SMITH, DUGAN TAPPED FOR VICE PRESIDENT

The Federal Reserve Bank of San Francisco has promoted W. Gordon Smith to vice president of Credit and Consumer Affairs, and has named Ed Dugan vice president of Computer Operations.

Smith supervises discount-window activities, consumer-affairs regulations, and securities-credit regulations at the Bank's five offices. He joined the Bank in 1968 and assumed responsibility in 1977 for Credit and Consumer Affairs. In the interim, he served in several positions, including administrative assistant to a Federal Reserve Board member in Washington and Assistant General Counsel at the San Francisco Fed.

A graduate of the University of Texas at El Paso, Smith received his law degree from Golden Gate University Law School. While there, he was a member of the school's Law Review staff.

Dugan has rejoined the San Francisco Fed, where he served as manager of computer operations from 1975 to 1977. He succeeds Hector M. Martin, who has moved to the Los Angeles branch as vice president of operations.

In recent years, Dugan has held a senior management position at Amdahl Computer Corporation in Sunnyvale and has been vice president and director of computer operations at Central Bank in Oakland. Prior to 1975, he worked as an independent consultant in data-processing operations.

FED DISCOUNT WINDOW CENTERED IN S.F.

Beginning September 17, the Federal Reserve Bank of San Francisco centralized administration of its discount window at the Bank's San Francisco headquarters office. Previously, transactions at the Fed's borrowing facility could be made at the Bank's four other offices as well as at San Francisco.

Reserve Bank President John J. Balles said the change was made to improve the efficiency of the Bank's credit function, and also to separate the personnel responsible for approving extensions of Federal Reserve credit from personnel responsible for the marketing of priced Fed services. Balles noted that the change involved only a shift in procedure, and did not alter the Federal Reserve's basic credit policy and lending guidelines.

Each borrowing institution's pledged collateral will continue to be held at the Reserve Bank office in whose zone the institution is located. In addition, the account used for advances and repayments in conjunction with discount-window borrowings will be maintained at that office.

The Monetary Control Act of 1980 directs the Federal Reserve to provide credit facilities for any depository institution that maintains transaction (check-like) accounts or non-personal time deposits. Under the terms of the legislation, the Fed may provide adjustment (short-term) credit or extended credit to eligible institutions.

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DIDC RAISES RATES ON PASSBOOK SAVINGS

The Depository Institutions Deregulation Committee (DIDC) this month raised by half a percentage point the maximum interest rate on passbook-savings accounts. It also approved several other decontrol measures as part of moves mandated by Congress under the Monetary Control Act.

The panel voted to eliminate interest-rate ceilings on savings certificates used in IRA and Keogh (retirement) accounts. It also gave banks and thrift institutions an alternative way to calculate the ceiling rate on the six-month money market certificate.

Effective November 1, thrifts will be allowed to pay a maximum passbook rate of 6 percent, and banks 5.75 percent—in each case, one-half percentage point above their present maximum on passbook accounts. This marked the first change in that rate since a one-quarter percentage-point rise in July 1979.

Under the legislation creating the Deregulation Committee, Congress mandated a phaseout of interest-rate ceilings on passbook accounts by 1986. The Act also ordered the panel to consider, by this September 30, a one-quarter percentage-point minimum increase in the passbook rate.

This deregulation procedure was designed to improve the return savers can earn on federally insured deposit accounts. The regulators also anticipated that a higher passbook rate would draw funds to institutions suffering deposit drains due to higher-yielding financial instruments. Passbook accounts now total roughly $340 billion at all such institutions.

The committee left unaffected the ceiling rate of 5 1/4 percent which can be paid on interest-bearing checking (NOW) accounts at banks and thrifts.

The DIDC action will allow IRA and Keogh accounts to be established with a minimum maturity of 1 1/2 years and without any limit on the interest rate, starting December 1. Under the new rules, institutions will be able to offer either fixed or floating interest rates on these retirement accounts, and individuals will be able to make periodic additions to their accounts. Congress recently authorized employees already enrolled in employer pension plans to establish retirement accounts, effective January 1.

Starting November 1, banks and thrifts will have the option of using the average of the six-month bill rates from the preceding four weeks, instead of continuing to peg the rate to the most recently auctioned six-month Treasury bill, when calculating the maximum allowable rate on money-market certificates. DIDC designed this new option to keep certificate rates from dropping as steeply as Treasury rates during periods of declining market interest rates.

FCA STUDIES READY

Two functional-cost analyses containing information about member-bank costs and earnings are now available from the Federal Reserve Bank of San Francisco. The basic report is the 1980 National Average of Functional Cost Analysis, which contains data furnished by 640 participating banks nationwide. Also available is the Performance Characteristics of High-earning Banks.

Because of its uniform reporting procedures, the FCA program serves as a tool for bank management in evaluating performance. FCA develops individual-bank income and cost data along functional lines, and provides annual comparisons of these data within each bank and with groups of other banks.

Copies of the FCA reports may be obtained from the Reserve Bank's San Francisco office at (415-544-2351); or from Los Angeles (213-683-8357); Salt Lake City (801-322-7926); Portland (503-221-5787); and Seattle (206-442-7910).

NOW ACCOUNT ELIGIBLES CLARIFIED BY FED

Following a favorable decision by a Federal judge in Washington, D.C., the Federal Reserve Board of Governors set September 16 as the effective date of an interpretation governing depositors eligible to maintain interest-bearing checking (NOW) accounts at Fed member banks.

Under the Fed's Regulation Q, the following depositors can establish such accounts:

—All individuals, including businesses operated as sole proprietorships (only those individuals will continue to be eligible to hold Automatic Transfer Service accounts);
—Non-profit organizations that are exempt from Federal income tax;
—Government units operated primarily for philanthropic, educational or charitable purposes, such as schools, hospitals and libraries.

These interpretations were to take effect originally on September 1, but were suspended pending outcome of litigation brought by the American Bankers Association (ABA) against the Federal Home Loan Bank Board (FHLBB) and Federal Reserve. Noting that the two agencies had issued different rules for NOW-account eligibility, the ABA alleged that the broader FHLBB regulations gave savings-and-loan associations an unfair advantage.

On September 15, the U.S. District Court issued an order upholding the Federal Reserve Board's interpretation, and invalidating the interpretation on NOW-account eligibility issued by the FHLBB, which would have allowed S&L's to offer the interest-bearing checking accounts to all nonprofit groups or to all state and local governments.

The Fed, in its ruling, "grandfathered" those NOW accounts which would no longer qualify under the revised eligibility standards but were established at a member bank before September 1.
FEDERAL RESERVE BANK OF SAN FRANCISCO

The Federal Reserve Bank of San Francisco has created a new Financial Services Group, to respond to the new environment created by the Monetary Control Act mandate regarding the access of all depository institutions to priced Federal Reserve services. Following a June 1 start-up date, the Bank has defined the Group's objectives, drawn up guidelines, put in place an organizational structure (see chart), and it is now in the process of completing its initial staffing requirements.

Responsible for administration of the new department is Senior Vice President Richard T. Griffith, who rejoined the Reserve Bank's staff this summer. Griffith also has assumed senior-officer responsibility under the Bank's First Vice President for the Bank's operational activities at its San Francisco, Los Angeles, Portland, Salt Lake City and Seattle offices. Director of Financial Services under Griffith is David J. Christerson, who has served as head of the Bank's MCA Project Team for the past year.

In a recent report, Christerson noted that the Fed has entered a new era, dealing with a much broader range of the nations' financial institutions under the MCA. He added that in the Twelfth Federal Reserve District alone, the Fed is involved with nearly 4,200 depository institutions, compared to 146 member banks in the pre-MCA environment.

The aim of the new department, said Christerson, is to retain flexibility in responding to an evolving pricing environment and to help ensure uniformity in providing central-banking services to Western depository institutions. Previously, these services were provided free to member banks, but now under MCA they are being uniformly priced and offered to all depository institutions in this new competitive environment.

The department is divided into two major functional areas—Product Management and Customer Relations. Each is headed by a Financial Services officer.

Product Management, centralized in the San Francisco office, is responsible for product planning and development and price administration. In charge of these Districtwide functions is Maureen Shields, who has been promoted from manager of price administration.

A group of product managers and analysts is working with Ms. Shields and other operations and Computer Services personnel to evaluate service quality levels, operational issues, market innovations, and cost-reduction opportunities. In the area of price administration, analysts have helped develop service-fee schedules, and they will closely monitor product performance, volume changes and revenue levels.

Heading the Customer Relations section in San Francisco is Financial Services Officer Martha F. Perry, who previously served in Union Bank's Financial Institutions Division in Los Angeles. She manages a group of account managers, who are now calling on present and prospective users of Fed services to discuss customer requirements and the Fed's ability to satisfy those requirements. In addition, Ms. Perry's section is helping to implement new services developed by product planning and development, and by the Bank’s operating departments.

Similarly, a Financial Services Officer heads up a Financial Services Center at each of the Bank's other offices. At Portland, the officer is Susan L. Robertson (formerly manager of bank and public services); at Salt Lake City it is William W. Hall (formerly vice president of marketing with Zions First National Bank); and at Seattle, it is William C. Fersen (formerly manager of bank and public services). The Los Angeles position has not yet been filled.

Service inquiries for centralized operating functions, such as wire transfers, are directed to the San Francisco office. However, all offices handle inquiries from institutions in their areas relating to locally provided services—such as check collection and clearing, coin and currency transport, automated clearinghouse functions, settlement entries, securities handling and noncash collection.

For information on Federal Reserve services, users may call:
San Francisco: (415) 544-2555
Los Angeles: (213) 683-8358
Portland: (503) 221-5909
Salt Lake City: (801) 322-7926
Seattle: (206) 442-7910
FED DISCOUNT WINDOW  (Continued from page 1)

Any institution seeking to establish a borrowing relationship or information about Federal Reserve credit policy may contact the District Credit Unit in San Francisco, which is headed by W. Gordon Smith, Vice President of Credit and Consumer Affairs. Other contact personnel in that unit are Kenneth Parker, manager of credit, and Betty Willis and Randall Young, both senior credit analysts.

Meanwhile, Federal Reserve Chairman Paul A. Volcker reported on the status of thrift-industry use of the discount window in a letter to House Banking Committee Chairman Ferdinand J. St. Germain. Volcker said that about 1,000 thrifts had filed, or were in the process of filing, the general lending agreement needed before credit can be extended at the discount window. Prior to his statement, the Board established a new borrowing-rate schedule for extended credit to banks and thrifts that encounter sustained liquidity pressures.

In his letter, Volcker said that the Board had provided administrative guidelines to Reserve Banks as a framework for appraising individual applications for extended credit. To be eligible, an institution "will have to show that it is experiencing sustained liquidity pressures despite reasonable efforts, under prevailing market circumstances, to maintain fund flows from usual sources, including special industry lenders."

"If an institution is a member of the Federal Home Loan Bank System, it is expected that its local Home Loan Bank will maintain its outstanding credit to the institution and will ordinarily also provide a portion of the new borrowing need," commented Volcker in his letter. "Other borrowing institutions are expected, as may be reasonable under existing market circumstances, to show evidence of a continuing effort to maintain inflows from deposits and other market sources and, as appropriate, to draw on existing bank lines."

He noted that advances under the extended credit program could be made "for up to 9 to 12 months and, if necessary, beyond that period."

The guidelines also place limits on the investment-growth and loan-portfolio expansion of institutions that borrow under the extended-credit program.

In the nine western states served by the Federal Reserve Bank of San Francisco, about 100 S&L's have filed lending agreements with the Fed—"and about half of them have expressed interest in obtaining credit," said Smith. He added that "Each request will be considered on an individual basis. The District Credit Unit will closely consult with supervisory agencies" before any decision is made to lend to an institution requesting extended credit.

FED CUTS SURCHARGE TWICE

The Federal Reserve acted twice in the last month to reduce the surcharge that applies to large depository institutions which borrow frequently from the discount window. On September 22, and again on October 9, the Board of Governors approved one-percentage-point reductions in the rate, which now stands at 2 percent. The Fed made no change in the basic discount rate of 14 percent on either occasion.

These adjustments represented technical adjustments to the decline over recent weeks in short-term money-market rates. The Fed took these actions within the context of its continuing policy to restrain growth in money and credit.

Affected by the new rule are institutions with total deposits over $500 million which borrow for two or more consecutive weeks, or for more than four weeks during a quarter. In the latter case, according to a recent rule modification, the surcharge applies to institutions borrowing more than four weeks during a 13-week period which includes the current week and the 12 preceding weeks.