Federal Reserve Notes

FEDERAL RESERVE BANK OF SAN FRANCISCO • November 1982

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

RECOVERY TIED TO INTEREST RATES AND FED CREDIBILITY

In a speech on November 23 to a meeting of community leaders in Bakersfield, California, John J. Balles, president of the Federal Reserve Bank of San Francisco, stated that a solid economic recovery depends strongly on sustaining reductions in long-term interest rates and in reinforcing the confidence of the public and financial markets in the Federal Reserve's monetary policy.

Noting that inflation and interest rates have already been sharply reduced recently, Balles said that a sustainable recovery can occur only if massive federal deficits are reduced and progress is maintained in keeping the lid on a renewed rise in inflation expectations:

"There are two factors which are important in a sustainable reduction in long-term interest rates. The first is to reduce the Federal government deficit. My staff estimates that for every $25 to $30 billion reduction in deficits over the next three fiscal years that long-term interest rates can be reduced approximately one percentage point. The second is to maintain progress in a further reduction of the actual inflation rate, as well as preventing a renewed rise in inflation expectations. The latter depends in large part on Fed credibility."

Balles explained that the prospect of large federal deficits over several years tends to raise long-term interest rates in several ways. First, "as the private demand for credit rises with business cycle expansion over the next few years, and the government demand for credit remains high, total demand presses upon the available supply of national savings, raising interest rates and crowding out some private spending."

Second, "structural" government deficits create concern in financial markets that the Federal Reserve will be forced to monetize the deficits by excessive and, therefore, inflationary growth in the money supply. This concern adds to the inflation premium in interest rates.

Lastly, uncertainty about the size of federal deficits "and consequently also about the future course of monetary policy adds to the risk premium in long-term rates even when the current inflation rate is declining."

The role Balles believes the Federal Reserve can play is that of maintaining its credibility: "I define the requirements of Federal Reserve credibility as setting viable and non-inflationary ranges of growth for money and credit and hitting those ranges on a yearly basis. If not, our only alternative is to have a justifiably good and understandable reason for departing from them.... In this manner, the public's expectations of inflation will come down and lead them to reduce the inflation risk they must factor into *today's* interest rates. Long-term rates will then tend to decline."

He attributed the recent temporary overshooting of M1 to the desire of the public in a recession to hold more precautionary money balances and to "technical problems with interpreting the M1 measure of money supply." The problems associated with the measure "include the maturation of $35 billion of All-Savers Certificates" and the new money market-type financial instruments that will allow deposit-taking institutions to "compete directly with money market mutual funds and can be used for writing checks." The new account, available December 14, should draw funds from traditional checking accounts but is presently not considered subject to transaction account reserves and therefore not counted as M1.

Balles called the positive financial market reaction to the temporary overshoot of M1 targets a reassuring "vote of confidence" for the Fed: "The financial market is cognizant of the issues facing the Federal Reserve and its vote of confidence is reassuring. I can reassure you that this vote is not misplaced—we have not abandoned our long-term goal of gradually reducing inflation."

TWO NEW MONEY MARKET-TYPE ACCOUNTS

Federally insured commercial banks, savings and loan associations, and mutual savings banks have been authorized by the Depository Institutions Deregulation Committee to offer two new accounts paying money market rates of interest. Beginning December 14, these depository institutions could offer the Money Market Deposit Account (MMDA) with limited checking and transfer privileges. At its December 6 meeting, the DIDC authorized a Super NOW account to be effective January 5, 1983, with unlimited checkwriting and transfer privileges.

Both accounts require a minimum balance of $2,500 for the payment of market interest rates. Neither has a limit on the amount of interest paid

(Continued on page 4)

REGULATIONS AND OPERATIONS UPDATE

Regulation D—Reserve Requirements: On November 17, the Federal Reserve Board revised a temporary amendment to Regulation D that the Board had adopted on October 5. The October 5 amendment had imposed transaction account reserves on time deposits linked to lines of credit on which checks or similar third party transfers could be drawn but had "grandfathered" such deposits established before October 5 so that they would not be subject to transaction account reserves until they matured and were renewed. The November 17 revision expands the grandfather clause to cover such time deposits that were entered into before October 5 and that mature but renew automatically on or before December 31, 1982.

For further information, contact Gail Taylor, Domestic Reports Officer, at (415) 974-2055.

Regulation K—International Banking Operations: The Federal Reserve Board adopted amendments to Regulation K, Rules Regarding Availability of Information, and Rules Regarding Delegation of Authority. Among the amendments to Regulation K are provisions for Reserve Bank processing, under a 45 day prior notification procedure, of proposals by Edge Corporations to establish U.S. branches; to shorten the notification period for certain investments from 60 to 45 days; and to change the definition of "subsidiary" to conform to the definition of that term in the Bank Holding Company Act.

The Rules Regarding Availability of Information were amended to provide that Form F.R. 2068 (Confidential Report of Operations of Foreign Banking Organizations) will not be released to the public but may be released to bank regulatory authorities under certain conditions.

The Rules Regarding Delegation of Authority were changed to delegate to the Reserve Banks and certain Board officials the authority to take actions on various applications under Regulation K.

For further information, contact Rodney Reid, BHC and International Regulations, at (415) 544-2266.

Regulation L—Interlocking Bank Directorates: The Board adopted an amendment to Regulation L, which implements the Depository Institution Management Interlocks Act, to reflect changes in the Act recently adopted by Congress.

The amendment permits a management official to continue in an interlocking relationship for the entire ten-year grandfathered period provided by the Act, despite certain changes in circumstances such as a merger of an institution involved in an interlock. The amendment also permits a management official serving both a depository and nondepository institution to continue in both positions although the non-depository institution becomes a savings and loan holding company.

For further information, contact Wayne Rickards, Bank and Consumer Regulations Officer, at (415) 544-2242.

"Full Field Encoding of Reconditioned Treasury Checks": U.S. Treasury checks are being truncated at the first Reserve Bank of deposit, with microfilm images and magnetic tape data furnished to the Treasury Department in place of the actual items. To improve the processing of Treasury checks and subsequent reconcilement procedures, the FRBSF requests that reconditioned Treasury checks be MICR encoded in all four fields: serial and symbol numbers, amount and routing transit.

"Cuban Assets": The following firms have been determined to be specially designated nationals, under Section 515.306 of the Cuban Assets Control Regulations, 31 CRF, Part 515: Abastecador Naval Y Industrial, S.F. (aka Anainsa); Pesmar S.A. (or Pezmar S.A.) (aka Pescados Y Mariscos de Panama); Marisco (or Mariscos) de Farallon S.A.

All accounts in which these firms have any interest are accounts in which there exists the interest of a specially designated national, and such accounts and firms are not entitled to the privileges of Section 515.506 of the Regulations.

For further information, contact Dennis M. O'Connell, Director, Officer of Foreign Assets Control, Department of the Treasury, Washington, D.C. 20220 at (202) 376-0395.

Implementing Garn-St. Germain

The Board has amended a number of regulations as mandated by the Garn-St. Germain bill. The Board amended *Regulation D* to increase the low reserve "tranche" for transactions accounts and to apply zero percentage reserves to the first $2 million in reservable liabilities ($2.1 million for 1983). The Board also amended *Regulation Q* to allow member banks to offer NOW accounts to governmental units. Lastly, the Board increased from $26 million to $26.3 million the amount of transaction account deposits subject to a reserve requirement ratio of 3 percent. The Monetary Control Act requires that this low reserve tranche be recalculated yearly based on the change in total transaction accounts at all depository institutions determined as of June 30.

FOUR DIRECTORS NAMED FOR S.F. FED

The Federal Reserve Board of Governors in Washington, D.C., has redesignated Caroline Leonetti Ahmanson of Beverly Hills as chairman and Southern Pacific Company President Alan C. Furth as deputy chairman of the Board of Directors of the Federal Reserve Bank of San Francisco for 1983.

At the same time, Spencer F. Eccles, a Utah banker, and Togo Tanaka, a Los Angeles businessman, won election to the nine-member home board of the Twelfth Federal Reserve District. Each will serve three-year terms beginning January 1. The election was held November 16.

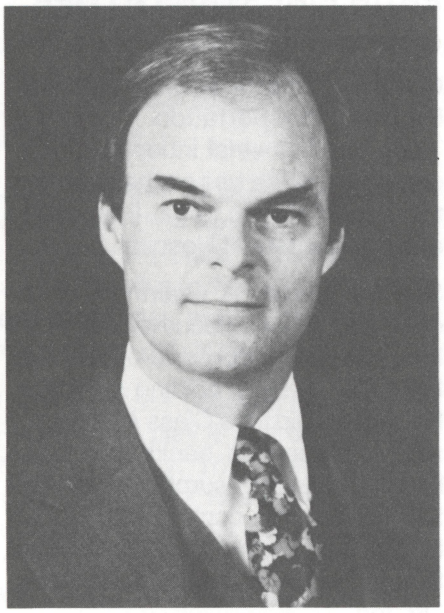
This marks the second consecutive year that both Mrs. Ahmanson and Mr. Furth will occupy the two top posts on the home board of the 12th District which includes the nine western states. Each home bank in Federal Reserve Districts has a nine-member Board of Directors; branch offices within the Districts generally have seven person boards of directors. All directors provide the Federal Reserve System with broadbased input into monetary policy and operations which include fiscal, check, currency, and other central banking services.

Three members on each board represent the banking community while the majority of members represent such public interests as agriculture, commerce, industry, services, labor and consumers. All appointments are for 3-year terms.

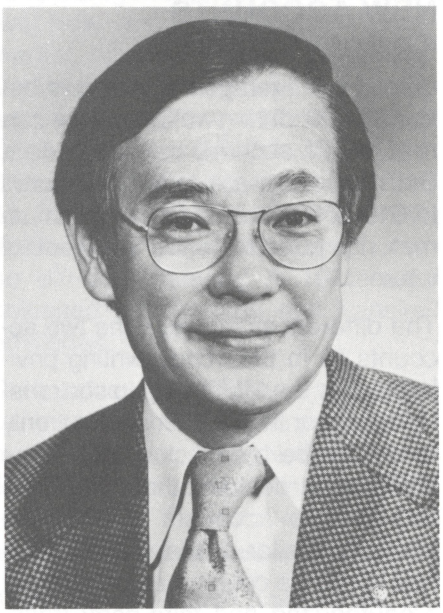
Mrs. Ahmanson, chairman of Caroline Leonetti Ltd. of Hollywood, a self-improvement educational organization, was one of the first two women to serve as chairman of a headquarters board in the Federal Reserve System. Mrs. Ahmanson has served as a Reserve Bank director since 1976 when she joined the Los Angeles branch board. In 1980 she was appointed to the head office board in San Francisco as deputy chairman and became the first woman in that position within the Reserve System.

Caroline Ahmanson

Alan Furth



Spencer Eccles



Togo Tanaka

Mrs. Ahmanson has long been active in business, cultural, and national and regional civic affairs. She currently serves on the board of Walt Disney Productions and is a member of the County and City of Los Angeles Economic Advisory Council. She has received presidential appointments as a member of the National Council on the Humanities and as an executive board member of the Peace Corps' National Advisory Council. On the regional scene, Mrs. Ahmanson serves on the board of trustees of the California Museum of Science and Industry and the Los Angeles County Museum of Art. She is vice-chairman of the board of directors of the Los Angeles Area Chamber of Commerce and vice-president of the boards of the Los Angeles World Affairs Council, and the National Committee on United States-China Relations.

Alan Furth joined the San Francisco board in 1980 and was designated deputy chairman in 1982. He is a native of Oakland and a graduate of the University of California and Boalt Hall Law School at Berkeley. Furth has spent his entire corporate career with Southern Pacific and serves as president and director of the Southern Pacific Company, chairman and CEO of of Southern Pacific Communication

(Continued on page 4)

Federal Reserve Bank of San Francisco

400 Sansome St., San Francisco, CA 94120

Federal Reserve Notes is produced monthly and 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) 974-2246

FIRST CLASS MAIL
U.S. POSTAGE
PAID
PERMIT NO. 752
SAN FRANCISCO, CALIF.

NEW ACCOUNTS

(Continued from page 1)

unless the average balance falls below $2,500, during which time the current NOW account ceiling applies. Both accounts are federally insured to $100,000 and require no minimum maturity period for the payment of interest.

The differences between the two accounts lie in their checkwriting privileges. For the MMDA, up to six transfers per month are permitted but only three can be by check or draft. The DIDC also decided that telephone transfers to accounts held by the same depositor at the same institution would be counted among the six preauthorized and third-party transfers permitted each month. The minimum denomination of the drafts and the preauthorized or automatic transfers is left to the individual institutions to determine.

The account is open to all depositors and is considered a savings account where reserve requirements are concerned. The Federal Reserve Board has established a zero percent requirement for personal MMDAs and a 3-percent requirement for nonpersonal MMDAs. The reserve percentages are those that will apply when the current phasing-in of new reserve requirements under the Monetary Control Act is completed.

There will be no limit on the number of third party drafts, or on the number or type of other withdrawals or transfers (including automatic and telephone transfers) for the Super NOW account. In addition, there will be no limit to the number of sweeps from this account into other instruments. Super NOW is considered a transactions account and is, therefore, subject to the higher reserve requirements. Initially, this account will only be available to those authorized to hold NOW accounts. However, the DIDC is soliciting comments for 45 days on extending authorization to businesses as well.

FOUR DIRECTORS NAMED

(Continued from page 3)

Company, and director of Southern Pacific Transportation Company, Ticor, and Industrial Indemnity Company. He also serves on the boards of trustees of Pacific Legal Foundation and Samuel Merritt Hospital.

Spencer Eccles is chairman, president and chief executive officer of First Security Corporation of Salt Lake City, a bank holding company. He won his bid for a Class A directors' seat, representing banks with combined capital and surplus of at least $30 million, in a contest with Robert R. Mitchell, President of the United States National Bank of Portland, Oregon.

Eccles serves on the boards of directors of the Salt Lake City branch of the Federal Reserve Bank of San Francisco, Amalgamated Sugar Company, Anderson Lumber Co., Aubrey G. Langston and Co., Inc., Ballet West National Advisory Board, Union Pacific Corporation, and Zion's Cooperative Mercantile Institution. He is treasurer of the University of Utah in addition to being a director of several financial institutions in Utah, Idaho, and Texas.

Togo Tanaka is chairman of Gramercy Enterprises, Inc. of Los Angeles, a real estate holding company. He ran unopposed in his bid for a Class B directors' seat representing non-financial businesses in the 12th District. He was elected by Group Three banks—those with combined capital and surplus of less than $3.5 million. Mr. Tanaka currently serves as a director of the Los Angeles branch of the Federal Reserve Bank of San Francisco, vice president of the Los Angeles Rotary Club (and chairman of its Program Committee), and Advisory Council member of the Los Angeles County Assessor. Mr. Tanaka is also active in many other professional and civic affairs.

Eccles joined the board of directors of the Federal Reserve Bank of Salt Lake City in 1980. He succeeds Frederick G. Larkin, Jr., a Los Angeles bank executive. Tanaka has been serving on the branch office board in Los Angeles since January 1979.