Dec 1979

CONGRESSIONAL

December 1979

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December 31, 1979

The Honorable John J. Rhodes
Minority Leader
House of Representatives
Washington, D. C. 20515

Dear Mr. Rhodes:

I am pleased to respond to your letter of December 11, in which you express disappointment that your nominee, Mr. R. D. Dunham, was not chosen in 1979 to serve on the Board's Consumer Advisory Council.

As you know, only thirteen new members were appointed to the Council in 1979, from a total of nearly 400 individuals who were recommended for membership. Inasmuch as the Council's membership collectively represents the interests of our entire nation in the area of consumer credit regulation, many highly qualified and interested nominees like Mr. Dunham will not have an opportunity to serve at this time.

You may be assured that Mr. Dunham will again be considered when new members to the Council are selected in 1980.

Sincerely,

S/Paul A. Volcker

JPB:vcd (#V-146)

bcc: Mrs. Mallardi (2) ✓
Janet Hart
Ann Marie Bray (for follow-up)

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Federal Reserve Bank of St. Louis

JOHN J. RHODES
1st District, Arizona

2310 Rayburn House Office Building
Washington, D.C. 20515

JAMES R. FELTHAM

H-232, The Capitol
Washington, D.C. 20515

JOHN J. WILLIAMS
DENNIS J. TAYLOR
GERALD LIPSON
CLARA POSEY

Office of the Minority Leader

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

December 11, 1979

#146

1979 DEC 14 AM 8:54

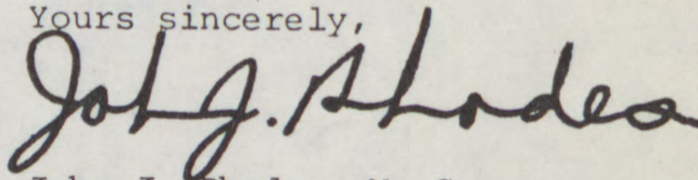
The Honorable G. William Miller
Chairman
Federal Reserve System
Washington, D. C. 20551

Dear Mr. Chairman:

Understandably, I was most disappointed that my recommendee, Mr. R. D. Dunham, President and Chief Executive Officer of the Wells Fargo Credit Corporation, was not named to the Federal Reserve Consumer Advisory Council.

It is possible, however, that at a later date a member of the Council may resign or be otherwise incapacitated. In that event, I urge that Mr. Dunham be considered for appointment as a replacement. Knowing as I do of his excellent qualifications, I am pleased to once again recommend him to you.

Yours sincerely,



John J. Rhodes, M. C.
Minority Leader

JR/wjm

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

CM
#V-145

PAUL A. VOLCKER
CHAIRMAN

December 21, 1979

The Honorable J. William Stanton
House of Representatives
Washington, D. C. 20515

Dear Bill:

Your point about the ceiling on Bank "give aways" is well taken. The staff has this matter under study and it is expected to be considered by the Board in the near future. We will keep you informed of any developments.

Best wishes,

Paul

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Federal Reserve Bank of St. Louis

Action assigned to Mr. Petersen

J. WILLIAM STANTON
11TH DISTRICT, OHIO

2466 RAYBURN BUILDING
WASHINGTON, D.C. 20515
PHONE: AREA CODE 202, 225-5306

COMMITTEE ON
BANKING, FINANCE AND
URBAN AFFAIRS

COMMITTEE ON
SMALL BUSINESS

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

PHONE: AREA CODE 216, 352-6167

MANTUA POST OFFICE
10748 NORTH MAIN STREET
MANTUA, OHIO 44255
PHONE: AREA CODE 216, 274-8444

#14

December 11, 1979

1979 DEC 13 AM 9:13

Hon. Paul A. Volcker
Chairman, Board of Governors
Federal Reserve Board
Washington, D. C. 20551

Dear Chairman Volcker:

It has recently come to my attention that under the Federal Reserve Board's regulation Sec. 217.2(b) of Regulation Q, the dollar value of so-called "give away" items which an institution provides in promotional campaigns is limited to $5 for investments of less than $5,000, and $10 for investments of $5,000 or more.

I understand that this limitation was established in 1970. Since 1970, however, the value of the dollar has been continuously eroded by inflation to the point where a 1970 dollar is only worth 52¢ today. In light of this situation, I would hope the Board and the other members of the Coordinating Committee would consider reviewing the current limitations. Possibly, the $5 limit could be increased to $10, and the $10 limit to $20.

Please keep me informed of any plan for reviewing this issue.

Sincerely,

Bill

J. William Stanton

JWS:jsn

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Federal Reserve Bank of St. Louis

December 18, 1979

The Honorable Frank Annunzio
Chairman
Subcommittee on Consumer Affairs
Committee on Banking, Finance and
Urban Affairs
House of Representatives
Washington, D. C. 20515

Dear Chairman Annunzio:

Thank you for your letter of November 28 requesting a formal Board interpretation of the definition of "unauthorized electronic fund transfer" in Regulation E. Specifically, you inquire whether an unauthorized electronic fund transfer has occurred in the following case: An employer furnishes his secretary with his electronic fund transfer access device (including the personal identification number) and instructs her to withdraw $50 for him. She instead withdraws $100, keeping $50 for herself.

It is your opinion that the employer's financial institution would not be liable for any amount withheld by the secretary, because the definition of "unauthorized electronic fund transfer" in § 205.2(k) of Regulation E specifically excludes any transfers "initiated by a person other than the consumer who was furnished with the access device to the consumer's account by the consumer, unless the consumer has notified the financial institution involved that transfers by that person are no longer authorized." You believe that since the employer furnished the secretary with the access device, any transfers made by her automatically fall within the quoted exclusionary provision of § 205.2(k).

The staff of the Division of Consumer and Community Affairs agrees with your position. It is their unofficial opinion that the transfers by the secretary in these particular circumstances are not unauthorized transfers within the meaning of the Act and regulation, and that the employer would be fully liable for any losses incurred as a result of her use of the access device, until he notifies the institution.

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Although you requested a formal Board interpretation of Regulation E, I do not believe that such an interpretation is necessary in light of the staff's opinion that the statutory provision is clear.

Sincerely,

S/Paul A. Volcker

LBB:DJW:vcd (#V-131)

bcc: Ms. Barr
Mrs. Mallardi (2)

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Action assigned to Janet Hart with info copy to Gov. Teeters

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GLADYS NOON SPELLMAN, MD.
BRUCE F. VENTO, MINN.
WALTER E. FAUNTROY, D.C.
PARREN J. MITCHELL, MD.

CURTIS A. PRINS,
STAFF DIRECTOR

TELEPHONE: 225-9181

THOMAS B. EVANS, JR., DEL.
CHALMERS P. WYLIE, OHIO
DON RITTER, PA.

U.S. HOUSE OF REPRESENTATIVES
NINETY-SIXTH CONGRESS
SUBCOMMITTEE ON CONSUMER AFFAIRS
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
ROOM 212 HOUSE OFFICE BUILDING ANNEX
WASHINGTON, D.C. 20515

#131

November 28, 1979

Honorable Paul A. Volcker
Chairman
Federal Reserve Board
20th St. & Constitution Ave., N.W.
Washington, D.C. 20551

Dear Mr. Chairman:

Misunderstanding of an important provision of Regulation E has resulted from an article in the October 17, 1979, issue of the American Banker entitled "EFT Act Legal Snarl Seen."

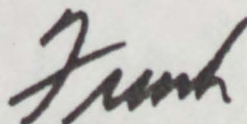
The article indicates that if an employer furnished his secretary with his electronic fund transfer access device and told his secretary to go to an automated teller machine and withdraw \$50 and she withdrew \$100, keeping the extra \$50, that this would be an unauthorized transfer and consequently the bank would be liable for the \$50 loss. This is not true. Under the Electronic Fund Transfer Act (Section 903(11)) and Regulation E (Section 205.2(k)) the definition of an "unauthorized electronic fund transfer" clearly makes the employer liable in such circumstances.

Consumer legislation is often criticized for being so pro-consumer that it is unfair to financial institutions. As a result, Congress made a special effort to provide in this law that a bank would not be liable in the circumstances described above because it would be unfair to impose liability on a bank since the loss was a direct result of the employer furnishing his access device to another person.

I do not want this misunderstanding to go uncorrected because it is so serious. Accordingly, I would appreciate it if the Board would issue a formal Board interpretation with respect to section 205.2(k) of Regulation E to clarify that the definition of an "unauthorized electronic fund transfer" excludes any electronic fund transfer initiated by a person who was furnished with the access device to the consumer's account by the consumer, unless the consumer has notified the financial institution involved that transfers by that person are no longer authorized.

Thank you for your cooperation in this matter.

Sincerely,



Frank Annunzio
Chairman

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Federal Reserve Bank of St. Louis

V-4

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

PAUL A. VOLCKER
CHAIRMAN

December 18, 1979

The Honorable Harrison A. Williams, Jr.
United States Senate
Washington, D. C. 20510

Dear Senator Williams:

I have now had an opportunity to review in greater depth the issues raised in your exchange of letters with Chairman Williams of the SEC. The problems that have emerged in markets for mortgage-backed securities seem to suggest, as you point out, the wisdom of detailed consideration of the need for Federal legislation, or other Federal action, to support or complement efforts at self-regulation. Questions at issue relate to the scope of possible regulatory action, the role of self-regulation, and the appropriate regulatory relationship of the government and its interested agencies to markets for government-guaranteed securities and possibly also markets for closely related securities, such as issues of government-sponsored agencies.

As you know, the market is now attempting to develop a framework for self-regulation through PSA Self-Regulation, Incorporated. One cannot be certain at this point how well this effort will succeed. However, operating rules and standards of fair practice for trading mortgage-backed securities have now been adopted, and similar rules and standards for trading government-guaranteed loans are expected shortly. PSA Self-Regulation recently launched a promotional campaign designed to extend membership to at least the major firms that trade these instruments. In addition, both GNMA and the federal regulators of financial institutions have inaugurated certain reforms and are planning others, with a view to imposing additional constraints on the types of market abuses that prompted your concerns.

The rules adopted by PSA Self-Regulation attempt to address the key problems of customer suitability standards and margin for forward transactions--the areas of industry practice that appeared to be most in need of upgrading. Nevertheless, there is still a question whether a strictly private organization can encourage membership from enough of the firms active in the market to insure that these strengthened self-regulatory standards will be effective. Moreover, in seeking to skirt potential violations of the antitrust laws the PSA rules simply encourage individual firms to establish

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prudent constraints on risks, including maintenance margins. They do not seek to enforce any uniform industry-wide mark-to-market requirement.

At this point it is too early to say whether the combination of actions being taken by the federal regulatory agencies and PSA Self-Regulation, Inc., will prove sufficient to curb the abuses that have emerged in markets for government-guaranteed debt. Both types of action do seem promising, however, and the PSA effort represents an encouraging step toward the assumption of greater responsibility by market participants for policing themselves. For these reasons it would seem desirable before considering any additional government regulation to monitor closely the progress of steps already in train, until their viability can be reasonably tested.

At the same time, it would seem desirable to begin a more general study of markets for government-guaranteed securities. Such a study would probably also have to consider other closely related markets--such as the market for federal agency securities. This study would consider, among other things, the details of trading and delivery of these securities as well as other operational characteristics of these markets. Its purpose would be to identify the scope and relative significance of problems that may have emerged in each market, along with any differences in the nature and extent of such problems from one market to another. The study would consider courses of action--including the specification of trading practices and other operating characteristics of markets--that might be used to supplement or reinforce efforts at reform already in train, if this seemed warranted. If the analysis did suggest that further regulation were needed, the study would consider alternative approaches to meeting the problems detected in the study. We would have in mind forwarding this study to the Congress early in the next session.

To date no detailed study of this type has been made. The earlier study prepared by R. Shriver Associates for the Department of Housing and Urban Development--while very useful--focused essentially on forward transactions in markets for mortgage-backed securities. Moreover, it was concerned more with exploring the prospects for private self-regulation than with evaluating the possible need for and techniques of public regulation.

I have discussed in a preliminary way the possibility of organizing the type of study outlined above with both Deputy Secretary Carswell of the Treasury and Chairman Williams of the SEC. They have responded favorably to the idea. Other interested agencies will, of course, have to be involved on a consulting basis, but primary responsibility should be limited to our three agencies if the study is to be completed reasonably early. We contemplate a report by April.

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We are prepared to proceed in this way and would welcome your comments on this approach. In the meanwhile, the attachments provide the specific information you requested on our current regulations and procedures.

Sincerely,

Paul

Enclosures

SHA [illegible] (V-4)
bcc [illegible] [illegible], Kerr
[illegible] [illegible] (2)

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Attachment of Materials Requested

Attached, as requested, are copies of existing and pending Federal Reserve regulations applicable to the marketing, purchase, and sale of GNMA and other federally guaranteed securities. They include:

1. Mrs. Homer's letter dated April 12, 1978 pertaining to the purchase of GNMA securities on a delayed delivery basis through a broker subject to Regulation T.

2. Board letter Z-8255 dated May 4, 1978 setting forth an interim Board position with respect to forward contracts, announcing a forthcoming questionnaire for use by examiners, and suggesting that Reserve Banks send a letter (draft enclosed in Z-8255) to state member banks alerting them to guard against questionable securities transactions.

3. A supervisory letter SR-471 dated July 7, 1978 forwarding the "Preliminary Examiners' Questionnaire: Exchange Traded Interest Rate Futures Contracts, Forward Contracts, and Stand-by Contracts" (copy attached). SR-471 instructed examiners to complete a questionnaire, to the extent applicable, in conjunction with each commercial examination conducted during the remainder of 1978. (Use of this questionnaire was subsequently authorized through June 30, 1979.)

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4. A supervisory letter SR-527 (and enclosure) dated February 14, 1979 specifying staff's recommended accounting treatment of "standby" contracts to purchase securities.

5. A copy of the "Policy Statement Concerning Forward Placement or Delayed Delivery Contracts and Interest Rate Futures Contracts" that the Board is about to release in conjunction with the other bank regulatory agencies.

Although no formal Board enforcement proceedings have thus far been necessary on forward or standby contracts involving government-guaranteed or U. S. Treasury securities, four state member banks have received supervisory attention through the examination process because of such contract activities. Two small banks were instructed to charge off losses resulting from GNMA securities being "put" to the banks pursuant to standby contracts. A third small bank was found to be speculating in GNMA forward contracts; the bank in question has been working its way out of a liquidity problem resulting from the bank honoring its contracts to purchase securities. A fourth small bank was found to be engaged in speculative securities transactions in GNMA and U. S. government securities; these transactions were criticized by Federal Reserve examiners as unsafe and unsound and the bank has agreed not to engage in similar transactions in the future. In all cases, it is believed that the examination process was adequate to deal with the problems involved.

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January 3, 1980

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

Dear Mr. Speaker:

The Board of Governors is pleased to submit its eleventh Annual Report on Truth in Lending. The report covers creditor compliance, enforcement, legislative recommendations, and the Board's administrative functions under the Truth in Lending Act for the year 1979.

Sincerely,

S/Paul A. Volcker

Enclosure

Speaker of the House of Representatives received ___________

Speaker of the House of Representatives by ______________

DJW:vcd

bcc: Mrs. Mallardi (2)

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December 13, 1979

The Honorable William L. Armstrong
United States Senate
Washington, D. C. 20510

Dear Senator Armstrong:

I am writing to you in response to the questions raised in your recent letter about Senator Tower's proposed monetary improvement legislation (S. 353). At the outset, allow me to reiterate the essence of my position as I outlined it to you during our recent conversation. In brief, the Federal Reserve remains of the view that the "mandatory" approach as embodied in S. 85 is not only the preferred but the practical solution to the "Fed" membership problem. That general approach is both workable and equitable and it entails only a very modest drain on Treasury revenues.

From the viewpoint of monetary policy, I have urged that any legislation leave the Fed with the capacity to obtain a large enough pool of reserve balances held at the Federal Reserve Banks to ensure the effective and efficient conduct of monetary policy. While we cannot be precise as to the threshold level of reserve balances necessary for policy, we have taken the view that any legislation should provide the potential, at least through an optional "insurance policy" provision, for a reserve base of about $20 billion or more in the context of 1977 deposit levels. While we have always viewed the issue of the adequacy of the reserve base as one of central importance, the change in our operating procedures adopted in connection with the October 6 program underscores this point even more forcefully.

As you know, that change in operating procedure entails placing greater emphasis on controlling the supply of reserves as the operational vehicle for controlling the money supply. Given the wide range of forces that can influence the level of reserves--including large swings in float sometimes attributed to things as unpredictable as snowstorms--the smaller the reserve base the greater the distortions and operational uncertainties.

Given the importance of the size of the reserve base for purposes of monetary control, I am concerned that the level of the reserve ratios in S. 353 might well leave us with an inadequate level

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of reserve balances. This problem could be alleviated by raising the maximum reserve ratio against transactions balances to 13 percent. Alternatively, authority could be granted to require a supplemental reserve requirement against all types of reservable deposits. Because transactions, savings, and short-term time deposits are reservable under S. 353, a provision allowing 2 to 3 percent of the total of such deposits to be required as supplemental reserves would appear adequate. If a reserve requirement structure different from that in S. 353 were to be chosen, then the supplemental provision might have to be adjusted. As you are well aware, other contentious issues arise in consideration of S. 353.

I appreciate the opportunity to comment further on these issues.

Sincerely,

S/Paul A. Volcker

EGC:PAV:ved (#V-134)

bcc: Mrs. Mallardi (2)
Messrs. Corrigan, Axilrod

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WILLIAM L. ARMSTRONG
COLORADO

United States Senate
WASHINGTON, D.C. 20510

#134

November 30, 1979

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

Dear Mr. Chairman:

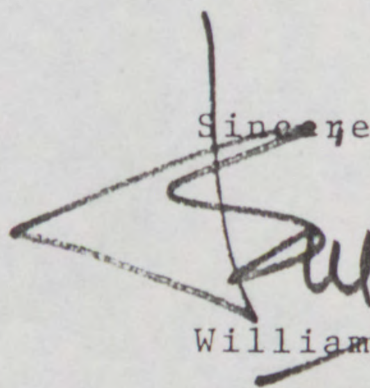
As I mentioned to you last night, I am inclined to generally support Senator John Tower's Federal Reserve membership proposal (S. 353). I believe, however, that S. 353's range on reserve requirements does not provide the Federal Reserve with adequate tools to implement monetary policy.

Senator Tower indicates he is willing to consider a higher level of reserve requirements. Therefore, I would appreciate having the Federal Reserve's recommendation for the most prudent range of reserve requirements which ought to be included in S. 353. Also, please prepare a separate recommendation, if necessary, on the assumption that S. 353 may be amended to include a supplemental reserve similar to that proposed by the Federal Reserve.

I look forward to hearing from you at your earliest convenience.

Best regards.

Sincerely,



William L. Armstrong

WLA:bb

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December 11, 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 December 6 regarding your Committee's oversight hearings on enforcement of fair mortgage lending laws and regulations.

I am pleased to inform you that Governor Nancy H. Teeters will testify on behalf of the Board on December 21 at 10:00 a.m.

Sincerely,

S/Paul A. Volcker

CO:pjt (#V-142)
bcc: Gov. Teeters
Ms. Hart
Mrs. Mallardi (2)

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United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WASHINGTON, D.C. 20510

December 6, 1979

1979 DEC 10 PM 3:46

Mr. Paul Volcker
Chairman
Board of Governors of the
Federal Reserve System
20th and Constitution Ave., NW
Washington, D. C. 20551

Dear Chairman Volcker:

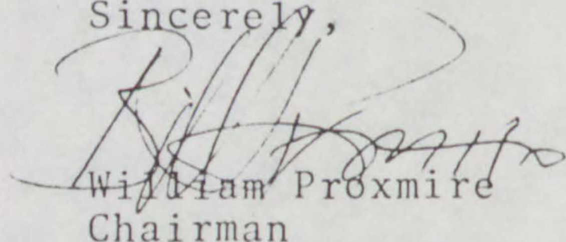
This letter will confirm the scheduled appearance of you or your designee on December 21, 1979 before the Senate Committee on Banking, Housing and Urban Affairs to testify at oversight hearings on enforcement of fair mortgage lending laws and regulations.

In order to help focus your testimony, I am enclosing a memorandum prepared by staff which poses some specific questions. We would like you to incorporate responses to these questions in your testimony.

The hearing will begin at 10 a.m. in room 5302, Dirksen Senate Office Building. Rules of the Committee require that you submit 75 copies of your written testimony at least 48 hours in advance of your appearance. Please deliver these copies to the attention of Mr. Steven Rohde, 5228 Dirksen Senate Office Building. If you have any questions, you may call Mr. Rohde at 224-9211.

The Committee greatly looks forward to your appearance on December 21.

Sincerely,



William Proxmire
Chairman

WP:srt

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WILLIAM PROXMIRE, WIS., CHAIRMAN
HARRISON A. WILLIAMS, JR., N.J. JAKE GARN, UTAH
ALAN CRANSTON, CALIF. JOHN TOWER, TEX.
ADLAI E. STEVENSON, ILL. JOHN HEINZ, PA.
ROBERT MORGAN, N.C. WILLIAM L. ARMSTRONG, COLO.
DONALD W. RIEGLE, JR., MICH. NANCY LANDON KASSEBAUM, KANS.
PAUL S. SARBANES, MD. RICHARD G. LUGAR, IND.
DONALD W. STEWART, ALA.
PAUL E. TSONGAS, MASS.

KENNETH A. MC LEAN, STAFF DIRECTOR
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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

December 6, 1979

Staff Memorandum Posing Questions for Response in Prepared Testimony of Board of Governors of the Federal Reserve System

1. Effects Test Under ECOA and Regulation B

The legislative history of the Equal Credit Opportunity Amendments of 1976 makes clear that Congress intended that the effects test should be used in the administrative enforcement of the Equal Credit Opportunity Act. The effects test is one of the most significant and far reaching aspects of the ECOA. Yet, in developing Regulation B, the Board failed almost totally to address this issue, by relegating the effects test to a very brief footnote (footnote 7 to section 202.6(a)) which provides no guidance at all on how the effects test is to be implemented under the ECOA.

It appears that the effects test was not addressed in Regulation B because the Board believed that implementation of the concept should be left primarily to the courts. However, subsequent to the adoption of the amendments to Regulation B, the Board in connection with its enforcement of fair lending laws for State member banks, has made a very significant shift in its perspective on the effects test. The Board's new Compliance Handbook takes an affirmative posture on the effects test, by including an extensive discussion of the principle of the effects test, by providing some examples of practices which may violate the effects test, and by making it clear to examiners that they have a responsibility to examine banks for compliance with the effects test. Thus, it would appear that the Board no longer holds the view of the effects test which caused it, in 1976, to refrain from addressing the issue in Regulation B. Question -- Should Regulation B be amended to set forth the general concept of the effects test, and to provide illustrative examples of policies and practices which might violate the effects test?

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2. Collection of Racial Data Under Regulation B

In order to monitor compliance with the ECOA, Regulation B provides for the recording of racial data on mortgage loan applicants. The sole method utilized, however, is self identification by applicants. Because this method of data collection has resulted in substantial missing data from the files, which severely impairs the utility of the data for monitoring compliance, the FDIC, Bank Board and the OCC have all found it necessary to include, as part of the substitute monitoring systems they have adopted, a provision for backup identification by visual observation or surname. In light of this experience, shouldn't Regulation B be amended to provide for such backup identification?

3. Adoption of Substantive Fair Mortgage Lending Regulations and Guidelines

The Federal Home Loan Bank Board has had in effect for some time substantive regulations and guidelines which specify the kinds of practices which constitute prohibited discrimination in mortgage lending. Among other things, these regulations and guidelines 1) explicitly address neighborhood discrimination, 2) provide guidelines on the effects test, by setting forth the general principle of the effects test and providing a number of specific examples of practices which may have a discriminatory effect, and 3) address discrimination in marketing practices. Studies of lending patterns in California have indicated that similar regulations and guidelines adopted in 1976 by the State of California affecting State licensed savings and loan associations had a demonstrable impact in improving the flow of credit to historically mortgage deficient neighborhoods. Does the Board have any plans to adopt substantive regulations and guidelines such as described above?

4. Treatment of Effects Test in Compliance Handbook

a) From a review of the Compliance Handbook, it is unclear whether effects test problems noted by examiners are supposed to be reported in the open section of the report of examination, as opposed to the confidential portion. In order to facilitate the prospects of corrective action, a strong argument can be made that effects test problems should be reported in the open section to ensure that the bank's management and Board of Directors are notified of the examiner's conclusions and opinions. What is the intent of the Board on where effects test problems are to be reported? Should the Compliance Handbook be clarified to remove any ambiguity by providing clear instructions that effects test problems should be discussed in the open section?

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b) In several places (page II. 1. 7. and in the examiner checklist R-FH-2), the Compliance Handbook suggests that instead of using age of property as a loan criterion, a lender should consider the "remaining economic life". However, use of "remaining economic life" generally has had a very similar effect to the use of more explicit discrimination on the basis of the age of the property. Traditionally, many lenders have used an underwriting guideline that the term of the loan should not exceed its "remaining economic life". A strong argument can be made that such a guideline is a violation of the effects test, since its effect is to discriminate against older neighborhoods where minorities disproportionately reside, and since there is no overriding business purpose for such a rule. As discussed at considerable length in hearings held by the Committee last year (FNMA-FHLMC Underwriting, December 19, 1978), estimating remaining economic life is a very highly subjective process, and even if it could be accurately estimated it has questionable relevance to proper underwriting considerations since the future expiration of economic life need not at all mean that the value of the property will have declined, but instead merely that the improvements no longer add value above the value of the land. Indeed frequently the overall value of the property will have substantially increased.

In recognition of problems with the use of remaining economic life for underwriting purposes, the Federal Home Loan Mortgage Corporation has changed its underwriting guidelines so that remaining economic life will not be considered unless it is documented by the appraiser to be five years or less.

The reference on page II. 1.7. of the Board's Compliance Handbook to age of property and remaining economic life also refers to the option of evaluating the "condition" of the property in lieu of evaluating its age. If properly documented and implemented, the "condition" of the property can be a legitimate underwriting consideration, and should serve all business purposes that use of age of property and remaining economic life have been purported to serve. <u>Question</u> -- Should the Compliance Handbook be revised to delete support for use of remaining economic life as an underwriting factor, and to warn that its use may be discriminatory in effect?

5. <u>Monitoring Violations</u>

a) From the information provided to the Committee, it appears that the Board's system for monitoring violations found by examiners focusses on total number of violations, rather than the number of patterns of violations. For example, it would appear that if an examiner discovers, say, ten violations of a given type in one bank, this would be reported as <u>ten</u>

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violations for that category in aggregating data among banks, instead of one pattern of violation. While this type of data is of some interest, its significance is somewhat questionable, since the number of violations reported could merely be a function of the number of files an examiner reviews in the bank. Rather than the total number of violations found of any given type, it is of much more interest to know how many banks were found to have a violation of a particular type. Does the Board have any plans to revise its system of monitoring violations to focus more on the number of banks found to have violations of various types?

b) Does the Board have any plans to revise its monitoring system so that it can monitor the number of effects test problems identified by examiners?

c) The Board's current system for monitoring violations discovered by examiners reports violations only by Regulation B section number (in addition, all Title VIII violations are reported without any breakdown). This system of categorization is not always helpful in determining the nature of the violation. By contrast, the Bank Board and the FDIC (particularly the FDIC) have more descriptive systems for categorizing violations, and which therefore provide for a better understanding of the nature of the deficiency or violation. What changes, if any, are being contemplated in the Board's system?

6. Prescreening

a) On Page II.1.36 of the Compliance Handbook, examiners are instructed that interviews outside the bank (with former employees, applicants, brokers and dealers, or community groups) should be undertaken when any of the following conditions are present: 1) few or non-existent denials on file; 2) evidence of disparate treatment exists; 3) denials do not reflect bank policy or are inadequate; 4) racial composition of the community is not reflected in review of the bank's loan portfolio; 5) geographic disparities in mortgage lending patterns are not reflective of economic risk; and 6) complaints alleging discrimination are filed with Reserve Bank, other government agencies, or bank under examination. Given these criteria, particularly numbers 4 and 5 above, it would appear that such outside interviews should be occurring fairly often. Does the Board have any system to monitor how often these contacts are actually taking place, and to monitor the effectiveness of such contacts? If not, should such a monitoring system be instituted?

b) Does the Board have any plans to utilize the technique of "testing" to determine how potential applicants are treated when they call or visit the bank?

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7. Data Analysis

The OCC, FDIC, and FHLBB have all been developing computerized data analysis systems to assist in detecting possible discriminatory lending practices. These systems could help target the examination process by identifying, for examiners, particular types of discriminatory lending patterns that may be occurring in the bank, and specific loan files and denied loan files which manifest the possible discriminatory patterns. Without such a system, the examiner is forced either 1) to review a relatively small number of files, which if such files are not the files which manifest the disparity, in all likelihood the discriminatory pattern will go undetected; or 2) take the time consuming process of reviewing a large number of files, while still retaining a significant risk that discriminatory patterns may go undetected.

Does the Board have any plans to reconsider its prior decision not to develop a data analysis system such as the ones being developed by the other three agencies?

8. Enforcement Actions

a) What policies and procedures does the Board have in effect or in the planning stage to ensure that violations of fair mortgage lending laws and regulations which are discovered by examiners are halted?

b) What policies and procedures does the Board have in effect or in the planning stage to ensure that the effects of past violations are corrected?

c) What is the status of the uniform enforcement guidelines proposed well over a year ago? What substantive issues, if any, need to be resolved, and what is the timetable?

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December 14, 1979

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

Dear Mr. Bennett:

I am pleased to respond to your request for comments regarding the issues raised in the December 3 letter to you from Mr. Earl Poitevent. As you know, this letter was another in a recent series that you have referred to us; earlier letters evidently crossed in the mails, for the December 3 letter raises a number of questions to which we responded in previous replies (see letters from Chairman Volcker dated November 16 and November 30).

I think the one part of the December 3 letter that might require some further discussion is the question raised in the first paragraph regarding the role of the discount rate. Mr. Poitevent overstates the importance of the discount rate as a determinant of other interest rates. Its role in this regard is in fact quite limited. To a great extent, the discount rate is adjusted by the Federal Reserve simply to keep it in line with other interest rates, in order to avoid creating incentives for member banks to rely unduly on the Federal Reserve discount window as a source of reserves or lendable funds. It is in part the fact that the System does attempt to maintain this alignment that accounts for the use of the discount rate as a base for some usury ceilings, for most states wisely desire to avoid permitting their usury ceilings from getting so low relative to prevailing rates that credit availability is curtailed.

Enclosed is a copy of <u>The Federal Reserve System: Purposes and Functions</u>, which may prove helpful to Mr. Poitevent. It explains in greater detail the Federal Reserve's operations and their impact on the economy.

Sincerely yours,

(Signed) Donald J. Winn

Donald J. Winn
Special Assistant to the Board

Enclosure
NJP:JPB:pjt (#V-137)
bcc: Mike Prell
Mrs. Mallardi

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

#137

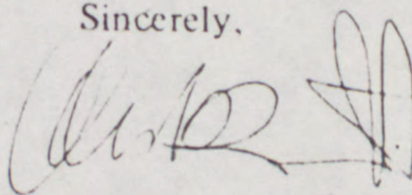
December 5, 1979

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

Sir:

The attached communication is sent for your consideration. Please investigate the statements contained therein and forward me the necessary information for reply. Please refer to the date of my letter to you in your response.

Sincerely,



Charles E. Bennett,
Member of Congress

CEB:lm
Enclosures
P.S. Please refer to your November 16, 1979 response to me.

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Earl S. Poitevent, Jr.
4301 Venetia Blvd.
Jacksonville, Florida 32210
(904) 389-5446

December 3, 1979

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

Dear Charlie:

Thanks for sending Mr. Volcker's letter of Nov. 16th. He downplays the significance of the Fed's discount rate on interest rates. Everyone in the money lending business; banks, insurance companies, savings and loans, etc. all tie their rates, either directly or indirectly, to the Fed's discount rate. That is why I feel Congress should establish the Fed's discount rate as it controls the national economy. The State of Florida has had to raise it's usury rate from 10% to 18% to accomodate the Fed's 12% discount rate.

It is true that the banks are paying more interest to their savings depositors and also some interest on checking accounts but this is a direct result of the Fed's tight money high interest rate policy.

The Fed's policy seems to be oriented to protect the holders of the $965 billion Eurodollars outstanding. In fact all of the Fed's moves have been anti borrower and pro lender. Whereas my encyclopedia says the Fed was formed to protect the borrowers of the nation by insuring ample funds at competitive non usurous rates.

Mr. Volcker admits the Fed has increased it's assets by $100 billion in the last nineteen years to $150 billion. The Fed has milked this money out of the economy by manipulating the Government bond market by running interest rates up and down on various pretexts. These Federal securities and/or cash, in my opinion, should now be turned over to the Treasury because with $965 billion Eurodollars outstanding there is no longer any reason to protect the value of U.S. Government bonds. As a matter of fact the Government is now floating bond issues in Europe.

I do not understand Mr. Volcker's comment on balance of payments. It is hard for me to believe with $965 billion

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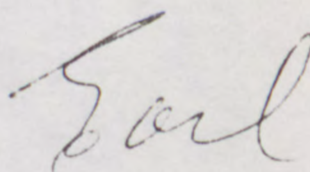
Eurodollars outstanding our national banks would be loaning money to foreigners and especially so since the article I sent to you indicates we are borrowing the Eurodollars back everyway we can to keep our own economy going.

As for protecting the international value of the dollar this can only be done by the holders of the Eurodollars, and it is to their vital interest to do so. Actually, they are more "over the barrel" than we are. The only mistake we can make is to borrow the Eurodollars back at any rate other than a bargain rate (say 4%-5%). For the more interest we pay for Eurodollars the more they are debased. Congress can strike a blow for the Eurodollars by getting interest rates down in this country and, as stated before, this can only be done by Congress stepping in and setting the Fed's discount rate as the Fed's Board of Governors are oriented to lenders not borrowers.

With best wishes and assuring you of my deep appreciation for your help, I remain,

Sincerely,



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

PAUL A. VOLCKER
CHAIRMAN

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.

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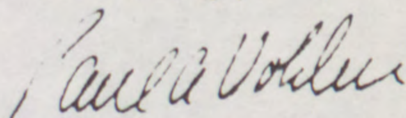
The Honorable Charles E. Bennett
Page Two

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,



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December 17, 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:

Enclosed are copies of the Board staff memoranda requested in your letter to me of December 3. These memoranda were presented to the Board in 1971 in connection with its proposal and adoption of regulations implementing section 4(c)(9) of the Bank Holding Company Act, governing nonbank interests of foreign bank holding companies. I also enclose the relevant portion of a memorandum on a separate regulation that was not requested but that touches briefly on the subject of section 4(c)(9).

References to views expressed by foreign central bankers have been deleted from the enclosed memoranda. The remaining staff memorandum presented to the Board on this subject summarizes comments received on the proposed rulemaking and, in accordance with your letter, it has not been enclosed.

Sincerely,

S/Paul A. Volcker

Enclosures: (Memos dtd. 5/14/71, 6/11/71 & 10/29/71 from Paul Gardner;
JM:pjt (#V-135) 6/11/71 from Fred Dahl & Robert Gemmill; and 6/3/71
bcc: Mr. Petersen from Paul Gardner.)
Mr. McAfee
Mr. Hurley
Mr. Dahl
Mrs. Mallardi (2)

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Copies sent to Messrs. Petersen and
Ryan for coord[illegible]ation of response

B[illegible]JAMIN S. ROSENTHAL, N.Y., CHAIRMAN
[illegible]ERT T. MATSUI, CALIF.
[illegible]ENE V. ATKINSON, PA.
FERNAND J. ST GERMAIN, R.I.
JOHN CONYERS, JR., MICH.
ELLIOTT H. LEVITAS, GA.

NINE[illegible]

[illegible] OHIO
[illegible]ANS.
[illegible] IND.

MAJORITY—(202) 225-4407

Congress of the United States
House of Representatives
COMMERCE, CONSUMER, AND MONETARY AFFAIRS
SUBCOMMITTEE
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS
RAYBURN HOUSE OFFICE BUILDING, ROOM B-377
WASHINGTON, D.C. 20515

#135

December 3, 1979

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

Dear Mr. Chairman:

The Commerce, Consumer, and Monetary Affairs Subcommittee is currently reviewing the Federal Reserve Board's approval last March of the bank holding company application of the Hongkong and Shanghai Banking Corp. The subcommittee is particularly interested in how the Board treated the overseas nonfinancial activities of HSBC in reaching its decision to approve. In connection with this review, I am writing to request certain Board staff memoranda that were prepared for the Board in 1971 at the time the Board was considering staff proposals for the portions of Regulation Y dealing with overseas nonbanking activities.

The particular memoranda requested are as follows:

1. Three memoranda dated May 14, June 11, and October 29, 1971, with attachments, by Paul Gardner, Jr.; and

2. A memorandum by Messrs. Dahl and Gemmill referenced on page 2 of the June 11 Gardner memorandum.

I understand that certain passages of these memoranda report the views expressed by certain other central banks and that these passages may be regarded as sensitive. While the subcommittee reserves the right to request complete copies of the above memoranda at some later time, for the purposes of the present request it would be acceptable to send copies from which the particular passages reporting the views of certain central banks have been deleted.

In addition, I would appreciate having copies of any other memoranda to the Board by Mr. Dahl, Mr. Gemmill, or other staff that analyze or discuss the treatment under the Bank Holding Company Act of overseas nonbanking activities

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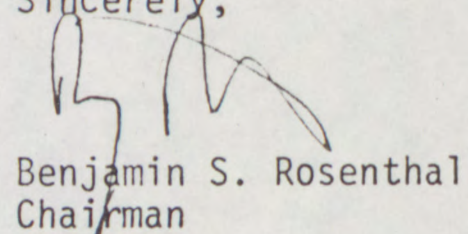
owned or controlled by foreign bank holding companies and that were prepared for the Board in connection with its 1971 regulations on this subject. Memoranda whose sole purpose is to summarize public comments on the proposed regulations need not be supplied at this time.

Sincerely,



Benjamin S. Rosenthal
Chairman

BSR:tv

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December 13, 1979

The Honorable Richard A. Gephardt
House of Representatives
Washington, D. C. 20515

Dear Mr. Gephardt:

I appreciate the opportunity of commenting on the interesting proposal you have offered as an alternative to the imposition of a rigid limit on federal spending. Like you, I have been concerned that the various mechanistic techniques that have been suggested for limiting federal spending could introduce seriously destabilizing elements to the budgeting process, and in particular could significantly impede the government's ability to react effectively to unfolding economic developments.

I totally agree with what I perceive is the thrust of your proposal--that is, in the process of deciding on spending levels, the Congress must be ever alert to the economic stabilization implications of its decisions. Budget decisions profoundly affect the outlook for economic activity and inflation, and I believe that the Congress would be making a serious error in abandoning its authority to make these important decisions as flexibly as possible. But recognizing the problems with rigid spending limits, I am not certain that your proposal does not introduce rigidities of its own.

As I understand it, your proposal would have the Congress approve revenue and expenditure targets consistent with a surplus or deficit total at an early stage in the budget process. Subsequent decisions by the Budget Committees and the Congress would be constrained by these totals. This is in many ways an attractive proposal. But, I am afraid that such a process would tend to deprive the existing budget process of some of its value as a forum in which not infrequently conflicting goals of resource allocation on the one hand and stabilization policy on the other are debated and resolved. The consensus that derives from such a process is, it seems to me, highly desirable from both a political and economic standpoint.

As you correctly point out, the Federal Reserve--as well as other economic agencies and the informal public--has an important role to play in advising on the economic implications of fiscal policy. But,

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the Budget Committees in their considerations currently do receive advice from the Federal Reserve as well as many other government agencies--including the Council of Economic Advisers and the Congressional Budget Office--as well as from many private groups, regarding the proper stance of fiscal policy. While your proposal would formalize these procedures and perhaps insure the presentation of a more quantified statement of the fiscal policy implications of budget totals, I am concerned that it may be at a cost that transcends the benefits. I am convinced that the Congress currently gives considerable weight to this advice as an important input in the budget process. But most importantly, I am persuaded that the ultimate responsibility for balancing the social and economic claims on the budget, and deciding on a specific spending target, must continue to lie in the hands of elected officials.

I understand and share your concerns about the need to restrain federal spending. The achievement and maintenance of discipline over federal spending is an absolute necessity if inflation is to be brought under control. But I am afraid that my faith in achieving this end through establishment of "constraints"--however specific and however rational--has weakened through the years. Experience indicates that ways can always be found by imaginative persons to circumvent any formal limitation when there is a desire to do so. It is, after all, the desire that will be key to the action.

In these difficult times, it is reassuring to know that individual Congressmen like yourself are seriously addressing these complex budgetary issues in an innovative way. Thank you again for giving me the opportunity to comment on your proposal.

Sincerely,

S/Paul A. Volcker

JSF:FMS:JZ:JLK:vcd (V-133)

bcc: Messrs. Kichline, Zeisel, Struble, Fralick
Mrs. Mallardi (2)

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RICHARD A. GEPHARDT
3D DISTRICT, MISSOURI

WAYS AND MEANS COMMITTEE
BUDGET COMMITTEE

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

WASHINGTON OFFICE:
218 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
PHONE: (202) 225-2671

DISTRICT OFFICE:
3470 HAMPTON AVENUE
ST. LOUIS, MISSOURI 63139
PHONE: (314) 351-5100

November 27, 1979

#133

1979 NOV 30

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

Dear Mr. Chairman:

As you are no doubt aware, the House is beginning active consideration of spending limitation legislation. As an alternative, I have been working on a proposal that I believe would help depoliticize Congressional budget decisions but offer the flexibility needed to develop fiscal policy in accordance with changing economic conditions. I want to bring this bill to your attention since it has significant implications for the Federal Reserve Board.

The enclosed material provides a complete explanation of my proposal as well as the reasons why I believe it represents a more reasonable and workable alternative to spending limits.

Basically, my proposal is for the Congress to develop and approve a concurrent resolution on fiscal policy before the Budget Committee begins mark-up of functional spending limits in the First and Second Budget Resolutons. By a specified date (February 1 in the case of the First Resolution and July 15 in the case of the Second) the Federal Reserve Board would submit to the Budget Committees its recommendations for the appropriate surplus or deficit level, in light of economic conditions, to pursue a successful economy for the following Fiscal Year. On the basis of the Fed's recommendations as well as hearings to receive testimony by economists in and outside the governemnt, the Budget Committees would report a concurrent resolution setting total outlays, revenues and subsequent surplus or deficit. The resolution would have to be approved by both Houses of Congress by a specified date prior to the time when mark-up of the regular concurrent budget resolution would begin.

This procedure, in my view, offers a number of advantages. Above all, it would enable the Congress to set budget totals on the basis of economics before special interests bring their cases to the Congress. With total outlays and deficit numbers in place, the Congress would have to make the hard choices between programs competing for a share of a limited sum of money. I think this procedure would permit us to make reasoned economic decisions without relinquishing any of our power over the purse. It would also allow for improved coordination of monetary and fiscal policies.

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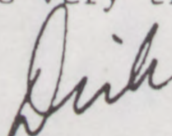
I would be interested in your comments on this legislation, not only with respect to its impact on the Fed but also the effect it could have on the nation's economic policy. I look forward to hearings from you and would be happy to discuss this proposal with you if you have any questions about it.

Yours very truly,



Richard A. Gephardt
3rd District, Missouri

RAG:fs

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Concurrent Resolution on Fiscal Policy

Honorable Richard A. Gephardt
of Missouri

The attached discussion paper was prepared with the assistance of the Congressional Budget Office.

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There is another way to approach this problem. As I understand it, the movement to adopt a fiscal policy rule is motivated by the belief that political pressures chronically bias the budget toward deficit. Thus, Congress is considering ceding its authority over budget balance to a mechanical rule in order to insulate fiscal policy from political pressures. However, the problem with such a rule would be its inability to exercise judgment about changing economic conditions.

There is an alternative to a mechanical rule that both allows Congress to insulate fiscal policy from short-term political pressures and permits judgment to be exercised in budget balance decisions. The Congress could require the Federal Reserve Board to recommend a surplus (deficit) for the coming fiscal year. This recommendation would be submitted to the House and Senate Budget Committees at least one month before the First and Second Budget Resolutions. Using other economic data at their disposal, e.g. the recommendations of the Congressional Budget Office, OMB, economists, etc., the respective committees would set for themselves revenue, outlay and surplus or deficit levels within which the budget would be established.

These levels would not necessarily be the same as those recommended by the Federal Reserve Board, but at least we would have the independent judgme of the governmental entity most responsible for fiscal and monetary policy on the state of the economy and the relative need for surplus or deficit. Th important point is that Congress would take into consideration and decide on the overall size of the budget before deciding on actual, specific outlays.

In sum, consideration of a Federal Reserve Board recommendation on fisca policy as an alternative to a mechanical rule does help clarify the major issues in the debate:

* The movement of Congress toward ceding its authority over budget balance is apparently motivated by a desire to insulate fiscal policy for short-term political pressures.

* The determination of the appropriate fiscal policy requires judgment in the interpretation of the available data, and such judgment cannot be written into a mechanical rule.

Congress will want to exercise great care before it gives up any of its authority over fiscal policy. Before adopting a mechanical rule, it must carefully weigh the benefits of such a change against its costs. This rule would allow a decision concerning the federal deficit to be made separately and before addressing the specifics of the budget. Separating the decision in this manner will allow the Congress to isolate itself somewhat from political considerations by giving Members the excuse that they favor a certain program but it lost in the process because of the prior imposed cap.

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BALANCING THE BUDGET BASED ON FISCAL POLICY RECOMMENDED BY THE FEDERAL RESERVE BOARD AND ACTED UPON BY THE CONGRESS

MR. GEPHARDT

Amend the Congressional Budget Act to require the Federal Reserve Board to submit to the House of Representatives and the Senate a recommended level of surplus or deficit based on anticipated levels of revenue and outlays and other economic data for the next fiscal year. This data would be submitted at least one month before the First and Second Budget Resolutions, respectively. Using the submitted recommendations and any other appropriate recommendations, each House would then act by Concurrent Resolution or other appropriate means to establish the revenue, outlay and surplus (deficit) levels to be utilized by the House and Senate Budget Committees in the Congressional Budget Process.

DISCUSSION:

A rigid balanced budget rule likely would have a destabilizing effect on the economy. It would require fiscal policy to be restrictive in recessions and stimulative in booms. A macroeconomic model simulation done by Data Resources, Inc., indicates that a rigid balanced budget rule would have greatly deepened and prolonged the 1974-1975 recession, resulting in unemployment rates above 11 percent in both 1975 and 1976 and remaining above 9 percent as late as 1977.

Unfortunately, even a more flexible rule may ultimately be destabilizing. An optimally designed rule would determine the appropriate size of the budget surplus (deficit) according to the degree of slack existing in the economy. The budget should be in surplus when utilization is high and in deficit when low. A problem with such a contingency rule is that it requires a reliable indicator of economic slack whose meaning does not change over time. And we simply do not have such an indicator.

The hard fact is that it requires judgment to assess current economic data and determine the tightness of the economy. And there is no way to write judgment into a mechanical budget balance rule.

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CASES WHEN CONGRESS FAILED TO MAKE A CHOICE

When controversial issues are before the Congress and alternative approaches have been proposed, there have been several instances when, instead of choosing between the options, Congress has approved everything. The following list explains a few such cases:

1. Federal aid for health manpower training. The President's budget for Fiscal 1980 included a proposal for eliminating capitation grants to medical schools to moderate their tuition costs and thereby encourage enrollment in medical schools. The proposal was based on the finding that health manpower is no longer in short supply and a more appropriate role for the Federal government would be "beefed up" direct assistance to low-income students attending medical school. The Labor-HEW Appropriations bill, as approved by conferees, however, includes not only the President's budget request for Financial Distress Grants but continuation of capitation grants as well.

2. Tuition tax credit. When proposals to provide tax credits to parents for part of the cost of tuition payments for their children began to receive serious attention, opponents proposed instead that Federal student grant and loan programs be expanded to help middle income families afford private and higher education. Rather than choosing between the alternative approaches, the House and Senate passed bills authorizing both tuition tax credits and middle-income student assistance. Only failure of the two Houses of Congress to reach agreement on tax credits for elementary and secondary education prevented the duplication from becoming public law.

3. Mortgage bonds. As the House Ways and Means Committee has debated legislation to control tax expenditures resulting from tax exempt bonds to finance mortgages, two competing lobbies seem to be gaining benefits. The bill now under consideration in Committee would continue some tax exempt mortgage bonds, as one group wants, and exempt from taxation interest on savings accounts, as mortgage bond opponents have advocated. If Congress fails to choose between the two competing tax breaks and both provisions prevail, the savings to the Treasury sought to proponents of mortgage bond reform legislation would be effectively eliminated.

If Congress had set a deficit level before entering into the budget process that produces these "decisions", the Congress would have been required to make a choice. Otherwise, the budget resolution on fiscal police would be violated.

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Unfortunately, even a more flexible spending limitation rule may ultimately be destabilizing. An optimally designed rule would determine the appropriate spending level and, ultimately, the size of the budget surplus or deficit, according to the degree of slack existing in the economy. The budget should be in surplus when utilization is high and in deficit when low. A problem with such a contingency rule is that it requires a reliable indicator of economic slack whose meaning does not change over time. We simply do not have such an indicator.

The hard fact is that it requires judgment to assess current economic data and determine the tightness of the economy. However, there is no way to write judgment into a mechanical budget balance or spending rule.

There is an alternative to a mechanical rule that both allows Congress to insulate fiscal policy from short-term political pressures and permits judgment to be exercised in budget decisions given changing economic conditions. The Congress could require the Federal Reserve Board to recommend a surplus or deficit for the coming fiscal year. This recommendation would be submitted to the House and Senate Budget Committees at least one month before the First and Second Budget Resolutions. Using other economic data at their disposal, e.g. the recommendations of the Congressional Budget Office, OMB, economists, etc., the respective Committees would recommend and the House and Senate would then set surplus or deficit levels within which the budget would be established.

These levels would not necessarily be the same as those recommended by the Federal Reserve Board, but at least we would have the independent judgment of the governmental entity most responsible for fiscal and monetary policy on the state of the economy and the relative need for surplus or deficit.

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EXTENSION OF REMARKS

Richard A. Gephardt

CONCURRENT RESOLUTION ON FISCAL POLICY

HON. RICHARD A. GEPHARDT
Of Missouri
In The House Of Representatives
Friday, November 2, 1979

MR. GEPHARDT. Mr. Speaker, I am today introducing legislation that would amend the Congressional Budget Act to require the Federal Reserve Board to submit to the House of Representatives and the Senate a recommended level of surplus or deficit, based on anticipated levels of revenue and outlays and other economic data to pursue a successful economy for the next fiscal year. This data would be submitted at least one month before the First and Second Budget Resolutions, respectively. Using the submitted recommendations and any other appropriate recommendations, each House would then act by Concurrent Resolution to establish the surplus or deficit level to be utilized by the House and Senate Budget Committees in the Congressional Budget Process.

Each passing week seems to find a new proposal being offered to balance the budget or, short of that, to limit Federal spending. While these are noble goals that I hope we will achieve someday, we should recognize that a rigid balanced budget rule likely would have a destabilizing effect on the economy. It would require fiscal policy to be restrictive in recessions and stimulative in booms. A macroeconomic model simulation done by Data Resources, Inc., indicates that a rigid balanced budget rule would have greatly deepened and prolonged the 1974-1975 recession, resulting in unemployment rates about 11 percent in both 1975 and 1976 and remaining above 9 percent as late as 1977.

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The important point is that Congress would take into consideration and decide on the overall size of the budget before deciding on actual, specific outlays.

In sum, consideration of a Federal Reserve Board recommendation on fiscal policy as an alternative to a mechanical rule does help clarify the major issues in the debate:

* The movement of Congress toward ceding its authority over budget balance is apparently motivated by a desire to insulate fiscal policy from short-term political pressures.
* The determination of the appropriate fiscal policy requires judgment in the interpretation of the available data, and such judgment cannot be written into a mechanical rule.

Congress should want to exercise great care before it gives up any of its authority over fiscal policy. Before adopting a mechanical rule, it must carefully weigh the benefits of such a change against its costs. This rule would allow a decision concerning the Federal deficit to be made separately and before addressing the specifics of the budget. I recommend the Concurrent Resolution on Fiscal Policy to you.

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CM
#V-123

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

PAUL A. VOLCKER
CHAIRMAN

December 6, 1979

The Honorable Jacob K. Javits
United States Senate
Washington, D. C. 20510

Dear Jack:

For some time I have had in mind the issues raised in your recent letter concerning the appropriate unemployment target for 1980 and beyond. Thus, your letter provides me the opportunity to put these thoughts together in a more orderly fashion. Having said this, let me emphasize at the outset, I don't see any easy answers to the questions you have raised.

In considering the many facets of this issue, several things are clear. First, it is apparent that the "threshold" unemployment rate referred to in your letter is higher than it was in the past few decades and, indeed, higher than the 4 percent rate contained in the Humphrey-Hawkins Act. In January of this year, the President's Council of Economic Advisers, for example, placed the unemployment rate consistent with the economy operating at its full potential at 5.1 percent. Some would argue, and convincingly so, that the rate is even higher. Second, whatever the "threshold" level of unemployment, the experience of the past few years has illustrated all too vividly that exogenous price shocks can have a devastating impact on the rate of inflation. Oil prices are the most visible example, but the phenomenon has also been apparent in agriculture and other commodity markets.

Another point that is highly relevant to the questions raised in your letter is an analytical one. Implicit in much of our thinking about national goals for inflation and unemployment is the concept of the so-called "trade-off" between inflation and unemployment. At the risk of confronting head-on an element of economic theory which seemed to many of us to be both convenient and convincing, I simply am not sure that this "either-or" doctrine is a valid guide to public policy in the current circumstances. Inflation may have gone too far for too long and inflationary expectations may have become too deeply embedded for there to be any material trade-off in the current setting. That is, high and accelerating rates of inflation may have induced such distortions and dislocations in the economy--as, for example, in the planning and execution of capital spending programs--that any effort to "buy" less unemployment by "accepting" more inflation may ultimately result in more, not less, unemployment.

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This line of reasoning might, to some, suggest that the national goals embodied in the Humphrey-Hawkins Act are simply too ambitious and that such goals should, at least temporarily, be modified. I am not inclined to that view. But, I must acknowledge that the prospects for realizing the interim goals for 1980, and perhaps even the 1983 goals, appear slim at the present time. But, if we follow prudent and disciplined public policies over a reasonable period of time, we may find that behavior can be changed in such a way that the ambitious goals of Humphrey-Hawkins will again seem attainable. To scrap or to prematurely compromise these long-term national objectives would run the risk of licensing public and private actions that would ensure more instability and distortions in our economic conditions that could only be a prelude to even more serious problems. My point is simply that we must give ourselves the opportunity, in the context of current structural realities, to test the viability of these goals against the standards of sustained, innovative and disciplined public policy. If we fail that rigorous test, then perhaps some adjustments in the goals would be appropriate and justified.

All of this underscores, in my mind, the need for a firmly disciplined monetary policy that centers on achieving, over time, moderate non-inflationary growth in money and credit and for the continued reduction and ultimate elimination of federal deficits except when warranted by overall economic conditions. Within that framework, there is ample opportunity to use other elements of public policy in a constructive fashion.

For example, I have argued on many occasions that at the appropriate time we seize the opportunity to implement changes in tax policy that will stimulate investment and productivity and lower cost structures. I regard initiatives in this direction--properly structured and timed--as one of the most essential priorities of public policy. Having said this, let me emphasize that in my view the time is not yet at hand when such a tax change would be appropriate.

Such initiatives will not produce immediate results. Indeed, even if there is a modest deceleration in the rate of inflation in the near term--something I think we can reasonably expect absent another massive oil price increase--unemployment may well rise further as the long-anticipated adjustment in overall economic activity materializes. In these circumstances, I can see a legitimate role for well-structured employment programs of the types referred to in your letter. In considering such programs, I would place a considerable premium on efforts that will not result in permanent additions to government spending that would push further into the future the day when we can achieve a balanced budget.

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I do not claim sufficient expertise to render judgments as to those programs that would be the most effective. To the contrary, I am impressed with the great difficulties of designing and administering effective programs in this area. But, I do believe that the Congress, in its wisdom, and in cooperation with the appropriate agencies of the Executive Branch can make important strides in this area.

I appreciate your giving me the opportunity to comment on these important issues.

Sincerely,

S/Paul A. Volcker

EGC:vcd (#V-123)

bcc: Messrs. Corrigan, Zickler, Zeisel, Kichline, Axilrod, Truman, Allison
Mrs. Mallardi (2)

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JACOB K. JAVITS
NEW YORK

COMMITTEES:
FOREIGN RELATIONS
HUMAN RESOURCES
GOVERNMENTAL AFFAIRS
JOINT ECONOMIC

United States Senate

WASHINGTON, D.C. 20510

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FEDERAL OFFICE BUILDING
111 WEST HURON STREET
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ROOM 420
LEO W. O'BRIEN FEDERAL BUILDING
CLINTON SQUARE
ALBANY, NEW YORK 12207

November 13, 1979

1979 NOV 19 AM 10:23

#123

Dear Mr. Volcker:

The onset of persistent double-digit inflation with six percent unemployment raises questions about the validity of the assumptions underlying our thinking about the maximum sustainable "full employment" unemployment rate appropriate for our country in 1980.

The interim goal of four percent unemployment, as codified in the Humphrey-Hawkins Act, may be unrealistically low, given the recent and continuing changes in the demographic composition of the U.S. labor force.

If true, this could have profound and far-reaching effects on our national economic policy in the decade which begins next year. Should there be acceptance of a higher numerical threshold for the so-called "full employment" rate of unemployment, it would have important implications both for our understanding of and response to the current high rate of inflation and for the measures to be adopted to reduce further the current high rate of unemployment.

If, as some argue, we are presently at -- or even slightly below -- the "full employment" unemployment rate for our country, then adoption of stimulative aggregate fiscal and monetary policies could be most imprudent; and further reductions in the unemployment rate would have to be achieved through more targeted employment policies like CETA, local public works and job training, etc.

I would deeply appreciate your considering this question and making recommendations with respect to the policies that might be proper.

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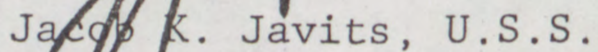
I hope you may be able to act expeditiously on my request and look forward to hearing from you shortly.

With best wishes,

Sincerely,



Jacob K. Javits, U.S.S.

The Honorable Paul A. Volcker
Chairman
Board of Governors of the
Federal Reserve
Federal Reserve Building
Room B-2046
20th and Constitution Avenue, N.W.
Washington, D.C. 20551

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CM
#119

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

PAUL A. VOLCKER
CHAIRMAN

December 11, 1979

The Honorable Henry J. Nowak
Chairman
Subcommittee on Access to Equity
Capital and Business Opportunities
Committee on Small Business
House of Representatives
Washington, D. C. 20515

Dear Chairman Nowak:

Enclosed are answers to the questions raised in your letter of November 13, 1979, in connection with your Subcommittee's recent hearings on "Monetary Policy and its Effect on Small Business." I have tried to be as responsive as possible but, as I am sure you will understand, it is extremely difficult to answer questions about future monetary policy actions except in general terms. The policy response of the Board or the Federal Open Market Committee to specific adverse developments must in any event reflect consideration of those developments in the context of the overall economic and financial environment at the time.

Sincerely,

Paul A Volcker

Enclosures

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QUESTION 1

<u>Question</u>. Under the Credit Control Act of 1969, the President may authorize the Federal Reserve Board to regulate extensions of credit "...for the purpose of preventing or controlling inflation generated by the extension of credit in an excessive volume...."

** Does the Board have contingency plans in the instance that the President invokes this authority?

** What actions would be taken to insure that small business receives favorable treatment in such a situation?

<u>Answer</u>. The Board does not have any such plans at present. The Credit Control Act of 1969 is very broad. It permits the Board--but only upon authorization by the President--to regulate any or all aspects of any or all kinds of credit transactions. We have no expectation that the Act will be invoked. In any case, there is no way of anticipating which aspects of which types of credit the President might at some time in the future authorize the Board to control. Nor is it clear what degree or method of control would be most appropriate to the specific situation. Under these circumstances, development of contingency plans to cover an almost infinite number of possibilities does not seem feasible.

For the same reasons, it is almost impossible to decide in advance what actions would be appropriate and necessary, in the event that the President activated the Credit Control Act some time in the future, to insure that small business borrowers were not treated unfairly.

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QUESTION 2

Question. The international position of the dollar has firmed since the actions of October 6, 1979, but the record trade deficit reported for September will put pressure on it in the coming months.

** Will the Board maintain a stance of restraint in order to support the dollar if the domestic economy weakens severely?

Answer. Current projections of the U.S. trade deficit generally indicate that the U.S. position is likely to improve over coming months, even if crude oil prices rise significantly further. If the domestic economy were to "weaken severely" as you suggest, U.S. imports would weaken too. This would strengthen the U.S. trade picture and should help to sustain the dollar's international value. Consequently, under the conditions you postulate, the international and domestic objectives of monetary policy would not be likely to come into conflict.

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QUESTION 3

Question. Given the fact that a significant portion (one-third to one-half) of the current inflation rate is attributable to increases in crude oil prices, is it likely that inflationary expectations can be relieved if the OPEC countries continue to increase their petroleum prices at high rates during 1980?

** Will the Board act to accommodate credit needs brought about by higher cost oil imports by raising the monetary growth targets?

Answer. There is little doubt that continued very rapid increases in petroleum prices would hamper our efforts to achieve an early, substantial reduction in inflationary expectations. But I think such price increases would more likely delay and moderate, rather than prevent, such a reduction. The steps the Federal Reserve has taken should temper people's expectations of future increases in other prices, and contain the secondary impact of oil price increases on the general price level. I hope we will not see another year of huge increases in OPEC oil prices, but if they do occur, we should be better able to absorb them than in the past.

There is no way of knowing, at this point, how the growth targets for the monetary aggregates might be affected next year by sharply higher costs of imported oil. Too many other factors would also need to be considered. The oil-price situation might or might not be a crucial factor. As I pointed out on another occasion, the larger the increase in petroleum prices and the more inflationary pressure it exerts, the more need there is for transactions balances. The extent to which money demand might need to be accommodated would depend, at least in part, on general economic and financial conditions. It is clear, however, that any significant degree of such accommodation would limit the success of our efforts to contain inflation.

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QUESTION 4

Question. Will the discount window continue to be as freely available to banks over the next several months, or is a tightening anticipated here as well, if growth in the aggregate pick up?

Answer. The Federal Reserve System has developed standard guidelines that govern member bank access to the discount window. These rules do not change with the general stance of monetary policy; they remain constant in all phases of the economic cycle and are not affected by changes in the monetary aggregates. Only in this way is there assurance that member banks facing similar needs for Federal Reserve credit are treated similarly by the twelve different Federal Reserve Banks. When changes in monetary policy are desired, the instruments used by the Federal Reserve are open-market operations, adjustments in the discount rate (but not in the rules of access to the discount window), and changes in member bank reserve requirements.

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QUESTION 5

Question. How will the widespread use of alternate sources of loanable funds (e.g., money market certificates, Eurodollar borrowings, etc.) and the outflow of time deposits into higher yield instruments not subject to reserve requirements, affect the Board's ability to control the monetary aggregates?

** What effects, if any, will the new policy emphasis have on the shift of deposits, subject to reserve requirements, into other instruments?

Answer. It is not clear that bank issuance of nondeposit liabilities in the aggregate has a significant impact on growth of the monetary aggregates. But it is clear that such issuance contributed to rapid growth of bank credit in the first three quarters of 1979. In order to help reduce expansion of bank credit, the Federal Reserve on October 6 imposed on member banks, Edge Act corporations, and agencies and branches of foreign banks an 8 percent marginal reserve requirement on the excess of these institutions' total managed liabilities over a base amount. The affected liabilities include large time deposits ($100,000 and over, with maturities of less than one year), net Eurodollar borrowings, repurchase agreements against U.S. government and federal agency securities, and federal funds borrowed from institutions not subject to federal reserve requirements. In order to improve control of bank credit further, marginal reserve requirements were also imposed on loans made by foreign offices of member banks to U.S. residents, and on assets sold by affected institutions to related offices abroad.

The existence of money market certificates (MMCs) does not appear to pose a serious problem for control of the monetary aggregates. Member bank MMCs are subject to reserve requirements similar to those applied to other small time deposits and savings accounts; thus, the MMC neither permits member banks to escape reserve requirements nor impairs Federal Reserve control over the volume of member bank deposit liabilities. Moreover, bank MMCs are included in M-2 and, together with MMCs issued by thrift institutions, in the broader aggregates. Therefore, growth of the monetary aggregates is

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unaffected by shifts of the public's funds between MMCs and other small time deposits and savings accounts--which are also included in M-2 and broader aggregates--in response to changes in the difference between the yield on MMCs and fixed, regulated, interest rate ceilings on those other accounts. In contrast, difficulty in measuring and controlling the volume of monetary assets could arise from the availability at nondepositary institutions of highly liquid assets that bear market yields, are not subject to reserve requirements, and are not currently included in the definitions of the monetary aggregates.

The new emphasis on controlling reserve aggregates, rather than confining short-term movements of the federal funds rate, may have opposite impacts over the short versus the long run on the volume of funds shifted out of deposits and into other instruments. The new strategy is expected to allow the Federal Reserve to attain more closely its objectives for growth of the monetary aggregates and bank credit and at the same time to make short-term market interest rates more responsive to changes in credit demands. Consequently, under recent economic conditions, market yields likely have risen more rapidly than they would have done under the former policy, and for a time funds may shift more quickly from deposits subject to fixed interest rate ceilings into instruments bearing market yields. However, over the long run, as inflation is more effectively restrained than it would have been under the former policy, and as growth of nominal credit demands therefore slackens to a larger extent, short-term market interest rates are likely to decline faster and further under the new strategy. If so, shifts of funds out of deposits subject to fixed rate ceilings would in the future tend to slow or to be reversed both more promptly and to a larger extent.

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QUESTION 6

Question. How can the small business community and the SBA become more involved in the policy making process at the Federal Reserve?

Answer. There already exist a number of channels through which the small-business community and the SBA can provide inputs to Federal Reserve decisionmaking: the Federal Reserve consults with trade associations during development of Board rules or regulations that are likely to have direct effects on small-business operations; officials of small banks and other small businesses serve on the boards of directors of Federal Reserve district banks and branches; representatives of state bankers' associations (many of whose members are small) meet annually with the Board; and informal contacts are maintained between SBA and Board staff and between SBA officials and Board members.

Some of these channels are undoubtedly not utilized as fully as they could be. In particular, senior staff throughout the System would, I am sure, be happy to have more opportunities to meet with small-business representatives to discuss matters of mutual concern.

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QUESTION 7

Question. Mr. Schultz mentioned in testimony before our Subcommittee that: "individual bankers have told us that they will be making particular efforts to hold down the rates charged on loans to small businesses."

** How many banks have indicated that they follow a dual prime arrangement?

** What is the geographic distribution of the participants?

** What is the average interest rate differential participant banks charge on their larger and small loans?

Answer. Unfortunately, we know of no current hard information on the number of banks with some kind of dual prime arrangement. The latest data we have derive from a survey conducted by the Small Business Administration back in April. At that time, 107 commercial banks reported they were offering special small business rates tied to the prime rate. That group included 21 of the 100 largest banks in the country, and 41 of the 300 largest banks. In addition, many small banks have indicated that they do not typically lend at the prevailing prime rate but rather lend at rates below the national prime rate.

Banks that reported having a "two-tiered" prime rate arrangement were somewhat dispersed across the country. According to the Small Business Administration's list of participants, all but one of the New England states were represented, along with many other states along the eastern seaboard, in the north central part of the country and in the southwest; only one west coast bank was a participant, however.

In their initial announcements, many participating banks specified a fixed differential between the prevailing prime rate and the small business base rate. For most banks, the small business rate would be 125 or 150 basis points below the prevailing prime rate.

The average interest rate charged on business loans of small size acquired by commercial banks has increased far less than that on large business loans. While that pattern may not necessarily reflect the impact of

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"two-tiered" prime rate programs, it nevertheless does suggest that interest costs for small businesses have not increased in step with the prime rate. For example, responses to the Federal Reserve's Survey of the Terms of Bank Lending indicated that the average rate on business loans of $25,000 or less increased by only three-fourths as much, between February 1977 and August 1979, as the average rate on business loans of more than $100,000.

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QUESTION 8

Question. Please supply any and all information regarding the Federal Reserve's involvement in the dual prime interest rate. This information should include: (a) the activities of the Committee on Interest and Dividends during the July 1972 - September 1974 period; and (b) the activities of the Federal Advisory Council during the same period.

Answer. Information on this subject was provided to the Subcommittee by Vice Chairman Schultz as an insertion in his testimony of October 30.

QUESTION 9

Question. Please update the attached chart on "Long-Term Commercial and Industrial Bank Loans (Other Than Construction and Land Development)".

Answer. The updated chart is attached.

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LONG-TERM COMMERCIAL AND INDUSTRIAL BANK LOANS (OTHER THAN CONSTRUCTION AND LAND DEVELOPMENT)
August 6-11, 1979

	All Sizes	Percentage Distribution by Size of Loan ($000)			
		$1-$99	$100-$499	$500-$999	$1,000 and Over
Total - All Banks					
Number of loans	29,692	94.6	2.8	0.6	2.0
Amount of loans ($000)	$1,888,708	19.0	8.9	6.4	65.7
Percent of change from August 7-12, 1978					
Number	64.8	75.3	-50.3	20.4	298.0
Amount	46.2	49.0	-41.0	24.2	85.9
48 Large Banks					
Number of loans	2,455	78.3	12.6	3.8	5.3
Amount of loans ($000)	$748,157	5.6	8.6	8.7	77.1
Percent of change from August 7-12, 1978					
Number	-2.8	-6.6	0	49.2	33.0
Amount	6.5	3.6	7.1	51.1	3.2
Smaller Banks					
Number of loans	27,237	96.1	2.0	0.3	1.6
Amount of loans ($000)	$1,140,551	27.8	9.2	4.9	58.1
Percent of change from August 7-12, 1978					
Number	75.8	87.4	-61.5	-1.2	804.0
Amount	93.6	58.0	-53.8	2.8	514.1

Source: Board of Governors of the Federal Reserve System, Federal Reserve Statistical Release, E.2.

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December 12, 1979

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

Dear Mr. Speaker:

Pursuant to your staff's telephone request, I am writing to inform you of our position on pending legislation which, for tax purposes, would exclude from gross income certain interest earned on savings. The legislative proposal attempts to increase savings by raising the after-tax rate of return on savings accounts at most depository institutions.

The impact of the proposal on total household savings is likely to be small partly because the after-tax rates of return would be raised for only a small portion of total savings. The maximum amount of interest that can be excluded is relatively small, and the exclusion would apply to existing as well as new deposits. This means that individuals already earning the maximum would have no incentive to save additional amounts under the proposal; to these savers the exclusion merely would represent a tax cut. Even for those individuals earning less than $100 in eligible interest, the possible incentive to save would diminish over time as deposit balances increased--which could occur with shifts of existing assets or through additional savings directed to savings accounts.

The proposal in general does not seem to be a particularly cost-effective way to encourage increased private saving. Moreover, even if aggregate savings were increased, financing the resulting larger federal budget deficit would absorb some of these resources which might have been available for private investment. The enlarged budget deficit itself would tend to exacerbate the problem of inflation.

I hope these comments will be useful.

Sincerely,

S/Paul A. Volcker

(FF:DK:JLK):KAG:EGC:vcd
bcc: Mrs. Mallardi (2) ✓

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Federal Reserve Bank of St. Louis

November 29, 1979

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

Dear Mr. Broyhill:

This is in response to your request on behalf of one of your constituents, Mr. Barney Cloer, concerning the desire of the Lions Club of North Carolina to obtain 500 Eisenhower silver dollars to be distributed at a Christmas party for the blind.

As your staff is aware, the Board's staff contacted the Charlotte Branch of the Federal Reserve Bank of Richmond on November 21, and arranged for the delivery of Eisenhower dollar coins to the First National Bank of Lenoir on November 26. Since Federal Reserve Banks only ship coins in standard units, we furnished a bag of $1,000 rather than the $500 requested.

You mentioned that the Lions Club would prefer Eisenhower coins because the Susan B. Anthony coin is difficult for the blind citizens to recognize. Consideration was given to this issue in the design of the Anthony coin. Representatives of the National Federation of the Blind, as well as its North Carolina chapter, were contacted by the Mint to discuss the design, tactile characteristics, size and other features of the Anthony coin before it was introduced. It was as a result of discussions such as this that the Mint designed the Anthony coin with an eleven-sided inner border to distinguish it from the quarter.

We were happy to be of assistance in arranging the delivery of the silver dollars so that they might be available for the Christmas party.

Sincerely,

S/ Paul

WHW:MLB:JLS:DJW:pjt (#V-125)
bcc: Mr. Wallace
Mrs. Mallardi (2)

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Federal Reserve Bank of St. Louis

JAMES T. BROYHILL
10TH DISTRICT, NORTH CAROLINA

ROOM 2340
RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
202-225-2576

COMMITTEES:
BUDGET
INTERSTATE AND FOREIGN COMMERCE

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

DISTRICT OFFICES:
318 SOUTH STREET
GASTONIA, NORTH CAROLINA 28052
(704) 864-9922

224 MULBERRY STREET, S.W.
LENOIR, NORTH CAROLINA 28645
(704) 758-4247

ROOM 310
POST OFFICE BUILDING
HICKORY, NORTH CAROLINA 28601
(704) 328-8718

November 19, 1979

RUSH

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

Dear Chairman Volcker:

I have been contacted by Mr. Barney Cloer and the Lions Club of Lenoir, North Carolina, concerning their desire to obtain 500 Eisenhower silver dollars to be distributed at a Christmas party for the blind to be held in early December.

I realize that this coin is difficult to obtain in such a large quantity; however, the Club would appreciate any assistance which you can provide in this regard. The new Susan B. Anthony coin is difficult for the blind citizens to recognize and for that reason, the Club would prefer obtaining the Eisenhower coins.

If possible, the Club would like to have the 500 coins arrive at the First Union National Bank of Lenoir before November 26th. I realize the time involved may present a problem; however, I would appreciate any assistance which you can provide.

Thank you in advance for your time and cooperation.

With best regards,

Jim Broyhill

James T. Broyhill
Member of Congress

JTB:sa

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November 30, 1979

The Honorable Jerry M. Patterson
House of Representatives
Washington, D.C. 20515

Dear Mr. Patterson:

By letter dated October 22, I transmitted to you the Board's views regarding the proposed exemption in H.R. 2255 for bank holding companies with total assets of $50 million or less from the bill's provisions prohibiting bank holding companies from engaging in insurance activities. Paragraph (2) of my letter stated that the exemption would allow the sale of property and casualty insurance as well as the underwriting of such insurance. I would like to take this opportunity to correct that statement. While the $50 million exemption will in fact authorize qualifying bank holding companies to engage in general insurance agency activities, it will not authorize such companies to engage in underwriting activities. Nonetheless, the exemption greatly expands the scope of insurance lines that such companies may offer as agent, since it would authorize such bank holding companies to sell insurance unrelated to an extension of credit, such as health, crime and fire insurance, and insurance lines previously not authorized by the Board, namely, fidelity, loss of rent, business interruption and use and occupancy insurance.

Finally, I would like to note that exemption (B) in H.R. 2255, which would permit bank holding companies to engage in insurance activities in connection with certain of the lending activities of their consumer finance subsidiaries, does not contain any limitation on the type of insurance activities that may be conducted thereunder; therefore, the exemption appears to authorize bank holding companies to engage in both agency and underwriting functions in connection with certain of the lending activities of consumer finance subsidiaries of bank holding companies.

Thank you for the opportunity to comment further on H.R. 2255.

Sincerely,

S/Paul A. Volcker

MB:RW:pjt (#V-29 previous correspondence)
bcc: Mike Bleier
Rich Whiting
Mrs. Mallardi (2)

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November 30, 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 26 regarding your Committee's hearing on S. 1988, a bill to permit State chartered banks and other financial institutions to exceed State usury ceilings and charge the same interest rate on loans as national banks.

I am pleased to inform you that Vice Chairman Frederick H. Schultz will appear on behalf of the Board on Monday, December 17, at 10:00 a.m.

Sincerely,

S/Paul A. Volcker

CO:DJW:pjt (#V-130)
bcc: Gov. Schultz
Jim Kichline
Mrs. Mallardi (2)

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Federal Reserve Bank of St. Louis

November 30, 1979

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

Dear Mr. Bennett:

I am glad to supplement my letter of November 16 (copy enclosed) by commenting on the November 12 letter from your constituent, Mr. Earl S. Poitevent, Jr. In that letter, Mr. Poitevent reiterates his concern about the effects of high interest rates on inflation, with particular stress on the possible role of the Eurodollar market in transmitting these effects.

It should first be noted that the figure of $965 billion, mentioned in the Wall Street Journal article to which Mr. Poitevent referred as an estimate of the size of the Eurodollar market, overstates the monetary significance of the market. Such a large number involves a substantial amount of double counting, because it includes all of the Eurodollar business that banks do with each other. More relevant estimates of the size of the Eurodollar market eliminate that double counting and certain other misconceptions inherent in the quoted figure. For example, Eurodollar liabilities to non-banks are on the order of $135 billion and claims on non-banks are about $175 billion.

Moreover, it can be misleading to focus only on borrowings of Eurodollars by U. S. residents. For example, while U. S.-based banks did borrow (net) some $27 billion from banks outside the United States during the first three quarters of 1979, they also issued credits to foreigners from their U. S. offices amounting to $8 billion (net) during that period. Thus, during this period U. S.-based banks were net borrowers of only about $19 billion. Moreover, in 1978, U. S.-based banks were net lenders of about $16 billion to foreigners. Thus, one cannot easily conclude that the United States has become dependent on foreign lenders.

Let me restate that the recent actions of 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.

Sincerely,

S/Paul A. Volcker

DBA:KHM:GBH:ved (#V-129)
bcc: Messrs. Truman and Henry
Mrs. Mallardi (2)
Enclosure

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Federal Reserve Bank of St. Louis

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

JOHN W. FARLEY
ADMINISTRATIVE ASSISTANT

THOMAS J. MILLER
LEGISLATIVE ASSISTANT

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

November 26, 1979

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

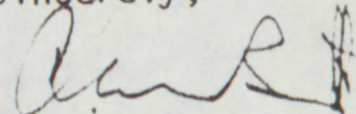
#129

Dear Mr. Chairman:

I refer to my October 29 letter and the October 20 letter which stimulated this, copies of which are enclosed herein. I have now received the enclosed November 12 letter from my constituent and a copy of a clipping from the Wall Street Journal. I am not a master of matters of this type, but know that you are and would appreciate your consideration of what Mr. Poitevent has said and any observations that you might pass on to me that I could pass on to him.

With kindest regards, I am

Sincerely,



Charles E. Bennett

CEB:clw
Enclosures
cc: Honorable Frederick H. Schultz
w/enclosures

October 29 and 20 letters were responded to by Chairman Volcker on 11/16--International Division is in the process of preparing response to November 12 constituent letter.

1979 NOV 27

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October 29, 1979

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, andoutstanding man in my home community and I would appreciate and 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 E. Bennett

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

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Federal Reserve Bank of St. Louis

Earl S. Poitevent, Jr.

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

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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

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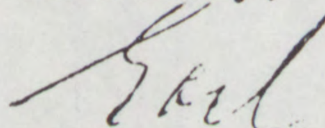
the assets of the Fed are now and what they were 20 years ago and where the money came from.

I remain,

Sincerely,



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

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Federal Reserve Bank of St. Louis

Earl S. Poitevent, Jr.
4301 Venetia Blvd.
Jacksonville, Florida 32210
(904) 389-5446

CEB

November 12, 1979

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

Dear Charlie:

Thanks for your letter of October 29. In it you mentioned that you had not been too much involved in the management of money. Please permit me to draw you a rough analogy of why high interest rates result in additional inflation. Suppose you and I are in separate businesses, and we need to trade with each other. We agree to accept each other's notes. Such notes are to carry 10% interest, and we are to settle out at the end of each year. Now further assume the scenario remains the same for twenty years, namely you buy $1,100,000 from me and I buy $1,000,000 from you. At the end of the first year we settle up. You return $1,000,000 of my notes but I only return $990,000 of yours because you had a trade deficit of $100,000 on which you owe me $10,000 in interest. So I start the second year still holding $110,000 worth of your notes. I will start the following year holding $231,000 of your notes, the eleventh year holding $1,753,114 of your notes ($1,000,000 trade deficit plus $753,114 accumulated interest), and so on through the end of the twentieth year at which time I will hold $6,064,441 of your notes ($2,000,000 trade deficit and $4,064,441 accumulated interest).

According to the Wall Street Journal of 10/26/79 (article attached), we now have $965 billion Eurodollars (your notes) outstanding. We are borrowing these Eurodollars back at 16% or more. If we borrow 90% of them back we will ship an additional $139 billion overseas for interest. Now add this to our trade deficit (say $30 billion) and there will be right at $1.13 trillion Eurodollars outstanding this time next year.

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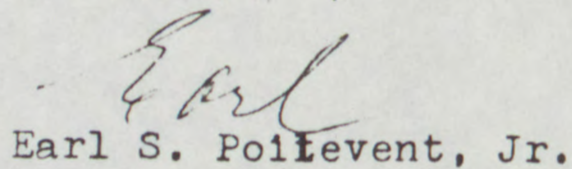
Everyone gets excited when our trade deficit goes up. And, also, when our deficit spending goes up to run the government, and they should, those are inflationary factors. But, I submit, they do not hold a candle to the inflationary force of paying 16% interest to borrow back $965 billion Eurodollars, or a high percentage thereof. I believe it would get the nation's attention if these interest figures were published along with the trade deficit figures as they are the same as a trade deficit.

As far as the American economy is concerned the monies spent for defense, welfare, etc. stay in this country. Whereas, the monies we ship overseas for interest on Eurodollars both reduce our national money supply and make us just that much more dependent on foreign lenders. This is why I think the Congress should establish the rediscount rate. I do not believe it should be over 4% as this would allow the banks to loan their monies out at 7% or 8%, which they can live with and still return their stockholders a very handsome profit.

It is ironic that with the elaborate checks and balances built into our Constitution to protect the populace against excesses of power we end up with an activist Federal Reserve Board of Governors. They have deliberately put American industry in the clutches of foreign lenders while singing a siren song of fighting inflation ----- the hoax of the century.

With best regards and hoping you have heard something from the Fed and Rep. Reuss by this time, I remain,

Sincerely,



Earl S. Poitevent, Jr.

ESP:map

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CM #127

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

PAUL A. VOLCKER
CHAIRMAN

December 11, 1979

The Honorable Mario Biaggi
Member of Congress
21-77 31st Street, 2nd Floor
P. O. Box 5101
Queens, New York 11105

Dear Mr. Biaggi:

I have read the letters from two of your constituents and I understand their concerns. The real estate industry clearly faces difficulties as a result of rapid inflation, and the monetary policy actions necessary to contain that inflation, interest rate ceilings, and other factors.

Sharp increases in interest rates in financial markets generally, and on residential mortgages in particular, followed in the wake of monetary policy actions announced by the Federal Reserve on October 6. I believe that decision and our current policy must be evaluated in the context of events leading up to October 6. In brief, those circumstances were highlighted by an acceleration in inflation and inflationary expectations; 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 those compatible with achieving 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 an even more difficult adjustment in economic activity.

In light of this situation, the need for forceful action by the Federal Reserve seemed clear. But, it does not diminish the legitimacy of your constituents' concerns about the impact on the housing market. Certainly, I am sensitive to the credit needs of the mortgage markets, as well as the needs of the small business community and the consumer. I have taken steps to stress these needs to the banking community in letters, speeches and personal conversations.

I very much look forward to the day when we can have substantially lower interest rates. A sustained reduction in the levels of interest rates would foster the orderly distribution of credit throughout various sectors and regions of the economy and reduce hardships of which your constituents write. Achieving that environment will mean that we have succeeded in damping inflation and inflationary expectations.

Sincerely,

Paul A Volcker

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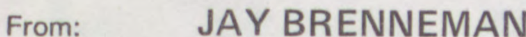
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date 11/23/79

To: Chairman Volcker



From: JAY BRENNEMAN

( ) Per Conversation
( ) For comments and suggestions
( ) For your information
( ) Phone me re attached

The attached letter has been referred to Jim Kichline on this date, for response by next Friday, Nov. 30.

( ) Over

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Federal Reserve Bank of St. Louis

MARIO BIAGGI
10TH DISTRICT, NEW YORK

WASHINGTON OFFICE:
2428 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-2464

DISTRICT OFFICES:
BRONX
2004 WILLIAMSBRIDGE ROAD
BRONX, NEW YORK 10461
(212) 931-0100

QUEENS
SECOND FLOOR
21-77 31ST STREET
P.O. BOX 5101
QUEENS, NEW YORK 11105
(212) 932-4448

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

COMMITTEES:
EDUCATION AND LABOR
SUBCOMMITTEES:
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CHAIRMAN, COAST GUARD AND NAVIGATION
MERCHANT MARINE
PANAMA CANAL

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SUBCOMMITTEE:
CHAIRMAN, HUMAN SERVICES

DEMOCRATIC STEERING AND POLICY COMMITTEE

SELECT COMMITTEE ON NARCOTICS ABUSE AND CONTROL
(EX-OFFICIO)

CHAIRMAN, AD HOC CONGRESSIONAL COMMITTEE FOR IRISH AFFAIRS

1979 NOV 2

November 16, 1979

#1127

Paul Volcker, Chairman
Federal Reserve Board
Washington D.C. 20551

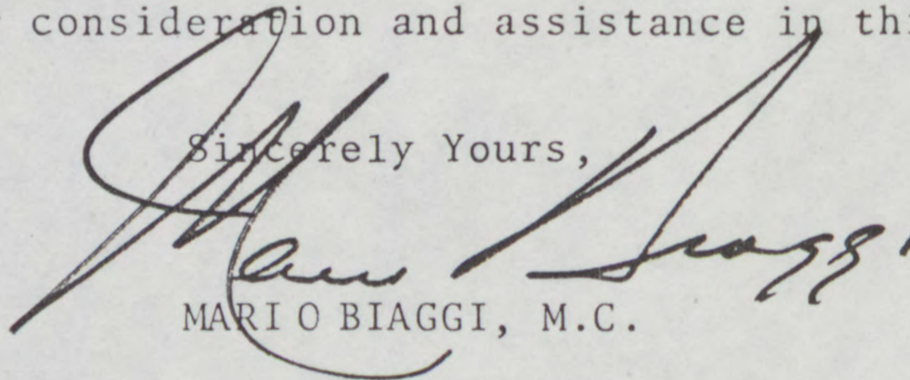
Dear Mr. Volcker:

I am enclosing copies of two letters I have received from Mr. Bill Karsonis and Mr. Willard Rose, both real Estate Brokers in my Queens District Constituency. The letters explain their grievances in full detail.

I would appreciate your looking into this situation for these brokers and advising them of the results of your inquiries. I am certain that my office will be receiving further communications from other businessmen in the area, therefore, any correspondence you may acquire on this problem should be forwarded to my Queens District offfice. In this way I will be able to properly respond to my constituents should the need arise again in the future.

Thank you for your consideration and assistance in this matter.

Sincerely Yours,



MARIO BIAGGI, M.C.

MB:mm
Enc.

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KARTSONIS REALTY

REAL ESTATE SALES - RENTALS - MORTGAGES

43-08 BROADWAY ASTORIA, L. I., N. Y. 11103
TELEPHONE 278 8500

November 2, 1979

Dear Representative Biaggi:

It is unfair for the federal government to fight inflation by making mortgage money virtually unavailable for the buyers and sellers of homes As a matter of fact, in the long run, this approach only adds to inflation.

In addition to getting the executive branch to change its ill-considered policy, Congress can do a number of things to alleviate the situation.

In the field of FHA mortgages, you should force HUD to authorize a more realistic interest rate. Right now, the amount of "points" required at FHA closings is bringing financial hardship to the parties involved and even causing cancellation of many sales.

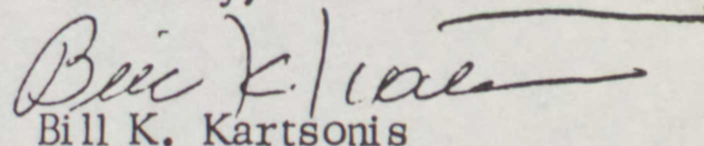
More money for conventional mortgages can be provided through the New York mortgage agency ("Sonny May") and similar programs, but this won't happen until Congress clarifies the status of tax-exempt bonds used for this purpose.

Realtors support other measures to attract more money to thrift institutions, such as exempting savings accounts from income tax.

New York State has another problem in the form of an outmoded usury law. However, even if we get this changed at the state level, a major part of the difficulty is being caused by Washington.

On behalf of your constituents who are unable to buy or sell a home, I urge you to do something to reverse the disastrous federal policies that are harming the housing market in this state and throughout the nation.

Sincerely,



Bill K. Kartsonis

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Federal Reserve Bank of St. Louis

WEBER & ROSE REALTY, INC.
18-22 College Point Blvd.
College Point, New York 11356
(212) 939-4200

November 1, 1979

Congressman Mario Biaggi
21-77 31st Street
Flushing, New York 11352

Dear Congressman Biaggi:

It is unfair for the federal government to fight inflation by making mortgage money virtually unavailable for the buyers and sellers of homes. As a matter of fact, in the long run, this approach only adds to inflation.

In addition to getting the executive branch to change its ill-considered policy, Congress can do a number of things to alleviate the situation.

In the field of FHA mortgages, you should force HUD to authorize a more realistic interest rate. Right now, the amount of "points" required at FHA closings is bringing financial hardship to the parties involved and even causing cancellation of many sales.

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New York State has another problem in the form of an outmoded usury law. However, even if we get this changed at the state level, a major part of the difficulty is being caused by Washington.

On behalf of your constituents who are unable to buy or sell a home, I urge you to do something to reverse the disastrous federal policies that are harming the housing market in this state and throughout the nation.

Sincerely,

CENTURY 21 WEBER & ROSE REALTY, INC.

Willard L Rose Jr

Willard L. Rose, Jr.
Lic. Real Estate Broker

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Federal Reserve Bank of St. Louis

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

PAUL A. VOLCKER
CHAIRMAN

November 30, 1979

The Honorable J. William Stanton
House of Representatives
Washington, D. C. 20515

Dear Bill:

In your letter of November 21, 1979, you asked for Federal Reserve views on the amendment to H. R. 4986 by Senator Heinz that would place a moratorium on foreign acquisitions of U. S. banks and would require a study by the Board, in consultation with other supervisory agencies, of issues raised by such acquisitions.

Bank supervisory agencies and the Congress have in the past devoted considerable attention to the operation of foreign banks in the United States. In the course of implementing the International Banking Act, the Federal Reserve has been reviewing a number of aspects of foreign banks' operations in this country. This review has included, importantly, issues concerned with the acquisition of existing U. S. banks by foreign bank holding companies and supervisory problems that might be associated with such acquisitions. Last February, the Board adopted a statement of policy setting forth several of the steps it is taking to ensure effective supervision of foreign-owned banks. I enclose a copy of that statement.

Study of foreign banks' operations in this country is necessary on a continuing basis as an integral part of our supervisory and regulatory responsibilities. Federal Reserve staff is engaged in examining our experience with foreign bank holding companies, and I understand that work is also in progress at other supervisory agencies. There is no evidence at the present time that foreign ownership has produced harmful consequences for our banking system or for bank customers. However, we need to monitor the situation closely. In this connection, we recently issued for public comment a proposed reporting system for foreign banks and bank holding companies that will improve considerably our information on them and on their transactions with their U. S. banking offices. The Federal Reserve would be happy to report to Congress on the results of our ongoing efforts in this area.

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Federal Reserve Bank of St. Louis

A moratorium would not aid in the continuing process of review and evaluation in which we and the other bank supervisors are and will be engaged. It would restrict the ability of U. S. banks to strengthen their capital base through sales of stock to foreign banks. More generally, there is always the danger that such a step could mistakenly be construed as a reversal of this country's long-standing policy regarding foreign investment--namely, "neither promote nor discourage inward or outward investment flows or activities." As always in measures of this kind, there is also the possibility of foreign retaliation which in this case could affect U. S. banks' overseas operations.

For these reasons the Federal Reserve believes that a moratorium on foreign acquisitions of U. S. banks is unnecessary and undesirable. Perhaps as an alternative, any legislative language deemed appropriate by the Congress could provide that the Federal Reserve and other interested agencies initiate a fresh study of the question and report back to the Congress on the results of the study. Such a report to the Congress could be timed to coincide with the appraisal of experience with the International Banking Act which, under that law, is to be supplied to the Congress in September 1980.

I very much appreciate the opportunity to comment on this important issue.

Sincerely,

S/Paul A. Volcker

Enclosure

RFG:FRD:TEA:EGC:vcd (#V-126)

bcc: Messrs. Gemmill, Dahl, Allison, Corrigan
Mrs. Mallardi (2)

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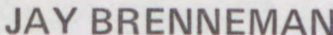
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date 11/23/79

To: Chairman Volcker

From: 
JAY BRENNEMAN

( ) Per Conversation
( ) For comments and suggestions
( ) For your information
( ) Phone me re attached

The attached letter has been assigned to Robert Gemmill in International Finance for a response by next Friday, December 7. It will reflect support of the study proposed in the Heinz amendment, but not of a moratorium on foreign acquisitions.

( ) Over

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COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

NINETY-SIXTH CONGRESS

2129 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515

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225-4247

#126

November 21, 1979

Hon. Paul A. Volcker
Chairman, Board of Governors
Federal Reserve Board
Washington, D. C. 20551

Dear Paul:

I was personally disturbed by the Senate's action on H.R. 4986 when it adopted an amendment by Senator Heinz that would place a moratorium on the foreign acquisition of U.S. banks.

This summer the Federal Reserve testified against such a proposal at hearings before the Senate Banking Committee. I would appreciate your current thoughts on the Heinz amendment before we go to conference with the Senate on H.R. 4986.

Sincerely,

Bill

J. William Stanton

JWS:gwn

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

December 19, 1979

The Honorable Howard H. Baker, Jr.
United States Senate
Washington, D.C. 20510

Dear Senator Baker:

Thank you for your letter of November 30, in which you enclose a request for information from a constituent, Mr. Jacobs H. Doyle. Mr. Doyle asks for a copy of Regulation Z and all interpretations of that regulation. He also requests information about court interpretations of the Federal Trade Commission's rule on the Preservation of Consumers' Claims and Defenses (16 CFR Part 433).

I am enclosing a Regulation Z pamphlet which contains the Board's official interpretations of Truth in Lending. There is no digest available, however, of the more than 1500 staff interpretations of the regulation. Mr. Doyle may wish to consult the Consumer Credit Guide, a loose-leaf publication issued by Commerce Clearing House, Inc., 4025 W. Peterson Avenue, Chicago, Illinois 60646. This CCH Guide contains all the staff interpretations together with a topical index; no such index is available from the Board. It may be that a public library in Nashville subscribes to this reporting service, and Mr. Doyle may not need to purchase the publication. The staff of the Board's Division of Consumer and Community Affairs would be happy, of course, to answer any particular questions Mr. Doyle may have about Regulation Z.

The staff is not aware of any court decisions concerning the Federal Trade Commission's rule entitled Preservation of Consumers' Claims and Defenses (the "Holder in Due Course" rule). That rule, which has been in effect since May 14, 1976, imposes requirements upon sellers of consumer goods and services. The FTC has recently indicated its intent to broaden the rule to cover creditors who finance these consumer purchases. (Enclosed is a copy of the Federal Register notice discussing the Commission's proposal.) The Board has certain responsibilities under § 18(f) of the Federal Trade Commission Act (15 U.S.C. § 57(a)) to promulgate a substantially similar rule applicable to banks, and will be considering how to best fulfill its responsibilities in the near future.

I hope you will find this information helpful.

Sincerely yours,

(Signed) Donald J. Winn

Donald J. Winn
Special Assistant to the Board

Enclosures

V-138
bcc: Mrs. Mallardi ✓

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Response being prepared by Ms. Hart.

JOHN SPARKMAN, ALA., CHAIRMAN

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United States Senate

COMMITTEE ON FOREIGN RELATIONS
WASHINGTON, D.C. 20510

#138

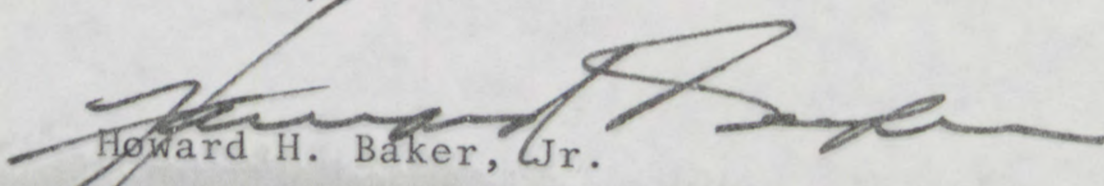
November 30, 1979

Mr. G. William Miller
Chairman
Federal Reserve Building
Constitution Avenue between
20th and 21st Streets
Washington, D.C. 20551

Dear Mr. Miller:

I have enclosed correspondence from Mr. Jacobs H. Doyle, which I believe is self-explanatory. I am grateful for your review of this matter, and for any information you might provide that will assist me in responding to this inquiry. Please respond to the attention of my Staff Assistant, Ms. Lee Hunt.

Sincerely,



Howard H. Baker, Jr.

HHBJr:rdt

Enclosure

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JACOBS H. DOYLE
ATTORNEY-AT-LAW
428 STAHLMAN BUILDING
PHONE 256-4169 AREA 615
NASHVILLE, TENNESSEE 37201

1979 NOV -6 AM 10: 39

November 2, 1979

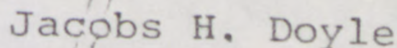
Senator Howard Baker
U. S. Senate Office Building
Washington, D. C. 20510

Dear Senator Baker:

The Federal Reserve Board and the Federal Trade Commission are putting out regulations governing negotiable instruments, warranties, and other trade practices. What I would like to have is a copy of Regulation Z and all the interpretations with reference to same (like a digest). The holder in due course for warranties are covered in Volume 16, Federal Regulations. Are there any interpretations and decisions of the Court? I would appreciate a copy of those or, if not, tell me where I can obtain it.

With the best of wishes.

Sincerely yours,



Jacobs H. Doyle

JHD/djm

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CM
#V-4

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

PAUL A. VOLCKER
CHAIRMAN

December 18, 1979

The Honorable Harrison A. Williams, Jr.
United States Senate
Washington, D. C. 20510

Dear Senator Williams:

I have now had an opportunity to review in greater depth the issues raised in your exchange of letters with Chairman Williams of the SEC. The problems that have emerged in markets for mortgage-backed securities seem to suggest, as you point out, the wisdom of detailed consideration of the need for Federal legislation, or other Federal action, to support or complement efforts at self-regulation. Questions at issue relate to the scope of possible regulatory action, the role of self-regulation, and the appropriate regulatory relationship of the government and its interested agencies to markets for government-guaranteed securities and possibly also markets for closely related securities, such as issues of government-sponsored agencies.

As you know, the market is now attempting to develop a framework for self-regulation through PSA Self-Regulation, Incorporated. One cannot be certain at this point how well this effort will succeed. However, operating rules and standards of fair practice for trading mortgage-backed securities have now been adopted, and similar rules and standards for trading government-guaranteed loans are expected shortly. PSA Self-Regulation recently launched a promotional campaign designed to extend membership to at least the major firms that trade these instruments. In addition, both GNMA and the federal regulators of financial institutions have inaugurated certain reforms and are planning others, with a view to imposing additional constraints on the types of market abuses that prompted your concerns.

The rules adopted by PSA Self-Regulation attempt to address the key problems of customer suitability standards and margin for forward transactions--the areas of industry practice that appeared to be most in need of upgrading. Nevertheless, there is still a question whether a strictly private organization can encourage membership from enough of the firms active in the market to insure that these strengthened self-regulatory standards will be effective. Moreover, in seeking to skirt potential violations of the antitrust laws the PSA rules simply encourage individual firms to establish

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prudent constraints on risks, including maintenance margins. They do not seek to enforce any uniform industry-wide mark-to-market requirement.

At this point it is too early to say whether the combination of actions being taken by the federal regulatory agencies and PSA Self-Regulation, Inc., will prove sufficient to curb the abuses that have emerged in markets for government-guaranteed debt. Both types of action do seem promising, however, and the PSA effort represents an encouraging step toward the assumption of greater responsibility by market participants for policing themselves. For these reasons it would seem desirable before considering any additional government regulation to monitor closely the progress of steps already in train, until their viability can be reasonably tested.

At the same time, it would seem desirable to begin a more general study of markets for government-guaranteed securities. Such a study would probably also have to consider other closely related markets--such as the market for federal agency securities. This study would consider, among other things, the details of trading and delivery of these securities as well as other operational characteristics of these markets. Its purpose would be to identify the scope and relative significance of problems that may have emerged in each market, along with any differences in the nature and extent of such problems from one market to another. The study would consider courses of action--including the specification of trading practices and other operating characteristics of markets--that might be used to supplement or reinforce efforts at reform already in train, if this seemed warranted. If the analysis did suggest that further regulation were needed, the study would consider alternative approaches to meeting the problems detected in the study. We would have in mind forwarding this study to the Congress early in the next session.

To date no detailed study of this type has been made. The earlier study prepared by R. Shriver Associates for the Department of Housing and Urban Development--while very useful--focused essentially on forward transactions in markets for mortgage-backed securities. Moreover, it was concerned more with exploring the prospects for private self-regulation than with evaluating the possible need for and techniques of public regulation.

I have discussed in a preliminary way the possibility of organizing the type of study outlined above with both Deputy Secretary Carswell of the Treasury and Chairman Williams of the SEC. They have responded favorably to the idea. Other interested agencies will, of course, have to be involved on a consulting basis, but primary responsibility should be limited to our three agencies if the study is to be completed reasonably early. We contemplate a report by April.

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The Honorable Harrison A. Williams, Jr.
Page Three

We are prepared to proceed in this way and would welcome your comments on this approach. In the meanwhile, the attachments provide the specific information you requested on our current regulations and procedures.

Sincerely,

Paul

Enclosures

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Attachment of Materials Requested

Attached, as requested, are copies of existing and pending Federal Reserve regulations applicable to the marketing, purchase, and sale of GNMA and other federally guaranteed securities. They include:

1. Mrs. Homer's letter dated April 12, 1978 pertaining to the purchase of GNMA securities on a delayed delivery basis through a broker subject to Regulation T.

2. Board letter Z-8255 dated May 4, 1978 setting forth an interim Board position with respect to forward contracts, announcing a forthcoming questionnaire for use by examiners, and suggesting that Reserve Banks send a letter (draft enclosed in Z-8255) to state member banks alerting them to guard against questionable securities transactions.

3. A supervisory letter SR-471 dated July 7, 1978 forwarding the "Preliminary Examiners' Questionnaire: Exchange Traded Interest Rate Futures Contracts, Forward Contracts, and Stand-by Contracts" (copy attached). SR-471 instructed examiners to complete a questionnaire, to the extent applicable, in conjunction with each commercial examination conducted during the remainder of 1978. (Use of this questionnaire was subsequently authorized through June 30, 1979.)

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4. A supervisory letter SR-527 (and enclosure) dated February 14, 1979 specifying staff's recommended accounting treatment of "standby" contracts to purchase securities.

5. A copy of the "Policy Statement Concerning Forward Placement or Delayed Delivery Contracts and Interest Rate Futures Contracts" that the Board is about to release in conjunction with the other bank regulatory agencies.

Although no formal Board enforcement proceedings have thus far been necessary on forward or standby contracts involving government-guaranteed or U. S. Treasury securities, four state member banks have received supervisory attention through the examination process because of such contract activities. Two small banks were instructed to charge off losses resulting from GNMA securities being "put" to the banks pursuant to standby contracts. A third small bank was found to be speculating in GNMA forward contracts; the bank in question has been working its way out of a liquidity problem resulting from the bank honoring its contracts to purchase securities. A fourth small bank was found to be engaged in speculative securities transactions in GNMA and U. S. government securities; these transactions were criticized by Federal Reserve examiners as unsafe and unsound and the bank has agreed not to engage in similar transactions in the future. In all cases, it is believed that the examination process was adequate to deal with the problems involved.

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Federal Reserve Bank of St. Louis

December 17, 1979

The Honorable Doug Barnard, Jr.
House of Representatives
Washington, D.C. 20515

Dear Mr. Barnard:

I appreciate the concern indicated in your recent letter regarding press reports on plans to reimpose the differential on money market certificates in favor of thrift institutions. The regulatory agencies did not take such an action in making a series of changes to adjust interest rate ceilings that will go into effect on January 1. However, as indicated in the enclosed press release, the agencies, among other actions designed to aid small savers and increase the ability of all depository institutions to compete for funds, did authorize the introduction of a new longer-term deposit instrument whose ceiling rate is keyed to market yields on 2-1/2 year Treasury securities. This new instrument does continue the differential in favor of thrifts but will not expose the commercial banks to the disintermediation risks that would have been associated with reimposing the differential on money market certificates.

Sincerely,

S/Paul A. Volcker

Enclosure (Press release dtd. 12/14/79)
ECE:DJW:pjt (#V-141)
bcc: Mr. Ettin
Mrs. Mallardi (2) ✓

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Action assigned to Steve Axilrod

DOUG BARNARD, JR.
10TH DISTRICT, GEORGIA

COMMITTEES:
BANKING, FINANCE AND URBAN AFFAIRS
SMALL BUSINESS

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

DISTRICT OFFICES:
STEPHENS FEDERAL BUILDING
ROOM 128
P.O. BOX 687
ATHENS, GEORGIA 30603
(404) 546-2194

NEW FEDERAL BUILDING
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816 WALKER STREET
P.O. BOX 10123
AUGUSTA, GEORGIA 30903
(404) 724-0739

NEWTON COUNTY
EXECUTIVE OFFICE BUILDING
COVINGTON, GEORGIA 30209
(404) 787-2110

December 7, 1979

#141

79 DEC 10 PM 11:19

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

Dear Mr. Chairman:

For the past several days, I have been seeing a number of stories in the press that suggest that the Interagency Coordinating Committee is planning to reimpose the differential on money market certificates at all interest rate levels. I strongly disapprove of such a move, and hope that you will use your influence to oppose the reintroduction of the differential on money market certificates bearing an interest rate of above 9%.

Not only does this come at a time when a House-Senate conference committee is considering the total phaseout of Regulation Q and the differential it also appears to be contrary to the attempts of the Federal Reserve to reduce inflation through more strict controls on the money supply. In such circumstances, this would appear to be a regressive step.

While there is the arguement that reimposing the differential would help thrift institutions to compete with money market mutual funds, I do not believe that this competitive edge should come at the expense of commercial banks. I am also aware that a differential would help thrifts in certain parts of the country which are under pressures not seen nationwide. However, in neither case does the imposition of the differential appear to be the best or even the only way to address these problems.

At this time, I can see no justification for reimposition of the differential on high interest money market certificates, and I again urge you to oppose such a move. I look forward to hearing from you on this matter.

Sincerely,

Doug Barnard Jr

Doug Barnard, Jr.

DBJr/ns

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Federal Reserve Bank of St. Louis

November 29, 1979

The Honorable Bill Nelson
House of Representatives
Washington, D.C. 20515

Dear Mr. Nelson:

Thank you for your letter of November 7 regarding a newspaper article sent to you by one of your constituents regarding the recent error in the money stock data.

For your information, enclosed is a letter I sent to Chairman Proxmire which provides detailed background information related to the source of the error, its probable effects on financial markets, and actions taken by the Federal Reserve to prevent such an unfortunate error in the future.

The Board has engaged outside counsel to provide assurance that the errors in the money stock data were inadvertent and that no individual or institution obtained improper advantage from preparation, revision or release of those figures. A private Washington, D.C. law firm will be principally responsible for this investigation which will cover Manufacturers Hanover Trust Company, the Federal Reserve Bank of New York, and the Federal Reserve Board.

I am confident that these efforts will provide the assurance that will permit all of us to put this unfortunate episode to rest.

Sincerely,

S/ Paul

Enclosure (Ltr. dtd. 11/7/79)
DB:DL:JLK:pjt (#V-122)
bcc: Messrs. Kichline, Lindsey, Beck, Jorgenson, Schwartz
Mrs. Mallardi (2)

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OFFICE OF THE CHAIRMAN

BILL NELSON
FLORIDA
NINTH DISTRICT

Congress of the United States
House of Representatives

1513 Longworth House Office Building
Washington, D.C. 20515
(202) 225-3671

November 7, 1979

#122

Mr. Paul A. Volcker
Chairman
Federal Reserve Board
Twentieth Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Dear Mr. Volcker:

Please find enclosed a copy of a newspaper article which was sent to me by a concerned constitutent of mine. I would appreciate it if you could supply me with information to adequately respond to his concern.

Thank you for your assistance.

Sincerely,

Bill Nelson

hsh

enclosure

IN RESPONSE, PLEASE REPLY TO:

☐ 65 East NASA Boulevard, Suite 202
Melbourne, Florida 32901
(305) 724-1978

☐ 210 Brevard Avenue
Cocoa, Florida 32922
(305) 631-1978

☐ Brevard County Courthouse
Titusville, Florida 32780
(305) 268-1776

☐ Federal Building, Suite 300
Orlando, Florida 32801
(305) 841-1776

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Citation Information

Document Type: Newspaper article

Number of Pages Removed: 1

Citations: Associated Press. "Fed's $3 Billion Error Sends Financial Markets Into Chaos." 1979.

December 5, 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:

I am responding to your letter of November 26, which requests information relative to the scheduled hearings on the Rule of 78's rebate method.

Enclosed is the table you requested, which shows the calculation of differences between the actuarial rebate amount and the Rule of 78's rebate amount for both consumer complaints you referenced.

Please let me know if I can be of further assistance.

Sincerely yours,

(Signed) Donald J. Winn
Donald J. Winn
Special Assistant to the Board

Enclosure

TRB:WVB:CO:pjt (#V-128)
bcc: Tim Burniston
Mrs. Mallardi ✓

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Federal Reserve Bank of St. Louis

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MARY FRANCES DE LA PAVA, CHIEF CLERK

Action assigned to [illegible]et Hart

United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WASHINGTON, D.C. 20510

November 26, 1979

The Honorable Paul A. Volcker
Chairman
Board of Governors of the
Federal Reserve System
Washington, D.C. 20037

Dear Mr. Chairman:

As you know, the Consumer Affairs Subcommittee has scheduled hearings on December 10th and 11th on S. 2002. Your staff has supplied the subcommittee staff with copies of complaints and inquiries relative to the Rule of 78's.

In reviewing those complaints, it would appear that additional assistance from your staff would be helpful in determining the difference between an actuarial rebate and a Rule of 78's rebate.

I believe it would be helpful to the deliberations of the subcommittee, if your staff would provide documentation in the form indicated in the enclosure for the following cases:

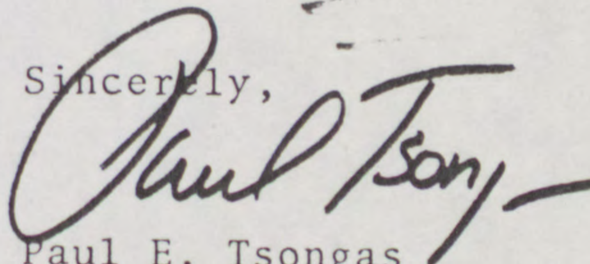
1. Michael Gilmore
   Centerville, Ohio;

2. Control No. 09366
   Received 7/13/77

I would appreciate this information by December 3, 1979.

Best wishes.

Sincerely,



Paul E. Tsongas
Chairman

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Federal Reserve Bank of St. Louis

AGENCY HEADING

State / Year	Contract Terms	Rebate Data / Complaint - Inquiry No.	Amount necessary to pay off loan	Rule of 78 Rebate	Actuarial Rebate	Difference
	Amt. financed: APR: Finance charge: Number of payments: Total of payments: Monthly payments:	Date of loan: Date of 1st payment: Date rebate amt. quoted: Remaining payments: Complaint - Inquiry No.:				

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Federal Reserve Bank of St. Louis

December 19, 1979

The Honorable John Glenn
United States Senate
Washington, D.C. 20510

Dear Senator Glenn:

Thank you for your letter of December 4 informing us of the concerns of your constituents, Andre A. Niebling and Gerald P. Niebling, about the effects of high interest rates on small businesses. The concerns they have expressed are shared by many businessmen, and the Board fully understands the points made in their letter. In all of his public statements and in various contacts with the banking community, Chairman Volcker has urged banks to be as responsive as possible to the credit needs of small businesses and other regular customers for normal business activity. We are attaching a copy of his letter to member banks on this subject.

A number of banks have, in turn, responded that they have taken special measures to deal with the needs of small businesses, including loans below the regular prime rate in some cases. The smaller banks in the country are, of course, oriented primarily toward the needs of small business customers.

None of this, of course, makes the existing situation at all easy for many businessmen in the Nieblings' position. We do believe, however, that the present high level of interest rates fundamentally reflects, and is an outgrowth of, the inflationary process. Only if we successfully deal with inflation can we have a reasonable expectation of lasting relief from credit market pressures. The Federal Reserve's present policies, which are aimed at getting better control over the growth of money and credit, are showing signs of meeting their objectives, and we should not be surprised to see some easing of credit market pressures under the circumstances.

Monetary policy has an important role in winding down inflation, but other measures including fiscal discipline and reduction of costly, excessive Federal regulations as mentioned in the Nieblings' letter are also essential in this process. Hopefully the difficulties that the Nieblings described will be reduced and a more favorable climate for business will emerge as growth in money moderates and more balance is restored to the economy.

JH:JPB:pjt (#V-139)
bcc: Jon Hiratsuka
Mrs. Mallardi

Sincerely yours,

(Signed) Donald J. Winn
Donald J. Winn
Special Assistant to the Board

Enclosure (Ltr. dtd. 10/23/79 to Chief Executive Officer of each Member

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Federal Reserve Bank of St. Louis

December 4, 1979

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

Dear Mr. Chairman:

Attached is an analysis of the revenue implications of S. 85 in the original version and with the revisions that we have talked about. In both cases, that calculation is supplemented by a column assuming the requirements of the bill are only applied on a voluntary basis (columns 2 and 4 marked S85V and Rev. S85V). Looking at the revised S85 only, the revenue loss is estimated at $65 million more than with a mandatory bill. (In all cases we assume full charge for services.)

All these are 1977 computations. As you know, reserve coverage is already 2 to 3 percent below the 73.1 percent indicated on the table for the voluntary versions. It seems clear to me that significant loss of revenue will arise in any event if nothing is done in the relatively near term. Ultimately, the revenue loss for the voluntary version will depend on where the "trigger" is set for kicking in the mandatory system. At that point revenues will rise to that indicated by the mandatory calculation.

Our intent would clearly be to get a trigger as high or higher than the House 67.5 percent, but even at that level, I would expect the trigger to be reached before too long, particularly with a significant requirement on non-personal time.

Sincerely,

S/Paul A. Volcker

Attachment

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Federal Reserve Bank of St. Louis

PLAN:					
Exemptions:		5/5	5/5 a/	10/10	10/10 a/
Ratios:					
Transactions		3, 12	3, 12	3, 12	3, 12
Savings		0	0	0	0
Nonpersonal Time		6	6	3	3
Other Time	Actual	0	0	0	0
	1977	S. 85	S. 85 V	Rev. S. 85	Rev. S. 85 V
Reserves (billions)					
Members	27.3	17.2	17.2	13.2	13.2
Nonmembers	0	3.5	--	2.2	--
Total	27.3	20.7	17.2	15.4	13.2
Reserves Released	--	6.8	10.2	11.9	14.1
Cost of Reserve Requirement Changes (millions) b/	--	428	668	791	935
Revenue from Service Charges	--	(410)	(410)	(410)	(410)
Revenue from Float Charge c/	--	(247)	(247)	(247)	(247)
Cost after Taxes (55 percent marginal rate)	--	-99	5	60	125
Number of Commercial Banks					
Exempt					
Members	0	2	2	2	2
Nonmembers	8868	109	8868	110	8868
With Required Reserves					
Members	5664	5662	5662	5662	5662
Nonmembers	0	8759	0	8758	0
With Reserves at Fed					
Members	5587	3382	3382	2350	2350
Nonmembers	0	3467	0	2451	0
Percent of Total Deposits					
At Banks with Required Reserves	73.1	100.0	73.1	100.0	73.1
At Banks holding Balances at Reserve Banks	72.9	86.7	67.8	77.8	62.8
Percent of Transactions Deposits					
At Banks with Required Reserves	73.7	100.0	73.7	100 0	73 7
At Banks holding Balances at Reserve Banks	73.5	88.5	69.1	80.1	64.4

a/ Members only. b/ Includes vault cash shift for members. c/ Based on float outstanding of $3.8 billion in December of 1977.

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Federal Reserve Bank of St. Louis

December 4, 1979

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

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