Federal Reserve Notes

FEDERAL RESERVE BANK OF SAN FRANCISCO **September 1982**

Serving Alaska, Arizona, California, Hawaii, Idaho, Nevada, Oregon, Utah & Washington

CITICORP BID APPROVED

The Federal Reserve Board announced its unanimous approval of the application of Citicorp to acquire Fidelity Federal Savings and Loan Association of San Francisco on September 28.

The takeover will be the first acquisition across state lines of a savings and loan by a bank holding company. The Board's order, however, placed seven conditions on the takeover:

1) Fidelity must continue to be operated as a federally chartered savings and loan with the primary purpose of providing residential housing credit,

2) Fidelity Federal cannot establish remote service units outside California,

3) Fidelity Federal cannot set up branches that do not comply with rules for national or state banks in California,

4) Fidelity Federal must be operated as a separate and independent subsidiary of Citicorp with no links to other subsidiaries of Citicorp,

5) Any funds transactions between Fidelity Federal and Citicorp must first receive the approval of the Federal Reserve Bank of New York,

6) Fidelity Federal cannot use the word "bank" in connection with its name, and

7) Fidelity Federal cannot be converted to any other form of financial institution such as a state-chartered association without Fed approval.

Fidelity Federal operates 81 offices in Northern California and has ap-

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Finishing details are put on the Fed's new headquarters building at 101 Market Street in San Francisco. This view, from the rear of the building, shows the four-story low-rise section in the foreground.

MOVE TO NEW FED HEADQUARTERS BEGINS

The first phase of the San Francisco Fed's five-month move has begun as 250 Computer Services Group and 10 Automated Clearing House staff members moved this month to the third floor of the low-rise section of 101 Market Street. Between now and late January 1983, the Bank's remaining 950 employees will relocate to the new 12th District home, with most departments scheduled to move on weekends and holidays.

Interior construction continues on the remaining floors of the four-story lowrise (shown in foreground of photo), which will house the operating departments, and the twelve-story office tower on Market Street.

The present headquarters building at 400 Sansome Street and the adjacent Bank-owned Eastman Kodak Building and surface parking lot were recently purchased by Embarcadero Center West. The Rockefeller-based company, which plans to expand its office building and retail development into these three properties, has announced its intention to preserve the architecturally significant features of the classic Sansome Street landmark.

REGULATIONS AND OPERATIONS UPDATE

Regulation D—Effective September 1, 1982, the new 7- to 31-day account authorized by the Depository Institutions Deregulation Committee was classified as a time deposit for reserve accounting purposes.

Regulation Q—The Federal Reserve Board amended Regulation Q, which concerns interest on deposits, to remove existing limitations relative to the maturity and automatic renewability of ceiling-free, small denomination (less than $100,000) repurchase agreements on U.S. Government and agency securities. This amendment took effect in August 1982.

The Board issued on September 7 an interpretation of Regulation Q concerning the arrangements a member bank may enter into in helping to provide a secondary market for negotiable time deposits issued by the bank, without incurring early withdrawal penalty requirements.

On September 2, the Board issued notice of several other amendments. One amendment permits member banks to issue all time deposits in book entry form (computer recorded) rather than by a paper instrument. The other amendments are technical changes to make Regulation Q conform to recent actions on deposits by the Depository Institutions Deregulation Committee.

For further information, contact Robert M. Mulford in the Legal Department at (415) 544-2256.

Regulation Y—The Federal Reserve Board has amended Regulation Y, governing the activities of bank holding companies, to expand and clarify the data processing activities permitted to those companies.

The Board's action followed approval in July of an application by Citicorp to engage in similar expanded data processing activities, provided that they were closely related to banking (See Fed Notes July 1982).

For internal operations of the bank holding company and its subsidiaries, permitted data processing and transmission services include supplying data processing hardware, software, documentation and operating personnel. For external operations, the amendment allows similar activities on the condition that the data to be processed are financial, banking, or economic data.

For further information, contact Robert A. Johnston in Bank Examination at (415) 544-2352.

Regulation Z—The official Fed staff commentary on Regulation Z, applying to truth in lending, has been revised and was made effective September 17. Creditors have the option of continuing to rely on the existing Regulation Z commentary until April 1, 1983 when reliance on the revised commentary becomes mandatory.

Some issues with which the revised commentary deals follow: the use of creditor's commercial lending rate as the base rate in variable rate open-end credit plans; application of the finance charge rules to the offering of cash discounts in the sale of motor vehicle fuel; prepayment disclosures in transactions involving prepaid finance charges; and disclosures for several types of mortgage financing plans, including growth equity mortgages and graduated payment adjustable rate mortgages.

For further information, contact David M. Vandre in Consumer Affairs at (415) 544-2762.

"Collection of Cash Items"—The Federal Reserve Bank of San Francisco has expanded Appendix C of Circular 1, "Collection of Cash Items" to clarify the procedures for redeeming and packaging food coupons.

For further information, contact the Securities Services Department of local Reserve Offices.

"Wire Chargeback"—The Reserve System has concluded its evaluation of the wire chargeback procedure for interterritory cash letter adjustments of $50,000 or more. Due to the potential effects this program may have on reserve account performance, adjustments will not be made after 3 p.m. local time. The System began implementing this program on September 23, 1982. Any questions concerning the associated operational details should be addressed to the Check Officer at local Reserve Offices.

The wire chargeback procedures for return items of $50,000 or more will be published for comment later this year when the Reserve system announces its program to deal with Federal Reserve float.

FOR PUBLIC COMMENT

Regulations D and Q—The Federal Reserve Board has issued for comment a proposal to amend Regulations D and Q to make the minimum maturity seven days on *all* time accounts (including large certificates of deposit of $100,000 or more). Comments must be received by the Board of Governors of the Federal Reserve System by October 29, 1982 and should refer to Docket No. R-0417.

NATION STARTING ROAD TO RECOVERY

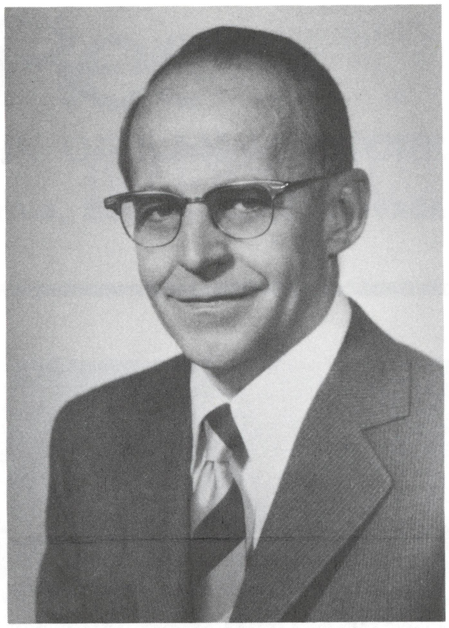
An impending economic recovery for the nation depends critically on fiscal discipline and continued monetary restraint. This was the message of John J. Balles, president of the Federal Reserve Bank of San Francisco, as he spoke to audiences of community and business leaders in Coos Bay, Oregon and Honolulu, Hawaii on September 2 and 20, respectively.

In a brief review of the present status of the economy, Balles noted some recent signs of an economic upturn but stressed that, overall, the economy is still weak and that a recovery will be slow.

He said that the drop in retail sales of .9 percent in August offset most of the 1.2 percent gain in July, that industrial production continued to decline by .1 percent also in August, and that the unemployment rate remained at 9.8 percent as in July. "More than 1 million jobs have disappeared since last summer" and "...the nation's industrial plant is operating at less than 70 percent of its capacity."

On the other hand, he cited some positive signs such as the fourth consecutive monthly increase in the Commerce Department's index of leading economic indicators and recent increases in real personal disposable income. He attributed the latter to the 10 percent income tax reduction and the 7½ percent increase in Social Security benefits effective last July 1 combined with recent success in slowing inflation. He said that the consumption sector would improve before the end of this year and, along with defense-related industries, lead the economic recovery.

He claimed that the recent drop in interest rates should provide an additional boost to the demand for durable goods by households and improve the foreign trade picture. With regard to the business sector Balles felt that restocking inventories should give a temporary lift to the economy although business-fixed investment will continue to lag behind other investments as low-capacity utilization and continued high long-term bond rates make capital expenditures less attractive. In this area, he forecasts no major improvement until mid-1983.



John J. Balles

"Looking at the current economic scene, we appear to be at or near the trough of the recession. Total real output rose slightly in the second quarter after declines in the earlier two quarters.... At best we may be described to be 'bumping along the bottom' of the current recession."

The Fed official rooted the economy's troubles in a history of rapid inflation and "unrelenting and unprecedented federal government deficits," especially in the 1970's.

Double-digit inflation, he said, had masked substantial losses in purchasing power in past years and pushed many citizens into higher real tax brackets, reducing their real disposable income. For the businessman, high inflation made it difficult to project future sales, revenues and costs, and contributed to the value decline of the dollar in international markets.

The Federal Reserve's response in 1979 was to change its operating procedures for monetary control to reduce inflation. It began to emphasize the control of the quantity of money and credit and the results of these changes, Balles stated, have been dramatic: a drop in consumer and wholesale price increases and an appreciation of the U.S. dollar.

Balles spoke at length about interest rates which, until recently, have remained unexpectedly high despite the drop in inflation. He said that the high rates are caused by continued uncertainty about the size of deficits, by how they will be financed, and by the competition they pose to private borrowing in the credit markets.

He added that the three-year $128 billion reduction in deficits recently voted by Congress "deals with only a small part of the problem" as the present deficit, at 3½ percent of GNP, is larger than any past deficit since fiscal year 1976 when the economy suffered its worst recession in 50 years. He mentioned that reductions in social programs to balance the budget have almost been offset by increases in defense spending and that the Administration conservatively estimated a deficit of $115 billion in 1983 alone.

His economic staff estimated that government borrowing to finance this debt may increase from 19.5 percent of total funds raised in credit markets in 1981 to 35 percent in 1983. Balles warned that borrowing such a large amount will crowd out some private investments and slow improvements in that recovery year.

In conclusion, Balles stated: "The road to recovery is a difficult one, but we are heading in the right direction.... The strength and duration of the recovery will depend critically upon: 1) avoiding another acceleration in inflation; and 2) a further reduction in interest rates from their still very high level. Success on inflation depends on the Fed continuing to gradually reduce money growth in the years to come. Success on interest rates will depend upon further reductions in federal government deficits."

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FEDERAL RESERVE LOANS TO BANCO DE MEXICO

The Federal Reserve announced August 30 that it will participate in a multilateral financial transition program under the aegis of the Bank for International Settlements to provide short-term financing to Banco De Mexcio.

The Federal Reserve and the U.S. Treasury Department, in a consortium of central banks representing the Group of Ten countries, will participate along with Spain and Switzerland in aiding Mexico's central bank. The mutlilateral arrangement will provide financing totalling \$1.85 billion, of which the Treasury will provide \$600 million and the Federal Reserve \$325 million through swap arrangements.

The arrangement is one part of an overall program to support Mexico's efforts to strengthen its economic and financial position. It provides for borrowing by Mexico in line with its progress toward agreement with the International Monetary Fund (IMF) on an economic transition program that will enable Mexico to qualify for borrowing from the IMF's Extended Fund Facility.

The overall multilateral arrangement includes an interrelated program of short-term and longer-term credits for Mexico. The total program involves the Bank for International Settlements and the IMF as well as Mexican discussions with international banks on Mexico's external debts. This overall multilateral effort is designed to ensure an orderly transition to an economic adjustment program that the Mexican government has said it is developing.

The consortium of ten central banks represents Belgium, Canada, France, the West German Federal Republic, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States.

FEDERAL RESERVE OFFERS NEW VIDEOTAPE

A new 23-minute videotape on the history and uses of money is available from the Federal Reserve Bank of San Francisco.

Titled "Money: Summing It Up," the three-quarter-inch tape was produced by the National Geographic Society in cooperation with the Federal Reserve Bank of New York. The videotape recounts the history of the development of money including the varied forms it has taken over the centuries from salt, to coins, paper currency and checks. A vocabulary of money terms is included in a teacher's guide to the tape.

Copies of "Money: Summing It Up" can be obtained from the Public Information Department of the Federal Reserve Bank of San Francisco and its offices at Los Angeles, Portland, Salt Lake City and Seattle.

CITICORP BID

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proval to open three more. Its assets, according to the Fed, totaled \$2.9 billion on June 30,1982.

In approving the takeover, the Board cited its authority under the Bank Holding Company Act to decide the case in the absence of national legislation. It stated that potential adverse effects were outweighed by "the substantial public benefits that are expected to result from the restoration of Fidelity as an effective competitor."

The approval for takeover came three weeks after informal public hearings were held in Washington, D.C. and San Francisco on September 8 and 9, respectively.

At the hearings, Citicorp officials had stressed the financial strength and commitment to consumer banking of their institution.

Citicorp, A New York-based holding company, had won the bidding to acquire Fidelity, which was seized by state and federal regulators in April when it was determined to be in financial difficulty. In August, the Federal Home Loan Bank Board, regulator of most of the nation's savings and loan associations, approved the takeover. Only Federal Reserve Board approval was needed to complete the proposed acquisition.