Congressional
November 1979

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November 7, 1979

The Honorable Lloyd Bentsen
Chairman
Joint Economic Committee
Washington, D. C. 20510

Dear Chairman Bentsen:

In accordance with arrangements that have been made with your Committee, enclosed is a staff report covering financial developments in the third quarter of 1979.

Sincerely,

S/Paul A. Volcker

Enclosure

MS:vcd
cc: Joint Economic Committee (along with 30 copies of ltr. and report)
Vice Chairman Bolling
Elinor Bachrach, Tony Cluff, Steve Roberts (Senate Banking)
Paul Nelson, Graham Northup (House Banking)
Bob Weintraub (Domestic Monetary Policy Subcmte. of House Bkg.)
John Farmer (VP Mondale's office)
Mike Hugo (House Approps.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

PAUL A. VOLCKER
CHAIRMAN

November 7, 1979

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Chairman
Joint Economic Committee
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Board of Governors of the
Federal Reserve System
Staff Report

November 7, 1979

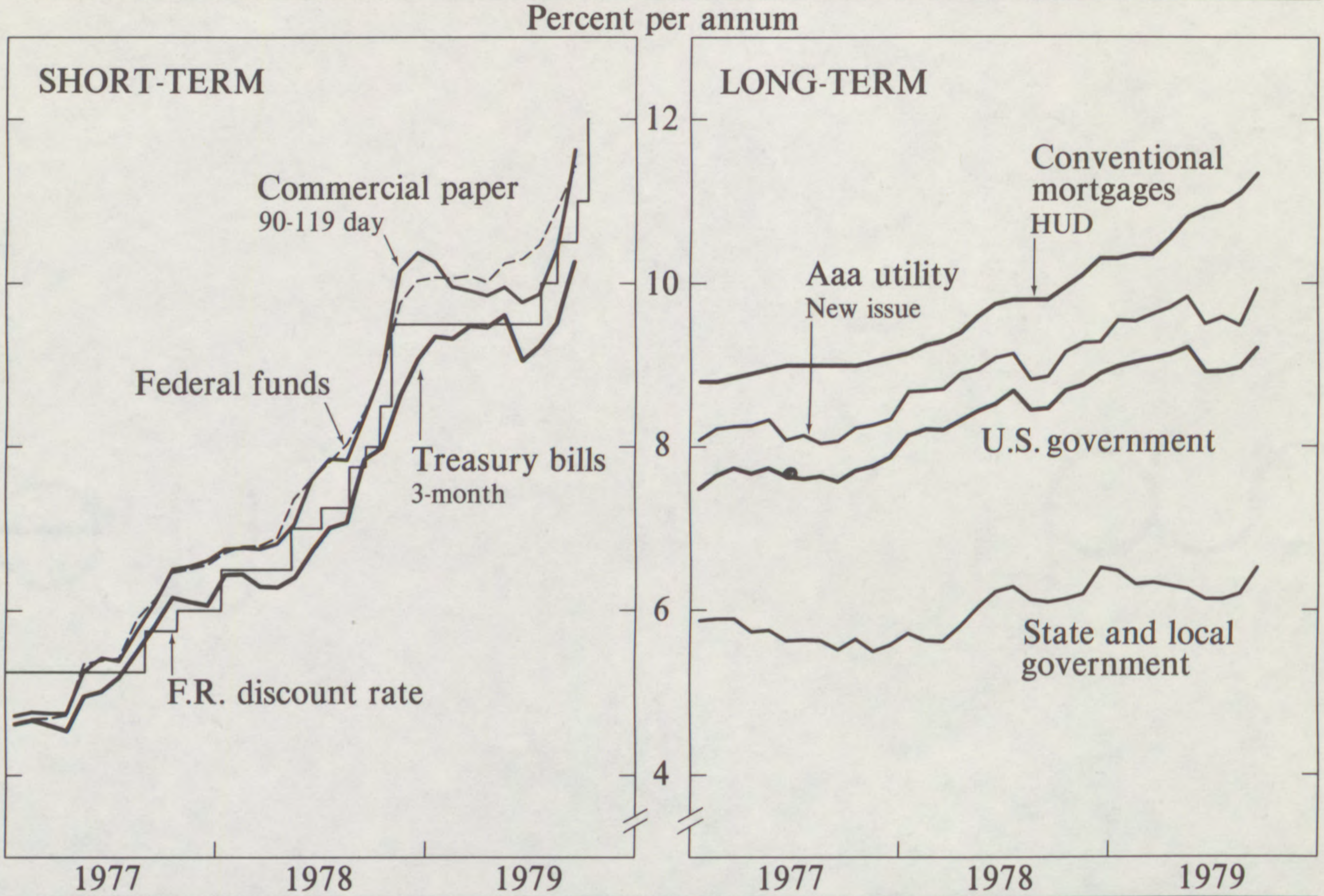
DOMESTIC FINANCIAL DEVELOPMENTS IN THE THIRD QUARTER OF 1979

Growth in the major monetary aggregates increased further during the third quarter. The narrowly defined money stock (M-1) expanded at an annual rate of 9-1/2 percent, up from 7-1/2 percent in the second quarter, in part reflecting increased transaction needs associated with a rebound in economic activity. Along with the strength in M-1, increased inflows of interest-bearing deposits at banks and thrift institutions contributed to more rapid growth in the broader aggregates (M-2 and M-3). As the quarter ended, M-3 was near the low end and M-1 and M-2 at the upper end of the ranges consistent with the growth objectives set by the Federal Open Market Committee (FOMC) for the period from the fourth quarter of 1978 to the fourth quarter of 1979.

Seeking to moderate the rapid growth of the monetary aggregates in an environment of intense inflationary pressures, the Federal Reserve allowed the rate on federal funds to increase about 1-1/4 percentage points over the quarter. In addition, the System raised the discount rate 1/2 percentage point in each month of the quarter to a record 11 percent by mid-September. Most short-term rates rose over the quarter as much as or more than the federal funds rate. Long-term rates rose somewhat less, generally between 1/2 and 1 percentage point. By the end of the quarter, long-term rates were at or above the recent cyclical highs registered in the spring of this year.

Total credit flows to nonfinancial sectors of the U.S. economy are estimated to have remained strong in the third quarter, at a pace somewhat

Interest rates



Monthly averages except for Federal Reserve discount rate and conventional mortgages (based on quotations for one day each month). Yields: U.S. Treasury bills, market yields on three-month issues; prime commercial paper, dealer offering rates; conventional mortgages, rates on first mortgages in primary markets, unweighted and rounded to nearest 5 basis points, from Department of Housing and Urban Development; Aaa utility bonds, weighted averages of new publicly offered bonds rated Aaa, Aa, and A by Moody's Investors Service and adjusted to Aaa basis; U.S. government bonds, market yields adjusted to 20-year constant maturity by U.S. Treasury; state and local government bonds (20 issues, mixed quality), *Bond Buyer*.

above that in the first half. Businesses increased their borrowing in short- and intermediate-term markets, issuing a record quarterly volume of commercial paper and borrowing sizable amounts from commercial banks. A slowing in the growth of consumer installment credit reduced the net flow of loan funds to the household sector, although home mortgage borrowing continued at a pace close to that in the first half of the year. On a seasonally adjusted basis, net borrowing by the federal government picked up moderately in the third quarter from the greatly reduced rate in the first half of 1979.

As the third quarter drew to a close, monetary growth proceeded at a fast pace, and prospects of continued high inflation led to increased speculative activities in financial, foreign exchange, and commodity markets. In response to these developments, the Federal Reserve Board on October 6 announced additional restrictive actions. The discount rate was increased a full percentage point, and a reserve requirement was established for larger member banks against net increases in managed liabilities--defined as certificates of deposit (CDs) issued in denominations of $100,000 or more with maturities of less than one year, Eurodollar borrowings, security repurchase agreements, and federal funds borrowings from nonmember institutions--above a base-period level. Similar requirements were imposed on branches and agencies of foreign banks. Also, the FOMC announced its intention to alter its operating techniques by putting greater emphasis on controlling the supply of bank reserves and less on targeting the federal funds rate in attempting to achieve its stated objectives for monetary growth.

Following the announcement, the federal funds rate fluctuated over a wide range, and on average remained substantially above the levels prevailing before these actions. In late October, short-term interest rates stood between 2 and 2-1/2 percentage points above their levels of October 5; long-term rates were up about 1 percentage point. This rise in rates was accompanied by increases in yield spreads between higher- and lower-rated securities. Stock prices moved sharply lower, and by late October most major stock price indexes were back down to levels near those prevailing at the end of the second quarter, reversing gains of 7 to 12 percent between June and September.

Monetary Aggregates and Bank Credit

The acceleration in M-1 brought its rate of growth for the third quarter to a record 9-1/2 percent. The pickup in M-1 growth reflected in part a greater need for transaction balances, associated with the stronger pace of nominal expenditures, and occurred despite the increased incentive to economize on such balances arising from rapid increases in interest rates. About one-third of the increase from the second-quarter growth rate is attributable to a diminution in the rate at which funds were shifted out of demand deposits and into savings accounts eligible for automatic transfer service (ATS) and negotiable order of withdrawal (NOW) accounts in New York State; such shifts are estimated to have reduced M-1 growth about 1-1/2 percentage points in the second quarter and 3/4 of a percentage point in the third.

Growth in the interest-bearing component of M-2 quickened considerably in the third quarter from the already increased pace of the previous three months. This expansion, along with an acceleration in M-1, boosted growth in M-2 to an annual rate of 12 percent in the third quarter, the fastest pace in almost three years. Savings deposits grew at a rate of 5-1/2

CHANGES IN SELECTED MONETARY AGGREGATES[1/]

Seasonally adjusted annual rates of change, in percent

	1976	1977	1978	1978 Q3	1978 Q4	1979 Q1	1979 Q2	1979 Q3
Member bank reserves[2/]								
Total	.6	5.3	6.6	8.6	2.3	-2.9	-4.9	6.0
Nonborrowed	.8	3.0	6.7	6.6	4.6	-3.3	-8.8	7.9
Monetary base[3/]	6.7	8.3	9.1	9.3	8.4	5.7	4.0	9.7
Concepts of money[4/]								
M-1	5.8	7.9	7.2	7.9	4.1	-2.1	7.6	9.6
M-2	10.9	9.8	8.4	9.8	7.6	1.8	8.6	12.0
M-3	12.7	11.7	9.3	10.3	9.3	4.7	7.9	10.5
Time and savings deposits at commercial banks--total (excluding large negotiable CDs)	15.0	11.2	9.4	11.0	10.2	4.5	9.3	13.5
Savings	25.0	11.1	2.2	2.9	.2	-9.6	-3.1	5.5
Other time	7.5	11.4	15.6	17.9	18.2	15.6	18.5	19.2
Small time plus total savings[5/]	19.2	10.5	5.9	6.9	7.0	2.2	15.1	15.9
Deposits at thrift institutions[6/]	15.6	14.5	10.6	11.1	11.6	8.8	6.8	8.6
Memo (Change in billions of dollars, seasonally adjusted)								
Large negotiable CDs at large banks	-19.0	8.0	23.1	2.6	5.5	7.0	-10.3	-4.0
All other large time deposits[7/]	-.8	10.8	21.0	6.3	5.6	3.6	-3.3	1.2
Small time deposits	16.4	14.5	17.9	5.4	6.9	7.5	17.2	13.8
Nondeposit funds	10.2	8.7	23.1	5.6	7.5	9.1	17.4	16.8
Domestic[8/]	11.5	12.4	16.5	2.7	3.7	4.8	5.6	5.9
Net due to foreign related institutions	-1.2	-3.8	6.6	2.8	3.9	4.3	11.7	11.0

1/ Changes are calculated from the average amounts outstanding in each quarter.
2/ Annual rates of change in reserve measures have been adjusted for changes in reserve requirements.
3/ Includes total reserves (member bank reserve balances in the current week plus vault cash held two weeks earlier), currency in circulation (currency outside the U.S. Treasury, Federal Reserve Banks, and the vaults of commercial banks), and vault cash of nonmember banks.
4/ M-1 is currency plus private demand deposits adjusted. M-2 is M-1 plus bank time and savings deposits other than large negotiable CDs. (Large CDs are those in denominations of $100,000 or more.) M-3 is M-2 plus deposits at mutual savings banks and savings and loan associations and credit union shares.
5/ Interest-bearing deposits subject to Regulation Q.
6/ Savings and loan associations, mutual savings banks and credit unions.
7/ Total large time deposits less negotiable CDs at weekly reporting banks.
8/ Domestic sources include borrowings by banks from other than commercial banks in the form of federal funds purchased and securities sold under agreements to repurchase, plus other liabilities for borrowed money, loans sold to affiliates, loan RPs, and other minor items.

percent, following net outflows during the two previous quarters. The growth in savings deposits occurred despite a further substantial widening in the spread between market interest rates and the ceiling rate on savings deposits. The maximum rate payable on these deposits was increased 1/4 percentage point effective July 1; however, increases in short-term interest rates were well in excess of this adjustment. The composition of small time deposits, on the other hand, appears to have been very sensitive to changes in relative yields. Small time deposits exclusive of 6-month money market certificates (MMCs) declined $3.2 billion, as market (and MMC) rates rose relative to fixed ceiling rates.

Net issuance of MMCs, the yield on which is tied to the 6-month Treasury bill rate, totaled $17 billion at commercial banks during the quarter. Following the mid-March regulatory change that eliminated the ceiling rate advantage of 1/4 percentage point on MMCs issued by thrift institutions (for a 6-month bill rate above 9 percent), commercial banks received more than one-half of new flows into this market in the second and third quarters, well above the average one-third share of the preceding three quarters. Other short-term instruments bearing market yields also expanded rapidly in the third quarter; in particular, net purchases of shares in money market mutual funds were slightly in excess of the rapid second-quarter pace, while non-competitive tenders at 3- and 6-month Treasury bill auctions rose substantially.

Mainly due to increased issuance of MMCs and large certificates of deposit (CDs), deposit inflows to thrift institutions picked up modestly in the third quarter, after having slowed in the previous period. M-3 increased at a pace of 10-1/2 percent, substantially faster than in the first two quarters of the year. Owing to the success of commercial banks in increasing their share of net MMC sales since March, growth of M-2 was more rapid than that of M-3 in the second and third quarters, reversing the pattern that had prevailed since 1975.

Growth in commercial bank credit in the third quarter was well above the pace of the first half. Loans extended to businesses grew at an unusually rapid rate, in excess of 20 percent at an annual rate. Real estate loans showed greater strength as well; by contrast, consumer loan growth slowed to about two-thirds of the somewhat reduced second-quarter pace. Growth in investments also rose in the third quarter, exceeding that of any recent quarter, as banks continued to acquire both Treasury and other securities.

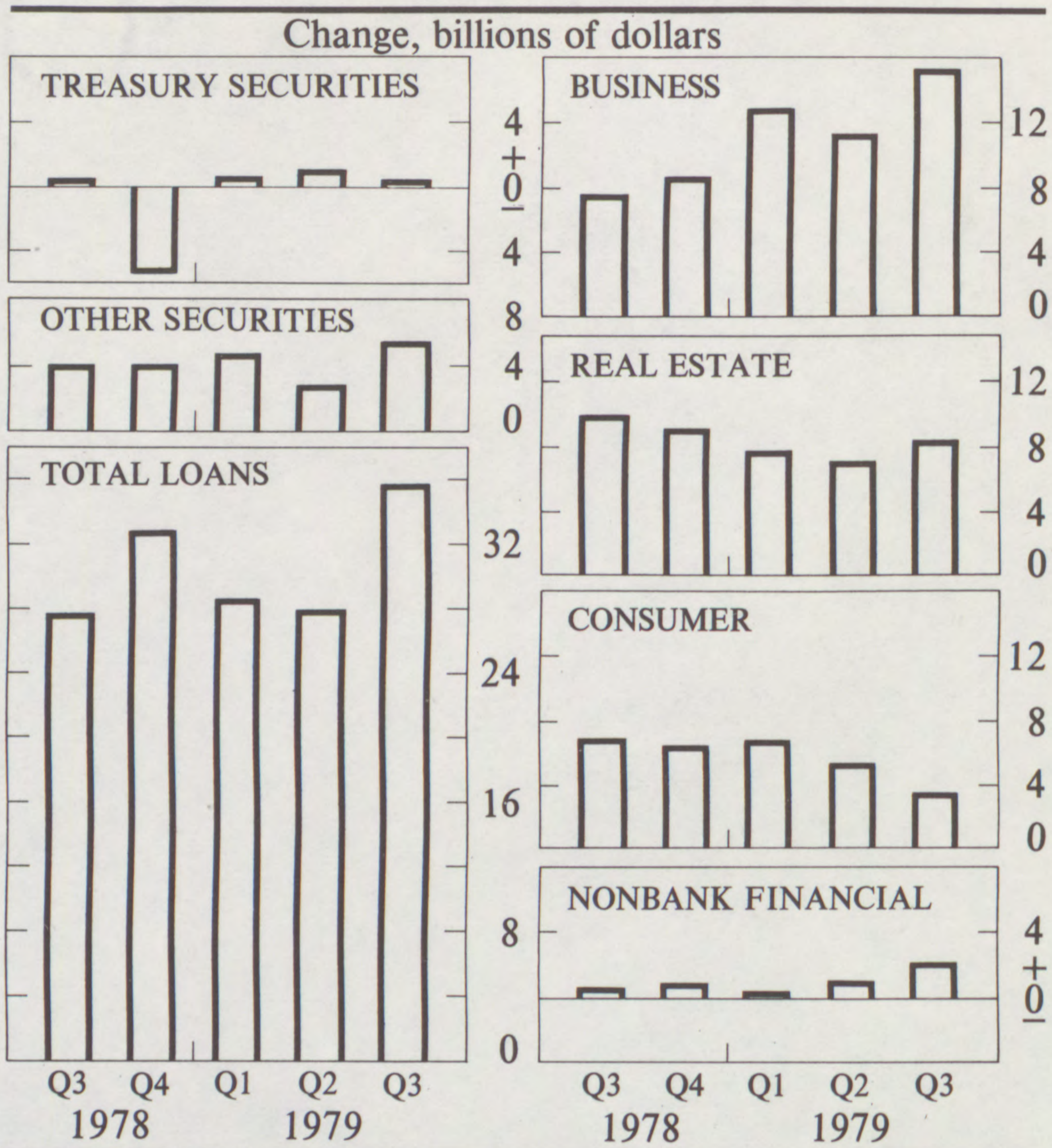
Despite the rapid growth of total deposits, banks' use of managed liabilities in the third quarter increased further, mainly through enlarged net borrowings from foreign branches and purchases of federal funds. Eurodollar deposits continued to be a less expensive source of funds to U.S. banks than domestically issued CDs; banks ran off large time deposits on balance in the third quarter, but less so than in the second. The rapid growth in borrowed funds in the third quarter brought the proportion of total assets financed with these managed liabilities near the peak reached in 1974.

Business Finance

Total funds raised by businesses in financial markets remained substantial in the third quarter, declining only moderately from the strong second-quarter pace. External financing needs of nonfinancial corporations continued large, although they decreased somewhat as capital expenditures

Components of bank credit

Major categories of bank loans



Seasonally adjusted. Total loans and business loans adjusted for transfer between banks and their holding companies, affiliates, subsidiaries, or foreign branches.

BUSINESS LOANS AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT
Seasonally adjusted annual rate of change, in percent

Period	Business loans at banks 1/	Short- and intermediate-term business credit 2/
1975--Q1	-4.2	-2.7
Q2	-9.7	-8.7
Q3	-3.3	-1.5
Q4	1.9	-1.0
1976--Q1	-3.6	0.5
Q2	-4.9	-0.2
Q3	3.6	5.3
Q4	10.0	10.4
1977--Q1	9.9	12.6
Q2	6.9	11.3
Q3	10.3	11.4
Q4	13.3	14.3
1978--Q1	18.0	16.6
Q2	16.7	17.2
Q3	12.7	11.8
Q4	14.2	16.3
1979--Q1	20.4	20.6
Q2	17.1	20.0
Q3e	22.2	24.0

1/ Based on prorated monthly averages of Wednesday data for domestically chartered banks and an average of current and previous month-end data for foreign-related institutions. Adjusted for outstanding amounts of loans sold to affiliates.

2/ Short- and intermediate-term business credit is business loans at commercial banks plus nonfinancial commercial paper and finance company loans to businesses, measured from end-of-quarter to end-of-quarter. Commercial paper reflects prorated averages of Wednesday data and finance company loans reflect averages of current and previous month-end data.

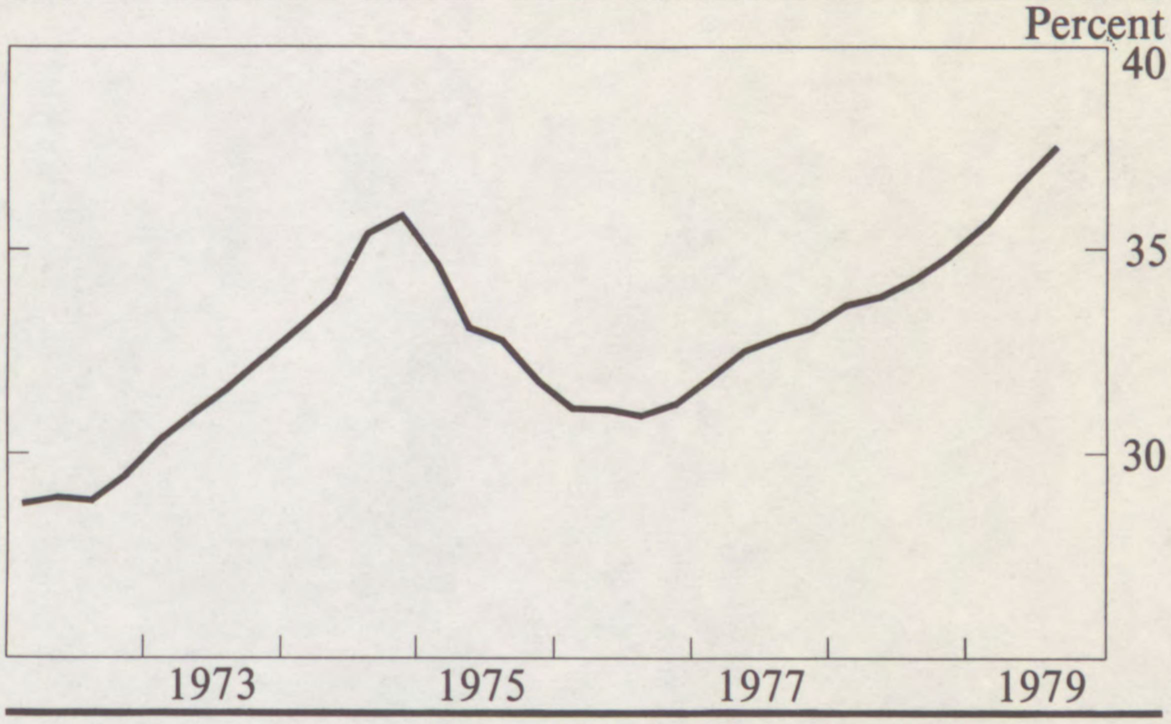
e-- Estimated

edged down while internal fund flows increased. The moderate decline in capital expenditures was attributable to a slowing of inventory accumulation from the rapid pace evident in the second quarter. The reduction in credit requirements in the third quarter was reflected in a decrease in business borrowing in bond markets, as many nonfinancial corporations avoided issuing long-term debt at near-record yields. At the same time, firms continued to borrow heavily in short- and intermediate-term markets. The increased use of short-term financing has resulted in a marked rise since mid-1976 in the ratio of short-term to long-term debt outstanding for nonfinancial corporations. At the end of the third quarter, this ratio reached an all-time high of about 38 percent, well above the previous peak recorded in 1974.

The rapid growth in short-term credit in the third quarter reflected an acceleration in the pace of business borrowing from all major sources of short-term funds. Commercial paper issuance by nonfinancial firms increased further from the record annual rate recorded in the second quarter. Growth in finance company loans to businesses also rose appreciably in the July-September period, and as noted earlier, the pace of business borrowing from banks surged.

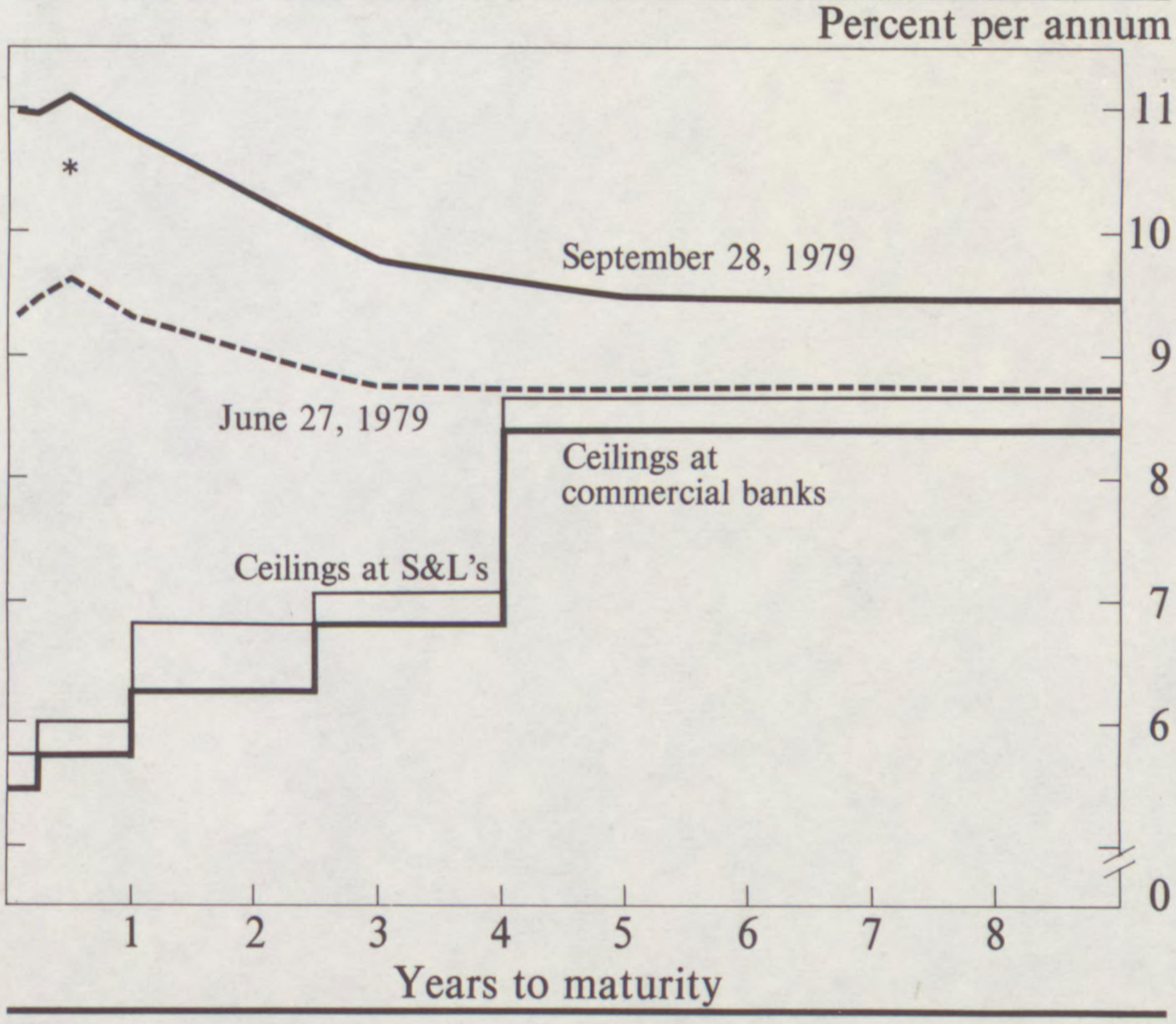
The increased demand for business loans at banks occurred despite a cumulative rise of 2 percentage points in the prime rate during the July-September period. As banks responded to sharply increasing market yields, the prime rate was raised in successive steps to a record 13-1/2 percent at the end of the quarter. (After the Federal Reserve's policy actions in early October, the prime rate was increased further to 15-1/4 percent.) In addition, data available for large banks indicate that nonprice loan terms and

Nonfinancial corporations
Ratio of short-term to long-term market debt [1]



[1] Based on flow of funds data. 1979 Q3 estimated. Seasonally adjusted.

Treasury yield curves and deposit rate ceilings



* Maximum yield on "money market" time deposits at commercial banks and thrift institutions for September 28, 1979.

Data reflect annual effective yields. Ceiling rates are yields derived from continuous compounding of the nominal ceiling rates. Market yield data are on an investment yield basis.

standards of creditworthiness tightened somewhat over the third quarter. Large banks did, however, continue to report a substantial volume of below-prime lending in the third period, which may reflect in part intense competition to supply the short-term financing needs of the largest corporations. As in the second quarter, growth of business loans at large banks exceeded that at small banks, a reversal of the trend that had prevailed since the beginning of the economic recovery in 1975.

Public offerings of bonds by nonfinancial corporations declined in the third quarter, largely because of a relatively low level of bond issuance by public utilities in the first two months of the period. The volume of public offerings by industrial companies picked up moderately as the quarter progressed, probably reflecting firmer expectations that long-term rates were unlikely to decline substantially in the near future. Financial concerns markedly reduced their issuance of intermediate- and long-term bonds during the quarter, which helped to reduce total public offerings of corporate issues in the July-September period to the low level of the first quarter. Bond and note offerings by financial companies accounted for about 40 percent of total public offerings in the first half of 1979, but since midyear they have represented less than 30 percent of the total.

Private bond placements, which typically serve as a source of funds for smaller and lower-rated firms, are estimated to have declined further in the third quarter from the relatively high levels maintained in recent years. Available data suggest also that bond commitments outstanding at life insurance companies recently reached their lowest level in four years. Life insurance companies, the principal source of private placement money, have

GROSS OFFERINGS OF NEW SECURITY ISSUES
Seasonally adjusted annual rates, in billions of dollars

	1978		1979		
Type of security	Q3	Q4	Q1 r/	Q2 r/	Q3 p/
Corporate	54	42	47	55	49
Bonds	42	30	39	48	39
Publicly offered	23	18	17	35	27
Privately placed	19	12	22	16	11
Stocks	12	12	8	7	10
Foreign	6	5	4	5	8
State & local government	53	48 r/	39	41	43

r/ Revised.
p/ Preliminary.

allocated a larger fraction of their investable funds to higher-yielding mortgage instruments in recent quarters.

Yields on corporate bonds increased more than one-half of a percentage point over the third quarter to their highest levels since October 1974. Following the Federal Reserve's policy actions in early October, bond yields jumped an additional 75 to 125 basis points by month-end. The recent upward movement in corporate bond yields has been accompanied by a widening of rate spreads between corporate and Treasury obligations and between lower- and higher-rated corporate issues. A similar increase in risk premiums occurred in the commercial paper market. These increases likely reflect concerns about the impact of tighter credit market conditions on borrowers, especially in light of the deteriorated liquidity positions of many firms.

All major indexes of stock prices rose substantially between June and September. The American Stock Exchange composite index and the National Association of Securities Dealers' index of over-the-counter stock prices ended the third quarter at record highs, while most major price indexes of securities listed on the New York Stock Exchange were near their highest levels since early 1973. The American Stock Exchange index continued to post the largest percentage rise, again reflecting the greater relative importance of oil and natural gas industry shares on this exchange. The third quarter gains were retraced in October, however, as the tightening of financial market conditions increased concerns about the continuing strength of economic activity and corporate earnings. In addition, the sharp rise in interest rates in October encouraged margin account investors to reduce their borrowings.

Owing to the increases in the major stock-price indexes in the July-September period, conventional measures of price-earnings ratios edged up a bit in the third quarter, although they continued to be historically low. The volume of stock issues remained relatively small, primarily because of the still high cost of equity capital. Although public utilities continued to account for a majority of common and preferred stock offerings, several larger industrial concerns also marketed new equity issues.

Government Finance

Gross bond issuance by state and local governments edged up slightly in the third quarter, on a seasonally adjusted basis. Offerings continued to be bolstered by bonds issued to finance housing, almost 80 percent of which were for single-family mortgages. These bonds were among those postponed earlier in the year when federal legislation was introduced to curtail home mortgage financing by local authorities. Although the Congress has yet to act, issuers responded to indications that the final legislation will exempt from any new restrictions the issues that had been postponed earlier.

Interest rates on state and local obligations rose appreciably in the third quarter. The Bond Buyer index of yields on general obligation bonds, at 6.6 percent at the end of September, was more than 40 basis points above its level at midyear. By the end of October, this index has increased further to 7.3 percent. The ratio of tax-exempt to corporate bond yields edged up a bit in the third quarter from the record low level in June and increased further in October.

Net Treasury borrowing amounted to just under $12-1/2 billion in the third quarter, not seasonally adjusted, following a paydown of debt in

FEDERAL GOVERNMENT BORROWING AND CASH BALANCE
Not seasonally adjusted, in billions of dollars

Item	1977 Q3	1977 Q4	1978 Q1	1978 Q2	1978 Q3	1978 Q4	1979 Q1	1979 Q2	1979 Q3
Treasury financing									
Budget surplus, or deficit(-)	-12.2	-28.8	-25.8	14.0	-8.1	-23.8	-20.4	21.4	-4.4
Off-budget deficit 1/	-4.9	-1.3	-3.7	-2.2	-3.1	-.1	-3.0	-5.2	-4.2
New cash borrowings, or repayments(-)	19.5 2/	20.7	20.8	2.5	15.1	15.2	10.6 3/	-4.6	12.4
Other means of financing 4/	.4	2.6	2.8	-3.2	1.0	2.6	4.2	-1.8	2.9
Change in cash balance	2.8	-6.8	-5.9	11.1	4.9	-6.1	-8.6	9.8	6.7
Federally sponsored credit agencies, net cash borrowings 5/	1.8	2.0	4.5	6.5	6.1	5.2	6.3	5.5	4.7

1/ Includes outlays of the Pension Benefit Guaranty Corporation, Postal Service Fund, Rural Electrification and Telephone Revolving Fund, Rural Telephone Bank, Housing for the Elderly or Handicapped Fund, and Federal Financing Bank. All data have been adjusted to reflect the return of the Export-Import Bank to the unified budget.

2/ Includes $2.5 billion of borrowing from the Federal Reserve on September 30, which was repaid October 4 following enactment of a new debt-ceiling bill.

3/ Includes $2.6 billion of borrowing from the Federal Reserve on March 31, which was repaid April 4 following enactment of a new debt-ceiling bill.

4/ Checks issued less checks paid, accrued items, and other transactions.

5/ Includes debt of the Federal Home Loan Mortgage Corporation, Federal Home Loan Banks, Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, and Federal National Mortgage Association (including discount notes and securities guaranteed by the Government National Mortgage Association).

the previous period. With a combined federal deficit--including off-budget agencies--of about $8-1/2 billion, the Treasury was able to bring its operating cash balance to an unusually high level at the end of the third quarter in anticipation of large financing needs in the fourth quarter.

Issuance of nonmarketable Treasury obligations in the third quarter was the largest so far this year. The pickup was largely attributable to a substantial volume of acquisitions by foreign official accounts with the proceeds from dollar-support operations in international exchange markets. In contrast, the foreign central banks had redeemed an appreciable volume of such securities in the first half of the year.

In the open market, the Treasury relied primarily on coupon securities to meet its financing requirements, although the outstanding supply of Treasury bills was increased somewhat. As with nonmarketable issues, a substantial volume of marketable securities were purchased for foreign accounts in the third quarter, in contrast to a net paydown in the preceding two periods. Late in the third quarter, Treasury debt operations were affected by the constraint of the national debt ceiling, which was scheduled to fall to its permanent level of $400 billion at the end of the quarter. The Treasury postponed a bill auction and two note auctions scheduled for late September before the debt ceiling was raised to $879 billion on September 28. The three postponed auctions were held in early October.

Federally sponsored credit agencies raised $4.7 billion in the third quarter, not seasonally adjusted. While substantial, this volume was down somewhat from the pace of the preceding quarter and reflected a large decline in funds raised by the Federal National Mortgage Association (FNMA). FNMA borrowed only $0.2 billion, down from $2.0 billion in the second quarter. Mortgage purchases by FNMA slowed significantly in the third quarter, and were financed in part by drawing down liquidity. The Federal Home Loan Banks borrowed $2.1 billion in the July-September period, while the Farm Credit System borrowed $2.4 billion.

Yields on Treasury securities increased over the third quarter and in October, along with yields on private debt securities. Interest rate increases between July and September were less pronounced for Treasury bills than for private short-term instruments, however, partly reflecting heavy purchases by foreign official accounts and the Federal Reserve System.

Mortgage and Consumer Credit

The growth in mortgage debt moderated only a little in the third quarter, following the strong second quarter rebound. Mortgage credit flows have been relatively well maintained in recent months, owing primarily to increased lending by commercial banks and life insurance companies. Moreover, mortgage revenue bond programs of state and local governments, which offer below-market interest rates to qualified borrowers, have continued to account for considerable origination activity in some localities, and issuance of mortgage passthrough securities guaranteed by the Government National Mortgage Association (GNMA) increased to record levels in the third quarter. The decline in mortgage lending was concentrated in the residential sector and reflected primarily reduced lending by savings and loan associations and to a lesser extent mutual savings banks, as well as decreased purchases of government-underwritten loans by FNMA. Outstanding commitments to acquire new mortgages by savings and loan associations edged up a bit over the third quarter, due to a slower rate of mortgage takedowns at these institutions.

NET CHANGE IN MORTGAGE DEBT OUTSTANDING
Seasonally adjusted annual rates, in billions of dollars

	1978		1979		
	Q3 r/	Q4 r/	Q1 r/	Q2 r/	Q3 e/
By type of debt:					
Total	154	161	153	157	154
Residential	116	125	115	118	113
Other 1/	38	36	38	39	41
By type of holder:					
Commercial banks	39	36	33	32	34
Savings and loans	48	52	43	51	43
Mutual savings banks	7	6	6	5	3
Life insurance companies	10	12	10	11	13
FNMA and GNMA	9	9	11	8	4
Other 2/	41	46	50	50	57

1/ Includes commercial and other nonresidential as well as farm properties.
2/ Includes mortgage pools backing securities guaranteed by the Government National Mortgage Association, Federal Home Loan Mortgage Corporation, or Farmers Home Administration, some of which may have been purchased by the institutions shown separately.
r/ Revised.
e/ Partially estimated.

The decline in net mortgage lending at savings and loan associations in the third quarter may have been in lagged response to the reduced pace of deposit growth in the preceding quarter. Moreover, field reports suggest that there was some slackening in residential loan demand, owing to the rise in mortgage interest rates this year and general economic uncertainty. Savings and loan associations decreased their borrowing (seasonally adjusted) from Federal Home Loan Banks and instead relied more heavily on such alternative sources of funds as security repurchase agreements, mortgage-backed bonds, and commercial paper issuance. Associations increased their holdings of liquid assets, thereby raising their average liquidity--measured as the ratio of cash and liquid assets to the sum of short-term borrowings and deposits--from 8.8 percent, seasonally adjusted, at the end of the second quarter to just over 9 percent at the end of the third.

The cost of mortgage financing continued to increase over the third quarter. The average of interest rates on new commitments for 80 percent, 30-year conventional home mortgages at sampled savings and loan associations rose 25 basis points in the July-September period to a new high of 11.35 percent at the end of the quarter. In October, further substantial increases in mortgage yields as well as continued tightening of nonprice lending terms accompanied the rise in other interest rates. As market rates moved to higher levels, several states either raised or removed usury ceilings on conventional home loans. Even so, usury ceilings in a number of states appear to be restricting the supply of mortgage credit. Moreover, originations of home mortgages insured by the Federal Housing Administration or guaranteed by the Veterans Administration reportedly were hindered by the below-market ceiling rate of 10 percent on such government-underwritten loans. The Department of Housing and Urban Development and the Veterans Administration raised the maximum rate to 10-1/2 percent in late September, and to 11-1/2 percent in late October.

Consumer installment credit outstanding is estimated to have expanded at a 10 percent annual rate in the third quarter. This expansion represents a substantial moderation from the 15 percent rate of advance in the first half of 1979 and the 19 percent rate in 1978. A further decline in the growth of automobile installment credit--a major component of the total--and a marked deceleration in expansion of bank revolving credit contributed to the slowing in the third quarter. Credit extensions have weakened relative to household expenditures, in recent months, perhaps reflecting less accommodative financing by lenders as well as an increased hesitancy on the part of consumers to incur further debt in an atmosphere of economic uncertainty.

November 6, 1979

The Honorable James C. Corman
House of Representatives
Washington, D.C. 20515

Dear Mr. Corman:

Thank you for your letter of November 1 recommending Mr. Robert Wilkinson as a member of the Board's Consumer Advisory Council.

You may be assured that Mr. Wilkinson's qualifications will receive full consideration by the Board when it makes the 1980 appointments to the Council within the next several weeks. We will be in touch with you when the selections are made.

The Board appreciates receiving your recommendation and your interest in the Consumer Advisory Council.

Sincerely,

S/Paul A. Volcker

CO:pjt (#V-106)
bcc: Anne Geary (w/copy of incoming)
Mrs. Mallardi (2)

WASHINGTON OFFICE:
2217 RAYBURN HOUSE OFFICE BUILDING
202-225-5811

ROBERT C. RUBEN
ADMINISTRATIVE ASSISTANT

WAYS AND MEANS COMMITTEE
SMALL BUSINESS COMMITTEE

JAMES C. CORMAN
21ST DISTRICT, CALIFORNIA

#106

Congress of the United States
House of Representatives
Washington, D.C. 20515

DISTRICT OFFICE:
14545 FRIAR STREET
VAN NUYS, CALIFORNIA 91411
213-787-1776
IRENE SLATER
FIELD DEPUTY
SARAH ETHEREDGE
FIELD REPRESENTATIVE
NELDA BARRETT
CASE WORKER

November 1, 1979

1979 NOV -5 PM 10: 12

Mr. Paul A. Volker
Chairman, Federal Reserve Board
Twentieth Street & Constitution Ave., N.W.
Washington, D. C. 20551

Dear Mr. Volker:

This letter is in strong recommendation of Mr. Robert Wilkinson for an appointment to the Advisory Board of the Federal Reserve Board's regional office in San Francisco, California.

Mr. Wilkinson and I have known each other for over 25 years, both professionally and socially. Bob Wilkinson has been in local government as a Los Angeles City Councilman for the past 16 years where he served as Chairman of the Finance, Public Works and Police and Fire Committees. Prior to his councilman's duties, Mr. Wilkinson served for eight and one-half years on the Los Angeles Harbor Commission. He also held a seat on the State Solid Waste Commission for four years.

In private life, Bob Wilkinson was a licensed real estate broker for 32 years and an insurance agent for some 20 years. Mr. Wilkinson has served his community and the State of California with complete devotion and integrity. His personal commitment to providing outstanding service to his constituents as well as to all his fellow citizens is beyond reproach.

It has been my pleasure to have worked with Bob Wilkinson and to observe the performance of this truly dedicated public official. I am pleased to recommend Mr. Wilkinson, and do so without reservation.

Sincerely,

James Corman

JAMES C. CORMAN
Member of Congress

THIS STATIONERY PRINTED ON PAPER MADE WITH RECYCLED FIBERS

C. Mallardi

November 6, 1979

The Honorable William Proxmire
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Chairman Proxmire:

We understand that Senator Riegle may propose an amendment to S. 85 to provide for Presidential appointment and Senate confirmation of presidents of the Federal Reserve Banks or, possibly, only Senate confirmation of such appointments by the boards of directors of the Federal Reserve Banks. Alternatively, Senator Riegle may propose an amendment which would prohibit Reserve Bank presidents or first vice presidents who are members or alternate members of the Federal Open Market Committee from voting in that capacity pending further Congressional consideration of legislation which would subject these positions to Presidential appointment and Senate confirmation. I strongly oppose adoption of any such amendments.

It would be extremely disruptive of the effective conduct of monetary policy in this critical period to disenfranchise Reserve Bank members of the Federal Open Market Committee. The provisions of the Federal Reserve Act which establish and govern the operations of the Federal Open Market Committee contemplate the full and active participation and vote of Reserve Bank members in the formulation of the nation's monetary policy. Such an amendment would place in legislative limbo, pending uncertain further Congressional review, this carefully constructed legislative framework governing the Committee's operations, and would create great uncertainty in the national and international financial markets as to the future course of the conduct of monetary policy.

On the broader issue of whether the appointments of Reserve Bank presidents should be subject to Senate confirmation or to Presidential appointment subject to Senate confirmation the Board has previously expressed its view that such provisions would inject an atmosphere of partisanship into the formulation of monetary policy. Unless Reserve Bank presidents and first vice presidents were appointed and confirmed by the Senate for terms similar to the 14-year term of Board members it would be very difficult to insulate such officials from transitory political considerations in the performance of their duties. This would have a very undesirable effect upon the necessary independence of the Federal Reserve System in the performance of its monetary policy responsibilities.

Furthermore, subjecting appointment of Reserve Bank presidents to any such appointment and confirmation process would weaken and perhaps nullify the ability of the Board of Governors to fulfill its statutory responsibility of exercising guidance and supervision over the Federal Reserve Banks. Under present law a Reserve Bank president may be removed by the Board of Governors if the individual does not manage his bank satisfactorily. There would be many practical as well as legal difficulties for the Board to remove a Presidential appointee or an appointee confirmed by the Senate. The probable effect of these restraints would be to exempt these positions from the supervisory controls and guidance developed at the Board over the years, thereby possibly limiting the improvements in productivity that the Reserve Banks have been steadily achieving in handling their responsibilities in connection with the operation of the nation's payments system and in carrying out their fiscal functions on behalf of the Treasury.

I would also note that while the Reserve Bank boards initially appoint Reserve Bank presidents and first vice presidents such appointments are subject to review and approval by the Board of Governors the members of which, of course, are appointed by the President subject to Senate confirmation. I believe these procedures have worked well in practice and strike an appropriate balance between Reserve Bank independence and Board oversight over Reserve Bank operations.

In closing, I must stress that, whatever one's initial views on the issues presented by these proposed amendments, they would result in profound changes in the formulation and implementation of monetary policy. They should not be considered wihtout the benefit of extensive hearings before the Congress where all of the ramifications of these proposals could be fully explored.

Sincerely,

S/Paul A. Volcker

NLP:mam
11/6/79

CM

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

PAUL A. VOLCKER
CHAIRMAN

November 6, 1979

The Honorable William Proxmire
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

The Board of Governors appreciates your willingness to proceed with the Senate Banking Committee's markup of Amendment Number 398 to S. 85 and S. 353.

It is our understanding that when the revised S. 85 is considered you will offer a series of amendments which will have the effect of applying a 3 percent reserve requirement on transactions accounts of $10 million or less and applying an initial 3 percent reserve requirement on non-personal time accounts in excess of $10 million. The reserve requirement on transactions accounts in excess of $10 million would be set initially at 12 percent with a range of 11-13 percent and the permissible range for reserve requirements on non-personal time accounts over $10 million would be 0-12 percent. I further understand that you will be offering some technical amendments suggested by the Board.

The Board strongly supports the package of amendments you will be offering to the revised S. 85 and urges their adoption. This legislation, as appropriately amended, will be a giant step toward providing the tools the Federal Reserve needs for the effective conduct of monetary policy over the years ahead.

As you know, we continue to be concerned about the reserve base coverage in the pending legislation. Even under the revised S. 85, as amended, commercial bank balances at Federal Reserve Banks would be reduced to about $15 billion. This level represents a ratio of reserves to deposits for commercial banks alone of around 1-1/2 percent--near the lowest of any major industrial country in the world. Such a rate is uncomfortably low, especially considering the need for a stable relationship between reserves and deposits, the huge volume of clearings that go through Federal Reserve Banks every day, and the large and erratic fluctuations occuring in factors affecting reserves, such as uncontrollable changes in float and currency in circulation. These factors, superimposed on a relatively small reserve base, could make it very difficult to manage reserves in a manner to hit a given monetary target.

To meet this problem we additionally are supporting a simple amendment which would add legislative authority for the Federal Reserve to call for supplementary balances from all depository institutions on a standby basis. This authority would not be used unless the Federal Reserve found that monetary policy could not be effectively implemented with the reserve balances required under other provisions of the monetary improvement legislation.

I would like to reiterate strongly that our support of this supplemental reserve requirement in no way detracts from our support of S. 85 as you plan to amend it. The basic reserve base coverage in that bill should not be diluted. The supplemental, in turn, should not be viewed as a substitute to that basic reserve base coverage. I view it as an "insurance policy" in the event the basic reserve base in practice proves too low, and dilution of the basic requirement could only compound the problem. Consequently, I hope any amendments having that effect can be resisted.

The Board appreciates your asking our views on the bill and your amendments which will be before the Committee tomorrow.

Sincerely,

Paul A Volcker

November 5, 1979

The Honorable Howard M. Metzenbaum
United States Senate
Washington, D.C. 20510

Dear Senator Metzenbaum:

Thank you for your letter of October 8 requesting comment on the enclosed letter from Mr. Jerry L. Bergem of Kirtland, Ohio. Mr. Bergem raises questions of possible illegal or unethical actions on the part of credit card issuers. In particular, Mr. Bergem questions the practices of credit card issuers in calculating and billing finance charges. He is further concerned with what he perceives to be the general lack of awareness on the part of card holders of the actual methods of calculating and imposing such charges.

Mr. Bergem's letter does not outline his particular situation in detail. It appears, however, that he is concerned about a credit card system in which finance charges are imposed for a time period prior to the customer's receipt of the periodic statement and that, in some cases, in computing those finance charges the creditor takes new transactions for which the customer had not been previously billed into account. There are such systems for computing finance charges on credit card plans in existence. Typically this will occur under these plans when the customer fails to pay the <u>entire</u> outstanding balance during the previous billing period by the due date. However, State law controls the method of computing finance charges. Since we do not know the details of Mr. Bergem's situation and do not believe it appropriate for us to interpret Ohio law, we cannot give a definitive answer to the legal question he raises.

We believe that the Truth in Lending Act addresses Mr. Bergem's second point concerning consumer awareness. The purpose of the Truth in Lending Act is to require disclosure of the terms and conditions of the credit offered in order to promote the informed use of credit by consumers. To that end, certain disclosures are required, both initially (before the account is used) and periodically, for the type of credit Mr. Bergem has. For example, initial disclosures are required regarding the conditions under which finance charges or any other charges may be imposed, the method of determining the balance on which a finance charge may be imposed, the method of determining the amount of finance charge, and an explanation of the time period, if any, within which any credit may be paid without incurring a finance charge. In addition, periodic statements are required that contain disclosures which generally restate many of the initial disclosures and that also contain additional disclosures relating to transactions that have taken place on the account. For example, if the balance on which finance charges may be imposed is determined without first deducting all credits during the billing cycle, that fact and the amount of such credits must be disclosed on the periodic statement.

All of the prescribed disclosures are required to be made in a clear, meaningful sequence on a form which the customer may retain. This is all intended to assure that consumers are provided with the information necessary to understand their credit arrangements, have the means to compare various credit plans, and will be able to make informed decisions in the use of credit.

Mr. Bergem may wish to review the disclosure information he received from the creditor. If he believes the creditor failed to provide the necessary disclosures, he should provide us with the name of the card issuer, details of his situation, and copies of any pertinent disclosure statement. We will place the information in the hands of the appropriate agency for prompt action.

The question of the legality of the method used to impose finance charges, however, remains an issue of State law and would have to be pursued accordingly.

I hope this information is helpful to you. Please contact me if any further assistance proves necessary.

Sincerely yours,

(Signed) Donald J. Winn

Donald J. Winn
Special Assistant to the Board

Enclosure
LST:CO:DJW:pjt (#V-68)
bcc: Ms. Casey
Mrs. Mallardi

HOWARD M. METZENBAUM
OHIO

COMMITTEES:
ENERGY AND NATURAL RESOURCES
JUDICIARY
SUBCOMMITTEE ON ANTITRUST AND MONOPOLY, CHAIRMAN
HUMAN RESOURCES
BUDGET

United States Senate

WASHINGTON, D.C. 20510

1979 OCT 12 AM 10 29

October 8, 1979

#68

Federal Reserve System
Board of Governors
20th and Constitution Ave., N.W.
Washington, D.C. 20551

Dear Chairman:

Because of the desire of this office to be responsive to all inquiries and communications, your consideration of the attached is requested. Your findings and views, in duplicate form, along with the return of the enclosure, will be appreciated. Please address the envelope of your reply to the attention of my assistant, Rachel Sotsky.

Very sincerely yours,

Howard M. Metzenbaum

Howard M. Metzenbaum
United States Senator

HMM/rr
Enclosure

September 17, 1979

Senator Howard M. Metzenbaum
Senate Office Building
Washington, D. C. 20510

Dear Senator Metzenbaum:

This letter is to object to the method of calculating finance charges on credit cards.

What is unknown by most customers is that the percent rate is multiplied by not only the past due balance but also by the new charges that have not as yet been received by the customer. In other words, a person is billed for the finance charges on a statement that they have neither seen nor had a chance to pay. I do not know if this practice is illegal or unethical but I am certain that most credit card holders are unaware of the actual methods of calculation as programmed into a computor.

Can you be of any help in changing this "rip off".

Sincerely,

Jerry L. Bergem

Jerry L. Bergem
8152 Chardon Rd. RD#5
Kirtland, Ohio 44094

JLB:aab

November 7, 1979

The Honorable William Proxmire
Chairman, Committee on Banking,
Housing and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Chairman Proxmire:

Your letter of October 26 raised several questions about the recent reporting errors in money supply statistics. I am glad to take this opportunity to provide an explanation of the error, an indication of corrective steps we have taken, and to appraise the costs on financial markets.

The recent large error in the reported money supply statistics has been an unfortunate and regrettable source of confusion, particularly coming as it did so shortly after the Federal Reserve had introduced new techniques in open market operations. Because of the confusion, I would like to stress first that the errors had nothing at all to do with the measures announced on October 6. Moreover, subsequent operations under the program would not have been significantly different if the correct figures had been known at all times.

When the program was adopted on October 6, the last published data at hand were for the week of September 26. In addition, partial data were available for the week of October 3. These partial, unpublished figures suggested that money supply might decline a little from the preceding week, but these preliminary data are given very little weight for they often display a different movement from more complete data. In the event, the more complete data for the banking system for the week of October 3, which became available to us on October 10 and 11 (and were first published on October 11), indicated that the money supply expanded by $2 billion. A large expansion was sustained for that week, despite the subequent downward revision of $700 million in Manufacturers Hanover deposit figures, partly because of other revisions made on October 18.

The figures for the week of October 10, first published on October 18, showed a large further increase of \$2.8 billion; it was these data that on October 25 were revised sharply, primarily reflecting a \$3.0 billion error in the figures reported by Manufacturers Hanover. On that latter date, the money supply for the week ended October 3 was also revised down by \$700 million as a result of reporting errors for that bank. On October 29, Vice Chairman Schultz announced, in his statement before the House Banking Committee, that Manufacturers Hanover had indicated that its data included in the money supply for the week ended October 17 might be revised down by \$800 million. On November 1, mainly reflecting revisions from Manufacturers Hanover, the money supply for the week ended October 17 was, in fact, revised downward by \$700 million. However, despite the downward revisions in the figures reported for the weeks of October 3, 10, and 17, the average level of the money supply remained high--running substantially above the September level in the first half of October.

Consequently, it seems evident that during that period the demand for money had remained relatively strong in face of our efforts to limit the supply of reserves. As a result, money market conditions tightened, as banks bid actively for the limited supply of nonborrowed reserves provided through open market operations and also increased their borrowing from the discount window. The revisions in the money supply figures had virtually no impact on the level of nonborrowed reserves the Federal Reserve was providing to the market through open market operations in this period. That level had been determined essentially by calculations of the reserve path needed to attain desired growth in the monetary aggregates over the final quarter of the year as a whole, not by movements in the money supply data for an isolated week or two.

The Board has always stressed that market participants and others should not give undue attention to weekly money supply data. That obviously needs to be underscored again--especially under current circumstances when, within broad federal funds rate limits, the provision of reserves consistent with longer-run monetary aggregate objectives is the focus of day-to-day policy. Our new approach would, if anything, make operations even less sensitive to weekly money stock variations than our former approach.

With regard to the possible effects on financial markets of the money supply revisions, it should be clear from the preceding chronology that the Manufacturers Hanover error could not have had an influence on the sharp interest rate rise and drop in stock prices that immediately followed announcement of the program when the markets opened on October 9. The particularly large error was for the week ending October 10, but those figures were not first published until Thursday, October 18. Even the figures for October 3 were not published until October 11. The subsequent $700 million error in that figure, related to Manufacturers Hanover, was largely offset by other revisions in the data for that week and was not so large in itself as to be outside the range of prior revisions of the weekly data.

Any influence the reporting error might have had on financial markets would be subsequent to October 18. It is true that the Dow Jones Industrial Average declined about 15 points on the following day and interest rates rose sharply. However, at that time the federal funds rate also rose to the 15 percent area in reflection of the gathering constraint on nonborrowed reserves, a constraint that was needed because nonborrowed reserves and other reserve measures--total reserves and the monetary base--had been running high in the first half of the month relative to the path needed to slow growth in money supply over the fourth quarter.

It is most difficult, if not impossible, in evaluating financial market conditions to separate the impact of the money supply announcement from pressures being generated by strong demands for credit, money, and bank reserves relative to supply. It might be noted, in that respect, that the stock market did not show any significant recovery immediately after the money supply figures were corrected on October 25, as might have been expected if the erroneous figures had been a significant but identifiable negative influence. Some sensitive interest rates did decline after the revision, though not by as much as they had risen a week earlier, and part of that decline was subsequently reversed despite the downward revisions in the data for the week ended October 17 in our regular publication on November 1. Thus, over the period it seems clear that markets, fundamentally, have been reacting to basic economic forces. During this period, incoming data on prices as yet showed no abatement in the rate of inflation, surprisingly strong data on economic activity was published in the course of October, and the Federal Reserve policy of restraint on bank reserves relative to demand placed pressure on money market interest rates.

The source of the errors was a change in internal procedures associated with the introduction of a new computer system at Manufacturers Hanover Bank on October 1. As a result of this change, their report of daily deposits--data that eventually enters the money supply statistics--was later determined to be inaccurate, principally because of misclassifications among deposit categories.

These errors were not picked up by the routine daily screening procedures at the Federal Reserve Bank of New York primarily because the daily deposits data of Manufacturers Hanover, as a large and active "clearing" bank, are ordinarily highly volatile. However, Federal Reserve staff began checking with the bank on aspects of their data flow as early as October 12, in particular the weekly report from the bank showing demand deposits due to foreign banks for the week ending October 10. At that time, the bank affirmed the accuracy of the unpublished figure that they had reported on demand deposits due to foreign banks.

Early on October 18, nationwide data for all weekly reporting banks became available, and these data contained an unusually large increase in demand deposits due to foreign banks in New York City for the week of October 10. That morning staff again checked with Manufacturers Hanover, since that bank reported the bulk of the increase. The bank at this point indicated that deposits due to foreign banks should be revised downward by about $1 billion, a change that had the effect of reducing our calculation of the money supply for the October 10 week to be published that afternoon. The bank was then asked if their other data entering the money supply--that is, the daily deposit reports that are the basic building blocks of the money supply series--were correct. As indicated, these data had passed our edit checks, but the error in the report on foreign deposits led the staff to make a further inquiry. The bank said the daily deposits were correct. In the light of that assurance, the national figures for the week ending October 10 were published on the afternoon of October 18, after adjusting for the $1 billion error found in foreign deposits. The indicated increase in the money supply--$2.8 billion--was sizable even after the $1 billion adjustment, but clearly not "impossibly" large in light of the sometimes erratic nature of the series.

Staff nevertheless continued their investigation of the Manufacturers Hanover statistics and subsequently discovered inconsistencies in the data reported on two different forms that could not be reconciled. After this discrepancy was brought to the bank's attention, the bank on Monday, October 22, indicated a large revision might be necessary for the week of October 10. On Wednesday, October 24, the staff received reasonably certain data indicating large downward revisions. After further verification, the revised figures were promptly published in the money supply release issued Thursday, October 25. During the following weekend a further $800 million revision in the data for the week ending October 17 was reported to us, and as I have noted, this possible change was announced early Monday morning, October 29.

To ensure that there is no repeat of such large and unfortunate reporting errors, we are reviewing--and indeed have already made interim changes in--our procedures for editing incoming data. These changes will undoubtedly involve higher costs at the Reserve Banks and member banks. The amount of contact between staffs of Reserve Banks and member banks will increase, and I would anticipate a considerably greater amount of reverification of data that will in the end prove to be accurate.

I must point out that, despite these efforts, no data flow system can be entirely safe from human error, and that in the short-run the Federal Reserve can do no more than ask banks to carefully recheck data that appear unusual. In this regard, I should note that Manufacturers Hanover--which has employed outside auditors to recheck their data--has advised the Federal Reserve that some further revisions in their October data, thought at this time to be minor, may soon be forthcoming. Such revisions, if they materialize, will be promptly reflected in the published data.

I fully appreciate your concern over this matter, which I share. I trust this letter clarifies the questions involved.

Sincerely,

S/Paul A. Volcker

SHA/ECE/FS/DB:kt
#V-97

Action assigned to Mr. Axilrod
Info copies to:
Govs. Schultz + Partee + Mr. Pausik, N.Y.

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MARY FRANCES DE LA PAVA, CHIEF CLERK

United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, D.C. 20510

1979 OCT 29

October 26, 1979

#97

The Honorable Paul A. Volcker
Chairman
Board of Governors of
the Federal Reserve System
Washington, D. C. 20551

Dear Mr. Chairman:

I am writing to you to express my shock and concern with the announcement last night that a $3.7 billion error had been made in estimating the basic money supply for the first two weeks in October. I would like you to provide the Committee with a thorough explanation for this error, an indication of the steps that will be taken to avoid such errors in the future, and the Board's assessment of the costs of this error on the financial markets.

The magnitude of this error is a serious problem. However, the more serious factor is that the error occurred during a period when the financial markets were adjusting to strong monetary measures imposed by the Board to restrict the growth of money and credit. There is little doubt that the previously announced large increase in the money stock was interpreted to signify the need for further restraint which translated into unsettled market conditions, and possibly into very large losses for some in the money and stock markets.

When you appeared before the Banking Committee on October 15, 1979 to discuss the Fed's changes in policy, we had a discussion of the appropriate indicator to monetary policy now that the Federal funds rate was to fluctuate more widely. Your response was that observers of policy should watch the money supply numbers recognizing that there could be some fluctuations. When pressed about other indicators, such as bank reserves and credit, you said 'Well, you can look at that, too, but I would suggest that the principal means by which you can follow the effects of our policy are through analysis of the various monetary measures."

If it is still your view that the money supply data are the principal indicators of monetary policy, the Federal Reserve must take steps to make sure that the money supply data released each week are accurate. Large errors such as those that lead to the revisions announced yesterday, cannot be tolerated. I would appreciate your prompt attention to this matter.

Sincerely,

William Proxmire

William Proxmire
Chairman

WP/sr

November 5, 1979

The Honorable Richard T. Schulze
House of Representatives
Washington, D. C. 20515

Dear Mr. Schulze:

I appreciate your invitation to speak at the breakfast you are sponsoring for the 5th District Advisory League on December 15. I regret to say, however, that my schedule for December has already filled up to the point where I must decline your invitation.

You have my best wishes for a successful meeting.

Sincerely,

cc: Mrs. Mallardi
#74

JRC:tjf

RICHARD T. SCHULZE
5TH DISTRICT, PENNSYLVANIA

WAYS AND MEANS
COMMITTEE

Joe Coyne

Congress of the United States

House of Representatives • Washington, D.C. 20515

October 12, 1979

#74

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1979 OCT 15 AM 9:13
RECEIVED OFFICE OF THE CHAIRMAN

The Honorable Paul A. Volcker
Chairman
Federal Reserve Board
Federal Reserve Building
Constitution Avenue, N.W.
Washington, D.C. 20551

Dear Mr. Chairman:

Each year I sponsor a breakfast in my district for the 5th District Advisory League. The League, which is a bi-partisan group of businessmen and women, is invited free of charge to hear a speaker address the pressing issues of the day. I would like to invite you to be our speaker for the breakfast to be held on December 15, 1979.

Your remarks would be geared to a subject of your choice, and hopefully you would speak for about 20 minutes followed by some questions from the audience. Past speakers have found the Advisory League a stimulating forum mainly because of the makeup of the group which represents not only a cross section of the 5th District, but of America. Generally those in attendance number around 100 to 150 persons.

This year the event will be held at 8:00 A.M. at the Treadway Inn in West Chester, Pennsylvania. I cannot offer you an honorarium, however all of your expenses would be covered. Since West Chester is only a 2-1/2 hour drive from Washington, D.C., we would be pleased to make arrangements to have you driven to the Treadway Inn in West Chester the evening before the breakfast meeting. Naturally your transportation arrangements back to Washington would be make in accordance with your schedule and convenience.

I sincerely hope that you can accept this invitation and join us for what I know will be a rewarding experience for everyone. I look forward to hearing from you in the near future.

Sincerely,

Dick Schulze

RICHARD T. SCHULZE
Member of Congress

RTS:jwm

PLEASE RESPOND TO:

☐ 432 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-5761

☐ 2 EAST LANCASTER AVENUE
PAOLI, PENNSYLVANIA 19301
800-362-5652 (TOLL FREE)
215-648-0555

Volcker

RICHARD T. SCHULZE
5TH DISTRICT, PENNSYLVANIA

WAYS AND MEANS
COMMITTEE

KAG
DJW
JPB
CO

Congress of the United States

House of Representatives • Washington, D.C. 20515

1979 OCT 15 PM 3:13

October 12, 1979

#74

The Honorable Paul A. Volcker
Chairman
Federal Reserve Board
Federal Reserve Building
Constitution Avenue, N.W.
Washington, D.C. 20551

Joe
Good God no
Incredible that he would even ask!
K
Please handle reply
K

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Sincerely,

Dick Schulze

RICHARD T. SCHULZE
Member of Congress

RTS:jwm

PLEASE RESPOND TO:

☐ 432 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-5761

☐ 2 EAST LANCASTER AVENUE
PAOLI, PENNSYLVANIA 19301
800-362-5652 (TOLL FREE)
215-648-0555

RICHARD T. SCHULZE
5TH DISTRICT, PENNSYLVANIA

WAYS AND MEANS
COMMITTEE

Congress of the United States

House of Representatives ▪ Washington, D.C. 20515

October 12, 1979

#74

1979 OCT 15 PM 3:13

The Honorable Paul A. Volcker
Chairman
Federal Reserve Board
Federal Reserve Building
Constitution Avenue, N.W.
Washington, D.C. 20551

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Sincerely

Dick Schulze

RICHARD T. SCHULZE
Member of Congress

RTS:jwm

PLEASE RESPOND TO:

☐ 432 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-5761

☐ 2 EAST LANCASTER AVENUE
PAOLI, PENNSYLVANIA 19301
800-362-5652 (TOLL FREE)
215-648-0555

November 2, 1979

The Honorable Robert S. Walker
House of Representatives
Washington, D. C. 20515

Dear Mr. Walker:

Thank you for your letter of October 24 requesting comment on the enclosed letter from your constituent, Mr. T. W. Meredith, who expresses concern about the interest rates his firm must pay for bank loans.

The level of interest rates is largely a result of the rapid rate of inflation we are experiencing, and deeply embedded expectations that prices will continue to climb. In this environment, interest rates are high because demands for credit to finance purchases are strong, while lenders are reluctant to extend credit without being compensated for the declining value of the dollars they will receive in repayment. The Federal Reserve could alleviate interest rate pressures temporarily by pouring reserves into the banking system. Such a policy, however, would only intensify inflationary forces. Instead, the Federal Reserve has taken a number of steps to control the growth of money and credit. Although these steps may have resulted in higher interest rates in the near term, only by reducing monetary growth from its recent excessive pace can the inflation and the inflationary psychology that has gripped our economy be damped. Such a reduction in inflationary expectations is a necessary precondition for any significant downward movement in interest rates.

Because the Federal Reserve's actions operate initially through the banking system, their effect could be greater on those borrowers that are dependent on bank credit--including small businesses. For this reason, I have written member banks urging them to give particular attention to the needs of their established customers for funds to maintain normal business operations.

Sincerely,

S/Paul A. Volcker

Enclosure

DK:JLK:vcd (#V-96)
bcc: Mrs. Mallardi (2)

ROBERT S. WALKER
16TH DISTRICT, PENNSYLVANIA

COMMITTEES:
GOVERNMENT OPERATIONS
SCIENCE AND TECHNOLOGY

Action assigned Jim Kichline

THOMAS R. BLANK
WASHINGTON OFFICE

GEORGE W. JACKSON
DISTRICT OFFICES

Congress of the United States
House of Representatives
Washington, D.C. 20515

October 24, 1979 #96

1979 OCT 29 AM 10:55

Mr. Paul Volcker
Chairman
Federal Reserve System
12th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Dear Chairman Volcker:

Enclosed please find a copy of a letter from a small businessman in my district concerning the effects of the recent rapid rise in interest rates on his business.

In addition, I have received other communications and comments from my constituents concerning the hardships imposed by these interest rates. While I understand that you are attempting to battle inflation, I thought that you would be interested in the enclosed views because they constitute the other side of the coin and bring home the effects of your action. I would be very pleased if you would review the enclosed correspondence and provide me with your views and comments so that I may appropriately respond to my constituents.

Thank you very much for your attention to this matter and I will be looking forward to hearing from you.

Cordially,

Bob Walker

Robert S. Walker

T
Enc.

CONESTOGA TRANSPORTATION COMPANY

825 EAST CHESTNUT STREET • LANCASTER, PA. 17604

717 – 397-8186

October 11, 1979

OCT 15 1979

Congressman Robert Walker
50 N. Duke Street
Lancaster, Pa. 17602

Dear Mr. Walker:

The enclosed letter is self-explanatory. Is there any help that can be given to a small business and aid us to stay alive?

Very sincerely yours,

Tom Meredith

T. W. Meredith
President

TWM/jr

CONESTOGA TRANSPORTATION COMPANY

825 EAST CHESTNUT STREET • LANCASTER, PA. 17604

717-397-8186

October 11, 1979

Mr. David Keim
National Central Bank
100 N. Queen Street
Lancaster, Pa. 17603

Dear Dave,

The constant changing upwards of interest rates is starting to get completely unreasonable, A small company such as ours can ill afford the constant spiral that is mandated by these tremendous increases.

I am fully aware that this is not your fault or desire and for that reason, while I am writing you, a copy of this letter will be sent to Congressman Robert Walker.

We are a small company that must rely on bank credit for capital expenditures, and must or rather, should have some reasonable assurance that the capital we borrow is within our ability to pay.

We operate under a fixed rate established thru the Public Utility Commission and Interstate Commerce Commission. To get an increase, we must go thru a long book working process that takes approximately ninety days to be effective and at the same time, we cannot go in every other month for this increase.

I am fully aware that banks must have proper security for loans. I am happy to tell you that the equipment you are securing has gone up in value by a minimum of 20% to 40%.

I do not think it is unreasonable that our government and financial institutes should be looking for means to support small businesses, as we do give employment, pay taxes and make vital contributions to our society. We cannot be progressive without a means of additional capital at reasonable rates. Our company is in the business of transporting people and with the energy situation today, we should be encouraged rather that hindered from progressing.

Where in today's market can anyone be transported for three cents a mile per trip. This year has been a fantastic year. It started with Three Mile Island, the Amish polio scare and then the energy crunch. All three has a serious impact on our company. In dollars, it amounted to $100,000.

I am appealling to you to request a reduction in our rate over prime from 4% to 3% or less.

I sincerely appreciate your past services and cooperation that you rendered to us. When I think of the millions of dollars that we have passed thru your bank, I feel that we have made a contribution to your growth as well as the success that you have helped make our company.

Our relationship goes back from forty to fifty years. I am aware that without the bank we would not have enjoyed the success that we have, and I feel we have in some small measure contributed to yours.

Thanking you in advance for any consideration that you might be able to afford us.

With kindest personal regards,

Tom

T. W. Meredith
President

TWM/jr

c.c. Robert Walker
Wilson McElhinny

November 2, 1979

The Honorable Henry S. Reuss
Chairman
Committee on Banking, Finance
and Urban Affairs
House of Representatives
Washington, D.C. 20515

Dear Chairman Reuss:

I am responding to the proposal in your October 16 letter in which you recommend a new approach to Federal Reserve discount rate policy. Your plan links the discount rate at which a particular member bank can borrow from the Federal Reserve to the level of the bank's own prime rate and appears to be designed chiefly to introduce greater downward flexibility in the commercial bank prime rate "when, as many predict, the economy peaks over into recession." Banks that reduced their prime rate could thus expect to obtain a lower rate on funds borrowed from the Federal Reserve; consequently, their borrowing rate would be lower than the rate charged other member banks with higher prime rates.

There are a number of problems with your proposal. First, it could not be made effective without a change in legislation. An amendment to Section 10(b) of the Federal Reserve Act (adopted by Congress in 1974) makes it possible for any member bank holding 1-4 family mortgages to use them as collateral for borrowing from the Federal Reserve "at the lowest discount rate." For this reason, it would be impossible for Federal Reserve Banks to require members with higher prime rates to pay a higher discount rate, so long as those members could offer 1-4 family mortgages as collateral for their borrowing.

Second, the Federal Reserve Act states that in administering their operations Federal Reserve Banks should treat member banks in a substantially equal manner. For the reasons developed in the next paragraph, it is possible that administration of the discount rate on the basis of an individual bank's prime rate could be regarded as inconsistent with this equal treatment standard.

If your proposal were adopted, the lack of evidence on actual bank rate structures would make it exceedingly difficult to prevent banks from gaining access to low rate discount credit, even when they did not make corresponding reductions in their average loan charges. Since bank loan rate structures are both complex and unpublished, reflect a variety of other factors such as compensating balances, and are subject to frequent adjustment, the Federal Reserve could never be sure whether an announced reduction in a bank's prime rate also represented a lowering of its average loan charges.

For example, a given bank could announce a lower prime rate in order to take advantage of the resulting lower discount rate, but at the same time it could substantially reduce the share of its loan funds being allotted at prime. On the loans it made at rates above prime, the level of charges could then be increased on average so that its total interest charges were not appreciably affected. While most banks would probably reject such behavior as not being conducive to good long-run customer relations, the Federal Reserve could not identify the few banks that did choose this course without placing an onerous and costly reporting burden on all banks.

Finally, I believe you are exaggerating the importance of the link between our discount rate and the bank prime rate during periods of economic decline. When assessing the importance of this link, it is helpful to recall the basic purpose of borrowing that members arrange through the Federal Reserve discount window. Most such credit is extended on a strictly temporary basis to assist members in adjusting to unexpected developments--either in demands for loans (including calls on credit lines), or in shortfalls of deposit flows. When such reserve drains do create a need for temporary borrowing, the banks being accommodated are expected to make early repayment, through whatever adjustments may be needed in their assets and liabilities.

Member bank needs for such temporary Federal Reserve assistance are, of course, greatest in periods when credit demands are strong, general reserve availability is being constrained, and interest rates are rising. During periods of cyclical slack, on the other hand, banks find market funds more readily available at reduced rates. As a result, any outstanding credit being advanced to banks by the Federal Reserve is likely to be quickly repaid, more or less independent of the prevailing relationship between the discount rate and other money market rates. With funds from private sources increasingly available at reduced costs, and with general demands for loans tending to slacken, banks come under competitive pressure to reduce their own loan rates as well. Through this process, forces in private markets exert increasingly strong downward pressure on the prime rate. With needs for Federal Reserve credit dropping to negligible levels, the influence of the discount rate on the prime rate is minimal.

We are studying many aspects of discount window policy in light of the October 6 monetary program. We will certainly take account of your comments and suggestions in the process.

Sincerely,

S/Paul A. Volcker

FMK:pjt (#V-79)
bcc: Mr. Keir
Mrs. Mallardi (2)

#79

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

NINETY-SIXTH CONGRESS

2129 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, D.C. 20515

225-4247

October 16, 1979

The Honorable Paul A. Volcker
Chairman
Board of Governors
Federal Reserve System
Washington, D. C.

Dear Chairman Volcker:

The Federal Reserve's actions of Saturday, October 6 were constructive. They conveyed a well-timed, impressive signal abroad. As in late October, 1978, there was a clear need for a "show of force" to quell speculation and rising instability on the international currency and commodity markets. In this the Federal Reserve has apparently succeeded.

So far, the Federal Reserve has also avoided boxing itself rigidly into any one monetary policy posture for the indefinite future. This is most important. Conditions change, sometimes with astonishing speed. Yesterday, we needed to deliver a sharp reminder of our determination to defeat inflation to the world markets. Today, I believe, we need to return to a steady policy of moderate monetary and fiscal restraint, coupled with a broad-based program to remedy structural ills, that can alone eliminate the sources of inflation that have become embedded in our economy over the years. It is foolhardy to believe that this deliverance can be effected overnight, by some mystical transformation in the "state of inflationary expectations." Such a transformation was attempted by policy-makers who brought on the recession of 1974-75 -- and it did not occur. We need instead to get back on the track of investment, innovation, reconstruction and steady growth that can pull us out of stagflation over the long haul.

The jettisoning of the rigged interest rate approach to monetary policy, and a shift of emphasis to monetary targets, is something that we of the Banking Committee have long urged. In my view, we need the lowest structure of interest rates that is consistent with your moderate monetary targets. That structure can best be achieved in free competition among lending institutions. If free competition is permitted, the interest rate structure that emerges will be the one, consistent with the monetary targets, that will yield the maximum investment, and the maximum gain in productivity, and therefore the maximum contribution to lower inflation in the future.

But existing Federal Reserve policy includes a vestige from the pre-October 6 past, which not only flies in the face of the post-October 6 monetary order, but also in the face of what I believe to be an imperative national objective: Get That Prime Rate Down!

I refer to the discount rate, still as firmly fixed by the Federal Reserve after October 6 as before.

Federal Reserve pegging of the discount rate is, as of ten days ago, anachronistic. It is simply inconsistent with the new spirit of monetary policy, a throwback to the discarded Federal Funds fetishism of yore.

Moreover, pegging the discount rate can have pernicious consequences when, as many predict, the economy does peak over into recession. Under such circumstances stability of the monetary aggregates will demand a reasonably rapid adjustment of interest rates; a fixed discount rate will impede such adjustment. The Federal Reserve will in effect be providing the banks with a price floor -- a virtual Gary Dinner for bankers. This will be satisfactory for bank profits but dreadful for everyone else. Propping up interest rates in the face of collapsing demand is as bad for the economy as holding them down in an inflationary explosion.

Until now, the existence of an administered discount rate, however unimportant in relation to aggregate credit flows, had some utility as a clear signal of the Federal Reserve Board's intentions. Time and use have, however, conspired to give this "signal" of policy a life of its own. In particular, foreign exchange markets have come to use the discount rate as a litmus test of the Board's intentions to support the international dollar. But these markets apparently do not look at the level of the discount rate, but only at the time elapsed since the last time it was raised. This is a very unhealthy development: it commits the Board to regular reassertions of the true faith. The result is to put interest rates generally on an endless escalator since, clearly, the discount rate cannot rise without concomitant open-market operations to keep other rates roughly in line. The danger, again, is that when the economy slows and credit demands peak out, the discount rate will serve as a floor to all interest rates, riveted into place by fear of a run on the dollar. Such conditions could greatly exacerbate recession.

The cure is to act now, and release the discount rate from its present short leash. The Federal Reserve should disassociate itself from movements in the discount rate, by tying it in some predetermined relationship to the borrower's prime rate. This would promote bank competition, since lenders with lower prime rates could take advantage of lower interest rates on their own borrowings, and would therefore not suffer a squeeze on their margins relative to their higher-priced neighbors. The details of the linkage -- whether a fixed ratio, or a fixed differential between discount and prime, or some other relationship -- can be left safely to the technical experts. What is important is that action come quickly, before events force the issue.

I look forward to your response.

Sincerely,

Henry S. Reuss

Henry S. Reuss
Chairman

C/M

November 1, 1979

The Honorable Stephen L. Neal
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Neal:

I want to thank you for your recent letter concerning the monetary policy actions taken on October 6. I appreciate your confidence and support. It is particularly reassuring in these difficult times to know that our policies and objectives are understood and supported by Congressional leaders.

Your letter suggests that the Federal funds rate should be permitted to fluctuate freely rather than constrained, even if to a broad range. Since the program was adopted, the Federal funds rate has in fact fluctuated in a very wide range, and the new operational procedures will probably continue to be associated with quite large fluctuations in that rate. However, I do not believe that it would serve any useful purpose to allow the funds rate to fluctuate without limit.

The nation's central bank must be sensitive to conditions in credit markets, and if markets are to function in an effective and orderly manner, market participants need a sense that day-to-day money market rates will not, in the short-run, rise or fall without limit. The difficult adjustments by the market to the wider funds rate limits in the new program would seem to attest to that.

In addition, funds rate limits allow for the uncertainties we face about the path of money and credit needs over time. As demands temporarily bulge, or decline, a funds rate limit would require a degree of accommodation to those swings. This seems only prudent since there seems little to be gained from attempting rigidly to force a pre-determined week-to-week, or even month-to-month, path of money and credit expansion on the economy if the evolving pattern of fluctuation in credit and money demand suggests another.

Once again, thanks for your support.

Sincerely,

S/Paul A. Volcker

Paul A. Volcker

ECEttin:kt
#V-67

PARREN J. MITCHELL, MD., CHAIRMAN

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225-7315

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U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON DOMESTIC MONETARY POLICY
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
NINETY-SIXTH CONGRESS
WASHINGTON, D.C. 20515

#6

1979 OCT 11 PM 3:56

October 10, 1979

The Honorable Paul A. Volcker
Chairman, Board of Governors
Federal Reserve System
20th and Constitution Avenue N.W.
Washington, D.C. 20551

Dear Chairman Volcker:

I want to express my strong support of the monetary policy changes which you announced last Saturday. I especially am pleased and encouraged by the decision of the Federal Open Market Committee to switch its focus in managing the nation's money supply from the federal funds rate to the reserve base.

In years past, it seems to me, the Federal Reserve was unable to achieve its monetary growth targets precisely because purchases and sales of securities by the New York Reserve Bank, on behalf of all Reserve Banks, were programmed to respond to pressures on the federal funds rate. In response to upward pressures on the funds and other interest rates, pressures that accompany inflation, securities were bought thereby supplying reserves to banks, accelerating money growth and accommodating inflation. In response to downward pressures, the Fed either sold securities or stood-by passively even in the face of declines in money growth that were sharp enough to cause recessions.

Clearly, the federal funds rate must be allowed to fluctuate freely if we are to gain control over the growth of the monetary aggregates. I commend your decision to place "greater emphasis in day-to-day operations on the supply of bank reserves and less emphasis on confining short-term fluctuations in the federal funds rate."

The evidence is overwhelming that money growth must be reduced to about one-third the recent rate to reduce inflation to the interim 1983 goal of 3 percent. The evidence also is overwhelming that this must be done both slowly and surely; slowly to guard against recession and surely to make the policy believable. In this regard, wouldn't it be constructive for you to spell out a long term monetary growth plan aimed at achieving a significant reduction in inflation by 1983 while at the same time guarding against recession?

The Honorable Paul A. Volcker
Page Two
October 10, 1979

I am confident that by increasing the supply of reserves via open market purchases when money growth is under the target plan, and diminishing the supply of reserves when it is above target, monetary growth can be controlled. In turn, appropriate control of monetary growth will reduce inflation and promote full employment. Thus, it would appear useful also to dispel all doubts about your resolve to control money growth in the months and years ahead. In this regard, a lingering doubt remains because of the caveat in your press release indicating that the funds rate would not be allowed to fluctuate freely, but rather changes in the funds rate would still be contained, albeit "within broad limits."

Your comments on this would be most appreciated.

My warmest regards, sincere congratulations and best wishes.

Sincerely,

Steve Neal

Stephen L. Neal
Member of Congress

SLN/rwt

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

PAUL A. VOLCKER
CHAIRMAN

November 1, 1979

The Honorable William Proxmire
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Chairman Proxmire:

Thank you for asking for my views on an amendment which Senator Tsongas may offer on the Senate floor which proposes to reduce the reserve requirement on ATS accounts, NOW accounts and share draft accounts from the 3-22 range to a 3-7 range and provide that such reserve requirements would be maintained at 3 percent until such accounts are offered by a majority of the states and equal 20 percentum of the aggregate dollar deposits of transaction accounts held by all depository institutions.

I strongly oppose this amendment. The amendment would have the effect of establishing nationwide a privileged category of transaction accounts carrying a very low reserve requirement for an indefinite period of time. By generalizing the New England situation on a nationwide basis, this could undermine monetary control and raise serious questions as to whether transaction accounts will be covered by appropriate reserve requirements on an equitable basis as part of monetary improvement legislation or otherwise.

We are sensitive to the situation in New England and are willing to review appropriate transitional arrangements so that New England's financial institutions are not unduly burdened. One such transitional arrangement that has been discussed and which I could support would hold reserve requirements behind NOW accounts at an exceptionally low level until such accounts equal 10 percent of the aggregate dollar amount of transaction deposits held by all depository institutions. In turn, a reserve requirement range of 3-10 or consistent with proposed monetary improvement legislation would be acceptable.

Sincerely,

Paul A Volcker

November 28, 1979

The Honorable Strom Thurmond
United States Senate
Washington, D. C. 20510

Dear Senator Thurmond:

Thank you for your recent letter concerning the 25th anniversary convention of the Young Bankers Division of the South Carolina Bankers Association. Although the invitation was intriguing, I was forced to send my regrets because of a crowded speaking schedule that is already shaping up for next February and March.

With best regards.

Sincerely,

cc: Mrs. Mallardi
#108

JRC:tjf

United States Senate

COMMITTEE ON THE JUDICIARY

WASHINGTON, D.C. 20510

#108

November 6, 1979

The Honorable Paul A. Volcker
Chairman
Board of Governors
Federal Reserve System
Washington, D. C. 20551

Dear Chairman Volcker:

It has come to my attention that you have been asked to address the Twenty-fifth Anniversary Convention of the Young Bankers Division of the South Carolina Bankers Association. I should like to heartily endorse this invitation with the hope that you will be able to accept. I know that you would find a trip to the Hilton Head Island area to be most satisfying.

Although I know that your schedule is extremely busy, I hope that you will have an opportunity to come to the Palmetto State. The people of South Carolina would welcome an opportunity to discuss current issues with you.

Thank you for your consideration of this invitation, and with kindest regards and best wishes,

Sincerely,

Strom Thurmond

Strom Thurmond

ST/o

November 28, 1979

The Honorable Ernest F. Hollings
United States Senate
Washington, D. C. 20510

Dear Senator Hollings:

Thank you for your recent letter concerning the 25th anniversary convention of the Young Bankers Division of the South Carolina Bankers Association. Although the invitation was intriguing, I was forced to send my regrets because of a crowded speaking schedule that is already shaping up for next February and March.

With best regards.

Sincerely,

cc: Mrs. Mallardi
#105

JRC:tjf

ERNEST F. HOLLINGS
SOUTH CAROLINA

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112 CUSTOM HOUSE
200 EAST BAY STREET
CHARLESTON, SOUTH CAROLINA 29401
803-724-4525

233 FEDERAL BUILDING
FLORENCE, SOUTH CAROLINA 29503
803-662-8135

United States Senate

115 SENATE OFFICE BUILDING
WASHINGTON, D.C. 20510
202-224-6121

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SCIENCE, TECHNOLOGY, AND SPACE
DEMOCRATIC POLICY COMMITTEE
OFFICE OF TECHNOLOGY ASSESSMENT
NATIONAL OCEAN POLICY STUDY

October 30, 1979

#105

Honorable Paul Volcker
Chairman
Board of Governors of the Federal
Reserve System
Federal Reserve Building
Washington, DC 20551

See #2487

Dear Mr. Chairman:

It is my understanding that you have been contacted by Mr. Henry S. Laffitte relative to the 25th Anniversary convention of the Young Bankers Division of the South Carolina Bankers Association. This meeting is to be held on March 21 and 22, 1980 at Palmetto Dunes on Hilton Head Island.

The South Carolina Young Bankers group is a dynamic one and has excellent leadership. I know your presence at their convention would insure its success and I would appreciate your taking a close look at this request.

With warm regards, I am

Sincerely,

Fritz Hollings

Ernest F. Hollings

EFH/kk

ERNEST F. HOLLINGS
SOUTH CAROLINA

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COMMITTEES:
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DEMOCRATIC POLICY COMMITTEE
OFFICE OF TECHNOLOGY ASSESSMENT
NATIONAL OCEAN POLICY STUDY

October 30, 1979

#105

1979 NOV -5 AM 10: 11

Honorable Paul Volcker
Chairman
Board of Governors of the Federal
Reserve System
Federal Reserve Building
Washington, DC 20551

See # 2487

Dear Mr. Chairman:

It is my understanding that you have been contacted by Mr. Henry S. Laffitte relative to the 25th Anniversary convention of the Young Bankers Division of the South Carolina Bankers Association. This meeting is to be held on March 21 and 22, 1980 at Palmetto Dunes on Hilton Head Island.

The South Carolina Young Bankers group is a dynamic one and has excellent leadership. I know your presence at their convention would insure its success and I would appreciate your taking a close look at this request.

With warm regards, I am

Sincerely,

Fritz Hollings

Ernest F. Hollings

EFH/kk

November 26, 1979

The Honorable William Proxmire
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Chairman Proxmire:

In response to your letter of November 13, we are furnishing the Committee on Banking, Housing and Urban Affairs with statistical data on Chrysler's bank credit arrangements in eight specified states and localities which have Chrysler operational facilities.

The Chrysler Financial figures reflect, in part, the revolving agreement with 195 U.S. banks for $930.4 million which, together with regular bank lines, represents a total of $1,040 million of short-term commitments to Chrysler Financial. The finance company also has agreements with banks to sell wholesale and retail receivables in the amount of $765 million. In addition, Chrysler Financial has $130 million term loans from banks and $495 million in Eurodollar loan commitments. The data excludes credits to Chrysler Financial's foreign subsidiaries.

The Chrysler Corporation's figures include, in part, bank credit facilities consisting of a revolving credit agreement with U.S. banks for $567 million, other regular lines of $64 million, term financings of $15 million, and Eurodollar loan commitments of $290 million.

Exhibit I presents by state and metropolitan area, Chrysler's total commitments, outstanding balances and unused bank lines as of November 14. A comparison of the outstanding balances in metropolitan areas with the state total reveals the heavy concentration of loans in major cities with Chrysler operations such as Detroit, Indianapolis, St. Louis, and Wilmington (see column 8). For instance, Chrysler outstanding loans in Detroit ($108.5 million) account for 86.6% of the Michigan balance of $125.3 million.

Exhibit II shows the relationship of outstanding obligations with commercial and industrial loans, and the proportion accounted for by each area relative to the total domestic indebtedness of each firm.

The Honorable William Proxmire
Page Two

Note that the states of New York, Illinois, and Michigan account for the largest proportion of Chrysler loans relative to each locality's commercial and industrial loans outstanding. Also highlighted in Exhibit II is New York's major role in the financing of Chrysler Corporation's and Chrysler Financial's borrowings.

If I can be of any further assistance to you, please let me know.

Sincerely,

S/Paul A. Volcker

Enclosures

JR:pjt (#V-112)
bcc: Jack Ryan
Bill Taylor
Mrs. Mallardi (2)

EXHIBIT I

LOANS TO CHRYSLER BY STATE AND METROPOLITAN AREA
($ in millions)

	Chrysler Corporation			Chrysler Financial			Total		
State	Commitment (1)	Outstanding (2)	Unused (3)	Commitment (4)	Outstanding (5)	Unused (6)	Commitment (7)	Outstanding (8)	Unused (9)
New York	$ 275.8	207.8	68.0	965.4	662.2	303.2	1,241.2	870.0	371.2
Illinois	74.2	57.6	16.6	222.6	153.5	69.1	296.8	211.1	85.7
Michigan	34.5	25.4	9.1	151.8	99.9	51.9	186.3	125.3	61.0
Ohio	19.0	14.1	4.9	57.6	41.2	16.4	76.6	55.3	21.3
Indiana	9.9	7.4	2.5	17.5	15.4	2.1	27.4	22.8	4.6
Missouri	10.6	7.7	2.9	14.3	12.4	1.9	24.9	20.1	4.8
Alabama	1.0	1.0	-	0.6	0.5	0.1	1.6	1.5	0.1
Delaware	0.5	0.4	0.1	-	-	-	0.5	0.4	0.1
Metropolitan Area									
Michigan									
Detroit	32.0	23.0	9.0	136.9	85.5	51.4	168.9	108.5	60.4
Lansing	1.0	1.0	-	8.7	8.6	0.1	9.7	9.6	0.1
Ann Arbor	-	-	-	0.3	0.3	-	0.3	0.3	-
Indiana									
Indianapolis	7.8	5.6	2.2	12.1	10.4	1.7	19.9	16.0	3.9
Kokomo	0.6	0.4	0.2	-	-	-	0.6	0.4	0.2
Missouri									
St. Louis	9.6	6.9	2.7	12.0	10.4	1.6	21.6	17.3	4.3
Ohio									
Dayton	1.0	0.9	0.1	2.0	1.7	0.3	3.0	2.6	0.4
Toledo	1.0	0.7	0.3	1.6	1.4	0.2	2.6	2.1	0.5
Akron	-	-	-	1.3	1.3	-	1.3	1.3	-
New York									
Syracuse	2.0	1.4	0.6	2.0	1.7	0.3	4.0	3.1	0.9
Illinois									
Rockford	-	-	-	2.0	2.0	-	2.0	2.0	-
Delaware									
Wilmington	0.5	0.4	0.1	-	-	-	0.5	0.4	0.1

EXHIBIT II

CHRYSLER OUTSTANDING LOANS RELATIVE TO
COMMERCIAL & INDUSTRIAL LOANS AND
TOTAL CORPORATION LOANS
By State and Metropolitan Area

State	State Total Commercial & Industrial Loans ($ in millions) (1)	Outstanding Loans: As % of Total Commercial & Industrial Loans			Outstanding Loans: As % of Corporation Total*	
		Chrysler Corp. (2)	Chrysler Finl. (3)	Chrysler Total (4)	Chrysler Corp. (5)	Chrysler Finl. (6)
New York	$57,050.6	0.4%	1.1	1.5	42.7	47.5
Illinois	24,381.9	0.2	0.7	0.9	11.8	11.0
Michigan	6,943.3	0.4	1.4	1.8	5.2	7.2
Ohio	7,547.3	0.2	0.5	0.7	2.9	3.0
Indiana	3,648.9	0.2	0.4	0.6	1.5	1.1
Missouri	4,615.4	0.2	0.2	0.4	1.6	0.9
Alabama	2,485.8	0.1	NM	0.1	0.2	NM
Delaware	284.3	0.1	-	0.1	0.1	-
Metropolitan Area						
Michigan						
Detroit	4,229.4	0.6	2.0	2.6	4.7	6.1
Lansing	416.3	0.2	2.1	2.3	0.2	0.6
Ann Arbor	147.7	-	0.2	0.2	-	NM
Indiana						
Indianapolis	1,129.3	0.5	0.9	1.4	1.1	0.7
Kokomo	48.0	0.8	-	0.8	0.1	-
Missouri						
St. Louis	2,546.5	0.3	0.4	0.7	1.4	0.7
Ohio						
Dayton	439.1	0.2	0.4	0.6	0.2	0.1
Toledo	518.1	0.1	0.3	0.4	0.1	0.1
Akron	322.4	-	0.4	0.4	-	0.1
New York						
Syracuse	157.0	0.9	1.1	2.0	0.3	0.1
Illinois						
Rockford	268.4	-	0.8	0.8	-	0.1
Delaware						
Wilmington	250.7	0.2	-	0.2	0.1	-

* Outstanding Loans:
Chrysler Corp. $ 487 million
Chrysler Financial 1,394 million

United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, D.C. 20510

#112

November 13, 1979

The Honorable Paul Volcker
Chairman, Board of Governors of
the Federal Reserve System
Washington, D.C. 20551

Dear Mr. Chairman:

As you know, the Committee is about to begin consideration of the Administration's proposal for Federal support for the Chrysler Corporation.

The Administration's proposal would require contributions from all those who have a financial stake in the health of Chrysler. In this regard I would like to have the Board supply the Committee with an analysis of the contribution being made by commercial banks located in the several states where Chrysler facilities are located. According to information we have obtained from the Treasury Department, those states are: Michigan, Indiana, Ohio, Missouri, Illinois, Delaware, New York, and Alabama. This analysis should include the following information on a state-by-state basis: (1) loans outstanding to Chrysler Corporation; (2) loans outstanding to Chrysler Financial Corporation; (3) total commercial and industrial loans; (4) loans to Chrysler Corporation as a percentage of the total Chrysler loans; (5) loans to Chrysler Financial as a percentage of total Chrysler Financial loans; (6) total outstanding unused loan commitments to Chrysler Corporation; and (7) total outstanding unused loan commitments to Chrysler Financial.

It would also be helpful if similar information could be obtained for those banks located within the particular metropolitan areas or counties where there are Chrysler facilities. I am enclosing a copy of Table 7 of Secretary Miller's statement to the House Banking Committee which shows which metropolitan areas or counties would be involved.

I would appreciate this information as soon as possible.

Sincerely,

William Proxmire
Chairman

Enclosure
WP:srl

Table 7

Chrysler Employment in Motor Vehicle Operations
September 1979

State	Metropolitan area or county	Chrysler employment	Change from May	Chrysler employment as percent of May labor force
Michigan	Ann Arbor	1,158	-118	0.8
	Detroit	41,909	-9,767	2.0
	Lansing	13	-639	0.0
Indiana	Indianapolis	2,930	-1,112	0.5
	Kokomo (Howard County)	5,055	-1,709	11.2
	Michigan City (La Porte County)	293	-2	0.6
	New Castle (Henry County)	2,167	-440	8.8
Ohio	Dayton	1,491	-435	0.4
	Fostoria*	505	-147	0.5
	Sandusky (Erie County)	232	-112	0.6
	Toledo	1,870	-519	0.5
	Akron	3,532	-216	1.2
	Lima	320	-27	0.3
Missouri	St. Louis	7,313	-1,587	0.7
Illinois	Rockford	5,104	28	3.8
Delaware	Wilmington	4,646	169	1.9
New York	Syracuse	3,438	-241	1.1
Alabama	Huntsville	1,691	-50	1.2

* Falls in Seneca, Hancock, and Wood Counties.

SOURCE: Chrysler Corporation

11/7/79

November 26, 1979

The Honorable Les Aspin
House of Representatives
Washington, D.C. 20515

Dear Mr. Aspin:

This is in response to your letter of November 15, expressing your opposition and that of the Bank of Elmwood and the North Side Bank to a proposal seeking the Board's approval of the formation of a bank holding company. The application by Heritage Racine Corporation, Racine, Wisconsin, is being processed by the staffs of the Board and the Federal Reserve Bank of Chicago, and you can be assured that your views and the views of your constituents will be carefully considered by the Board in its final decision on this proposal.

I appreciate your interest and concern and your taking the time to give us the benefit of your comments on this matter.

Sincerely,

S/Paul A. Volcker

REM:JFB:pjt (#V-124)
bcc: Mr. Mannion
S&R Clearing Unit (w/copy of incoming)
Mrs. Mallardi (2)

LES ASPIN
1ST DISTRICT, WISCONSIN

442 CANNON BUILDING
WASHINGTON, D.C. 20515
202-225-3031

HOME OFFICES:
603 MAIN STREET
RACINE, WISCONSIN 53403
414-632-4446

210 DODGE STREET
JANESVILLE, WISCONSIN 53545
608-752-9074

Congress of the United States
House of Representatives
Washington, D.C. 20515

#124

November 16, 1979

Honorable Paul A. Volcker, Chairman
Board of Governors of the
Federal Reserve System
Washington, D.C. 20551

Dear Mr. Chairman:

I am writing to you today to formally express my concern over the application to the Federal Reserve by the Heritage Racine Corporation, a Racine, Wisconsin company to create a bank holding company. Approval of that application would establish the largest banking organization in the metropolitan Racine area.

After some careful thinking, I believe that the approval of the application would have a significant and adverse impact on the competitive structure of the local banking market.

I am also aware of the protest letter filed by the Bank of Elmwood and the North Side Bank, both of Racine, in opposition to the Heritage Racine Corp. application. Their protest raises serious competition and banking questions which are not addressed in the Heritage Racine application.

Given the <u>prima facie</u> probability of significant adverse effects on the competitive structure of the local banking market -- to the detriment of the consumers -- and in light of the serious substantive questions raised by the North Side Bank and the Bank of Elmwood, I respectfully request that, before a final decision is made by the Federal Reserve on the Heritage Racine application, the following actions be taken to properly inform that decision:

1. A full field investigation covering all the relevant issues raised by the Heritage Racine application by the Federal Reserve Board be conducted.

2. An opinion be requested from the Federal Trade Commission. Though I understand they have no jurisdiction in such matters, they have been known to render opinion on request; and,

3. Any additional independent official opinions as may be necessary to determine the desirability of the Heritage Racine application's approval.

I would be most grateful to you for your personal intervention assuring that these actions occur so that we may safeguard the integrity of the local level market.

If I can be of any assistance or answer any additional questions please don't hesitate to call me directly. In the interim I look forward to hearing from you in the near term.

Sincerely,

Les Aspin

Les Aspin
Member of Congress

LA/gcw

cc: Don E. Kline

November 26, 1979

The Honorable Thomas P. O'Neill, Jr.
The Speaker
House of Representatives
Washington, D. C. 20515

Dear Mr. Speaker:

Thank you for your letter concerning the meeting of the Massachusetts Association of Realtors in mid-December. Because of conflicts in my schedule I was forced to send my regrets to the Association.

With kind regards.

Sincerely,

cc: Mrs. Mallardi
#117

JRC:tjf

The Speaker's Rooms
U.S. House of Representatives
Washington, D.C. 20515

14 November 1979

#117

Mr. Paul A. Volcker
Chairman
Federal Reserve System
20th & Constitution Avenue, N. W.
Washington, D. C. 20551

Dear Mr. Chairman:

I am writing in behalf of the Massachusetts Association of Realtors who have extended you an invitation to be keynote speaker at their seminar on "Financing the American Home in the 1980's", to be held in Boston in mid-December.

I would personally appreciate your consideration of their invitation and hope that your schedule will permit you to accept.

With best wishes,

Sincerely,

Thomas P. O'Neill Jr.

Thomas P. O'Neill, Jr.
The Speaker

D/pc

NOV 21 1979

The Honorable Millicent Fenwick
House of Representatives
Washington, D.C. 20515

Dear Ms. Fenwick:

The Board today announced its selections for membership on the Consumer Advisory Council, authorized by Public Law 94-239. Ms. Margaret Reilly-Petrone, whom you recommended for appointment, was among those selected to the Council.

For your information, enclosed is a press release announcing the Board's selections. Nearly 400 persons were recommended for membership and the Board was pleased at the number of highly qualified individuals whose names were submitted for consideration.

We very much appreciate your interest in the Council and thank you for recommending Ms. Reilly-Petrone.

Sincerely,

S/Paul A. Volcker

Enclosure

CO:pjt
bcc: Mrs. Mallardi (2)

NOV 21 1979

The Honorable Richard G. Lugar
United States Senate
Washington, D.C. 20510

Dear Senator Lugar:

The Board today announced its selections for membership on the Consumer Advisory Council, authorized by Public Law 94-239. Mr. Peter D. Schellie, whom you recommended for appointment, was among those selected to the Council.

For your information, enclosed is a press release announcing the Board's selections. Nearly 400 persons were recommended for membership and the Board was pleased at the number of highly qualified individuals whose names were submitted for consideration.

We very much appreciate your interest in the Council and thank you for recommending Mr. Schellie.

Sincerely,

S/Paul A. Volcker

Enclosure

CO:pjt ㄍ
bcc: Mrs. Mallardi (2)

Identical letter to Sen. Garn

November 21, 1979

The Honorable Paul E. Tsongas
Chairman
Subcommittee on Consumer Affairs
Committee on Banking, Housing and
  Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Chairman Tsongas:

Thank you for your letter of November 14 inviting the Board to testify at your Subcommittee's hearing on S. 2002, a bill to amend the Consumer Credit Protection Act to prohibit the use of the "Rule of 78's" in the computation of the rebate of unearned interest in precomputed consumer credit transactions with terms greater than thirty-six months.

Governor Nancy H. Teeters will appear on behalf of the Board on December 11 at 10:00 a.m.

Sincerely,

S/Paul A. Volcker

CO:pjt (#V-115)
bcc: Mrs. Mallardi (2)

United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, D.C. 20510

1979 NOV 15 PM 10:18

November 14, 1979

#115

The Honorable Paul A. Volcker
Chairman
Board of Governors of the
Federal Reserve System
Washington, D.C. 20551

Dear Mr. Chairman:

I have scheduled hearings by the Consumer Affairs Subcommittee of the Senate Banking, Housing and Urban Affairs Committee on the 10th and 11th of December to review a legislative proposal, which I have introduced to restrict the use of the "Rule of 78". A copy of the bill is enclosed.

As the Chairman of the Subcommittee, I wish to invite the testimony of your agency before the Subcommittee regarding your opinion of this proposal on December 11th.

The hearing on December 10th will begin at 9:30 a.m. in Room 5302, Dirksen Office Building. The hearing on December 11th will begin at 10:00 a.m.

If you have any questions concerning the hearings, please contact the Subcommittee Counsel, John Quinn, at 202/224-7391.

I look forward to your contribution to our discussion of this proposal.

Best wishes.

Sincerely,

Paul Tsongas

Paul E. Tsongas, Chairman
Consumer Affairs Subcommittee

United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WASHINGTON, D.C. 20510

GUIDELINES FOR WITNESSES

1. These guidelines apply to all hearings of the Senate Committee on Banking, Housing and Urban Affairs, unless otherwise indicated.

2. All hearings will begin at 10:00 A.M. in Room 5302, Dirksen Office Building, unless otherwise indicated.

3. Committee rules require that all witnesses submit at least 100 copies of their written statements 48 hours prior to their appearance. Sundays and holidays are not to be included in determining this 48-hour period. Statements should be delivered to Room 5300, Dirksen Office Building, Washington, D. C. 20510. Strict adherence to this rule is essential in order that Committee members may review the statements before the hearing, thus enabling the participants to more thoroughly discuss the issues involved. Statements will not be released to the news media prior to the day of your testimony.

4. Oral presentations must be limited to a brief summary not to exceed 10 minutes. Your complete statement will be printed in the hearing record.

5. Please complete the attached card and bring it to Room 5300 prior to the hearing. You will be given copies of statements of those testifying with you at that time.

ion is appreciated.

Please supply the address to which you prefer the reporter's transcript delivered for your correction.

Kindly turn this card in at Room 5300 Dirksen Office Building prior to giving your testimony.

(Name)

(Organization)

(Business address) (Phone)

(City and State) (ZIP Code)

SENATE BANKING, HOUSING AND URBAN AFFAIRS COMMITTEE

36-545-h GPO

A39613.424

96th CONGRESS
1st Session

S. ______

IN THE SENATE OF THE UNITED STATES

Mr. Tsongas ____

introduced the following bill; which was read twice and referred to the Committee on ____________________

A BILL

To amend the Consumer Credit Protection Act to prohibit the use of the ``Rule of 78's'' in the computation of the rebate of unearned interest in precomputed consumer credit transactions with terms greater than 36 months.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) chapter 1 of title I of the Consumer Credit Protection Act is amended by adding at the end thereof the following:

``§ 116. Rebate of unearned interest

``(a) If a consumer prepays in full a consumer credit transaction, the creditor or any assignee shall promptly refund any unearned portion of the finance charge together with any unearned portion of the insurance premium, except that a refund of a finance charge or an insurance premium of less than $1 need not be made.

``(b) For the purpose of calculating the refund of the unearned portion of the finance charge or unearned insurance premiums required by this section for any precomputed consumer credit transaction which is repayable according to its terms over a period of more than 36 months or for any other transaction if the parties so agree, the creditor or any assignee shall compute the refund based on a method which is at least as favorable to the consumer as the actuarial method in accordance with regulations of the Board. The creditor may collect or retain a minimum charge not exceeding $7.50 if provided for by State law and by the contract relating to the transaction.

''(c) Within 5 days of receipt of an oral or written request from a consumer for the disclosure of the amount due on any precomputed consumer credit account, the creditor or assignee shall provide the consumer with a statement of the amount due after deduction of the finance charge and insurance premiums required by this section. If the customer's request is oral, the statement may be oral. If the customer's request is written, the statement shall be written. A consumer is entitled to be provided one statement each year without charge. The creditor may impose a reasonable fee to cover the cost of providing any additional statement requested, and the charge for any additional statement shall be disclosed to the consumer prior to furnishing such statement.

''(d) For the purpose of this section--

''(1) a prepayment includes a voluntary prepayment by the consumer, any refinancing, consolidation, or rewriting of the transaction, or acceleration of the obligation to repay indebtedness; and

''(2) the term 'actuarial method' means the method of allocating payments made on a debt between the amount financed and the finance charge pursuant to which a payment is applied first to the accumulated finance charge and any remainder is subtracted from, or any deficiency is added to, the unpaid balance of the amount financed. The Board may adopt rules further defining the term and prescribing its application.''.

(b) The table of sections of title I of the Consumer

Credit Protection Act is amended by adding at the end thereof the following new item:

''116. Rebate of unearned interest.''.

November 21, 1979

The Honorable Ronald M. Mottl
House of Representatives
Washington, D. C. 20515

Dear Mr. Mottl:

I have read your recent letter concerning monetary policy very carefully and I can understand your concerns. And, I commend your efforts to ensure that a disciplined fiscal policy is brought to bear in the fight against inflation. Certainly, I would be the first to agree that monetary policy cannot win the battle by itself.

As to the immediate situation, I believe our current policy must be evaluated in the context of events leading up to our decision of October 6. In brief, those circumstances were highlighted by an acceleration in inflation and inflationary expectations which in turn was prompting unsustainable increments in spending by consumers and businesses in an effort to avoid future price increases; a burst of speculative activity in the gold, commodity and foreign exchange markets; renewed downward pressures on the dollar in foreign exchange markets; and rates of growth in money and credit far in excess of our 1979 targets and far in excess of the growth in money that is compatible with noninflationary growth in the economy. If this combination of events was permitted to persist, the results would have been still higher inflation, still higher interest rates, and a deeper and longer adjustment in economic activity than had been widely anticipated many months prior to our October 6 actions.

In these circumstances, the need for forceful action by the Federal Reserve seemed clear. Those actions, which you are familiar with, had three primary objectives: first, to check the burst of speculative activity in the gold, commodity and foreign exchange markets; second, to moderate the growth of money and credit in such a way to enhance the prospects that the Federal Reserve would hit its previously announced targets for the growth in money during 1979; third, over a somewhat longer time frame, to moderate the rate of inflation. Relative to the first two of these objectives, there are some very tentative signs that we have had at least a measure of success. Real improvements on the price front, of course, would not be apparent for many months.

In a longer perspective, the underlying rationale for our actions lies in a simple fact--one documented by centuries of experience--namely, excessive growth in money results in excessive inflation. And, with varying lags, interest rates will inevitably move higher in lockstep with successively higher rates of inflation. Thus, for 1979 and beyond establishing and hitting targets for moderate rates of growth in money are an essential pre-condition to lower inflation and lower interest rates.

For many years, the Federal Reserve had attempted to control the money supply by controlling short-term interest rates and thereby the demand for money balances. However, in recent years, institutional and market forces have rendered the relationship between the level of interest rates and the demand for money less precise and thereby compromised our ability to hit money supply targets. Against this background, an important element in our October 6 actions was a change in our operating procedures for controlling the money supply. This change entailed placing greater emphasis on the supply of reserves available to support deposits in the banking system. In turn, this entailed less direct control over interest rates in the short run. Because of this, market forces did work to increase interest rates in the weeks immediately following our October 6 action. More recently, the upward pressure on rates has abated and there is some real hope that moderation in the demand for credit in the wake of our October 6 actions will permit a reduction in rates in the not too distant future. Certainly that scenario would be compatible with a framework in which the growth of money is under control, the demands for credit are reduced in part because of the long anticipated adjustment in economic activity but also because the upward thrust of inflationary expectations has been checked. I cannot speculate as to precisely when interest rates will move decisively lower. That will depend importantly on market forces as they reflect developments in economic activity and in inflation. And, I should emphasize that prospective inflation rates will be significantly influenced by OPEC oil pricing decisions in the very near term.

All of this, I believe, points to the necessity and appropriateness of our recent actions. But, it does not diminish the legitimacy of your concerns--which I very much share--about the human costs of the adjustment process. Certainly I am sensitive to the credit needs of the mortgage markets, the small business community and the consumer in the current circumstances. I have stressed this point in my recent letters to the banking community and in all of my conversations with representatives of the banking industry. I have been encouraged by the spirit and the substance of the response of the banking community as it seeks to meet these credit needs--in some instances at preferred rate levels.

I, like you, look forward to the day when we can have lower interest rates not only because that situation will foster the orderly distribution of credit throughout the economy and reduce the hardships of which you write. But, more fundamentally, that environment will mean that we have had a real measure of success in achieving a lasting reduction in the rate of inflation.

The stakes are large indeed, and there are risks on all sides. But, in my judgment, the greatest near-term and longer-term risks would have been to allow the circumstances that emerged in the late summer to go unchecked. Thus, by moving aggressively to stem those excesses, I believe we have brought the day of lower interest rates and orderly economic expansion sooner rather than later. But, as we pass through this immediate and difficult period, we must remain firm in our commitment to achieve and maintain noninflationary economic and financial conditions that are compatible with orderly economic growth over the long haul. You and your colleagues in the Congress have an important role to play in that effort and I look forward to working with you toward this objective.

Sincerely,

S/Paul A. Volcker

EGC:vcd (#V-95)

bcc: Mrs. Mallardi (2)
Mr. Corrigan
Mr. Kichline

Action assigned Jim Kichline

RONALD M. MOTTL
23RD DISTRICT, OHIO
COMMITTEES:
VETERANS' AFFAIRS
SUBCOMMITTEES:
SPECIAL INVESTIGATIONS (CHAIRMAN)
MEDICAL FACILITIES AND BENEFITS
—
INTERSTATE AND FOREIGN COMMERCE
SUBCOMMITTEES:
OVERSIGHT AND INVESTIGATIONS
COMMUNICATIONS

SUBURBAN CAUCUS
FOUNDER AND CO-CHAIRMAN

Congress of the United States
House of Representatives
Washington, D.C. 20515

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LAKEWOOD, OHIO 44107
TELEPHONE: (216) 522-7152

5393 PEARL ROAD
PARMA, OHIO 44129
TELEPHONE: (216) 888-3636

October 25, 1979

#95

Honorable Paul A. Volcker
Chairman, Board of Governors
Federal Reserve System
Washington, D.C.

Dear Mr. Chairman:

Yesterday the distinguished Majority Leader of the House, the Honorable Jim Wright, voiced in a floor speech a concern that I and many others in Congress share toward the Board's policy of letting interest rates skyrocket.

The immediate results of the policy have been a record 15 percent prime interest rate and a plunge in the stock market, and I fear that this time the Board has simply gone too far in trying to single-handedly wring inflation out of the economy regardless of the human cost.

At the very least, the human cost includes the unaffordability of mortgage money for families, assuming money is even available. Even more serious would be a sustained business slow-down, with accompanying high unemployment.

I, for one, am working for a balanced federal budget and temporary wage and price controls, a combination that I believe will provide immediate as well as long-term relief from inflation's ravages. Certainly a moderately restrained monetary policy pursued by the Board can be complementary to the anti-inflation effort. But to seemingly abandon the effort to keep interest rates within a reasonable range is to issue, as Majority Leader Wright said, "an open invitation to economic disaster."

I hope that my comments, as well as those by Majority Leader Wright, will prompt a reconsideration of the Board's ill-conceived policy toward interest rates.

Sincerely,

RONALD M. MOTTL
Member of Congress

RMM/gw

graduate of Northwestern University and was ordained at the Jewish Theological Seminary of America, which awarded him a master's degree in Hebrew literature and a doctor of divinity degree. Rabbi Goldstine has a long history of involvement in the concerns of southern California, serving as an officer of the Western States region of the Rabbinical Association and as a member of the executive committee of Southern California Board of Rabbis.

The 20th District of California is fortunate to have the rabbi as a vigorous contributing member of the community. May we, as Members of this Congress, have the strength and understanding of this man to not only speak of peace, but truly take an active role in the creation of peace.

As we begin the day's session, I am proud on behalf of all the Members of the House to welcome Rabbi Goldstine and his charming wife Bella to our midst.

AN OPEN INVITATION TO ECONOMIC DISASTER

(Mr. WRIGHT asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. WRIGHT. Mr. Speaker, New York banks today announced they are raising the prime interest rate to an unprecedented 15 percent—the highest in American history.

This is the result of a misbegotten policy of the Federal Reserve Board. In my opinion it is an open invitation to economic disaster.

The Federal Reserve seems to think that raising interest rates is an effective way to curb inflation.

That, I submit, is like pouring gasoline on the fire. The two elements which have run ahead of and paced the rise in the cost of living are the cost of energy and the cost of money.

For the past 6 months we have watched the inflation rate follow the interest rate up and up. High interest rates are clearly price inflationary, not deflationary. They have become, quite clearly, one of the principle causes of the inflation.

But they do run the serious risk of stalling out the economy, creating rising unemployment to exacerbate the ills of rising prices.

That is exactly what they did in the early 1970's.

High interest is the proven formula for creating both inflation and recession in the same economy.

High interest rates always have cruelly hurt the poor and moderate-income Americans.

People with money always have had an advantage over people without money. The interest rate is the precise measure of the degree of that advantage which a society is willing to tolerate and institutionalize.

The skyrocketing interest rate already this year has made it impossible for literally millions of American families to afford a home.

Since the first of this year, the increase in interest alone has added some $41,000 to the ultimate cost of paying for a $50,000 home on a 30-year mortgage.

It has added $115 a month to the payments a young family would have to make to purchase such a home. That is a $115 monthly hidden hand in the pocket. It robs that young family of that much of its income while giving nothing whatever in return.

Since the first of this year, the skyrocketing interest rate has added $4 billion to the annual cost of servicing the national debt. That is $4 billion more the American people will have to pay in taxes, and for which we will get exactly nothing.

In the early 1950's, President Harry Truman ordered the Federal Reserve to disgorge itself of an ill-gotten interest rate increase which it had ordered. The Federal Reserve did so. It is time, and past time, for that kind of leadership again.

THE PARADE OF BIG OIL PROFITS: A SAD TIME FOR THE AMERICAN PEOPLE

(Mr. HARRIS asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. HARRIS. Mr. Speaker, the international oil companies have begun to reveal their third-quarter earnings. The parade of profits is led by the largest oil company, Exxon. Exxon's profits in the third quarter soared 118 percent over the same period last year. In dollar terms, Exxon earned $1.14 billion in the last 3 months. "It was a good quarter," commented Exxon Comptroller Ulysses Grange.

No, it was not. It was not a good quarter for the millions of American consumers who are paying for Exxon's $1.14 billion profit. It was not a good quarter for the elderly who began to take deliveries on Exxon home heating oil, which now costs around 99 cents a gallon. It was not a good quarter for families of limited income who have no idea how they will pay for these skyrocketing energy prices. It was not a good quarter for the American people who continue to be victimized by these international profiteers.

And it was not a good quarter for Congress. Because we had the opportunity to stop this ripoff and we did not do it. We had the opportunity to reimpose controls on petroleum prices and we failed. The oil lobbyists railroaded the American people once again. But it was a good quarter for Exxon.

Of course, Exxon is not the only international oil company to have a "good quarter." Arco's profits were up 45 percent. Amoco's rose 49 percent. And today the parade of profits will continue as the other oil companies unveil their earnings. The American people are suffering under double-digit inflation and triple-digit oil profits. It is almost pornographic.

Presumably it is a happy day in the high building that house the oil executives. There is backslapping and congratulations in the stately board rooms.

But in America's homes, the people are angry because the ripoff continues. Angry because this week the oil companies are again warning of another mysterious shortage. They are angry because the real shortage is a shortage of courage on Capitol Hill, a shortage of courage in the House of Representatives where we cannot find a majority of Members to stand up to the self-interested oil companies on behalf of the American consumer.

Yes, it was a good quarter for Exxon. But a tragic day for the American people.

PERMISSION FOR SUBCOMMITTEE ON ECONOMIC STABILIZATION OF COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS TO MEET TODAY AND FRIDAY, OCTOBER 26, 1979, WHILE HOUSE IS IN SESSION

Mr. BLANCHARD. Mr. Speaker, I ask unanimous consent that the Subcommittee on Economic Stabilization of the Committee on Banking, Finance and Urban Affairs be permitted to sit today and Friday, October 26, 1979, past 10 a.m., in order to conduct hearings on the Chrysler Corp.'s financial situation.

The SPEAKER. Is there objection to the request of the gentleman from Michigan?

Mr. ROUSSELOT. Mr. Speaker, reserving the right to object, can the gentleman from Michigan (Mr. BLANCHARD) assure the House that this is for hearings only and that there would be no markup of any bill?

Mr. BLANCHARD. If the gentleman will yield, there will be absolutely no markup yet.

Mr. ROUSSELOT. Mr. Speaker, during those days of hearings, there will be no markup of any bill?

Mr. BLANCHARD. Mr. Speaker, there will be no markup. We have consulted with minority members of the Committee on Banking, Finance and Urban Affairs on this matter.

Mr. ROUSSELOT. I appreciate the gentleman's comments, and I withdraw my reservation of objection.

The SPEAKER. Is there objection to the request of the gentleman from Michigan (Mr. BLANCHARD)?

There was no objection.

PERMISSION FOR COMMITTEE ON POST OFFICE AND CIVIL SERVICE TO SIT TODAY WHILE HOUSE IS IN SESSION

Mr. HANLEY. Mr. Speaker, I ask unanimous consent that the Committee on Post Office and Civil Service be permitted to sit today while the House is in session.

The SPEAKER. Is there objection to the request of the gentleman from New York?

Mr. ROUSSELOT. Mr. Speaker, reserving the right to object, would the gentleman from New York (Mr. HANLEY) assure the House there would be no markup?

Mr. HANLEY. Mr. Speaker, I cannot give the gentleman that assurance. I do not believe we have a problem. I do not

November 21, 1979

The Honorable William Proxmire
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Chairman Proxmire:

Thank you for your letter of November 5, enclosing correspondence from Mr. Levin of the Bank of Elmwood and Mr. Gertenbach of the North Side Bank concerning a proposal seeking the Board's approval of the formation of a bank holding company. The application to which your constituents refer was filed by Heritage Racine Corporation, Racine, Wisconsin, and is being processed by the staffs of the Board and the Federal Reserve Bank of Chicago. You can be assured that the views of your constituents will be carefully considered by the Board in its final decision on this proposal.

I appreciate your interest and concern and your taking the time to give us the benefit of the views of your constituents on this matter.

Sincerely,

S/Paul A. Volcker

RRM:JPB:pjt (#V-118)
bcc: Mr. Mannion (w/copy of incoming)
S&R Clearing Unit (w/copy of incoming)
Mrs. Mallardi (2)

United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, D.C. 20510

November 5, 1979

#118

The Honorable Paul A. Volcker
Chairman
Federal Reserve System
Washington, D. C.

Dear Mr. Chairman:

I am enclosing a letter dated October 16, 1979 from the Bank of Elmwood, Racine, Wisconsin raising antitrust questions in respect to a pending bank acquisition.

I would appreciate your careful consideration of the matter raised and your comments so that I may respond to the Bank of Elmwood.

Sincerely,

William Proxmire
Chairman

WP:lmg

Enclosure

Kw

PHONE (414) 554-5321 · 2704 LATHROP AVENUE · RACINE, WISCONSIN 53405

1979 OCT 22 AM 10: 47

Bank of Elmwood

JESS S. LEVIN
President &
Chief Executive Officer

October 16, 1979

Senator William Proxmire
5241 Dirksen
Washington, D. C. 20510

Dear Senator Proxmire:

Kw

As we have previously discussed with you and members of your staff, Samuel C. Johnson's proposed banking acquistion, which has just been filed with the Federal Reserve Bank of Chicago, is of considerable importance to the commercial banking community in Racine, Wisconsin and to the customers they serve. The metropolitan Racine banking community has in recent years become a highly concentrated one, the four largest banks controlling 72% of the market. This is due in substantial part to the previous acquistion of a series of three banks by Samuel C. Johnson and his family, who also control S. C. Johnson and Company, the privately owned industrial complex centered here in Racine. Mr. Johnson now proposes to acquire the Racine County National Bank, and to affiliate that bank with his three other banks through a holding company. If this acquisition is consummated, all present competition between the banks now owned by S. C. Johnson and the Racine County National Bank would be immediately eliminated and the combined Johnson banks would thereby become the largest banking organization in this community, substantially furthering the degree of existing concentration.

We oppose this new anticompetitive proposal because we believe that it will substantially lessen competition among commercial banking institutions in the area to the severe detriment of the customers they serve. In our opinion, the acquisition would clearly violate the antitrust standards previously applied by the Federal Reserve Board and the Justice Department's merger guidelines. Approval of the transaction by the Federal Reserve

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Bank of Elmwood

Board would moreover constitute tacit approval of an intimate relationship between commercial banks and an industrial company in what may be prior and continuing violations of the Bank Holding Company Act through the direct control of the management of the banks by officers and directors of S. C. Johnson and Company. These persons constitute an absolute majority of two of the three Johnson banks. The Federal Reserve Board is requesting written comments on this proposal from the interested public including other area banks as well as the Department of Justice. This is too important a matter to be decided solely on the basis of written submissions. Particularly because S. C. Johnson and Company is a privately owned company with little information regarding its activities available in the public domain, we believe that both the Federal Reserve Board and the Department of Justice should send their investigative staffs into the field to inquire into the competitive impact of this proposed acquisition, and the Federal Reserve Board's investigative staff should also inquire into the commercial banking/industrial company relationship. In addition, we believe that a public hearing is necessary in order to extract through investigative and formal process all of the relevant facts and to air those results publicly, before the Federal Reserve Board makes its decision.

For all these reasons, we ask you to write letters to both the Federal Reserve Board and the Justice Department urging them to direct their respective staffs to conduct such field investigations, and that you further urge the Federal Reserve Board to convene a public hearing on this proposal. Without such a hearing, the interested public may never have a fair opportunity to present their arguments based on a complete record available to all concerned.

Our counsel in this matter, Bell, Boyd, Lloyd, Haddad & Burns, 1775 Pensylvania Avenue, N.W., Washington, D.C. 20006, is available to provide you with any additional information which you may

PHONE (414) 554-5321 · 2704 LATHROP AVENUE · RACINE, WISCONSIN 53405

Bank of Elmwood

desire and Mr. John C. Christie, Jr. of that office is ready to meet with you and members of your staff at your convenience.

Thank you for your assistance in this matter.

Sincerely,

Jess S Levin

Jess S. Levin,
President & Chief Executive Officer
BANK OF ELMWOOD
2704 Lathrop Avenue
Racine, Wisconsin 53405

Robert L Gertenbach

Robert Gertenbach,
President
NORTH SIDE BANK
1700 Milwaukee Avenue
Racine, Wisconsin 53402

JSL/RG:tak

November 19, 1979

The Honorable William Proxmire
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Chairman Proxmire:

I am pleased to respond to your letter of October 24 regarding Mr. Michael J. Larson's concern for the condition of currency recently received by his bank and apparently others in the Madison, Wisconsin area. I am also enclosing a check to Mr. Larson for the five $1 notes he sent along to demonstrate his point.

The Federal Reserve is aware of the general deterioration in the quality of circulating currency and is actively taking steps to resolve the situation. The Federal Reserve has established a currency quality task force which is presently researching the extent of the problem and preparing concrete guidelines for improving quality.

It is believed that the decline in quality was caused in part by a change in Federal Reserve sorting methods instituted in 1975. Although the change was very cost effective, it has not permitted as distinctive a sort between fit and unfit notes as the former method. The machines used in the manual process adopted in 1975 are now being replaced by newly-developed high-speed currency processing equipment which automatically performs a comprehensive fitness inspection of each individual note cycled through the machine. Those notes which are excessively soiled, taped, stapled, punctured, or otherwise mutilated are automatically destroyed during the verification process. Newly printed currency is then issued in their place. We believe this new process will be cost efficient and will reestablish and maintain a consistently high quality in our circulating currency. Two of these machines, incidentally, are due to be installed soon in the Minneapolis Reserve Bank which serves the Madison area. They should be fully operational shortly after the first of the year.

The Honorable William Proxmire
Page Two

It should also be recognized that the rate of quality improvement is dependent upon the ability of the Bureau of Engraving and Printing to produce new notes to replace those which will be retired. Since the Bureau's capacity is strictly limited, it will take several years to bring the general quality of circulating currency up to a desirable level.

I appreciate Mr. Larson's as well as your own concern for the quality of circulating currency and assure you that the Federal Reserve is making every effort to rectify the current quality problem.

Sincerely,

Paul A Volcker

Enclosure

RBK:WBW:EGC:vcd (#V-94)

bcc: Mr. Kaiman
Mr. Wallace
Mrs. Mallardi (2)

Action assigned Bill Wallace

United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, D.C. 20510

October 24, 1979

#94

Chairman Paul A. Volcker
Federal Reserve System
Washington, D.C. 20551

Dear Mr. Chairman:

I want to call your attention to the enclosed Federal Reserve Notes sent to me by Michael J. Larson, who heads the Security Marine Bank of Madison. These shabby specimens were recently sent to the bank in a currency delivery and Mr. Larson, understandably, cannot understand why they were not destroyed long before now. Apparently, the Marine Bank as well as other banks in the area have noticed a significant decline in the quality of currency received from the Fed.

I had heard rumors that some of the Federal Reserve Banks were cutting costs in the currency area but this is stretching the issue a bit, don't you agree? I advised Mr. Larson that I would call the matter to your immediate attention and that you would take whatever action was necessary.

With every good wish, I remain

Sincerely,

Bill Proxmire

William Proxmire
Chairman

WP:mm
Enclosure

ELWOOD H. "BUD" HILLIS
5TH DISTRICT, INDIANA

COMMITTEES:
HOUSE COMMITTEE ON VETERANS' AFFAIRS
HOUSE ARMED SERVICES COMMITTEE
CHAIRMAN:
REPUBLICAN TASK FORCE ON ENERGY AND ENVIRONMENT

Congress of the United States
House of Representatives
Washington, D.C. 20515

WASHINGTON OFFICE:
2429 RAYBURN BUILDING
TELEPHONE: 202-225-5037

KOKOMO OFFICE:
518 NORTH MAIN STREET
TELEPHONE: 457-4411

ANDERSON OFFICE:
26 WEST 7TH STREET
TELEPHONE: 642-8023

MARION OFFICE:
220 MARION P.O. BUILDING
TELEPHONE: 662-7227

October 31, 1979

#103

1979 NOV -1 PM 12:46

Mr. Paul A. Volcker
Chairman, Board of Governors
Federal Reserve System
20th & Constitution Avenue
Washington, D. C. 20551

Dear Mr. Volcker:

Thank you very much for your letter of October 18th. I was very happy to learn that you would be available to meet informally with some House Members to discuss the economy.

I would like to invite you to meet with the Wednesday Group on November 7th if this would be possible. While the attendance varies, this is a group of approximately 15 to 20 moderate Republican Members who meet in H-323 of the Capitol every Wednesday.

We would appreciate it if you could come at ~~5:30~~ 545 p.m. and discuss the current status of economic issues facing our country at this time. If this date is not satisfactory, let us know and we will try to schedule another time in the very near future. As you probably know, the House schedule is rather uncertain at this time.

Please have your office call Barbara at 225-5037 as to whether this fits into your schedule. Thanks for your thoughtful attention to this invitation and with warm best wishes, I remain

Sincerely,

Bud Hillis

Elwood H. "Bud" Hillis
Member of Congress

H/m

Nov. 28

Dec 12

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

November 21, 1979

The Honorable John Glenn
U.S. Senate
Washington, D.C. 20510

Dear Senator Glenn:

The Board of Governors today announced the 1980 appointments for membership on its Consumer Advisory Council. Knowing of your interest, I am enclosing a press release that lists those appointed to the Council.

Nearly 400 persons were recommended for membership and the Board had to make its selections so that a broad range of perspectives on the consumer credit area would be represented on the Council. In addition, the Board looked for individuals from every region of the country to ensure geographical balance on the Council. Needless to say, there were many outstanding nominees who were not appointed. Mr. Robert P. Barone, whom you recommended, was not one of the final selections in the difficult process of choosing among a large number of highly qualified persons.

The Board appreciates your interest in the Council and would be pleased to have your future recommendations.

Sincerely yours,

Jay P. Brenneman

Jay P. Brenneman
Special Assistant to the Board

V-114

November 19, 1979

The Honorable Paul E. Tsongas
Chairman
Subcommittee on Consumer Affairs
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Chairman Tsongas:

With respect to your request for information relating to the Rule of 78s in your letter of November 6, the Board has no statistical data directly relating to the incidence of prepayment of consumer loans. The enclosed statistical releases provide some recent information on average finance rates, loan size, and average contract maturity for various types of consumer loans at finance companies, as well as average "most common" finance rates at commercial banks for loans of specified maturity.

The finance company statistics indicate that maturity and loan size have increased in recent years, and continuation of a gradual trend in this direction might be expected in the future. Finance rates at all types of creditors have generally increased to some extent in recent months, but statutory rate ceilings in many states may prevent significant upward adjustments in finance rates.

The Board's aggregate consumer credit statistics, which cover amounts of debt outstanding, volume of new credit extended, and volume of existing debt liquidated, permit a rough approximation of effective maturity on various types of consumer loans. The enclosed table shows for several components of consumer credit the estimated average loan life, which, compared with contract maturities, provides some indication of the extent to which prepayment might occur for these loan categories.

Sincerely,

S/Paul A. Volcker

Enclosures (E.10, E.12, E.4)
CAL:RMF:JLK:pjt (V-109)
/DJW:
bcc: Messrs. Luckett, Fisher, Kichline
Mrs. Mallardi (2)

United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WASHINGTON, D.C. 20510

November 6, 1979

#109

The Honorable Paul A. Volcker
Chairman
Board of Governors of the
Federal Reserve System
Washington, D.C. 20551

Dear Mr. Chairman:

In a few days, I shall introduce legislation designed to eliminate the "Rule of 78's" as a method of calculating unearned interest in precomputed consumer loans where the borrower prepays (finances or consolidates) the loan. The evidence is clear that in longer term consumer loans, the Rule of 78's permits the lender to exact an unconscionable and hidden interest penalty from the borrower.

As the Chairman of the Consumer Affairs Subcommittee of the Banking, Housing and Urban Affairs Committee, I intend to hold hearings on this measure December 10 & 11, 1979.

The assistance of the Reserve Board in providing information to the Subcommittee concerning this practice, would be appreciated.

I wish to request the following information from the Reserve Board:

1. Statistical data, including functional cost analysis, developed or acquired by the Board relating to the incidence of prepayment (consolidation or refinancing) of consumer loans by class and term of loan (auto, home improvement, second mortgage, etc.);

2. Statistical data developed or acquired by the Board indicating the anticipated growth in loan size, length of term and rate of interest for the various types of consumer credit transactions which may be subject to the rebate of unearned interest in accordance with the Rule of 78's.

I would appreciate this information by November 23, 1979. In addition, I would request the Board's participation during the course of our hearings in December.

If your staff has any questions concerning this request, please contact Subcommittee Counsel, John Quinn at 224-7391.

Sincerely,

Paul Tsongas

Paul E. Tsongas, Chairman
Consumer Affairs Subcommittee

November 16, 1979

The Honorable Charles E. Bennett
House of Representatives
Washington, D.C. 20515

Dear Mr. Bennett:

I appreciate having the opportunity to comment on the recent letter from your constituent, Mr. Earl S. Poitevent. Mr. Poitevent is concerned about the effect of high interest rates on inflation and the international value of the dollar.

Dealing with the sources of inflation is central to the domestic and international objectives of the United States. Among the many problems associated with high rates of inflation is that high interest rates tend to result, as lenders require compensation in the form of an inflationary premium for the depreciating real value of the loans. Recent Federal Reserve actions offer the promise that with more effective control over the growth of the monetary aggregates and bank credit, inflation pressures can be better countered over the long run. Over the short run, however, slower rates of monetary and credit expansion are likely to be accompanied by a natural tendency for interest rates, at least short-term rates, to rise higher than otherwise. Higher interest rates, however, serve eventually to moderate inflation by discouraging the use of credit for less productive expenditures. In contrast, an attempt by the Federal Reserve to hold down interest rates would be short-lived and largely self-defeating, since such a policy would only lead to a more rapid increase in money and credit and ultimately higher inflation.

We have recently seen clear evidence of the pervasive influence of inflation and inflationary expectations on the value of the dollar internationally. Given the dollar's central position in the international financial system, we must recognize that its external value is particularly sensitive to perceptions and expectations about our economic policy. Consequently, our ability to deal with inflation is essential to improve long-term stability of the dollar.

Regarding Mr. Poitevent's observations concerning the balance of payments, it is relevant to note that last year nearly $18 billion was received by U.S. residents from foreign residents in interest and other income payments, which equalled the amount we paid out. Income from U.S. direct investments abroad accounted for more than $25 billion of receipts, which far exceeded the $4 billion we paid out to foreigners.

Neither the Federal Reserve nor the "Fed's member banks" necessarily profit by high interest rates. The interest rates charged by banks on loans are mainly influenced by the costs of obtaining additional deposit and non-deposit funds to lend, which have recently increased markedly. The impact of the discount rate on bank lending rates is much less significant, since member bank borrowing from Federal Reserve's discount window remains a small fraction of their liabilities. The Federal Reserve does not profit from high interest rates, since the surplus earnings of the Federal Reserve are, as a matter of course, transferred to the Treasury. Federal Reserve assets, which Mr. Poitevent asks about, increased from $50 billion in 1960 to $150 billion today. This expansion consists almost entirely of increased holdings of U.S. government securities, and is primarily the counterpart on the assets side of the Federal Reserve's balance sheet of expansion of desired currency holdings by the public.

The recent actions taken by the Federal Reserve should hasten the day when interest rates can decline and more stable conditions can be restored to credit and capital markets, thus providing a foundation for renewed and sustained economic growth. In the meantime, these actions are not intended to, and will not, cut off the supply of money and credit to the economy. Failure to deal with inflation would carry long-term risks that far outweigh the short-term costs associated with these actions.

Sincerely,

S/Paul A. Volcker

WS:DL:MJP:JK:pjt (V-100)
bcc: Mr. Kichline
Mr. Lindsey
Mr. Smith
Mrs. Mallardi (2)

Action assigned to Jim Kichline

CHARLES E. BENNETT
MEMBER
3D DISTRICT, FLORIDA

ARMED SERVICES COMMITTEE
CHAIRMAN OF SEAPOWER SUBCOMMITTEE

JACKSONVILLE OFFICE:
352 FEDERAL BUILDING 32202
TELEPHONE 904-791-2587

JOHN W. POLLARD, JR.
BRENDA DONALDSON

Congress of the United States
House of Representatives
Washington, D.C. 20515

THOMAS J. MILLER
LEGISLATIVE ASSISTANT

SHARON H. SIEGEL
LAURA M. BISHOP
SARAH J. SCOTT
CHERYL L. WRIGHT
TERI A. WOLF
PATRICIA A. CAHILL
SECRETARIES

October 29, 1979

#100

1979 OCT 30 ... 10:26

Honorable Paul A. Volcker
Chairman, Federal Reserve Board
Room B 2046
20th Street and Constitution Avenue NW
Washington, D.C. 20551

Dear Mr. Chairman:

I received the enclosed October 20 letter from Mr. Poitevent, an outstanding man in my home community and I would appreciate any observations that you might be able to make with regard to the things that he has said. I am not enough of an expert in the handling of money to know what the solutions may be.

With kindest regards, I am

Sincerely,

Charles Bennett

Charles E. Bennett

CEB:js
cc: Honorable Frederick H. Schultz
w/enclosure

Earl S. Poitevent, Jr.
[redacted]

October 20, 1979

The Honorable Charles E. Bennett
2107 Rayburn Building
Washington, D.C. 20515

Re: U. S. Federal Reserve
Inflation Policy

Dear Charlie:

There is an old saying, "In business you hire men and you hire money." How in the world the Federal Reserve can fight inflation by making money more expensive defies reasonable deduction. If it is true, then the AFL - CIO is remiss (if not unpatriotic) in not demanding 15%-20% wage increases to fight inflation. Of all people, Jimmy Carter should know high interest rates create inflation. After all, he used to borrow two to three million dollars a year to conduct his business. How much would the price of peanuts have to be raised to accommodate 10% additional interest costs?

However, the damage to the home front of high interest rates is possibly surpassed by the long term damage to the dollars' international value. It is estimated there is now, or soon will be, seven hundred billion dollars overseas. We are expected to borrow this money back at approximately the rediscount rate, or some 12½%. So we pay out some seventy billion in interest to further debase the dollar. Our balance of trade deficit and foreign aid debases it even further. If this trend is not reversed there will be two trillion dollars overseas in less than ten years.

Now what would happen if the rediscount rate was lowered to 5%? The foreign money lenders would yell bloody murder. The dollar would temporarily dip against the foreign currencies, our manufacturers could modernize their plants, and balance of trade would develop in our favor. Our trading partners would suffer some temporary disruption to their economies. They would probably have to resort to deficit spending to shore up their economies. Their currencies would ultimately be somewhat debased. Our dollar would be strengthened. The Arabs would stop buying gold and raising oil prices.

Who profits by high interest rates? The Federal Reserve does by its manipulation of the federal bond market. The Fed's member banks do by using the rediscount rate as a basis for loaning out their money (legal usury). The foreign lenders do.

Who gets hurt? The general public from grocery and auto buyers to home buyers --- also, the Federal Reserve Banks chief competitors (the Savings and Loan Associations).

It is certainly hoped that you and your colleagues can put a rein on the Fed's unbridled power to put the economy of this country on its knees at the whim of a few unelected officials espousing esoteric views. After all good times and their accompanying side effects --- low unemployment, good state revenue, et cetera --- ain't all that bad --- unless you happen to be a masochist, an international money lender, or a trading partner who is used to getting the better bargain.

This country sorely needs a stable economic period of several years with reasonable interest rates and sufficient monies to conduct manufacturing, trade, and to rebuild the efficiency of our plants. The Federal Reserve Boards' activists policies preclude this. So why not abolish the Federal Reserve Board --- not the Federal Reserve --- and let Congress set the rediscount rate and the bank reserve rate. That's about all the Board does and Congress already sets Income Tax rates, Social Security rates, et cetera. Believe me, it is not all that complicated. If the rates were set fairly, they could easily last 20 years to everyones advantage.

Your views on the above would be appreciated and it would be germaine and interesting to know what the assets of the Fed are now and what they were 20 years ago and where the money came from.

I remain,

Sincerely,

Earl

Earl S. Poitevent, Jr.

P. S. I might add that a 5%rediscount rate would make the prime about 7% and the average loan about 8%.

ESP:map

November 15, 1979

The Honorable Benjamin S. Rosenthal
Chairman
Subcommittee on Commerce, Consumer, and
Monetary Affairs
Committee on Government Operations
House of Representatives
Washington, D. C. 20515

Dear Chairman Rosenthal:

I am writing in response to your request for annual periodic reports on the Federal Reserve System's consumer complaint program.

Each year, on March 15, the Board submits an annual report to Congress on its activity in discharging its responsibilities under Section 18(f) of the Federal Trade Commission Improvement Act. Those responsibilities are: (1) to identify unfair or deceptive practices engaged in by banks and to adopt regulations prohibiting such practices; (2) to receive and take appropriate action upon complaints directed against State member banks; and (3) unless certain exceptions apply, to promulgate regulations applicable to banks that are substantially similar to rules prescribed by the Federal Trade Commission (FTC), within 60 days after the FTC's rules take effect.

Because the Board views the complaint procedure envisioned by the Act as an essential aspect of our regulatory authority, a portion of each previous annual report has discussed the Board's activity to fulfill its consumer complaint function and, except for the first annual report, has included a statistical review of complaints received by the Federal Reserve System. These reviews tabulate the number of complaints received by statutory or regulatory subject areas and tabulate their disposition by number of cases completed and number of cases pending at year-end. A copy of the Annual Report for 1978 (dated March 15, 1979) is enclosed for your reference.

The information for the annual report is obtained from data generated by our automated information system, which serves as a mechanism for identifying consumer problems, especially recurrent problems, tabulated by statute or regulation. Additionally, this data base supports reports from the Board's computerized summary of examination data. Although the two systems are separate and distinct, together they provide a means for analysis and comparison of the types of consumer complaints with the kind of violations or infractions detected by a consumer affairs compliance examination.

We consider this use of information a vital adjunct to our overall compliance program and, for this reason, it is important to us to continue to compile information concerning consumer complaints by statutory and regulatory subject matters. To compile and report information by the broad categories you request would require either extensive modifications to our consumer complaint data processing system, a potentially costly change in terms of dollars and benefit reduction, or manual development of the information, which would impose a substantial drain on time and resources away from our normal consumer complaint processing duties.

The enclosed narrative and statistical supplements are the result of our effort to provide some of the information you request for calendar year 1978. We have been unable to develop a standard test of significance regarding the number of banks having abnormally high complaint frequencies.

In light of the considerations expressed above, we will consider your request for additional information when preparing the Board's future Annual Reports on Section 18(f). I hope you find the information we are submitting useful. I regret its delay, which was caused largely by the fact that most of the statistical information had to be manually developed.

Sincerely,

Enclosures

KAC:ved (#M-214)

bcc: Mrs. Mallardi (2)
Ms. Casey

November 14, 1979

The Honorable Jake Garn
United States Senate
Washington, D.C. 20510

Dear Senator Garn:

Thank you for your November 5 letter regarding the Board's decision to revoke an amendment to its Truth in Lending regulation that provides an exception to the three-day cooling-off period for each advance under an open-end credit plan secured by a consumer's home.

As you note in your letter, at the same time that the decision was made to revoke that amendment, the Board members present unanimously agreed that consumers ought to have the option to obtain open-end credit lines secured by their homes. It is the Board's view that Congress should facilitate the offering of those lines of credit by modifying the Truth in Lending Act's rescission rule so as not to require a three-day cooling-off period for each separate advance under the line. We recommend that the Congress adopt the language in Title V of H.R. 4986 that modifies the right of rescission as it relates to open-end credit.

We believe that the law should not discourage the availability of open-end credit secured by a home for basically three reasons. First, it would provide consumers with a convenient means of using the equity in their homes if they wished to do so in order to meet their perceived credit needs. Once a line was established, a consumer could draw funds as needed without having to submit multiple credit applications and await approval on each one.

Second, open-end credit secured by a home is potentially less expensive for consumers to use than other forms of credit. For example, a consumer who desired funds to pay for a series of home improvements or to pay educational expenses for a child or even to meet heating fuel bills over the winter could draw against the line as funds were needed, rather than having to borrow more than was currently necessary in order to meet future expenses or having repeatedly to refinance the debt to obtain additional money. Obtaining just the funds needed at any given time would reduce the total finance charge payable on the debt. The consumer could further minimize the cost of the credit by paying more than the required minimum payment on the line, thus reducing more rapidly the balance against which the finance charge was computed. In addition, a credit line secured by a home could be subject to a lower annual percentage rate because of the security and would avoid the recurring settlement costs associated with a series of second mortgage loans.

Finally, we understand that relatively few consumers exercise their right of rescission in connection with closed-end credit transactions. This suggests that providing a cooling-off period for each advance under an open-end credit plan secured by a home primarily serves to discourage the offering of those plans without any practical benefit to consumers. Indeed, as I mentioned previously, discouraging the offering of those plans appears to deprive consumers of an attractive financing alternative.

Having worked for the past two and a half years with you and your colleagues on the Senate Banking Committee to simplify the Truth in Lending law, we hope that the effort to enact a bill will soon be successful. We are convinced that simplification will benefit both consumers and creditors, without reducing the essential protections of the Act.

Please let me know if either I or the staff can be of further assistance.

Sincerely,

S/Paul A. Volcker

RCP:DJW:pjt (#V-107)
bcc: Gov. Teeters
Bob Plows
Mrs. Mallardi (2)

United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, D.C. 20510

#10

November 5, 1979

The Honorable Paul A. Volcker
Chairman, Board of Governors of
the Federal Reserve System
Washington, D.C. 20551

Dear Mr. Chairman:

At a meeting of the Board of Governors of the Federal Reserve System on September 19, 1979, the Board voted to revoke an earlier amendment to Regulation Z that provided an exception to the three day right of rescission requirement for advances under open end credit arrangements secured by consumers' residences. It is my understanding, however, that the Board also voted to proceed with a strong recommendation to the Congress that we legislatively provide for such an exception. Since the Truth in Lending Simplification bill, which again passed the Senate last week as part of the Depository Institutions Deregulation Act (H.R. 4986), contains an exception for advances under a preexisting open end credit plan, I am interested in knowing if the Board did vote to make such a recommendation and what were the reasons for that decision.

Thank you for responding to this inquiry.

Sincerely,

Jake Garn

Jake Garn

JG:bck

November 15, 1979

The Honorable Henry S. Reuss
Chairman
Committee on Banking, Finance
and Urban Affairs
House of Representatives
Washington, D. C. 20515

Dear Chairman Reuss:

I am responding to the letter you and Mr. Stanton sent me on November 9 requesting information regarding recent and prospective withdrawals from "Fed" membership. The enclosed tables provide this information.

Table 1 indicates that over the 4-1/2 years ending on June 30, 1979, about 300 banks with total deposits of $18.4 billion have withdrawn from Federal Reserve membership. The rate of withdrawal has accelerated as indicated by the fact that the number of withdrawals in 1978 was more than double the experience in 1975 and 1976. While the incidence of withdrawals appears to have moderated in the first half of 1979, I think it is fair to say that this situation reflects the decision of some banks to hold off on withdrawal in the hope that membership legislation would be forthcoming in the Congress this year.

As to the future, we are certain that the rate of attrition in membership will accelerate further, although we cannot be precise as to the rate and timing of withdrawals that might occur absent the prompt enactment of legislation. However, we have been able to obtain some insight on this question by asking the Federal Reserve Banks to provide us with lists of member banks that have indicated they were planning or considering withdrawal if legislation were not passed. This information, which was provided to you earlier on an informal basis, is summarized in Tables 2 and 3.

As the tables indicate, about 275 member banks with deposits of $28.5 billion have expressed their intentions to withdraw in sufficiently firm terms that we regard their prospects for withdrawal as "certain" or "probable." Another 300 banks with $41 billion in deposits are considering withdrawal in somewhat less definitive terms. Thus, in the aggregate, some 575 banks with more than $70 billion in deposits have given us some indication of their intent to withdraw in the absence of legislation. And, I would note that this group of prospective withdrawals, in sharp contrast to the earlier experience, includes a fair representation of relatively large banks. If all these banks withdraw, the Federal Reserve's coverage of the major component of the money supply would be reduced from slightly more than 70 percent at present to 63 percent.

We cannot be sure as to how rapidly these withdrawals will materialize. Perhaps more to the point, we cannot be sure that there will not be others. Indeed, competitive forces in the banking industry being what they are, my expectation is that any marked pickup in the rate of withdrawals would accelerate quickly and that the actual rate of withdrawals will exceed that suggested by our informal survey over a period of time. In that connection, we have had indications that the withdrawal of some of the larger institutions included in the survey would prompt their major competitors to leave the Federal Reserve in order to preserve their competitive position.

Table 4 provides an estimate of the loss in Treasury revenues that would result from the combination of actual losses in membership since 1975 and the withdrawal of all of the member banks identified in our recent survey. On this assumption, and using the 6-1/2 percent rate of return on the Fed's portfolio that has been used for similar calculations in the past, the gross loss in Federal Reserve revenues would amount to about $286 million per year. Adjusted for income tax offsets, the net revenue loss to the Treasury would be $129 million per annum. On the basis of the current return on the Federal Reserve's portfolio of about 8-1/2 percent, the gross and net revenue loss would be $375 million and $168 million, respectively.

These estimates of the loss in Treasury revenues, as large as they are, do not reflect another aspect of the problem. That is, there has been a further implicit loss in Treasury revenues arising from the fact that in recent years the growth in non-member bank deposits has exceeded that of member banks. To a considerable degree, this more rapid growth in non-member bank deposits can be traced to the competitive disadvantage occurring to member banks due to the "tax" on their deposits.

Your letter also raises the question as to whether a continued substantial exodus of members would be construed as a further weakness of the U.S. Central Bank and the dollar. There has always been that danger, not only in perception but in reality.

An acceleration of withdrawals along the lines suggested by our survey is bound to raise new questions about our ability to act forcibly and flexibly in all foreseeable situations. The recent application of marginal reserve requirements on the "managed liabilities" of member banks is a case in point. The action inherently discriminates against member banks, and as the base of membership dwindles, the competitive implications become still more inhibiting, and would be seen as such by observers at home and abroad. Perhaps more serious and insidious would be the erosion in the reserve base and coverage of banks needed to <u>assure</u> control over the money supply over time. As I have said on many occasions, there is a point where the erosion of the membership base will result in acute problems for the conduct of domestic monetary policy. We have not yet reached that point. I do not want to reach that point. That is why I believe that it is urgent to solve the problem now rather than in a confused and "crisis" atmosphere that might emerge in the face of a substantial acceleration in withdrawals from membership.

I appreciate your continuing efforts to work toward a prompt, equitable and effective solution to the membership problem.

Sincerely,

S/Paul A. Volcker

Enclosures

IDENTICAL LETTER TO CONG. J. WILLIAM STANTON

EGC:PQ:ved (#V-110)

bcc: Mr. Corrigan
Mr. Quick
Mrs. Mallardi (2)

Table 1

WITHDRAWALS FROM THE FEDERAL RESERVE SYSTEM, 1975-1979

		Bank Size (Total Deposits, $ millions)				
		0-100	100-500	500-1,000	1,000+	All
1975	Number of Banks	38	4	-	-	42
	Total Deposits 1/	1,028.7	492.5	-	-	1,521.2
1976	Number of Banks	40	6	-	-	46
	Total Deposits 1/	1,403.0	1,359.2	-	-	2,762.2
1977	Number of Banks	54	14	1	-	69
	Total Deposits 1/	1,410.1	3,527.5	502.2	-	5,439.8
1978	Number of Banks	87	11	1	-	99
	Total Deposits 1/	2,604.1	2,861.5	840.5	-	6,306.1
1979 2/	Number of Banks	35	6	-	-	41
	Total Deposits 1/	1,074.8	1,274.9	-	-	2,349.7
Total	Number of Banks	254	41	2	-	297
	Total Deposits	7,520.7	9,515.6	1,342.7	-	18,379.0

1/ $ millions; based on December 1978 data.

2/ Data through June 1979.

Table 2
ATTRITION STATUS

October 1979

	District												
	1	2	3	4	5	6	7	8	9	10	11	12	System
Members													
Number of Banks	176	236	225	409	389	590	910	399	510	797	704	138	5,483
Total Deposits ($ millions)	21,880	152,080	29,573	52,511	43,263	54,166	104,064	24,791	22,664	36,609	50,785	128,980	721,367
Certain or Probable Withdrawal													
Number of Banks	30	19	68	--	7	14	40	40	8	13	21	7	273
Total Deposits ($ millions)	3,192	3,521	12,726	--	2,012	639	2,888	2,377	131	300	547	183	28,516
Considering Withdrawal													
Number of Banks	45	49	48	41	3	16	26	10	4	23	27	9	301
Total Deposits ($ millions)	4,544	6,828	10,050	4,882	4,567	843	1,784	324	86	1,176	1,275	4,726	41,085

Deposits based on June 1979 data where possible and December 1978 data otherwise.

Table 3

ATTRITION STATUS
October 1979

	Bank Size (Total deposits, $ millions)			
	0 - 100	100 - 500	500 - 1000	1000 +
Certain or Probable Withdrawal				
Number of Banks	193	63	8	3
Total Deposits ($ millions)	7,258	11,807	5,282	4,168
Considering Withdrawal				
Number of Banks	229	60	4	8
Total Deposits ($ millions)	8,310	11,487	2,127	16,875

Deposits based on June 1979 data where possible and December 1978 data otherwise.

Table 4

ESTIMATED LOSS OF TREASURY REVENUE
($ millions)

Withdrawals 1975-79

Total Deposits 1/	$ 18379
x Average Member Bank Reserve Ratio 2/	x .05
= Reserves Lost	919
x Interest on Portfolio 3/	x .065
= Loss of Fed Revenue	60
x Tax Offset Factor 4/	x .45
= Loss of Treasury Revenue	$ 27

Future Withdrawals

Total Deposits 1/	$ 69601
x Average Member Bank Reserve Ratio 2/	x .05
= Reserves Lost	3480
x Interest on Portfolio 3/	x .065
= Loss of Fed Revenue	226
x Tax Offset Factor 4/	x .45
= Loss of Treasury Revenue	$ 102

Total Loss of Treasury Revenue $ 129

1/ Based on June 1979 deposit data where available and December 1978 data otherwise. Reserves lost calculated on December 1977 deposit data would be 94 percent of figures listed in table.

2/ Ratio of total reserves at Federal Reserve Banks to total member bank deposits, first six months of 1979.

3/ Average rate of return on Federal Reserve portfolio, full year, 1977.

4/ Assumes the average marginal tax rate against banks is 35 percent and an additional 20 percent in tax revenue is collected from dividends. Thus, of each dollar reduction in System payment, an estimated 55 cents is returned to the Treasury through higher taxes and 45 cents is lost.

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

NINETY-SIXTH CONGRESS

2129 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, D.C. 20515

November 9, 1979

#110

Honorable Paul Volcker
Chairman
Board of Governors
Federal Reserve System
Washington, D.C.

Dear Paul:

As the legislative year draws to a conclusion we become increasingly concerned over the lack of reaching a legislative conclusion on the Fed Membership question. Our concern is a result of so many witnesses who testified last summer to the fact that numerous financial institutions, perhaps in the hundreds, were withholding a decision to withdraw from the Fed till they see if legislative relief was not forthcoming later this year.

In this regard, I wonder if you could inform us of the number of inquiries for applications that the Fed has received this year, the total number of withdrawals in the last four years, and your best estimate as to the eventual number of withdrawals if no legislative action is taken on the Fed membership question this year. We are not concerned with names of financial institutions that might be involved, but the aggregate number of institutions, and what would be the total amount of withdrawals from the Fed. It would also be helpful if you could give us an idea of what the loss would be to the U.S. Treasury if you combine the number of banks who have left in the last four years with banks that you estimate will be leaving or are currently thinking of leaving.

There have been observations made that if there is a continued, substantial exodus of members from the Federal Reserve System, it could be construed abroad as a further weakness of the U.S. central bank and the dollar. We would appreciate your comments on this.

Your prompt reply to these questions would be appreciated as we would like to distribute this information to our colleagues in the other body before adjournment next Friday.

Sincerely,

Henry

Henry S. Reuss
Chairman

Bill

J. William Stanton
Ranking Minority Member