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FEDERAL RESERVE BANK OF SAN FRANCISCO

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DEREG PANEL ADOPTS PHASE-OUT SCHEDULE



Herman C. Bradley Jr.

NEW FED DIRECTOR AT PORTLAND BRANCH

Herman C. Bradley Jr., president and chief executive officer of the Tri-County Banking Company of Junction City, Oregon, has been appointed a director of the Portland branch of the Federal Reserve Bank of San Francisco.

A native of Prineville, Oregon, Bradley fills the unexpired term of Merle G. Bryan, a bank executive from Forest Grove. Directors of the Federal Reserve Bank of San Francisco appointed Bradley, 50, whose term runs through December 31, 1982.


Except for a stint with the U.S. Air Force during the Korean conflict, Bradley has spent his entire adult life in banking, starting as a teller trainee after graduation from University High School in Eugene. He later graduated from the Pacific Coast Banking School.

He is chairman of the State Chartered Banks of Oregon and a board

The Depository Institutions Deregulation Committee, at its June 25 meeting, adopted major changes in its schedule for phasing-out bank and thrift-institution deposit-rate ceilings. The committee was created by Congress last year to implement the Depository Institutions Deregulation and Monetary Control Act of 1980.

The committee lifted, as of August 1, the current ceiling on 2½-year "small-saver certificates." The rate will remain tied to the rate on Treasury securities of comparable maturity, but without the present cap of 11¾ percent for banks and 12 percent for thrifts. (There is no cap on Individual Retirement Account, Keogh Plan, or governmental deposits.) Under the DIDC ruling, however, thrifts would be able to retain their current ¼-percentage-point differential over bank rates. Additionally, the committee removed completely the rate ceiling for accounts maturing in four years or more.

On August 1, 1982, ceilings would be eliminated for accounts maturing in three years or more. Interest rates on deposits maturing in two to three years would be tied to the rate on two-year Treasury securities, with the thrift-bank differential kept intact.


member of the Pacific Coast Banking School. In addition, Bradley is an executive council member of the Tri-County Rotary Club of Junction City, and a member of the Oregon Bankers Association, Junction City Chamber of Commerce, Eugene Country Club and Aircraft Owners and Pilot Association. 

On August 1, 1983, ceilings would be eliminated on accounts maturing in two years or more. Rates for deposits maturing in one to two years would be tied to the one-year Treasury rate, without any thrift-bank differential.

On August 1, 1984, ceilings would be eliminated on accounts maturing in one to two years. Rates for deposits maturing in less than one year would be tied to the comparable Treasury rates without any differential.

On August 1, 1985, ceilings would be removed from accounts that mature in less than one year, except for passbook-savings accounts. Under the law, all rate ceilings would be removed the following April.

The committee making these decisions consists of the Secretary of the Treasury (this year's chairman), 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, along with the nonvoting Comptroller of the Currency.

Separately, the Senate Finance Committee and the House Ways and Means Committee voted in late June to authorize issuance of one-year, tax-exempt certificates by the hard-beset thrift industry. The House version would link the issuance of certificates to the amount of new residential mortgages made by any institution, but the Senate version would not require any such restriction. 

ACCESS TO FED'S ACH SERVICES TO BEGIN AUGUST 1

This article is another in a series highlighting Federal Reserve operations and services. This month, the Automated Clearing House (ACH) operation is featured. This service becomes available on August 1 to all depository institutions as part of the provisions of the Depository Institutions Deregulation and Monetary Control Act of 1980.

In an effort to reduce the growth of the paper-based check system, the Federal Reserve is playing a central role in encouraging development and operation of the nationwide automated clearing-house system. ACHs provide an electronic means to exchange paperless debit and credit entries among financial institutions for customer accounts. ACH services are not offered directly to the public or to corporations.

Automated clearing houses were established early in the 1970s as a means of clearing of local items, and these local systems eventually were connected to form a nationwide network. In the meantime, the number of checks written in the decade of the '70s increased 73 percent to more than 32 billion per year. Check usage should slow substantially over time, however, as the total of ACH-processed items increases above its present total of approximately 234 million a year.

Federal Reserve Banks operate all but one of the 32 automated clearing-house facilities in the United States. ACH associations maintain the legal and operating framework necessary for ACH facilities to accomplish the necessary exchanges of funds. These associations provide educational, operational and technical support to financial institutions.

ACH services can accommodate a wide range of transactions, such as direct deposit of payrolls, bill paying, and recurring government payments. U.S. Government transactions presently account for a major percentage of ACH usage, because the U.S. Treasury has made a concerted effort to maximize its use of ACHs for direct-deposit transactions such as social-security pay-

ments. Commercial use of clearing-house facilities is still under development, so that commercial transactions account for only about one-quarter of total ACH volume.

Access and Pricing

The Federal Reserve will provide expanded access to ACH services on August 1, 1981. Charges for these services normally will be levied against the party originating an ACH debit, and against the receiver of an ACH credit. The charge for each service includes receiving, sorting, reconciling, settling and delivering of both debit and credit transactions. Charges will be uniform nationwide and based on the destination of individual items. Charges will not be levied upon receivers of government electronic payments. Additional service charges may be levied against any institution which requires special deliveries outside its local Federal Reserve service territory.

To institute a credit or debit system, a prenotification must be run to insure that the billing process will work and all information is accurate. The billing office or creditor sends a zero dollar amount through the ACH process to the receiving financial institution. If the latter cannot identify the customer or discovers inaccurate information, the prenotification must be returned to the ACH immediately. The ACH must then forward the prenotification to the originator so that errors can be corrected by the billing office.

ACH Delivery

An *originating* financial institution must transmit ACH files to the processor either by computer link or manual delivery of magnetic tapes in the format defined in the Operating Rules of local ACH associations.

The ACH will deliver entries to a *receiving* financial institution or a pre-designated processor. This may be done at the receiver's option, either through computer links or through the physical delivery of magnetic tapes or paper listings. The long-

term objective of this procedure is to reduce reliance on manual delivery.

Credit Services

Large companies, or companies with multi-state operations, increasingly are using ACH payroll-credit services to reduce work volume and operating costs. Employees can benefit from having a depositing service because of the built-in security from lost or stolen checks, and the timely deposit of paychecks.

In order to use an ACH facility to deposit its payroll, an employer need only provide payroll data to its own bank of account; its employees can maintain their accounts at the financial institutions of their choice. Employees with authorized automatic deposits can cancel authorization of this direct-credit procedure at any time.

To activate a credit entry, the employee must sign an authorization form permitting the employer to deposit a wage, pension or other source-of-income credit into a designated account. A few days before the actual date of payment, the employer enters all credit information on a magnetic tape and forwards that tape to the employer's financial (originating) institution.

The originating institution extracts data from the tape regarding receivers with accounts at that institution. It then records all remaining entries on another magnetic tape, along with credit and debit entries from other depositors, and forwards the tape to the local ACH facility. That local facility consolidates all such tapes and transmittals from ACH outlets in other Reserve Bank territories, and after balancing and validating, sorts them for distribution to the appropriate receiving institutions. The data for each receiving institution are prepared for delivery on magnetic tape, paper listings, or via electronic transmission.

Debit Service

Institutions handle debits in much the same way as credits. The billing company sends a magnetic tape with debit entries to its financial in-

VOLCKER PROPOSES MONEY-FUND RESERVES

Federal Reserve Chairman Volcker asked Congress on June 25 for authority to impose reserve requirements on money-market funds that provide transaction (check-type) services. Under this proposal, money-market funds would have to set aside in noninterest-bearing reserves a certain portion of their check-type deposits, similar to the reserves required on transaction and nonpersonal time deposits of banks and thrift institutions.

The Fed chairman said that, under this plan, money-market funds would probably segregate checking from other deposits. People wishing to write checks on their fund balances would then receive a lower yield, since part of these balances would be in noninterest-earning reserves. Others who don't use such check-writing services wouldn't be affected, he added.

"The approach I am proposing is designed to provide a framework for fair competition between money-market funds and established depository institutions over time, to protect against erosion in our ability to measure and control the money stock, and to maintain attractive

stitution which, in turn, forwards the data to the local ACH. This service is most commonly used for regularly scheduled bill payments, such as insurance premiums, loan payments, utility bills or rent payments.


Customers may choose among three types of debit services—preauthorized bill payment, one-time authorization, and customer-initiated entries. A preauthorized bill payment involves a debit which recurs at regular intervals and does not vary in amount, such as insurance premium payments. One-time authorization allows a billing company to debit a customer's account for payments which recur at a periodic rate, but which may vary in amount, such as utility bills.

Return Items

When posting ACH items to customers' accounts, receiving financial institutions occasionally encounter

incentives for savings," Volcker explained.

Speaking on the same day at a meeting of the Depository Institutions Deregulation Committee, Volcker proposed considering a new thrift-institution saving vehicle—a 90-day account that would pay a market rate, require a \$10,000 minimum deposit, and require a week's notice on withdrawals. The panel didn't make a decision on that proposal, but it decided to consider another proposal for improving the thrifts' competitive position against money-market funds—the calculation of six-month certificate rates on the basis of a moving average of six-month Treasury-bill rates.

Currently, the institutions adjust the certificate rate each week according to the most recent rate set at the Treasury's weekly bill auction. But under this system, certificate rates fall more rapidly than money-market fund rates whenever market interest rates decline. The proposed approach would help depository institutions stay competitive with money-market funds during such periods. 

entries for closed accounts or for accounts containing insufficient funds. These items should be returned on paper or transmitted electronically to the local Federal Reserve office—ACH facility. Returns must be submitted by midnight of the business day following the day of receipt. The Federal Reserve—ACH facility, upon receipt, makes proper settlement entries for the total of return items. The ACH sorts the return items and returns them to originating financial institutions for resolution.

Detailed information on the Fed's ACH services can be obtained by contacting the following ACH departments:

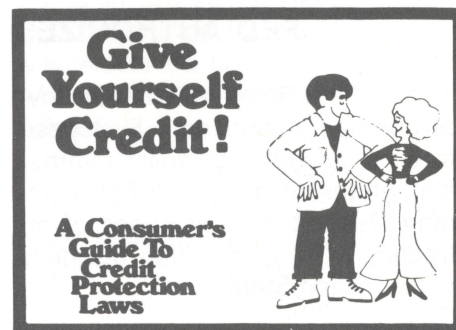
San Francisco	(415) 544-2298
Los Angeles	(213) 683-8354
Portland	(503) 221-5950
Salt Lake City	(801) 355-3131
Seattle	(206) 442-1668

CONSUMER BOOKLET RELEASED BY SF FED


The Federal Reserve Bank of San Francisco has published a new consumer's guide to credit-protection laws titled "Give Yourself Credit!"

The 40-page booklet can assist potential borrowers looking for a loan, as well as creditors who want to improve their customers' understanding of credit transactions. It discusses the meaning of credit, what determines creditworthiness, and what a person's legal rights are when he or she applies for credit.

The booklet's text follows two typical loan applicants through several credit transactions they are apt to encounter. These include applications for credit cards, auto loans, home-mortgage loans and home-improvement loans.



The illustrated booklet contains a typical credit-application form, truth-in-lending disclosure statement, bank credit-card statement, credit-denial statement and residential-loan application form. Included in the booklet is a glossary containing more than 40 definitions of common credit terms.

Single copies of "Give Yourself Credit!" can be ordered from Jana Henkel in the Consumer Affairs Department at the Federal Reserve Bank of San Francisco, P. O. Box 7702, San Francisco, CA 94120. Phone (415) 544-2765. Bulk orders will be individually considered based on the available supply. 

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FED AUTHORIZES IBFs FOR U.S. BANKS

The Federal Reserve Board of Governors has authorized U.S. depository institutions to establish international-banking facilities (IBFs) beginning December 3, in hopes of attracting offshore-banking business to the United States.

The Fed will permit IBFs to engage in international banking free of the domestic reserve requirements of Regulation D and the interest-rate limitations of Regulation Q. Because of those regulations, many U.S. financial institutions had set up branches outside the mainland—primarily in the Caribbean and London—to compete in international markets.


The Board said that IBFs would be allowed to offer time deposits and extend credit to foreign residents, foreign banks, other IBFs, and parent institutions of IBFs. Advances by an IBF to U.S. offices of its parent institution would be subject to the reserve requirement on Eurocurrency liabilities of the U.S. office. IBF loans and deposits could be either in dollars or in foreign currencies.

Minimum deposits and withdrawals would be set at \$100,000, down

from the original proposal of a \$500,000 minimum. Holders of IBF deposits would be required to give at least two days' notice of intentions to withdraw from IBF accounts.

In approving the proposal, the Board said that it intends to limit IBF accounts to international banking, so they would not be used to evade controls on domestic banking. According to the policy statement:

"The Board expects that, with respect to nonbank customers located outside the United States, IBFs will accept only deposits that support the customer's operations outside the United States and will extend credit only to finance the customer's non-U.S. operations. Deposits should not be used as a means of circumventing interest-rate restrictions or reserve requirements."

IBFs will be subject to the same examination and supervisory procedures applying to other operations of parent institutions. The Board may require special reports from IBFs for monitoring monetary and credit conditions and for other purposes. 

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FED SEEKS COMMENTS ON OPTIONS MARGINS

The Federal Reserve Board of Governors is seeking comments on proposed Regulation T amendments concerning margin requirements for trading of options on government-debt issues. Affected would be margin requirements for options contracts on Government National Mortgage Association (GNMA) securities approved for trading on the Chicago Board Options Exchange, and for options contracts on Treasury bills, notes and bonds proposed for trading on the New York and American stock exchanges and the Chicago Options Exchange.

Comments, which should refer to Docket No. R-0082, may be mailed to the Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551.

Meanwhile, the Board said it will prohibit the holding of foreign currency in securities' margin accounts beginning July 13. Margin accounts are the cash that investors must produce when buying stock. Fed rules require that these cash deposits equal at least 50 percent of the stock's value. 