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Proposals to Facilitate the Implementation of Monetary Policy and to Promote Competitive Equality Among Depository Institutions

Statement by

G. William Miller

Chairman, Board of Governors of the Federal Reserve System

before the

Committee on Banking, Finance and Urban Affairs

House of Representatives

January 24, 1979

Mr. Chairman, members of the Committee, the nation's financial system has been undergoing rapid change in recent years, altering the competitive environment in banking and other financial markets and complicating the Federal Reserve's ability to implement monetary policy. Nonmember depository institutions have been growing much more rapidly than member banks. Transactions-type deposit accounts have become more widespread at thrift institutions. And, in general, competition among depository institutions and between those institutions and the open market has become much more intense.

This competition promotes efficiency in the financial system, and banks have been re-assessing their costs and operations. Many, as a result, have become less willing to bear the high cost of cash reserve requirements associated with being a member of the Federal Reserve System. Thus, there has been a steady--and in recent years accelerating--decline in the proportion of bank deposits, especially transaction deposits, subject to Federal reserve requirements. Moreover, the continued development of new transactions-type deposits at nonbank depository institutions will further worsen this situation.

DEVELOPMENTS WEAKEN MONETARY CONTROL

It is essential that the Federal Reserve maintain adequate control over the monetary aggregates if the nation is to succeed in its efforts to curb inflation, sustain economic growth, and maintain the value of the dollar in international exchange markets. The attrition in deposits subject to reserve requirements set by the Federal Reserve weakens the linkage between member bank reserves and the monetary aggregates. As a larger and larger fraction of deposits at banks becomes subject to the diverse reserve requirements set by the 50 states rather than by the Federal Reserve, and as more transactions balances reside at thrift institutions, the relationship between the money supply and reserves controlled by the Federal Reserve will become less and less predictable. Open market operations, the basic tool of monetary policy, therefore are becoming less precise in their application.

Our staff has attempted to assess the extent to which growth of deposits outside the Federal Reserve System would weaken the relationship between reserves and money. Their tentative results are shown in Chart I, which depicts the greater range of short-run variability in M-1 and M-2, with a given level of bank reserves, that would develop as the per cent of deposits held outside the Federal Reserve rises. As more and more deposits are held outside the System, this chart suggests that control of money through the reserve base becomes increasingly uncertain.

USE OF RESERVE REQUIREMENTS HAS BEEN RESTRICTED

With the proportion of banks subject to Federal reserve requirements declining, the ability of the central bank to use changes in reserve requirements as a tool of monetary policy has been increasingly undermined. Changes in reserve ratios not only affect a smaller proportion of deposits today than in the past, but the Board also must weigh the potential impact of its actions on the membership problem--and hence on its ability to maintain monetary control over the longer run--each time it deliberates on the uses of this tool. Such concerns inhibit the Board's freedom of action to conduct monetary policy. If reserve requirements were applied universally, as is proposed in H.R. 7, adjustments in reserve ratios to affect the availability of credit throughout the country, or to influence banks' efforts concerning particular types of deposits, may again become a more viable monetary instrument. Moreover, while open market operations in U.S. Government securities provide the Federal Reserve with a powerful policy instrument, it is possible that conditions could develop in the future--such as a less active market for U.S. Government securities in a period of reduced Federal budgetary deficits--where more flexible adjustment of reserve requirements might be a desirable adjunct in efforts to control the monetary aggregates.

... AS HAS BEEN THE DISCOUNT WINDOW

The effectiveness of the Federal Reserve's administration of the discount window also has been potentially compromised by recent developments. Membership attrition and the growth of transactions balances at nonbank depository institutions have resulted in a shrinking proportion of the financial system having immediate access to the discount window on a day-to-day basis.

The discount window, as the "lender of last resort," provides the payments system with a basic liquidity backup by assuring member banks the funds to meet their obligations. But, if the proportion of institutions having access to this facility continues to decline, individual institutions could be forced to make abrupt adjustments in their lending or portfolio policies, because they could not turn to the window to cushion temporarily the impacts of restrictive monetary policies. Risks that liquidity squeezes would result in bank failures could also increase. Thus, the Federal Reserve may find that its ability to limit growth in money and credit in order to curb inflation was being unduly impeded because the safety valve provided by the discount window was gradually losing its effective coverage.

... AND THE PAYMENTS SYSTEM FACES DETERIORATION

The growth of transactions balances at institutions that do not have access to Federal Reserve clearing services also could lead to a deterioration of the quality of the nation's payments system. Reserve balances held at Federal Reserve Banks are the foundation of the payments mechanism, because these balances are used for making payments and settling accounts between banks. Nonmember deposits at correspondent banks can serve the same purpose, but as more and more of the deposits used for settlement purposes are held outside the Federal Reserve, the banking system becomes more exposed to the risk that such funds might be immobilized if a large correspondent bank outside the Federal Reserve experienced substantial operating difficulties or liquidity problems. A liquidity crisis affecting such a large clearing bank could have widespread damaging effects on the banking system as a whole because smaller banks might become unable to use their clearing balances in the ordinary course of business. The Federal Reserve, of course, is not subject to liquidity risk and therefore serves, as Congress intended, as a completely safe foundation for the payments mechanism.

In sum, the major functions of the Federal Reserve System--to conduct monetary policy in the public interest, to provide backup liquidity and flexibility to the financial system, and to assure a safe and efficient payments mechanism--all have been undermined by recent developments. These developments include, as I've noted earlier, attrition in Federal Reserve membership and the spreading of third-party payment powers to nonbank institutions.

DECLINE IN SYSTEM MEMBERSHIP

For more than 25 years there has been a continual decline in the proportion of commercial banks belonging to the Federal Reserve. The downward trend in the number of member banks has been accompanied by a decline in the proportion of bank deposits subject to Federal reserve requirements, as may be seen from Chart II. As of mid-1978, member banks held less than 72 per cent of total commercial bank deposits, down about 9 percentage points since 1970. Thus, more than one-fourth of commercial bank deposits--and over three-fifths of all banks--are outside the Federal Reserve System.

DUE TO THE EXCESSIVE COST OF MEMBERSHIP

The basic reason for the decline in membership is the financial burden that membership entails. Most nonmember banks and thrift institutions may hold their required reserves in the form of earning assets or in the form of deposits (such as correspondent balances) that would be held in the normal course of business. Member banks, by contrast, must keep their required reserves entirely in non-earning form.

The cost burden of Federal Reserve membership thus consists of the earnings that member banks forego because of the extra amount of non-earning assets that they are required to hold. Of course, member banks are provided with services by Reserve Banks, but the value of these services is insufficient to close the earnings gap between member and nonmember banks.

The Board staff estimates that the aggregate cost burden to member banks of Federal Reserve membership exceeds $650 million annually, based on data for 1977, or about 9 per cent of member bank profits before income tax. The burden of membership is not distributed equally across all sizes of member banks. According to staff estimates, shown in the lower panel of Chart III, the relative burden is greatest for small banks--exceeding 20 per cent of profits for banks with less than $10 million in deposits. Further reductions of reserve requirements within existing statutory limits would do little to eliminate the burden for most classes of banks, especially for the smaller banks.

INEQUITY OF COST BURDEN BORNE BY MEMBER BANKS

The current regulatory structure is arbitrary and unfair because it forces member banks to bear the full burden of reserve requirements. Only member banks must maintain sterile reserve balances, while nonmember banks, which compete with members in the same markets for loans and deposits, and thrift institutions, which increasingly are competing in the same markets, do not face similar requirements. Thus, members are at a competitive disadvantage relative to other depository institutions. Among the major countries in the free world, only in the United States has this legislated inequity been imposed on the commercial banking system. It is no wonder that member banks continue to withdraw from the Federal Reserve.

SPREAD OF THIRD-PARTY PAYMENT POWERS

At the same time, the spread of third-party powers to thrift institutions is further increasing the proportion of transactions balances outside the control of the Federal Reserve. Commercial banks' virtual monopoly on transactions accounts, maintained in the past because of their ability to offer demand deposits, is being eroded. Moreover, recent financial innovations have led to widespread use of interest-bearing transactions accounts at both nonbank depository insitutions and commercial banks. These developments have increased both the costs and competitive pressures on banks, no doubt compelling members to reevaluate the costs and benefits of membership and thus playing a significant role in membership withdrawals.

The payments innovations since 1970 are well know to this Committee, and include limited pre-authorized "bill-payer" transfers as well as telephone transfers from savings accounts at banks and savings and loan associtions, NOW accounts at practically all depository institutions in New England, credit union share drafts, automatic transfers from savings deposits, and the use of electronic terminals to make immediate transfers to and from savings accounts.

Growth of these transactions-related interest-bearing deposits has been most dramatic in recent years. For example, NOW accounts in New England have grown from practically zero in 1974 to 8 per cent of household deposit balances in mid-1978, as shown in Chart IV, and one-third of these NOW deposits are at thrift institutions. The intense competition engendered by the introduction of NOW accounts has been accompanied by an acceleration of member bank attrition in New England to a rate well beyond that of the nation, as shown in Chart V. This increase in member bank withdrawals is clearly not just coincidental.

There is no sign that the intense competition will abate. As shown in Chart VI, savings accounts authorized for automatic transfer have grown rapidly at commercial banks across the country since their introduction November 1; and in New York, NOW accounts, which were authorized November 10 for all depository institutions in the State, have been increasing vigorously. In addition, the Federal Home Loan Bank Board has announced its intention to authorize savings and loan associations to offer Payment Order Accounts, or POAs, which are interest-bearing deposits that can serve many of the same functions as NOWs.

These developments have caused the distinctions among banks and thrifts with respect to the "moneyness" of their deposits to become increasingly blurred and have prompted the Federal Reserve to reevaluate its existing measures of the monetary aggregates and to consider possible readjustments to reflect the changing institutional environment. The most basic measure of transactions balances, M-1, clearly should include more than just currency and commercial bank demand deposits. And, the broader aggregates may be redefined to emphasize distinctions by type or function of deposit rather than by the institution in which the deposit is held. Changing the money measures to reflect economic reality, including the wider role played by depository institutions other than member banks in the monetary system, would be complemented by legislation for universal reserve requirements.

LEGISLATIVE PROPOSALS POINT IN THE RIGHT DIRECTION

The Monetary Control Act of 1979, H.R. 7, introduced by the Chairman of this Committee, represents a constructive approach to improving monetary control and reducing the inequities in markets in which depository institutions are competing.

This bill proposes universal reserve requirements by establishing a reasonable set of reserve ratios applicable to all deposits at commercial banks and to transactions balances at thrift institutions. The definition of transactions accounts includes not only demand deposits, but also the growing number of new third-party payments accounts. Such an approach puts all depository institutions on an equal competitive basis in the market for transactions deposits and helps assure the continuation of a reserve structure needed for the efficient conduct of monetary policy.

Under this legislation all commercial banks and thrift institutions with transactions accounts would have access to the Federal Reserve discount window. The Federal Reserve could then act as a "lender of last resort" to a broader class of depository institutions and thereby enhance the overall safety and soundness of the depository system, as well as providing more flexibility to financial institutions to respond to changing monetary policy. The bill also gives all depository institutions access to Federal Reserve services. With the application of an appropriate pricing schedule for such services, this action should improve the efficiency of the payments mechanism which underlies all of the nation's economic transactions. But I should emphasize that open access to System services, desirable as it may be, is only practicable if the so-called membership problem is resolved, as H.R. 7 does in principle. Without resolution of the membership problem, open access at an explicit price set for all institutions would only exacerbate the problem and lead to even greater reduction in the Federal Reserve's deposit coverage, since services would be available to nonmembers without bearing the burden of reserves.

BUT CERTAIN MODIFICATIONS OF H.R. 7 ARE NECESSARY

The various features of H.R. 7 redress much of the growing competitive inequity among financial institutions and provide a potentially improved framework for enhancing the implementation of monetary policy. However, as drafted, certain provisions of this legislation compromise the improvement in monetary control that universal reserve requirements could foster.

First, the exemption from any reserve requirement of the first $50 million of transactions balances and the first $50 million of other deposits reduces somewhat from present levels the proportion of deposits subject to Federal reserve requirements. More importantly, though, the rather complex procedure for indexing the exemption would mean that the proportion of deposits subject to direct Federal Reserve control could not increase over time. Hence, the Board believes that the bill needs to be modified, and it has a proposal which will both enhance monetary control and preserve for all institutions the earnings protection of the exemption contained in the bill, without increasing the cost to the Treasury from that associated with H.R. 7.

PARTICIPATION IN FEDERAL RESERVE EARNINGS FOR EXEMPTED DEPOSITS

The Board's proposed modification involves establishment of an "Earnings Participation Account" at the Federal Reserve to be held against deposits exempted by H.R. 7 from reserve requirements. To reduce the record-keeping burden, small institutions could be excluded from having to hold this account. This exclusion could amount to the first $10 million of transactions deposits at each institution and $10 million of other deposits at each commercial bank.

For banks, with respect to all deposits, and for other depository institutions, with respect to transactions deposits, their Earnings Participation Account would be held against deposits above the $10 million exclusion and up to the amount of the $50 million exemption in H.R. 7. The size of this Earnings Participation Account for each deposit category would equal the reserve ratio applicable to deposits in that category times the amount of deposit liabilities between $10 million and $50 million. To the extent that an institution holds vault cash in excess of its required reserves on nonexempt deposits, the size of the Earnings Participation Account would be reduced correspondingly. This provision reduces the possibility that institutions would build up their excess reserves, which would tend to increase the slippage between reserves and deposits and thereby diminish monetary control.

Chart VII compares the impacts of the Board's proposal with H.R. 7 and with the current reserve system. As can be seen in the upper left-hand panel, the Board's modification has the advantage of greatly increasing the proportion of commercial bank transactions deposits covered by an account at the Federal Reserve--from the present 73 per cent to 94 per cent. This would be accomplished even though the $10 million exclusion would mean that 45 per cent of all commercial banks, as well as virtually all thrifts, would not be required to hold any account at the Federal Reserve. At the same time, as shown in the right-hand upper panel, the number of banks holding non-earning reserve balances at Federal Reserve Banks would be as low as under H.R. 7. The number would be sharply reduced from the current level of 5,664 to an estimated 656. Finally, the bottom panel indicates that the effect on bank earnings would be virtually the same under either H.R. 7 or the bill as modified by the Board's proposal. The difference would be that under our proposal, banks would hold some assets in the form of the Earnings Participation Account rather than as market investments or loans.

The return on this account would be equivalent to the average return on the Federal Reserve's portfolio, which includes both short- and long-term securities. Some years this return might be higher than banks would earn on other assets--which are likely to be a combination of loans and liquid instruments--and some years less. On average, over time, there should be little difference.

I would like to underline the advantage of bringing transactions-type deposits at thrifts under reserve requirements in this manner. It will be several years, at least, before any significant number of thrift institutions would actually have to hold non-earning reserves at the Fed. Currently, no savings and loan association or credit union has transactions deposits in excess of the $50 million exemption. Only 8 mutual savings banks have transaction accounts in excess of the exemption, and each has vault cash considerably in excess of the reserve requirement that would apply to such deposits.

Attachment A presents a listing of individual member and nonmember commercial banks and MSB's similar to that shown on pages 17 to 65 of the Committee print, Description of the Monetary Control Bill. An asterisk in the far right column indicates that it is a bank added to the list by the Board's proposal--that is, it has deposits above the excluded level but below the exempted level. These added banks would hold an Earnings Participation Account at the Federal Reserve but they would not hold any non-earning required reserves balance at Reserve Banks because their deposits are below the exempted level. Banks without an asterisk were on the committee list before, and their non-earning reserve balance is affected exactly the same as in H.R. 7. Column 4--entitled EPA--shows the amount of the Earnings Participation Account each institution would hold. If this column is zero, the bank at the end of 1977 had sufficient vault cash in excess of its required reserves so that it would have had no Earnings Participation Account.

Thus, the additional institutions brought under Federal Reserve control would keep the earnings benefit of the exemption level proposed by H.R. 7, since they would participate in the Federal Reserve's earnings on the balances that they would be required to maintain in the Earnings Participation Account. Moreover, the cost to the Treasury would be no different under the Board's proposal than under the proposed bill. Under the Board's plan, the Federal Reserve would earn additional interest on the greater amount of balances that would be held at Reserve Banks, thereby offsetting the cost of the depository institutions' Earnings Participation Account.

In sum, the Board proposal would have the clear advantage of expanding significantly the coverage subject to reserve requirements, thereby enhancing the implementation of monetary policy. At the same time, it would sustain the earnings benefits of the exemption level for all depository institutions--at no additional cost to the Treasury. Finally, exclusion of the first $10 million of transactions-type deposits and $10 million of other deposits from the earnings participation requirement would reduce the record-keeping burden of the proposal, with relatively modest policy impact.

Attachment B provides language for a series of amendments to H.R. 7 that would implement the Board's proposed modification.

Another modification proposed by the Board concerns affiliated institutions. Providing an exemption from required reserves of $100 million in deposits gives an incentive to banks to form new, affiliated commercial banking entities in lieu of branch offices in order to avoid the requirement to hold sterile reserves. A bank as large as $100 million would already enjoy many of the economies of scale associated with larger banking operations. Thus, the cost of creating new banks would be small relative to the benefit of avoiding reserve requirements. To eliminate this potential loophole, the Board proposes that affiliated commercial banks be limited to a total exemption equal to the number of such institutions as of August 1, 1978 times the exemption levels specified in the bill. Such an amendment to H.R. 7 as it would be applied to the Board's proposal is presented in Attachment C. Additional more technical amendments to clarify reporting requirements and to conform other provisions of the Federal Reserve Act are also attached for the Committee's consideration.

Mr. Chairman, I want to thank you for the opportunity to present the Federal Reserve's view on the Monetary Control Act of 1979 this afternoon. This bill deals constructively with issues of crucial importance to the long-run viability of the nation's central bank and to the health of our financial system. The problems are difficult, but considerable progress has been made in recent months toward achieving a solution that promotes the public interest.

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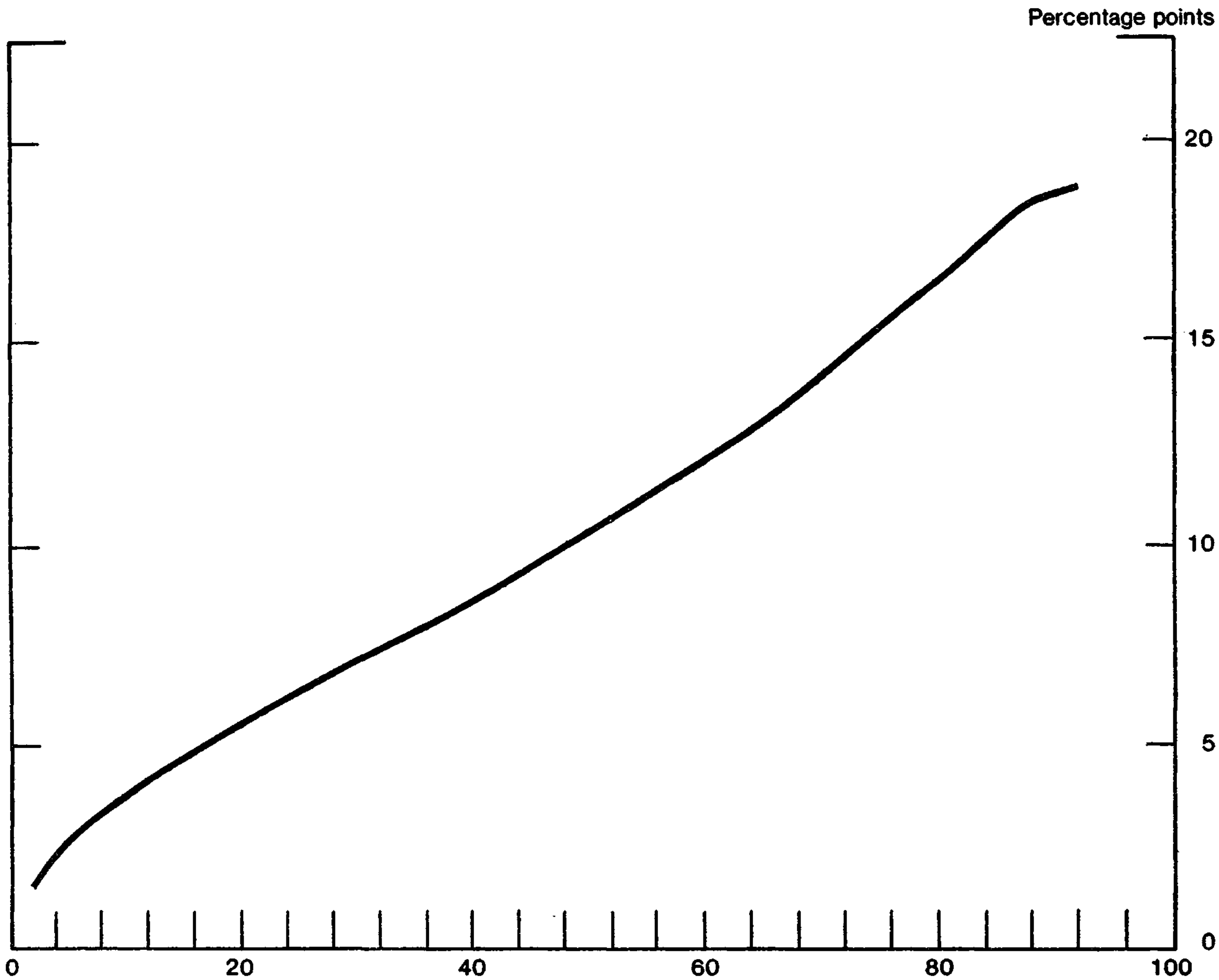
Chart I

Effect of Member Bank Attrition On Short-Run Predictability of Monetary Aggregates

Absolute Range of Unpredictable Variability in Two-month Growth Rates



Per cent of Bank Deposits Not Subject to Reserve Requirements

Chart II

Percentage of U.S. Commercial Banks and Deposits in the Federal Reserve System

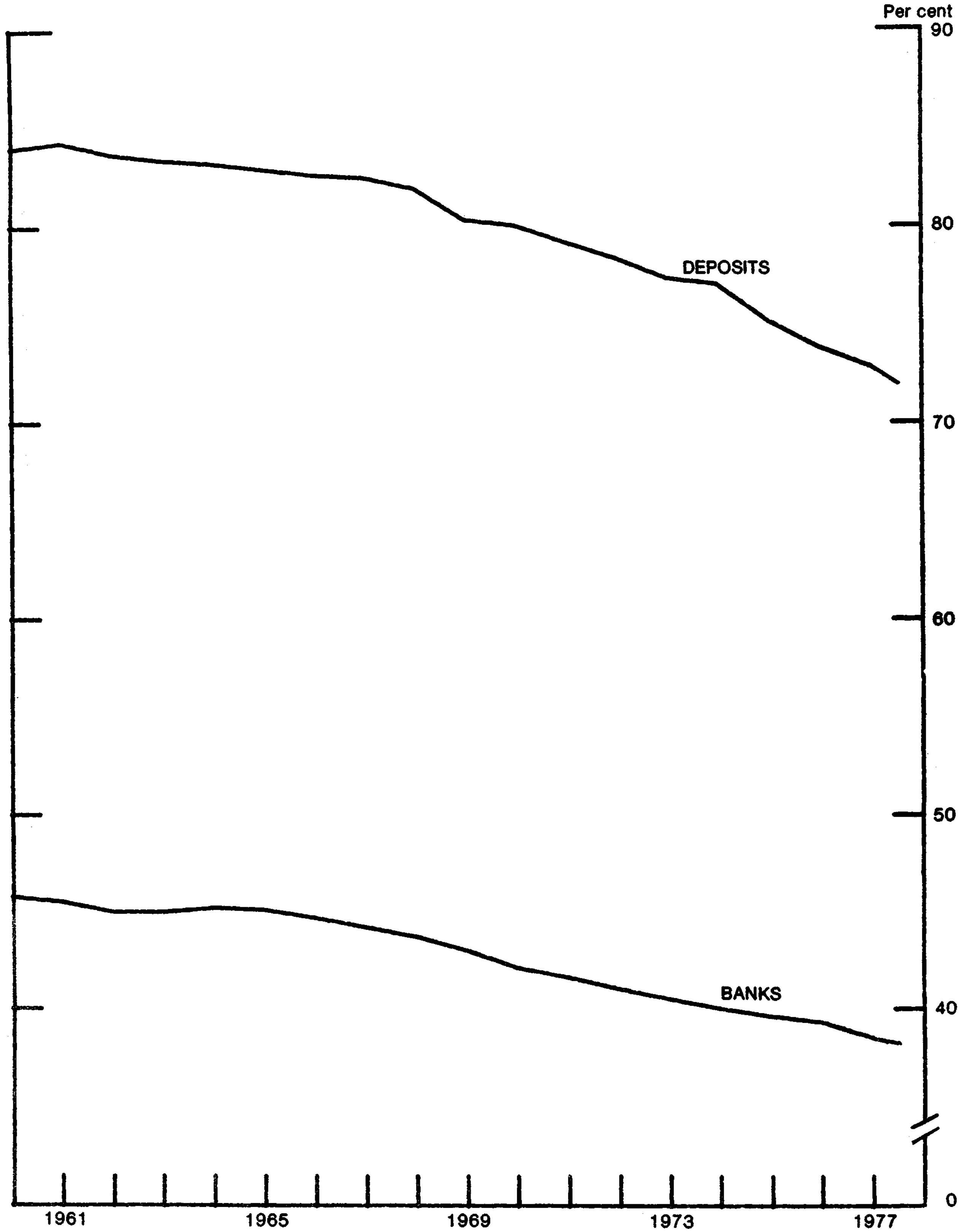


Chart III

Estimated Burden of Federal Reserve Membership

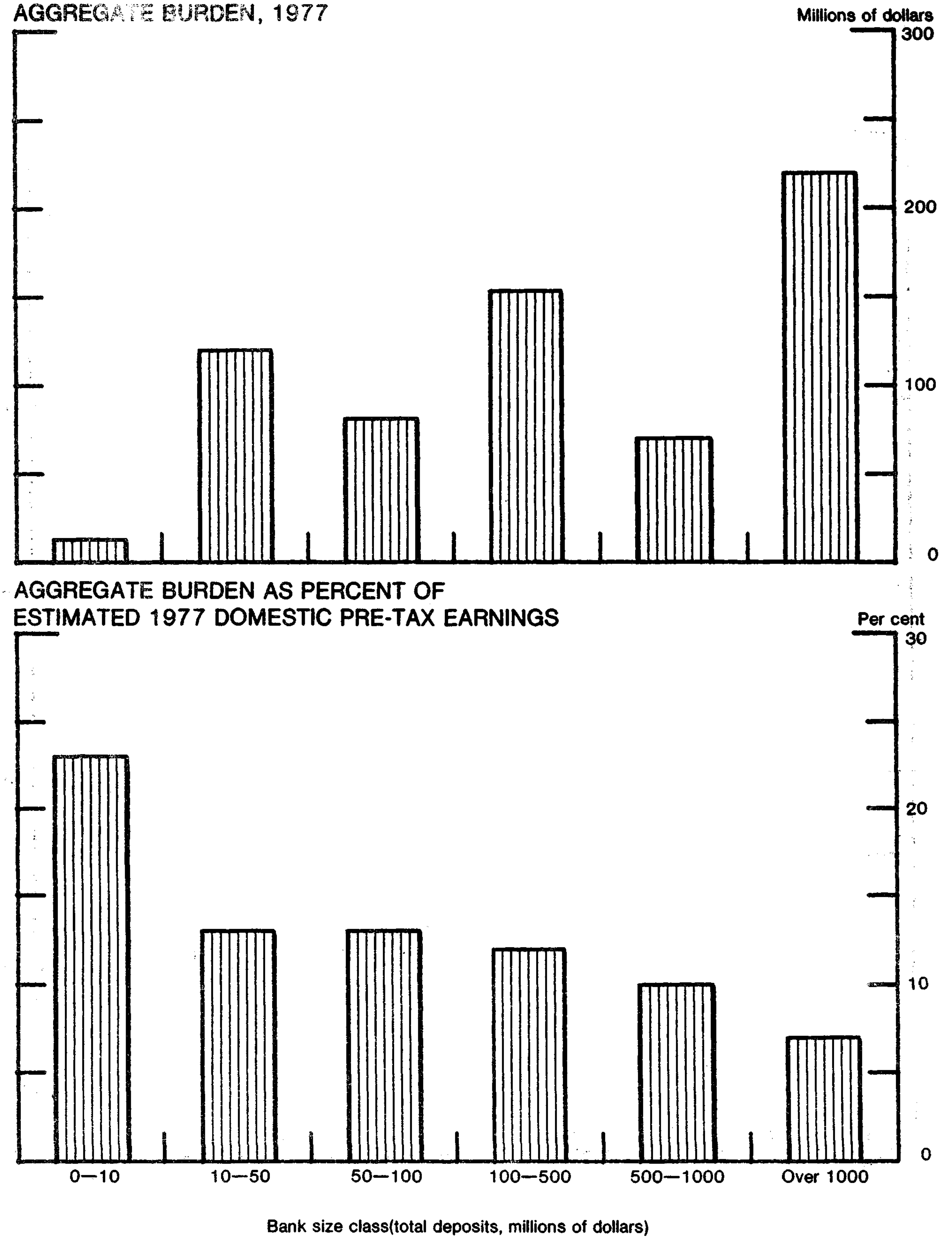


Chart IV

NOW Accounts as Percentage of Household Deposit Balances in New England

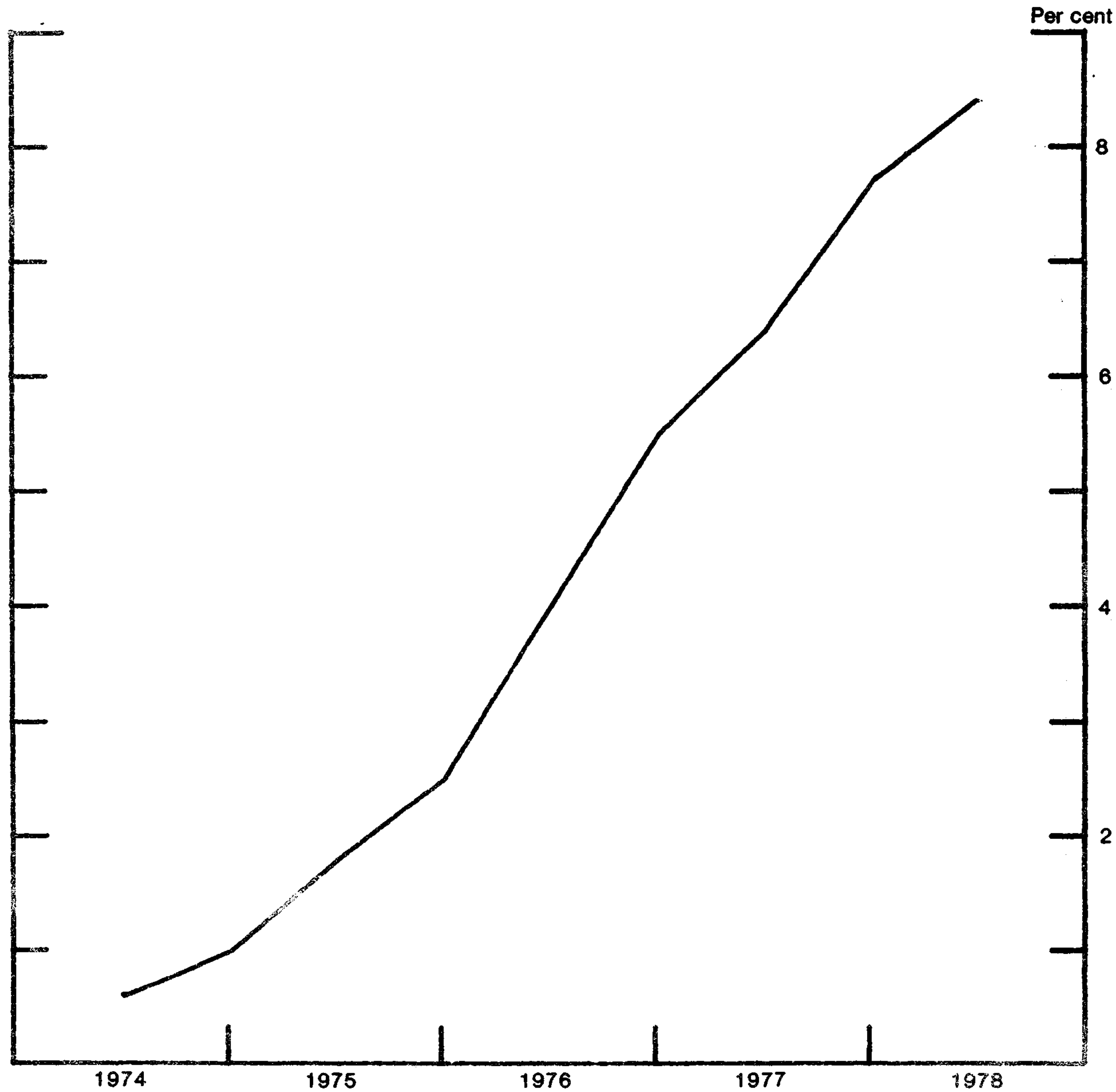


Chart V

Percentage of New England Commercial Banks and Deposits in the Federal Reserve System

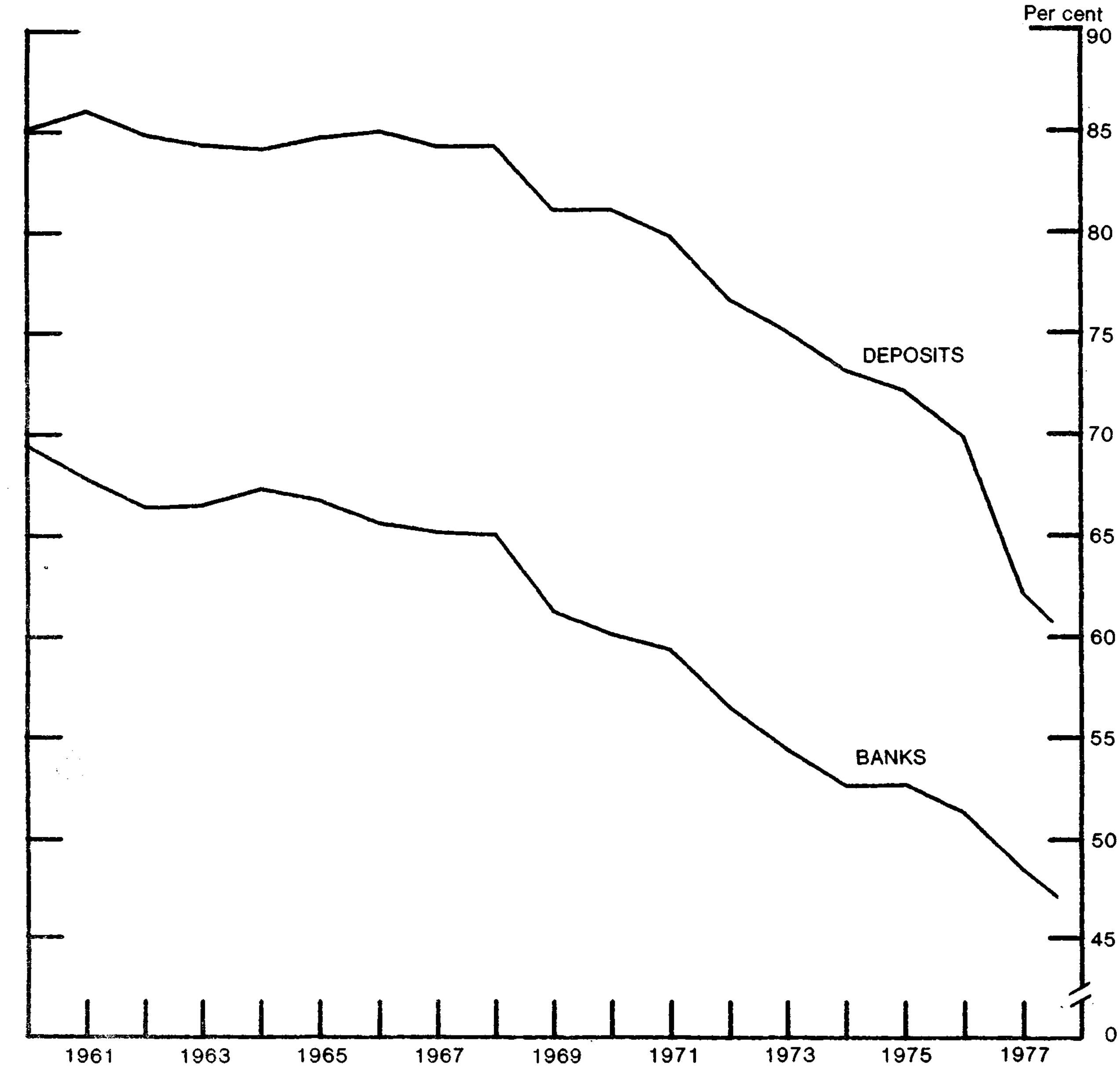
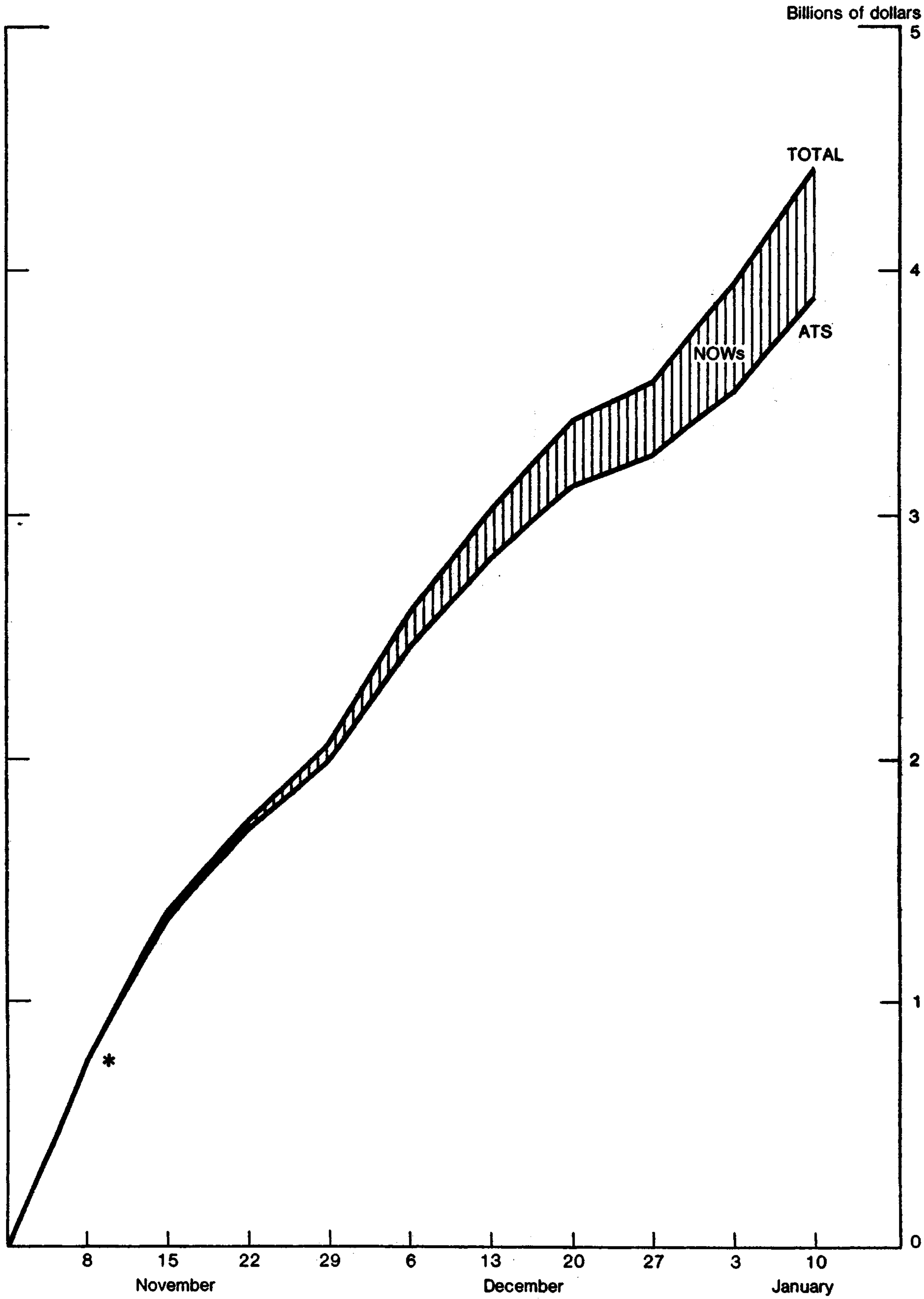


Chart VI

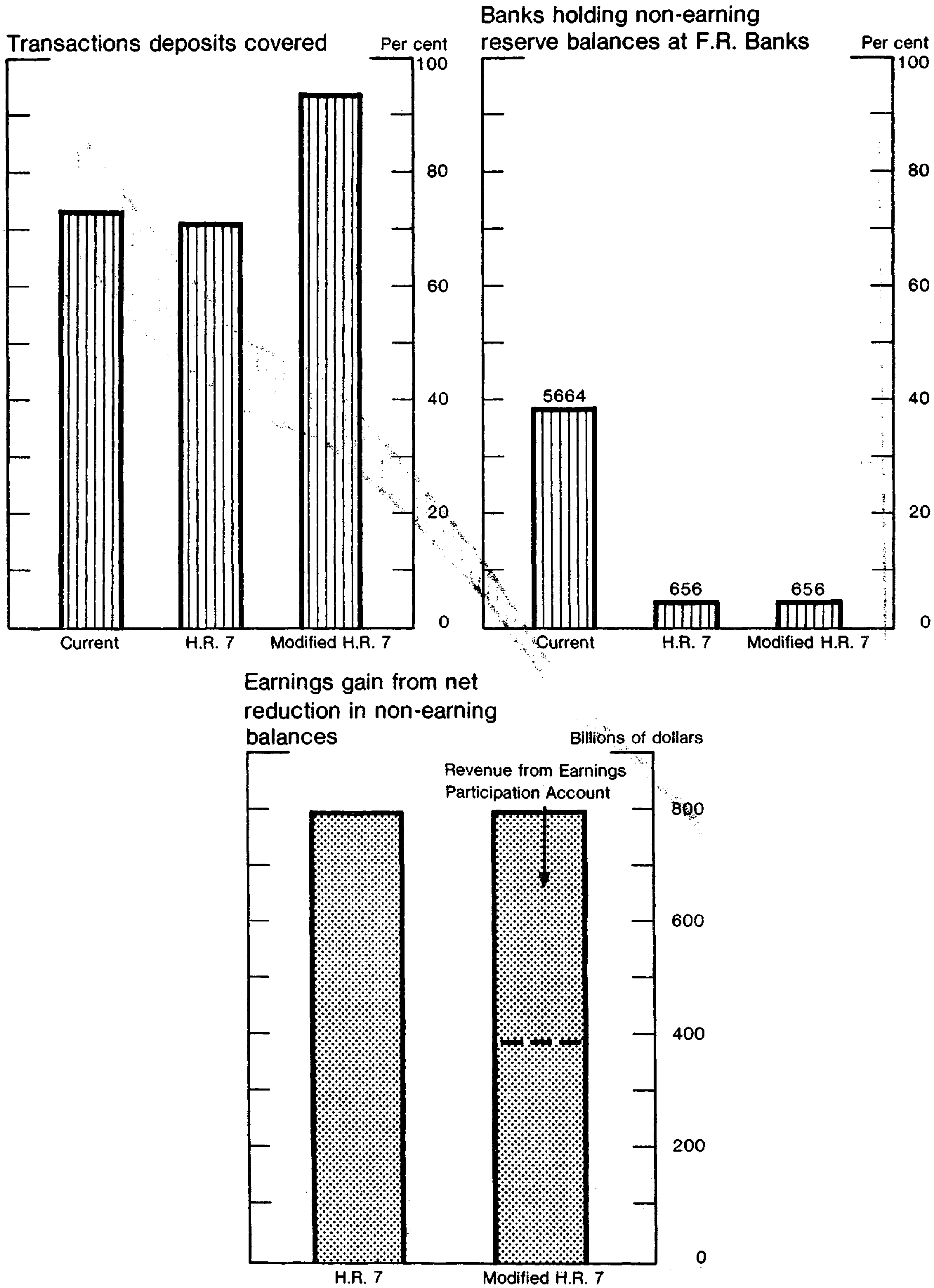
ATS Accounts Nationwide and NOW Accounts in New York State



* NOW account authorization not effective until November 10.

Chart VII

Effects of Proposals on Commercial Banks



Based on December 1977 deposits.

Attachment A to

<u>Proposals to Facilitate the Implementation</u>

<u>of Monetary Policy and to Promote Competitive</u>

<u>Equality Among Depository Institutions</u>

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Attachment A

Benefit to Banks Covered by Modified H.R. 7

Key to Column Headings

(1)	TDEP	Total domestic deposits as of the end of 1977.
(2)	VLTCSH	Vault cash as of the end of 1977.
(3)	1977 REQBAL	Estimated amount of reserve balances as of the end of 1977 required by current law to be held at Federal Reserve Banks (i.e., required reserves minus vault cash).
(4)	NEW EPA	Amount that would have been held in Earnings Participation Account at the end of 1977 under modified H.R. 7.
(5)	NEW REQBAL	New required reserves minus vault cash that would have been held at the F.R. Banks under modified H.R. 7. (This amount is the same as under H.R. 7.)
(6)	DIF	Reduction in non-earnings required reserve balances at Federal Reserve Banks that would have been held under modified H.R. 7. A negative amount represents an increase. (This amount is the same as under H.R. 7.)
(7)	*	A bank covered by modified H.R. 7 but not by H.R. 7.

Examples for Member Banks

(A) The table shows that the first bank listed, Albertsville National Bank, had deposits of $21,933,000 in December 1977. Vault cash amounted to $366,000, and required non-earning balances at the Federal Reserve were $641,000.

Under modified H.R. 7, this bank, as of the end of 1977, would not have had to hold any non-interest earning balances at the Federal Reserve because neither its transactions-type deposits nor the sum of its other deposits was greater than $50 million. Albertsville National therefore would have saved the $641,000 it held in non-interest bearing reserve balances at the Federal Reserve at the end of 1977. This is the same savings as under H.R. 7.

Since its vault cash is in excess of required reserves (which would be zero), all vault cash would have been counted in lieu of the Earnings Participation Account. The Earnings Participation Account thus would have been zero because its vault cash was greater than the reserve ratios times the non-excluded deposits (deposits in excess of $10 million per account category).

(B) As of December 1977, Birmingham Trust National Bank had domestic deposits of $828,915,000, vault cash of $6,100,000 and sterile balances at the Federal Reserve Bank of $39,847,000. Because it had both transactions deposits and other deposits well in excess of the $50,000,000 exemptions, Birmingham Trust, under modified H.R. 7, would have had to meet reserve requirements with all of its vault cash and reserve balances of $27,342,000. The difference between the actual 1977 sterile balances and those under modified H.R. 7 result in a savings of $12,505,000--the same as under H.R. 7.

In this case, no vault cash would have been applied in lieu of the Earnings Participation Account because required reserve would have exceeded the bank's holdings of vault cash. Thus, the Earnings Participation Account of Birmingham Trust will equal the reserve ratio on transactions deposits (9.5 per cent) times $40 million plus the weighted reserve ratio on other deposits times $40 million, or $5,162,000.

Examples for Nonmember Banks

(A) The first nonmember bank listed is The Bank of Abbeville, which had total deposits, as of the end of 1977, of $23,421,000 and vault cash of $240,000. Under existing law, no nonmember bank has any Federal reserve requirements. Under modified H.R. 7, this bank would have continued to have no Federal reserve requirements because its transactions deposits and other deposits are well below the $50 million exemption level per account category. The same result would occur under H.R. 7.

Since vault cash of the Bank of Abbeville would have been in excess of required reserves (which are zero), all vault cash would have been counted in lieu of the Earnings Participation Account. Thus, this bank would have had no Earnings Participation Account because vault cash was greater than the reserve ratio times the non-excluded deposits.

(B) Central Bank of Birmingham had total deposits of $510,662,000 in December 1977. Vault cash was $3,050,000, and it had no Federal reserve requirements. Under the modified H.R. 7, required reserves would have been covered by its vault cash holdings plus $17,509,000 in sterile reserve balances. This results in a net increase in nonearnings reserve balances of $17,509,000, the same as under H.R. 7.

In this case, no vault cash would have been applied in lieu of the Earnings Participation Account because required reserves would have exceeded the bank's holdings of vault cash. Thus, the Central Bank of Birmingham would have maintained, under modified H.R. 7, an Earnings Participation Account of 9.5 per cent times $40 million in transaction balances plus the weighted average reserve ratios on $40 million of other deposits, or $5,459,000.

NOTE: The full listing of Attachment A is 200 pages long. Only a few representative pages are provided here. The complete attachment is available upon request.

MEMBER BANKS | BENEFIT TO BANKS COVERED BY MODIFIED H.R. 7 | 1/17/79

DSB	NAME	LOCATION		(1) TDEP	(2) VLTCSH	(3) 1977 REQBAL	(4) NEW EPA	(5) NEW REQBAL	(6) DIF (3)-(5)	
6010020	ALBERTVILLE NATL BANK	ALBERTVILLE	AL	21933	366	641	0	0	641	*
6010040	FIRST NB OF ALEXANDER CITY	ALEXANDER CITY	AL	42342	1349	881	0	0	881	*
6010050	ALICEVILLE BK & TR CO	ALICEVILLE	AL	16979	251	506	0	0	506	*
6010090	ANNISTON NATIONAL BANK	ANNISTON	AL	57239	700	1829	729	0	1829	*
6010100	COMMERCIAL NB OF ANNISTON	ANNISTON	AL	58006	1039	1713	267	0	1713	*
6010110	FIRST NB OF ANNISTON	ANNISTON	AL	81102	1814	2074	723	0	2074	
6010180	FIRST AL BANK OF ATHENS NA	ATHENS	AL	36876	583	1482	144	0	1482	*
6010200	FIRST NB OF ATMORE	ATMORE	AL	32111	387	1034	0	0	1034	*
6010230	AUBURN NATIONAL BANK	AUBURN	AL	26805	320	875	0	0	875	*
6010240	CENTRAL BANK OF AUBURN NA	AUBURN	AL	22887	537	522	0	0	522	*
6010255	1ST AL BK OF BALDWIN CTY NA	BAY MINETTE	AL	23484	753	401	0	0	401	*
6010300	BIRMINGHAM TRUST NAT BK	BIRMINGHAM	AL	828915	6100	39847	5162	27342	12505	
6010308	CITY NB OF BIRMINGHAM	BIRMINGHAM	AL	109328	1216	4870	3314	0	4870	
6010320	FIRST NB OF BIRMINGHAM	BIRMINGHAM	AL	1120037	14329	58436	5363	41691	16745	
6010325	NATIONAL BANK OF COMMERCE	BIRMINGHAM	AL	23563	531	658	0	0	658	*
6010339	SOUTHERN NATIONAL BANK	BIRMINGHAM	AL	51975	732	2045	744	0	2045	*
6010360	NATIONAL BK OF BOAZ	BOAZ	AL	17487	240	516	0	0	516	*
6010410	FIRST NATIONAL BANK	BREWTON	AL	41640	373	1520	296	0	1520	*
6010455	FIRST NB OF BUTLER	BUTLER	AL	24604	508	378	0	0	378	*
6010460	CENTRAL STATE BANK	CALERA	AL	15260	225	406	0	0	406	*
6010480	CAMDEN NATIONAL BANK	CAMDEN	AL	20083	259	633	0	0	633	*
6010570	FIRST NAT BK OF CLANTON	CLANTON	AL	18557	263	562	0	0	562	*
6010580	PEOPLES SAVINGS BANK	CLANTON	AL	19740	327	640	0	0	640	*
6010630	FIRST NAT BK OF COLUMBIANA	COLUMBIANA	AL	25163	284	1087	0	0	1087	*
6010660	LEETH NAT BK OF CULLMAN	CULLMAN	AL	27662	673	764	0	0	764	*
6010670	PARKER BANK AND TRUST CO	CULLMAN	AL	18711	243	713	0	0	713	*
6010688	CENTRAL BANK OF ALABAMA NA	DECATUR	AL	511589	7452	20913	4944	10465	10448	
6010690	FIRST NAT BANK OF DECATUR	DECATUR	AL	64544	996	2833	1268	0	2833	*
6010735	CITY NATIONAL BANK OF DOTHAN	DOTHAN	AL	31591	688	1035	0	0	1035	*
6010740	FIRST ALABAMA BK OF DOTHAN	DOTHAN	AL	84933	1023	3209	2024	0	3209	
6010750	FIRST NAT BK OF DOTHAN	DOTHAN	AL	116332	3281	2301	724	0	2301	
6010825	FIRST NB OF EUFAULA	EUFAULA	AL	16235	439	211	0	0	211	*
6010850	FIRST NAT BK OF BALDWIN CTY	FAIRHOPE	AL	46304	619	1593	252	0	1593	*
6010880	FIRST NB OF FAYETTE	FAYETTE	AL	18242	698	180	0	0	180	*
6010910	FIRST NB OF FLORENCE	FLORENCE	AL	135004	2336	4698	3099	0	4698	
6010915	SHOALS NAT BK OF FLORENCE	FLORENCE	AL	21105	399	503	0	0	503	*
6010970	AMERICAN NB OF GADSDEN	GADSDEN	AL	61029	1443	1787	287	0	1787	*
6010985	1ST AL BK OF GADSDEN NA	GADSDEN	AL	38170	785	1165	0	0	1165	*
6011050	FIRST NB OF GREENVILLE	GREENVILLE	AL	46542	768	1441	0	0	1441	*
6011090	FIRST NB OF GUNTERSVILLE	GUNTERSVILLE	AL	39060	599	1212	5	0	1212	*
6011115	MARION COUNTY BANKING CO	HAMILTON	AL	32392	534	1398	108	0	1398	*
6011150	HEADLAND NATIONAL BANK	HEADLAND	AL	23771	240	762	0	0	762	*
6011163	AMERICAN NATIONAL BANK	HUNTSVILLE	AL	39452	785	1323	31	0	1323	*
6011170	1ST AL BK OF HUNTSVILLE NA	HUNTSVILLE	AL	155664	3812	4962	3314	0	4962	
6011180	HENDERSON NB OF HUNTSVILLE	HUNTSVILLE	AL	67626	1679	2072	587	0	2072	*
6011190	PEOPLES NB OF HUNTSVILLE	HUNTSVILLE	AL	38474	1122	861	0	0	861	*

DSB	NAME	LOCATION		(1) TDEP	(2) VLTCSH	(3) 1977 REQBAL	(4) NEW EPA	(5) NEW REQBAL	(6) DIF (3)-(5)	
6011230	FIRST NB OF JACKSONVILLE	JACKSONVILLE	AL	17983	424	393	0	0	393	*
6011240	FIRST NAT BANK OF JASPER	JASPER	AL	78291	1965	2904	1006	0	2904	*
6011265	VALLEY NATIONAL BANK	LANETT	AL	23227	620	454	0	0	454	*
6011370	AMERICAN NAT BANK & TRUST CO	MOBILE	AL	155471	3092	6187	4390	0	6187	
6011380	FIRST NAT BANK OF MOBILE	MOBILE	AL	423921	8914	15980	5648	8086	7894	
6011390	MERCHANTS NAT BANK OF MOBILE	MOBILE	AL	449267	6743	20317	5366	11275	9042	
6011410	MONROE COUNTY BANK	MONROEVILLE	AL	22291	344	709	0	0	709	*
6011430	ALABAMA NB OF MONTGOMERY	MONTGOMERY	AL	114393	1872	4843	3211	0	4843	
6011437	CENTRAL BANK OF MONTGOMERY	MONTGOMERY	AL	88865	2151	2067	789	0	2067	*
6011439	EXCHANGE NB OF MONTGOMERY	MONTGOMERY	AL	20118	390	439	0	0	439	*
6011440	1ST AL BK OF MONTGOMERY NA	MONTGOMERY	AL	395276	6875	15234	5317	7189	8045	
6011448	SOUTHERN BANK NA	MONTGOMERY	AL	14543	283	295	0	0	295	*
6011450	UNION BANK AND TRUST COMPANY	MONTGOMERY	AL	196100	2285	7707	5119	654	7053	
6011500	CITIZENS BANK	ONEONTA	AL	19859	269	567	0	0	567	*
6011510	FARMERS NB OF OPELIKA	OPELIKA	AL	30744	953	506	0	0	506	*
6011520	FIRST NAT BANK OF OPELIKA	OPELIKA	AL	20000	284	670	0	0	670	*
6011540	FIRST NATIONAL BANK OF OPP	OPP	AL	45651	421	1445	0	0	1445	*
6011542	CENTRAL BANK OF OXFORD	OXFORD	AL	33220	901	502	0	0	502	*
6011543	FIRST CITY NAT BK OF OXFORD	OXFORD	AL	14647	151	411	0	0	411	*
6011586	FIRST ALA BK OF PHENIX CY NA	PHENIX CITY	AL	17787	475	361	0	0	361	*
6011620	FIRST NAT BANK OF PIEDMONT	PIEDMONT	AL	14478	192	344	0	0	344	*
6011648	CENTRAL BANK OF MOBILE NA	PRICHARD	AL	51594	1228	871	0	0	871	*
6011750	FIRST NAT BK OF RUSSELLVILLE	RUSSELLVILLE	AL	46242	520	1639	156	0	1639	*
6011770	FIRST NATIONAL BANK	SCOTTSBORO	AL	42024	671	1427	40	0	1427	*
6011790	CITY NATIONAL BANK OF SELMA	SELMA	AL	38509	739	1029	0	0	1029	*
6011795	FIRST AL BANK OF SELMA NA	SELMA	AL	39779	770	1020	0	0	1020	*
6011800	PEOPLES BANK AND TRUST CO	SELMA	AL	64526	1199	1921	589	0	1921	*
6011827	FIRST COLBERT NATIONAL BANK	SHEFFIELD	AL	27883	482	841	0	0	841	*
6011850	FIRST NAT BANK OF STEVENSON	STEVENSON	AL	20099	373	402	0	0	402	*
6011880	CITY NAT BANK OF SYLACAUGA	SYLACAUGA	AL	22031	431	611	0	0	611	*
6011890	FIRST NAT BANK IN SYLACAUGA	SYLACAUGA	AL	22119	377	718	0	0	718	*
6011900	ISBELL NAT BK OF TALLADEGA	TALLADEGA	AL	30963	463	882	0	0	882	*
6011910	TALLADEGA NATIONAL BANK	TALLADEGA	AL	33854	951	853	0	0	853	*
6011960	FIRST FARMERS AND MERCHANTS	TROY	AL	31083	764	620	0	0	620	*
6011980	1ST AL BK OF TUSCALOOSA NA	TUSCALOOSA	AL	104494	1986	4227	2404	0	4227	
6011990	FIRST NAT BK OF TUSCALOOSA	TUSCALOOSA	AL	162516	2589	6567	4733	0	6567	
6012000	FIRST NB IN TUSCUMBIA	TUSCUMBIA	AL	32733	769	732	0	0	732	*
6012010	ALABAMA EXCHANGE BANK	TUSKEGEE	AL	19077	344	609	0	0	609	*
6012130	FIRST NAT BK OF WETUMPKA	WETUMPKA	AL	36451	563	1079	0	0	1079	*

OF 85 BANKS AFFECTED IN STATE 51 HAVE NO EARNINGS PARTICIPATION ACCOUNT OR REQUIRED RESERVE BALANCE
27 HAVE NO REQURED RESERVE BALANCE

NONMEMBER BANKS   BENEFIT TO BANKS COVERED BY MODIFIED H.R. 7   1/17/79

DSB	NAME	LOCATION		(1) TDEP	(2) VLTCSH	(3) 1977 REQBAL	(4) NEW EPA	(5) NEW REQBAL	(6) DIF (3)-(5)	
6010010	BANK OF ABBEVILLE	ABBEVILLE	AL	23421	240	0	0	0	0	*
6010015	FIRST BANK OF ALABASTER	ALABASTER	AL	15370	374	0	0	0	0	*
6010030	ALEXANDER CITY BANK	ALEXANDER CITY	AL	19940	340	0	0	0	0	*
6010065	CITIBANC OF AL ANDALUSIA AL	ANDALUSIA	AL	29491	362	0	0	0	0	*
6010070	COMMERCIAL BANK	ANDALUSIA	AL	40644	502	0	0	0	0	*
6010120	BANK OF ARAB	ARAB	AL	17585	282	0	0	0	0	*
6010123	SECURITY BANK AND TRUST CO	ARAB	AL	16533	454	0	0	0	0	*
6010190	BANK OF ATMORE	ATMORE	AL	32781	298	0	20	0	0	*
6010205	EXCHANGE BANK	ATTALLA	AL	16694	267	0	0	0	0	*
6010229	AUBURN BANK & TRUST CO	AUBURN	AL	14606	212	0	0	0	0	*
6010250	BALDWIN COUNTY BANK	BAY MINETTE	AL	24743	436	0	0	0	0	*
6010258	FIRST ALA BK OF MOBILE CTY	BAYOU LA BATRE	AL	18528	383	0	0	0	0	*
6010295	BANK OF THE SOUTHEAST	BIRMINGHAM	AL	28729	802	0	0	0	0	*
6010305	CENTRAL BANK OF BIRMINGHAM	BIRMINGHAM	AL	510662	3050	0	5459	17509	-17509	
6010310	FIRST AL BANK OF BIRMINGHAM	BIRMINGHAM	AL	319352	6672	0	5170	3201	-3201	
6010323	METROBANK	BIRMINGHAM	AL	34024	667	0	0	0	0	*
6010350	BANK OF BLOUNTSVILLE	BLOUNTSVILLE	AL	21242	304	0	0	0	0	*
6010370	SAND MOUNTAIN BANK	BOAZ	AL	28540	582	0	0	0	0	*
6010390	BANK OF BREWTON	BREWTON	AL	22737	457	0	0	0	0	*
6010450	CHOCTAW BANK OF BUTLER	BUTLER	AL	24032	333	0	0	0	0	*
6010520	CHEROKEE COUNTY BANK	CENTRE	AL	26687	402	0	0	0	0	*
6010530	FARMERS AND MERCHANTS BANK	CENTRE	AL	32458	326	0	28	0	0	*
6010680	BANK OF DADEVILLE	DADEVILLE	AL	16584	282	0	0	0	0	*
6010693	FIRST STATE BK OF DECATUR	DECATUR	AL	36175	587	0	0	0	0	*
6010720	ROBERTSON BANKING CO	DEMOPOLIS	AL	25302	541	0	0	0	0	*
6010780	ELBA EXCHANGE BANK	ELBA	AL	20833	212	0	0	0	0	*
6010805	CITIZENS BANK	ENTERPRISE	AL	31130	308	0	146	0	0	*
6010810	ENTERPRISE BANKING COMPANY	ENTERPRISE	AL	58470	487	0	818	0	0	*
6010820	EUFAULA BANK AND TRUST CO	EUFAULA	AL	31237	278	0	29	0	0	*
6010870	CITIZENS BANK	FAYETTE	AL	18426	312	0	0	0	0	*
6010890	ESCAMBIA COUNTY BANK	FLOMATON	AL	18092	229	0	0	0	0	*
6010920	FARMERS AND MERCHANTS BANK	FOLEY	AL	27402	387	0	0	0	0	*
6010922	SOUTH BALDWIN BANK	FOLEY	AL	22471	328	0	0	0	0	*
6010925	FORT PAYNE BANK	FORT PAYNE	AL	23507	492	0	0	0	0	*
6010930	FORT DEPOSIT BANK	FORT DEPOSIT	AL	19465	306	0	0	0	0	*
6010960	ALABAMA CITY BANK	GADSDEN	AL	35235	715	0	0	0	0	*
6010980	EAST GADSDEN BANK	GADSDEN	AL	25700	248	0	0	0	0	*
6010995	AMERICAN BANK	GENEVA	AL	15812	282	0	0	0	0	*
6011030	CITIZENS BANK	GENEVA	AL	20872	123	0	0	0	0	*
6011055	GREENVILLE BANK	GREENVILLE	AL	23359	597	0	0	0	0	*
6011080	1ST AL BANK OF GUNTERSVILLE	GUNTERSVILLE	AL	23018	345	0	0	0	0	*
6011110	TRADERS AND FARMERS BANK	HALEYVILLE	AL	43308	675	0	0	0	0	*
6011140	CITIZENS BANK OF HARTSELLE	HARTSELLE	AL	25051	385	0	0	0	0	*
6011143	FIRST AL BANK OF HARTSELLE	HARTSELLE	AL	20928	502	0	0	0	0	*
6011160	BANK OF HEFLIN	HEFLIN	AL	29855	574	0	0	0	0	*
6011165	BANK OF HUNTSVILLE	HUNTSVILLE	AL	48563	838	0	0	0	0	*

DSB	NAME	LOCATION		(1) TDEP	(2) VLTCSH	(3) 1977 REQBAL	(4) NEW EPA	(5) NEW REQBAL	(6) DIF (3)-(5)	
6011220	JACKSON BANK AND TRUST CO	JACKSON	AL	23446	422	0	0	0	0	*
6011225	MERCHANTS BANK	JACKSON	AL	20138	411	0	0	0	0	*
6011237	CENTRAL BK OF WALKER CTY	JASPER	AL	17827	682	0	0	0	0	*
6011270	BANK OF LEXINGTON	LEXINGTON	AL	22204	236	0	0	0	0	*
6011300	MC MILLAN AND COMPANY BANKER	LIVINGSTON	AL	17850	448	0	0	0	0	*
6011310	LUVERNE BANK AND TRUST CO	LUVERNE	AL	17821	241	0	0	0	0	*
6011350	MARION BANK AND TRUST CO	MARION	AL	20390	323	0	0	0	0	*
6011376	COMMERCIAL GUARANTY BANK	MOBILE	AL	70466	1160	0	1125	0	0	*
6011420	MERCHANTS AND PLANTERS BANK	MONTEVALLO	AL	15553	161	0	0	0	0	*
6011460	BANK OF MOULTON	MOULTON	AL	22675	675	0	0	0	0	*
6011470	CITIZENS BANK	MOULTON	AL	19172	382	0	0	0	0	*
6011505	BANK OF EAST ALABAMA	OPELIKA	AL	34333	921	0	0	0	0	*
6011550	BANK OF OZARK	OZARK	AL	39381	673	0	0	0	0	*
6011565	PEOPLES BANK	PELL CITY	AL	18146	411	0	0	0	0	*
6011585	F&M BANK OF RUSSELL CTY	PHENIX CITY	AL	17640	524	0	0	0	0	*
6011590	PHENIX GIRARD BANK	PHENIX CITY	AL	21856	674	0	0	0	0	*
6011610	FARMERS AND MERCHANTS BANK	PIEDMONT	AL	13907	212	0	0	0	0	*
6011640	BANK OF PRATTVILLE	PRATTVILLE	AL	36125	686	0	0	0	0	*
6011649	COOSA VALLEY BANK	RAINBOW CITY	AL	17795	243	0	0	0	0	*
6011730	EAST LAUDERDALE BANKING CO	ROGERSVILLE	AL	17941	263	0	0	0	0	*
6011740	CITIZENS BANK AND SAVINGS CO	RUSSELLVILLE	AL	17002	345	0	0	0	0	*
6011780	J C JACOBS BANKING CO INC	SCOTTSBORO	AL	28569	345	0	0	0	0	*
6011785	CITIZENS BANK AND TRUST CO	SELMA	AL	24795	330	0	0	0	0	*
6011860	BANK OF SULLIGENT	SULLIGENT	AL	14873	308	0	0	0	0	*
6011920	BANK OF TALLASSEE	TALLASSEE	AL	19184	344	0	0	0	0	*
6011935	BANK OF THOMASVILLE	THOMASVILLE	AL	27026	551	0	0	0	0	*
6011970	TROY BANK AND TRUST COMPANY	TROY	AL	35249	579	0	0	0	0	*
6012080	BANK OF VERNON	VERNON	AL	17216	223	0	0	0	0	*
6012125	CITIZENS BK OF WETUMPKA AL	WETUMPKA	AL	17380	368	0	0	0	0	*

OF 75 BANKS AFFECTED IN STATE 67 HAVE NO EARNINGS PARTICIPATION ACCOUNT OR REQUIRED RESERVE BALANCE
6 HAVE NO REQURED RESERVE BALANCE

DSB	NAME	LOCATION		(1) TDEP	(2) VLTCSH	(3) 1977 REQBAL	(4) NEW EPA	(5) NEW REQBAL	(6) DIF (3)-(5)	
12020002	ALASKA BANK OF COMMERCE	ANCHORAGE	AK	125202	2387	0	2763	0	0	
12020007	ALASKA PACIFIC BANK	ANCHORAGE	AK	43939	270	0	671	0	0	*
12020008	ALASKA STATEBANK	ANCHORAGE	AK	115184	1793	0	2700	0	0	
12020016	PEOPLES BANK AND TRUST CO	ANCHORAGE	AK	38139	460	0	309	0	0	*
12020022	UNITED BANK ALASKA	ANCHORAGE	AK	37190	124	0	411	0	0	*
12020060	B M BEHRENDS BANK	JUNEAU	AK	36732	352	0	436	0	0	*

OF 6 BANKS AFFECTED IN STATE 0 HAVE NO EARNINGS PARTICIPATION ACCOUNT OR REQUIRED RESERVE BALANCE
6 HAVE NO REQURED RESERVE BALANCE

Comment: These amendments provide an exclusion from reserve requirements of up to $10 million for transaction deposits of depository institutions and an exclusion up to $10 million for time and savings deposits of banks. An institution's transaction deposits in excess of $10 million but not more than $50 million, and a bank's total time and savings deposits in excess of $10 million but not more than $50 million are exempted from reserve requirements. Reserve requirements will be imposed on a depository institution's transaction deposits that exceed $50 million and a commercial bank's total time and savings deposits that exceed $50 million. A depository institution will maintain in an Earnings Participation Account at the Federal Reserve Bank (or passed through to the Federal Reserve by another institution) an amount resulting from first, multiplying the appropriate reserve ratios in effect for each deposit category by the level of the institution's exempted deposits for each deposit category and, second, deducting from this figure the amount by which the institution's vault cash exceeds its reserve requirements. The institution's Earnings Participation Account will earn interest at a rate equal to the average return earned on the Federal Reserve's securities portfolio.

Section 3(a) is amended by striking subparagraph (E) and inserting in lieu thereof the following:

"(E) A reference to net deposits of any given category in any given institution refers to the amount of reservable deposits of that category maintained by the institution."

Section 3 (a) is further amended by adding after subparagraph (L) on page 5 the following:

"(M) The term "Category A excluded deposits" means, with respect to any depository institution, the amount of its Category A deposits that does not exceed $10 million.

"(N) The terms "Category B, C and D excluded deposits" mean with respect to any bank, the amounts of its Category B, C, and D deposits that do not exceed $10 million, so long as the total of its Category B, C, and D deposits do not exceed $10 million. If the total Category B, C, and D deposits of the bank exceeds $10 million, the amount of its Category B, C, and D deposits that shall be excluded deposits shall be determined by multiplying $10 million by the proportion that the bank's deposits in the respective categories bear to the total of its deposits in the three categories.

"(O) The term "Category A exempted deposits" means, with respect to any depository institution, the amount of its Category A deposits that are in excess of $10 million but not more than $50 million.

"(P) The terms "Category B, C, and D exempted deposits" mean with respect to any bank, the amount of its Category B, C, and D deposits that are in excess of $10 million but not more than $50 million, so long as the total Category B, C, and D deposits of the bank do not exceed $50 million. If the total Category B, C, and D deposits of a bank exceeds $50 million, the amount of its Category B, C, and D deposits that shall be exempted deposits shall be determined by multiplying $50 million by the proportion that the bank's deposits in the respective categories bear to the total of its deposits in the three categories.

"(Q) The term "reservable deposits" means the Category A, B, C, or D deposits of a depository institution that exceed its total excluded and exempted deposits for each deposit category."

Section 3(a) is amended by striking paragraphs (2), (3), and (4) on pages 5, 6, and 7 respectively and inserting in lieu thereof the following:

"(2) EARNINGS PARTICIPATION ACCOUNT--A depository institution shall maintain in an Earnings Participation Account at the Federal Reserve Bank of which it is a member or at which it maintains an account a balance determined first, by multiplying the amount of its Category A, B, C, and D exempted deposits by the reserve ratios in effect for its Category A, B, C, and D deposits, respectively, and, second, by deducting therefrom any amount by which the depository institution's holdings of vault cash exceeds its reserve requirements on its reservable deposits.

"(3) PASS THROUGH OF BALANCES--A nonmember institution may maintain balances at a member or nonmember institution that maintains reserve balances at a Federal Reserve Bank or at a Federal Home Loan Bank, but only if such institution or Federal Home Loan Bank maintains such funds in the form of balances in a Federal Reserve Bank of which it is a member or at which it maintains an account. Such balances shall not be regarded as deposits of the intermediary institution for purposes of determining reserve requirements imposed by this Section and Federal deposit insurance assessment.

"(4) EARNINGS PARTICIPATION RATE--The Earnings Participation Account of a depository institution shall earn interest at a rate equal to the average rate earned on the securities portfolio of the Federal Reserve System during the calendar quarter immediately preceding the interest payment date. The Board is authorized to adopt rules and regulations relating to the issuance and administration of Earnings Participation Accounts."

Attachment C

Section 3(a) is further amended by adding the following subparagraph at the end thereof:

"(R) In the case of affiliated depository institutions the total excluded and exempted deposits shall not exceed in the aggregate for such affiliated groups the product resulting from multiplying the number of institutions in such affiliated group on August 1, 1978 by $10 million for each category of excluded deposits and by $40 million for each category of exempted deposits, provided that no more than $10 million shall be excluded deposits under each deposit category and no more than $40 million shall be exempted deposits under each deposit category at any individual depository institution."

Comment: This amendment limits the total amount of deposit exclusions and exemptions for affiliated institutions to the amount of the deposit exclusion and exemption times the number of affiliated institutions in existence on August 1, 1978.

Attachment D

Section 2, paragraph (2), subparagraph (A) is amended to read as follows:

"(A) directly to the Board in the case of member banks and, for all deposit liabilities, in the case of other depository institutions maintaining deposits specified in sections 19(b)(1)(A) through 19(b)(1)(D) of this Act, and"

Comment: This amendment clarifies that depository institutions with transactions deposits will file reports on all deposit liabilities directly with the Board.

Section 3 is amended by adding at the end thereof the following subsections:

"(c) The first paragraph of section 13 of the Federal Reserve Act (12 U.S.C. 342) is amended as follows:

(1) by inserting after the words "member banks" the words "or other depository institutions".

(2) by inserting after the words "payable upon presentation" the first and third times they appear, the words "or other items, including negotiable orders of withdrawal or share drafts".

(3) by inserting after the words "payable upon presentation within its district," the words "or other items, including negotiable orders of withdrawal or share drafts".

(4) by inserting after the words "nonmember bank or trust company," wherever they appear the words "or other depository institution".

(5) by inserting after the words "nonmember bank" after the second colon the words "or other depository institution".

(d) The thirteenth paragraph of section 16 of the Federal Reserve Act (12 U.S.C. 360) is amended as follows:

(1) by striking out the words "member banks" wherever they appear and inserting in lieu thereof "depository institutions".

(2) by striking out the words "member bank" wherever they appear and inserting in lieu thereof "depository institution".

(3) by inserting after "checks" wherever it appears the words "and other items, including negotiable orders of withdrawal and share drafts".

(e) The fourteenth paragraph of section 16 of the Federal Reserve Act (12 U.S.C. 248(o) is amended by striking out "its member banks" and inserting in lieu thereof "depository institutions".

Comment: In order to assure equal treatment for all depository instituions." these amendements conform various sections of the Federal Reserve Act relating to clearing facilities by eliminating the distinctions drawn by the Act between member and nonmember depository institutions.