Federal Reserve Notes

FEDERAL RESERVE BANK OF SAN FRANCISCO • June 1982

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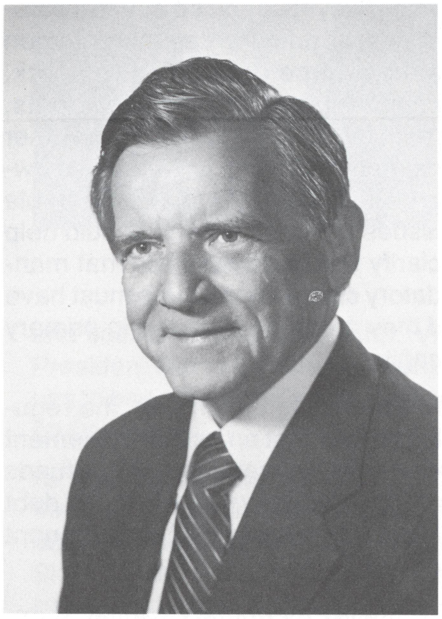
FED NAMES TWO NEW VICE PRESIDENTS

Adelle Foley



Gene Drossel

The Federal Reserve Bank of San Francisco has announced two new senior-officer appointments—Adelle Foley as Vice President of Financial Planning and Control, and Gene Drossel as Vice President of Public Information. Foley's promotion followed three years' work in the budget area, while Drossel came out of private industry to head up the Bank's public-information activities.

Foley joined the Reserve Bank's staff and spent a number of years in economic-research activities. She was also an administrative officer in the Bank's District Support operation, and before joining the Budget and Control Department, completed a year's service as Secretary to the Conference of Presidents and Conference of First Vice Presidents of the Federal Reserve System. She has been active in the National Association of Business Economists and the American Statistical Association. In 1976 she was President of the San Francisco chapter of the American Statistical Association.

Drossel spent almost 30 years with Kaiser Steel Corporation and Kaiser Industries. When he left Kaiser Steel in 1980, he was Vice President of Public Affairs, Public Relations and Advertising. In that capacity, he was in charge of the firm's legislative offices in Washington and Sacramento, and also was responsible for the company's financial, public, advertising and sales communications. After leaving Kaiser Steel, Drossel was a communications and strategic-planning consultant to private industry.

The Reserve Bank separately reported several appointments in the finance and accounting area. Gary Sanders was promoted to Assistant Vice President, Accounting; Tom Thaanum was appointed Accounting Officer; and Greg Williams was appointed Budget Officer. Also, Gail Taylor was appointed as Domestic Reports Officer, Statistical and Data Services, in which position she will continue to be responsible for the Reserve Analysis activity (formerly an Accounting Department activity).

FED SETS UNIFORM PRESENTMENT TIME

The Federal Reserve System has adopted a nationwide presentment time of 12:00 noon for check items drawn on "reserve city banks"—those located in cities with Reserve Bank offices. The change is effective August 1, 1982.

Presenting items up to 12:00 noon will enable Reserve Banks to collect nearly all city items on the day they are received. This is especially important during peak volume periods or in cases of weather or equipment problems. Noon presentment also is consistent with the Fed's previously stated objectives of matching credit availability with collection experience.

During the next few months, all Reserve Bank offices will work with their local depository institutions to ensure a smooth implementation and to minimize the potential operational problems involved in noon presentment. Questions concerning the change can be addressed to the Check Officer at each Reserve Bank office.

COUNCIL PROPOSES CALL REPORT CHANGES

The Federal Financial Institutions Examination Council has proposed a major overhaul of the call reports—reports of condition and income—that are used to judge commercial-bank performance. The Council made the proposal in an attempt to improve the monitoring of individual banks' asset and liability management in an environment of fluctuating interest rates, deregulation, and reduced on-site examination.

The exam council consists of representatives of the Federal Reserve Board of Governors, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board and the National Credit Union Administration.

The Council said that additional reporting requirements will increase the complexity and reporting burden of the call reports, but added that the improved data should result in less frequent on-site examinations for many banks. Moreover, it specifically asked bankers to estimate the burden of complying in terms of manhours and dollar costs.

Separate forms and reporting requirements would be necessary for three categories of banks. These would include banks with foreign offices (including international banking facilities) and two categories of banks with domestic offices only, depending on size of assets.

In one important change, the new form would include a "rate sensitivity analysis" section. This would require banks to match up asset and liability maturities, providing much more up-to-date information on those matchups than at present.

Under the proposal, banks would have to file quarterly average figures for selected items on the balance sheet, such as specific loan categories. In general, these items are now reported as single-day figures as of the last day of a quarter. In addition, all banks would have to file separate reports of income every quarter.

FED, COMPTROLLER ISSUE CAPITAL GUIDES

The Federal Reserve and the Comptroller of the Currency have issued new criteria to give banks additional guidance on the question of primary capital. The regulatory agencies issued these guidelines in response to a flurry of bank issues of mandatory convertible issues.

The Fed and the Comptroller earlier adopted guidelines for assessing the capital adequacy of the banks and holding companies they supervise. They recognized several categories of primary capital: common stock, perpetual preferred stock, capital surplus, undivided profits, reserves for contingencies and other capital reserves, loan-loss allowances and mandatory convertible issues. The new criteria should help clarify the characteristics that mandatory convertible issues must have if they are to be included in primary capital.

In developing the criteria, the regulators said that an essential element was "the permanence of the funds and the certainty with which the debt issue will be replaced by permanent equity."

To qualify as primary capital, mandatory convertible issues under the new guidelines could not exceed 20 percent of primary capital, and could be redeemed prior to maturity only with proceeds from the sale of common or perpetual preferred stock or with the approval of the institution's primary regulator. Also, the holder could not accelerate payment of principal except in the event of bankruptcy, insolvency or reorganization. In addition, the securities would have to be subordinate to all senior debt of the issuer and would have to mature in 12 years or less.

The Fed stressed in its announcement that "any organization that now has a capital deficiency should regard the sale of mandatory convertible securities as making up for the deficiency and not as the basis for additional leverage."

FED RAISES QUESTION ON FOREIGN OWNERSHIP

The Federal Reserve Board of Governors reviewed the matter of foreign-banking organizations owned by foreign governments in two recent holding-company decisions. In the past, the Fed had applied the usual Bank Holding Company standards to individual foreign commercial banks but not to foreign governments that control such banks.

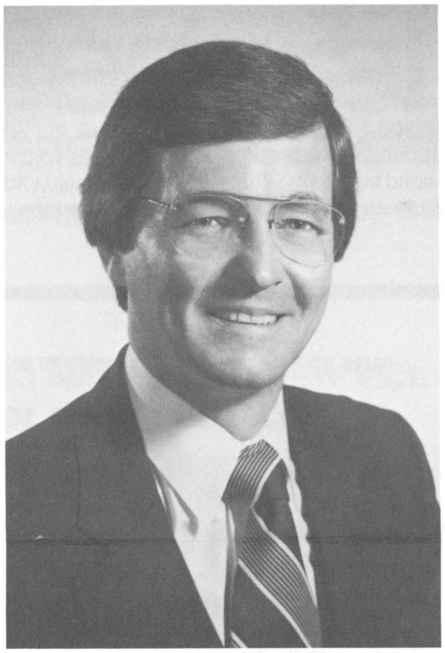
Foreign governments often own multiple banks and commercial-industrial enterprises—but this gives rise to cross-industry links in the United States, where legislation has been designed to maintain a separation between commerce and banking. Another issue is the compatibility of multi-banking organizations under common government ownership with the interstate-banking limitations of the U.S. statutes.

In one decision, the Board approved an application by Banca Commerciale Italiano (BCI) to become a bank holding company by acquiring LITCO Bancorp of New York Inc. BCI is majority-owned by a holding company controlled by the Italian government. It operates in this country through branches in New York and Chicago and an agency in Los Angeles.

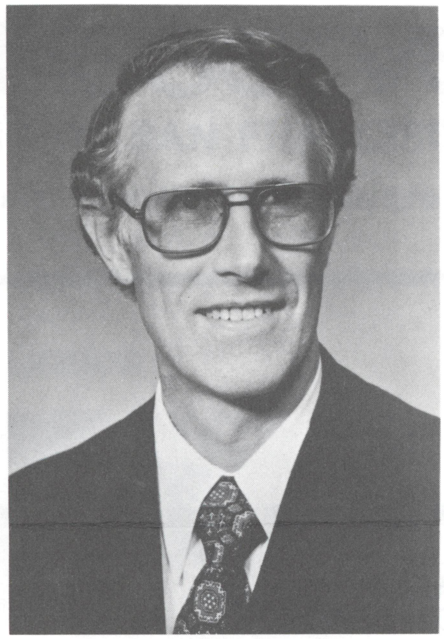
The other Board decision involved an approval of the application by State Bank of India to establish a bank in Los Angeles. State Bank of India, the largest in India, is majority-owned by the government-owned Central Bank of India.

The Board decided to continue its policy of not applying the Act to an applicant's government owner, but it added that "more extensive analysis and broader participation in the decision making process are necessary" to resolve the issues raised by the holding-company decisions. It concluded that the issues "are best resolved in a Congressional framework."

FED RESERVE BANK REALIGNS PRICING DUTIES



John F. Hoover



H. Peter Franzel

The Federal Reserve Bank of San Francisco has made several changes of assignment to maximize utilization of senior staff in the priced-service environment in which the Bank is now operating. In addition, the Bank has appointed a Financial Services Officer at its Los Angeles office, to fill out its complement of key marketing staff.

With this realignment, the Financial Services Group under Vice President John Hoover will focus predominantly on the Bank's marketing and sales efforts. Martha Perry, Financial Services Officer, and Pete deRiesthal, Service Center Manager, will report to Hoover under this arrangement.

Maureen Shields, Financial Services Officer, and her staff in Product Planning and Price Administration will now report to Vice President H. Peter Franzel in District Operations Administration. Vice Presidents John Gleason and Carl Powell also will transfer to District Operations Administration. They will continue their assignments for District and System coordination of the Payments and Custody Services areas, and will assume increased responsibilities for product management and cost and revenue control. Vice President David Christerson continues to head the Bank's San Francisco Operation.

At the Bank's Los Angeles office, Mary Ellen Martin has taken on the duties of Financial Services Officer. She has had almost 14 years of experience in the banking industry, most recently as Assistant to Vice President-Loan Officer at the Bank of San Marino. Her appointment completes the Bank's financial-marketing staff.

The Bank's Financial Services Officers are responsible for the marketing and servicing of Fed financial services, including procedures for establishing and maintaining accounts with the Federal Reserve. Their locations and phone numbers follow:

San Francisco:
Martha F. Perry (415) 544-2127
Los Angeles:
Mary Ellen Martin (213) 683-8318
Portland: Susan L.B. Robertson (503) 221-5909
Salt Lake City:
William W. Hall (801) 322-7927
Seattle: William C. Ferensen (206) 442-2754

FED SEEKING CONSUMER ADVISORS

The Federal Reserve Board of Governors is seeking nominations of qualified individuals for 13 appointments to its Consumer Advisory Council. These individuals will replace members whose terms expire on December 31, 1982.

Congress established the Consumer Advisory Council in 1976 to advise the Board on the exercise of its duties under the Consumer Credit Protection Act and other consumer-related matters. The Council by law represents the interests both of consumers and of the financial community. Members serve three-year terms that are staggered to provide the Council with continuity.

The Board is interested in candidates who are familiar with issues in the area of consumer credit and other financial services. The Board also hopes to match the qualifications of continuing Council members in terms of affiliation and geographic representation.

Three Westerners are on the present Council. They are: Shirley T. Hosoi, Vice President (Franchising) of First Interstate Bancorp, Los Angeles (term expiring 1982); Nancy Z. Spillman, Chair, Business Administration Department and Professor of Economics, Los Angeles Trade Technical College (1983); Janet J. Rathe, Executive Committee Member, Oregon Consumer League, Portland (1984); and Gerald R. Christensen, President and Chairman of the Board, First Federal Savings and Loan, Salt Lake City (1984).

Nominations for the Council should be submitted in writing to Dolores S. Smith, Assistant Director, Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, Washington,D.C. 20551. They should be received no later than August 2, 1982. Nominations should include the name, address and telephone number of the nominee, past and present positions held, and special knowledge, interest or experience relating to consumer financial matters.

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ALL SAVERS FLOWS

Flows of funds into All Savers certificates were considerably less than expected in the first six months of the program, according to a Federal Reserve tabulation. Sales of the certificates in the October-March period amounted to $49.1 billion—only a small fraction of what its thrift-institution sponsors expected. Commercial banks received $21.4 billion, and thrift institutions obtained $27.7 billion of the total.

About two-thirds of the total deposits came in October, the first month of the program, but flows fell off sharply as interest rates later declined. All Savers rates are set at 70 percent of the annual investment yields on 52-week Treasury bills. The tax-exempt yield under the formula was 12.61 percent last October, but has ranged between 10 and 11 percent throughout most of 1982.

Congress developed the certificate as a means of providing banks and (especially) thrift institutions with "new savings," and also of providing competition for deposits with money-market funds. But according to Assistant Treasury Secretary John Chapoton, "We have seen no evidence that funds come from 'new' saving, but merely represent money withdrawn from other financial investments, probably municipal bonds (because of their tax-exempt status) and passbook accounts."

AGENCIES RULE ON DEPOSITS

Major regulatory agencies have warned financial institutions about the payment of premiums and finder's fees on Individual Retirement (IRA) and Keogh accounts until the U.S. Department of Labor and the Internal Revenue Service issue new rulings under the Employee Retirement Income Security Act (ERISA).

The agencies previously announced that payment of substantial premiums to either the persons establishing the accounts or to third parties could result in ERISA violations. They plan to propose retroactive class exemptions establishing acceptable standards under ERISA for the payment of any such premiums. These standards would provide that a premium received for establishing an IRA account will not be considered a prohibited transaction if: 1) the IRA is established solely to benefit the person receiving the premium, his or her spouse and their beneficiaries, and 2) the fair market value of the property or cash received is not more than $10 for deposits of less than $5,000 and $20 for deposits of $5,000 or more.

Until final rules are adopted, financial institutions offering premiums should adhere to the above standards to avoid violations of ERISA.

VIDEOTAPE PROGRAM

The Federal Reserve Bank of San Francisco has produced a series of 25 videotapes in its "Economic Issues" series, and is offering them on a free-loan basis to financial-institution training departments, educational institutions and other interested groups. Each videotape runs between 15 and 25 minutes and features a Bank economist's discussion of some current issue of economic activity.

The topic of inflation receives considerable attention in these discussions, in such areas as the history of inflation, international sources of inflation, money demand and inflation, food-price increases, and the differences among price indexes. Monetary policy also is a major topic of discussion. Other tapes describe the international value of the dollar, the Japanese economy, the energy problem, housing prices, consumer debt, and the uses of economic analysis.

A complete listing of the three-quarter inch tapes in the Economic Issues series is available from the Public Information Section, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco 94120. Phone (415) 544-2184. Tapes can be borrowed from that unit, or from the Public Information units at the Bank's branch offices.