a Keogh Plan account within seven days of establishment of the account may not exceed interest earned to the time of withdrawal;

—Ordered an 18-month phaseout period for finders' fees paid by de-

REG Z SEMINARS

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by making disclosure forms shorter and easier to understand.

In the past decade, surveys indicated that the Truth in Lending law heightened consumers' awareness and understanding of the cost and terms of consumer-credit transactions. However, surveys also indicated that the regulation imposed highly complex and technical requirements on creditors, produced disclosures that sometimes obscured important information for consumers, and generated costly and burdensome litigation over technical interpretations of the regulation. The simplified regulation is aimed at eliminating these pitfalls.

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pository institutions to attract small-denomination (under $100,000) time-and-savings deposits.

—Established a 5¼-percent ceiling rate of interest on NOW accounts, to apply to all types of depository institutions authorized to issue such accounts;

—Set a ceiling rate of interest of 5¼ percent on the new category of "14-90 time accounts" (accounts under $100,000 with original maturities of 14-90 days) for Fed member banks;

What major proposals is the DIDC now considering?

—To remove the 12-percent and 11¾-percent caps on the maximum interest rates that thrifts and banks may offer, respectively, on small-saver certificates, although continuing to tie the rate ceiling to the yield on 2½-year Treasury securities;

—To deregulate rate ceilings on a set schedule, applied to deposits with maturities of five years or more on July 1, 1981; deposits with maturities of four to five years on July 1, 1982; deposits with maturities of two to four years on July 1, 1983; deposits with maturities of one to two years on July 1, 1984; deposits with maturities of six months to one year on July 1, 1985; and eliminating all remaining ceilings (as required by law) on July 1, 1986.

Steel work on the new 12-story headquarters building of the Federal Reserve Bank of San Francisco was completed in mid-May. The $84-million structure is expected to be ready for occupancy in the final quarter of 1982.

SMALL INSTITUTIONS GET DEFERRAL

The Federal Reserve Board of Governors has deferred, from May to November, the imposition of reserve requirements for nonmember depository institutions with less than $2 million in total deposits. In addition, the Board indicated that it may seek authorization from Congress to exempt these smaller depository institutions on a permanent basis.

Under the Monetary Control Act of 1980, all depository institutions offering transaction (check-type) accounts or nonpersonal time deposits became subject to reserve requirements. Originally, in order to lessen the reserve-maintenance and reporting burden of small institutions, the Board had deferred until May 1981 the imposition of reserve requirements for institutions with less than $2 million in deposits. This deferral now has been extended another six months.

However, previously deferred institutions whose deposits grew to at least $15 million by the end of 1980 must begin to report deposits for the seven-day reserve computation period beginning May 21, and maintain reserves during the seven-day period starting June 4.

Affected by the deferral are approximately 18,000 depository institutions nationwide, most of them credit unions. These institutions are estimated to hold one-half of one percent of all deposits.

Federal Reserve Notes is produced by William Burke, Ron Supinski and Karen Rusk. The publication is distributed to depository institutions by the Public Information Section, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, California, 94120.
Phone (415) 544-2184

Federal Reserve Bank of San Francisco
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FEDERAL RESERVE AMENDS REGS Q AND D

The Federal Reserve Board of Governors has amended its Regulations D and Q, which set reserve requirements and interest-rate ceilings, to include deposits of less than $100,000 by U.S. residents held in foreign branches of U.S. banks.

The Board ruled that, effective May 14, funds held abroad by U.S. residents will be exempt from U.S. rate ceilings only if they are in accounts of $100,000 or more. The ruling, in effect, means that San Francisco-based Bank of California would have to abandon its plan to pay U.S. depositors fluctuating, double-digit interest rates on its new Money Market Plus account. The plan required a minimum opening deposit of $10,000 held by Bank of California in a special account at its London branch.

The Board said the Money Market Plus account must comply with Regulation Q, which sets a ceiling of 5.25 percent on 14-day time deposits or NOW accounts in domestic bank branches, and Regulation D, which imposes reserve requirements on domestic bank deposits.

"The Board believes that the Money Market Plus account serves no purposes other than as a device to evade Regulations D and Q," said the Board in a letter to BankCal officials. "The account does not facilitate the conduct of the foreign branch's or the customer's foreign business, and the depositor has no interest in maintaining funds in a foreign branch other than as a device to obtain a rate of interest in excess of Regulation Q ceilings."

Prior to the Board's action, bank funds held in foreign branches and payable only outside of the U.S. were not subject to either of the regulations.

In considering the matter, the Board noted that the purpose of foreign branches of U.S. banks is to conduct an international business, "and not to function as a substitute for domestic banking facilities."

The Board added that such plans as the Money Market Plus account present "potential adverse implications for the flow of funds among depository institutions, and provide an unfair competitive advantage to U.S. banks with foreign offices relative to depository institutions that do not maintain foreign branches."

The Board noted that Congress intended that rate ceilings on deposits of less than $100,000 should continue until April 1, 1986, "unless eliminated sooner by the Depository Institutions Deregulation Committee (DIDC)." But it added that the DIDC may consider the possibility of creating new deposit instruments, to enhance the ability of U.S. depository institutions to compete with nondepository institutions in the fast-growing area of money-market funds.

LIMITS ON INSURANCE SALES

Employees, officers, directors and others associated with a state member bank generally should not profit personally from the sale of life insurance in connection with bank loans, according to a new Federal Reserve policy statement.

The policy permits crediting income from insurance sales to an affiliate of the bank that is operating under the Bank Holding Company Act, providing the state member bank receives "reasonable compensation" for its role in selling the insurance.

Under the new policy, state member banks may allow their employees and officers to participate in insurance income, under a bonus or incentive plan not to exceed 5 percent of the recipient's annual salary. The policy statement calls for compliance within two years, except in cases of clearly demonstrated hardship.

The Federal Reserve adopted this policy at the recommendation of the Federal Financial Institutions Examination Council, coordinating body for Federal regulatory agencies.