Research Department
Federal Reserve
Bank of
San Francisco

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FRBSF Weekly Letter

Augean Stables

In order to improve the regulatory process, the Administration has ordered executive agencies to simplify the language of regulations and to unravel any red tape that might frustrate the attainment of underlying legislative goals. The Federal Reserve and other independent agencies are sharing in this task—with the Fed developing "Project Augeas," named after the mythological king whose stables were cleaned out in a day by Hercules after long years of neglect. The Fed has already begun a substantive review of its 26 regulations, with each Federal Reserve Bank responsible for a specific group of regulations. Each analysis uses a zero-base approach to address issues such as the legal requirements of regulations, the costs and benefits involved, the need to amend the underlying statutes, and the possibility of substituting non-regulatory alternatives for regulations.

Fed's assignment

Legislators can't be expected to cross every "t" and dot every "i" when they put new laws on the books. Instead, Congress assigns an administrative agency the responsibility for devising supplementary regulations that will make a given law work. The Federal Reserve System has received so many of these assignments since its inception in 1914 that its roster of alphabetically designated regulations has now used up the entire alphabet. In fact, the list now extends to Regulation AA. (There is no existing Regulation W.)

The Fed has concentrated its regulatory efforts in the field of bank regulation, but it has also touched on areas of monetary policy, consumer credit and securities credit. While some of the regulations are of recent vintage, others are much-amended versions of rules first issued decades ago. Thus, Fed task forces will redraft the present 26 regulations in an attempt to improve their format, their public benefits, and their relevancy to current policy goals. The revision process is expected to be substantially completed by the end of 1979.

Reasons for regulation

But why are regulations necessary? To some extent, bank regulation is designed to promote competition, but primarily it is designed to promote economic stability. The conventional view is that, because banks accept and invest large volumes of public funds, regulations are needed to restrain behavior that could result in substantial losses to the public. In addition, bank liabilities have been insured by the FDIC since the mid '30s,

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and under such insurance banks may have a built-in incentive to increase their risk beyond the social optimum.

Still, this concept of financial stability concerns attitudes toward risk, which may change over time. Several trends developing in recent decades – the spread of "liability management" practices, the prevalence of low capital ratios, and the expansion of bank holding companies – have demonstrated the banking system's willingness to live with greater risk. These trends thus have attracted increased attention by the regulatory authorities, although all concerned realize that some regulations which stemmed from the Depression Era's overly protective legislation are too restrictive in the present economic environment.

Consumer regulations

Much recent interest has centered around consumer-credit regulations, which were created in the wake of Congress' several attempts to deal with consumer problems, beginning in 1968 with the passage of the "Truth in Lending Act." Lenders generally have been critical of the amount of paperwork generated by several of the regulations dealing with consumer credit (B, C, and Z). But more regulations are almost certain to be developed over time, as Congress deals legislatively with such issues as "redlining," consumer cooperative banks and electronic-banking safeguards.

Most Fed regulations are written by and for professionals, so that a certain amount of jargon can be tolerated. However, a different situation exists with consumer-credit regulations, which should be understandable to the average citizen. Obscurity of language breeds the need to repeat, explain and qualify – and helps to solve the legal profession's unemployment problems. Precision is thus essential in the current regulatory review. Potential borrowers must be made fully aware of their rights through pamphlets and other informational means. But in addition, banks' interests must be protected, through clear statements of lenders' responsibilities under the law.

What consumers know

Today, a decade after the passage of the Truth in Lending Act, about 45 percent of borrowers with auto, appliance, or personal loans don't even know the annual percentage rate on their loans. That represents significant progress, however, because the comparable figure a decade ago was 85 percent. Thus, consumer regulations apparently have had some success in heightening consumers' awareness of their costs of borrowing.

In an attempt to reduce the regulatory burden on lenders while continuing to provide borrowers with ample information, the Senate has passed a Truth-in-Lending Simplification Act which would require the Federal Reserve to issue model disclosure forms. These forms would contain short explanations of such key terms as "annual percentage rate" or "total of payments." The forms would make comparison shopping easier, although they would reduce the amount of information disclosed. The House is considering bills with similar provisions. With developments such as this, and with progress under the Fed's Project Augeas, the goal of simple yet effective regulations may yet be reached.

Joan Walsh

GUIDE TO FED REGULATIONS

A Guide to Federal Reserve Regulations, which gives a general overview of the subject in easy-to-understand terms, is now available through the Federal Reserve Bank of San Francisco. The rules deal with such matters as the use of credit in securities transactions, holding-company activities, consumer-credit transactions, interest on savings deposits, the clearance and settlement of checks, and other payments involving the use of Federal Reserve facilities. For copies of this guide write the Public Information Section, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, CA. 94120. For phone order, call (415) 544-2184.

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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT
(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 9/20/78	Change from 9/13/78	Change from year ago Dollar	Change from year ago Percent
Loans (gross, adjusted) and investments*	117,858	+ 630	+ 16,930	+ 16.77
Loans (gross, adjusted)—total	94,479	+ 450	+ 16,263	+ 20.79
Security loans	1,766	+ 31	+ 9	+ 0.51
Commercial and industrial	27,715	+ 47	+ 3,657	+ 15.20
Real estate	32,892	+ 211	+ 7,041	+ 27.24
Consumer instalment	17,558	+ 71	+ 3,931	+ 28.85
U.S. Treasury securities	9,415	+ 150	+ 947	+ 11.18
Other securities	13,964	+ 30	− 280	− 1.97
Deposits (less cash items)—total*	114,154	− 501	+ 15,833	+ 16.10
Demand deposits (adjusted)	30,756	− 1,236	+ 2,809	+ 10.05
U.S. Government deposits	1,157	+ 681	+ 629	+ 119.13
Time deposits—total*	80,452	+ 272	+ 12,152	+ 17.79
States and political subdivisions	6,485	− 43	+ 1,207	+ 22.87
Savings deposits	31,613	+ 33	− 52	− 0.16
Other time deposits‡	38,719	+ 230	+ 9,614	+ 33.03
Large negotiable CD's	19,682	+ 236	+ 8,211	+ 71.58

Weekly Averages of Daily Figures	Week ended 9/20/78	Week ended 9/13/78	Comparable year-ago period
Member Bank Reserve Position			
Excess Reserves(+)/Deficiency (−)	− 33	+ 47	+ 30
Borrowings	54	11	42
Net free(+)/Net borrowed (−)	− 87	+ 36	− 12
Federal Funds—Seven Large Banks			
Interbank Federal fund transactions			
Net purchases (+)/Net sales(−)	+ 117	+ 1,932	+ 902
Transactions with U.S. security dealers	+ 281	+ 697	+ 426
Net loans (+)/Net borrowings (−)			

*Includes items not shown separately. ‡Individuals, partnerships and corporations.

Editorial comments may be addressed to the editor (William Burke) or to the author. . . .
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