

Federal Reserve Notes

Federal Reserve Bank of San Francisco • June 1985

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POLICY DEVELOPMENTS

Securities Lending

The Federal Reserve Board has announced the adoption of a supervisory policy on securities lending. The statement covers the securities lending of a bank or trust company for its own account as well as the lending of customers' securities held in custody or trust accounts. Matters addressed include the need for full collateralization and daily mark-to-market procedures, formal approvals and credit analyses in selecting borrowers, written agreements with borrowers and lending customers, an adoption of written internal safeguards and review procedures. Guidelines for record keeping and regulatory reporting are also provided.

For further information, please contact our Supervision, Regulation and Credit Department at (415) 974-2238.

Credit Practices Rule Regulation AA

The Federal Reserve Board has announced a final rule amending its Regulation AA – Unfair or Deceptive Acts or Practices – that will carry out the Credit Practices Rule recently adopted by the Federal Trade Commission. All banks except those savings banks that are members of the Federal Home Loan Bank System will be affected by the new rule.

The Board's action, effective **January 1, 1985**, prohibits banks from entering into any consumer credit obligation that contains a confession of judgment clause, a waiver of exemption, an assignment of future wages to the creditor in the event of default, or a security interest in the consumer's household goods other than those purchased with the credit. In addition, the rule prohibits the enforcement of these provisions in a consumer credit obligation purchased by a bank. The rule also forbids the pyramiding of late charges.

In addition, the rule requires a creditor to give notice to cosigners informing them of the nature of their obligation and potential liability.

For further detail, copies of the amendment are available from Corporate Services at (415) 974-2752. For questions concerning the contents of the amendment, please contact David Vandre in Consumer Affairs at (415) 974-2965.

Capital Adequacy Guidelines

The Federal Reserve Board has announced revisions to its guidelines regarding capital adequacy for state member banks and bank holding companies, effective May 15, 1985.

The revised guidelines raise the minimum capital levels for multinational and regional banking organizations. By doing so, they eliminate the disparity in the minimum capital requirements between these larger institutions and smaller community state member banks and bank holding companies by setting a uniform minimum ratio of **primary** capital to total assets of 5.5 percent and a minimum ratio of **total** capital to total assets of 6.0 percent. In general, banking organizations are expected to operate above the minimum primary and total capital levels.

Based on its experience, the Board has continued to include the substantive capital requirements for state member banks and bank holding companies in guidelines rather than in the form of a regulation, and has retained the use of total capital zones or target ranges that help to define various levels of capitalization.

The Board has also included a more detailed definitional section dealing with mandatory convertible securities.

POLICY DEVELOPMENTS (Continued)

For state member banks, the Board has made three changes in its existing capital guidelines to define capital more consistently with the regulations of the OCC and FDIC. Specifically, the Board has amended the capital guidelines for state member banks (but not for bank holding companies):

- to require the automatic deduction of goodwill from primary and total capital
- to eliminate equity commitment notes from primary capital
- to define the capital ratios in terms of average assets rather than period-end figures.

Copies of the Board's notices are available from Corporate Services at (415) 974-2752. For further information, please contact our Supervision, Regulation, and Credit Department at (415) 974-2238.

REGULATIONS AND OPERATIONS UPDATE

Regulation Z Truth in Lending

The Federal Reserve Board has issued for public comment by **July 12, 1985**, proposed amendments to Regulation Z to require lenders to provide more information about adjustable rate mortgages (ARMs).

For more details, copies of the Board's notice are available from Corporate Services at (415) 974-2752. For questions concerning the content of the proposal, please contact David Vandre in Consumer Affairs at (415) 974-2965.

Registration and Monitoring of Securities Transfer Agents

The Securities and Exchange Commission has issued a notice soliciting comments on the registration and monitoring of transfer agents. Comments should be submitted directly to the SEC by **June 17, 1985**.

The proposed revisions and supplements to form TA-1 do not directly relate to transfer agents that are banks, but the proposed new Rule 17 Ac2-2 would require all registered transfer agents to file with the SEC an annual report of their business activities on a proposed Form TA-2.

Revised OTC Stock List

A revised list of over-the-counter (OTC) stocks subject to the Federal Reserve's margin regulations has been published and took effect May 14, 1985. Copies of the list are available from Corporate Services at (415) 974-2752. For further information, please contact David Vandre in Consumer Affairs at (415) 974-2965.

New Price Change Fed Funds Checks

Effective **July 1, 1985**, the Federal Reserve Bank of San Francisco will raise its charge for processing drafts on accounts maintained with Reserve Banks (Fed Funds Checks) from the current \$5.00 to \$7.00 per check. For further information on the Fed Funds pricing or on Federal Reserve Funds Transfer (wire transfer, which is a faster and more economical means of transferring large dollar amounts with same-day settlement), contact your local Financial Services officer.

High Dollar Group Sort Enhanced

In keeping with the aim of refining its High Dollar Group Sort program on an ongoing basis, the Federal Reserve made a number of modifications effective May 30, 1985. The modifications include addition and deletion of presentment points and a small number of adjustments to the routing and transit numbers included in the service. No fees or deadlines are being changed at this time.

The service allows significant opportunities for depository institutions to obtain better availability on checks drawn on certain non-city institutions, and to reduce their total costs incurred in collecting these checks. If you would like further information, please contact the Payments Services officer in your local Federal Reserve office.

Contingency Back-up for FedLine

The Federal Reserve Bank of San Francisco has established alternate methods of ordering currency and coin in the event that the FedLine Cash ordering system is not available for a limited period of time (i.e., one to three days) due to problems such as computer or telephone breakdowns. The alternative ordering methods include a limited number of orders by telephone or telex which must be confirmed in writing on a PT-16 Cash Order form. Additional back-up options include orders via mail or courier service. Institutions located in a Reserve City may wish to bring their prepared PC data diskette directly to the Cash Services Department for processing.

For further information, please contact the Cash Services Manager in your local Federal Reserve office.