Congressional
March 1980

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

March 31, 1980

The Honorable Toby Roth
House of Representatives
Washington, D.C. 20515

Dear Mr. Roth:

Chairman Volcker has asked me to respond to your letter of March 11, 1980, forwarding an inquiry from your constituent, Mr. Ed Petitjean, concerning Treasury bills.

The Federal Reserve Banks and branches act as fiscal agents for the Treasury Department in selling new issues of Treasury securities and, therefore, must follow Treasury regulations in handling these transactions. Treasury bills with maturities of 13 and 26 weeks are generally sold at auction every Monday. The Federal Reserve offices are authorized to accept applications from individuals that are accompanied with a certified or cashier's check for the face amount of the security being purchased until 1:30 p.m. (EST) on the auction date. The Treasury bills are normally issued the following Thursday and earn interest from the issue date. Since Treasury bills are sold at auction, the discount rate at which the bills are sold varies based on the competitive bids received by the Treasury Department and reflects the money market rates at the time of the auction.

For several years, Treasury bills have been offered in book-entry form only. Since the Treasury Department maintains all book-entry accounts for individual investors, we are forwarding Mr. Petitjean's inquiry to Mr. H.J. Hintgen, Commissioner of the Bureau of Public Debt, for an explanation of the rollover procedures.

I hope this information is helpful. I am sure Mr. Hintgen will respond to you shortly.

Sincerely yours,

(Signed) Donald J. Winn

Donald J. Winn
Special Assistant to the Board

FMY:MLB:JPB:pjt (V-94)
bcc: Florence Young
Mike Bermudez
Mr. Wallace, Mrs. Mallardi ✓

cc: Mr. Hintgen

March 31, 1980

The Honorable G. William Whitehurst
House of Representatives
Washington, D. C. 20515

Dear Mr. Whitehurst:

Thank you for your recent letter regarding Federal Reserve policy. I share your concerns about the uneven impact of monetary restraint, and in particular about the effect of the rise in interest rates on homebuilding.

A policy of monetary restraint, such as is currently being pursued by the Federal Reserve, is absolutely essential to any anti-inflationary effort. Unfortunately, such a policy, carried out in the face of credit demands conditioned by rapid inflation and intense inflationary expectations, brings with it considerable upward pressures on interest rates in the near term. Only when it becomes clear that inflation will moderate will those pressures abate and interest rates show a sustained decline.

Homebuilding tends to be highly sensitive to changes in interest rates. This is partly a result of the nature of the house itself as a long-lived investment, but it also reflects the nature of financial markets. Thrift institutions, owing to the imbalance in the maturity structure of their assets and liabilities, tend to encounter liquidity and earnings pressure as interest rates rise. Various innovations, in many instances the result of federal regulatory action, have helped to reduce the impact of high interest rates on thrift institutions and the housing industry, but they have not eliminated that impact entirely.

The Federal Reserve has been sensitive to the relative harshness of monetary stringency on the housing sector. The Board's recently announced program of credit restraint was designed in part to reduce the disruption of normal flows of funds into the residential mortgage market. But you are quite correct in suggesting that a broadly-based approach to solving our inflation problem is needed--and would ease the burden on housing and other sectors that are especially sensitive to credit market conditions. I believe that the other parts of the government's anti-inflation program--including the focus on budgetary discipline and on improving productivity--are an important step in this direction and can help to alleviate the tensions in financial markets.

I look forward to working with you and your colleagues in the Congress to find solutions to our nation's serious economic problems.

Sincerely,

S/Paul A. Volcker

(MJP):vcd (#V-113)

bcc: Mrs. Mallardi (2)

G. WILLIAM WHITEHURST
2ND DISTRICT, VIRGINIA

COMMITTEES:
ARMED SERVICES
SUBCOMMITTEES:
MILITARY INSTALLATIONS AND FACILITIES
RESEARCH AND DEVELOPMENT

PERMANENT SELECT COMMITTEE ON INTELLIGENCE
SUBCOMMITTEES:
PROGRAM AND BUDGET AUTHORIZATION
OVERSIGHT

U.S. DELEGATE TO NORTH ATLANTIC ASSEMBLY

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

WASHINGTON OFFICE:
2427 RAYBURN BUILDING
WASHINGTON, D.C. 20515
(202) 225-4215
CHARLES H. FITZPATRICK
ADMINISTRATIVE ASSISTANT

CONSTITUENT SERVICE OFFICES:
815 FEDERAL BUILDING
NORFOLK, VIRGINIA 23510
(804) 441-3340
VERENA C. WASSERMAN
OFFICE MANAGER

ROOM 601, PEMBROKE ONE
VIRGINIA BEACH, VIRGINIA 23462
(804) 490-2393
BLANCHE M. BOYLES
OFFICE MANAGER

#113

March 26, 1980

The Honorable Paul A. Volcker
Chairman
Federal Reserve System
21st Street and Constitution Avenue, NW
Washington, D. C. 20551

Dear Mr. Chairman:

I was visited today by a delegation of home-builders from my district. These individuals were unanimous in the view that the homebuilding industry is in a virtual depression. New home starts are at a standstill. Many builders have already laid off a majority of their permanent workforce.

What these homebuilders want is a reduction in interest rates. I recognize that the Congress must adopt a more prudent fiscal policy before the pressure on interest rates can be eased. I believe Congress is now prepared to cut spending and achieve a balanced federal budget. As one Member of Congress, I certainly will give my strong support to these efforts. Given the current Congressional mood in support of fiscal restraint, I hope that you can see fit to recognize the serious plight of the homebuilders in setting future monetary policy.

As you know, projections are that the demand for housing will remain at extremely high levels for the remainder of this decade. Consequently, pushing the homebuilding industry into a severe recession could, in the long run, add further inflationary pressure to home prices.

Once again, I hope that you will keep the hardships already being experienced by the homebuilding industry in mind in charting the future course for monetary policies.

With all best wishes, I remain

Sincerely,

G William Whitehurst

G. WILLIAM WHITEHURST

GWW:Frl

March 31, 1980

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

Dear Chairman Proxmire:

Enclosed are responses to the additional questions from the Credit Control Hearings of March 18, raised in your letter of March 24.

Sincerely,

S/ Paul

Enclosures

EE:pjt (#V-106)
bcc: Mr. Ettin
Mrs. Mallardi (2)

Action assigned to Mr. Axilrod

United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WASHINGTON, D.C. 20510

March 24, 1980 #106

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

Dear Mr. Chairman:

Attached are additional questions which I was not able to ask, due to time considerations, at the Credit Control Hearings on March 18, 1980. I would appreciate it if you would answer these as quickly as possible for insertion in the hearing record.

With best wishes.

Sincerely,

Bill Proxmire

William Proxmire
Chairman

WP:srl

QUESTIONS:

1. If a bank subject to the surcharge becomes a "frequent user" of the discount window, the surcharge will become effective. But it is not clear how it will be applied. Let me give you an example. In week #1 a bank borrows $15 million, and in week #2, $10 million. Will the surcharge apply to both the $5 million borrowed in week #1 retroactively, and the $10 million borrowed in week #2, just the $10 million, or only to future borrowings?

2. The Fed has instituted a surcharge to the basic discount rate that is to apply to large banks that are frequent borrowers. I'm not sure that the surcharge should be applied in a way that discriminates against big banks. We should have a discount rate set at a slight penalty against market rates for all banks, regardless of size. Nevertheless, your press release says the surcharge will be 3%, but then goes on to say that the rate will generally be related to market interest rates. How will the surcharge vary? In other words, what rules will you follow for changing it?

3. You have increased the marginal reserve requirements for member banks to 10%. We have heard and seen reports that the marginal reserve requirements were being easily evaded or avoided, as the case may be. You and I discussed this several weeks ago. What steps has the Fed taken to make evasion more difficult and thus the requirements more binding?

4. Member banks do not have to hold reserves against Federal funds borrowed from other member banks. Do non-members have a similar exclusion for Federal funds? Now that both members and non-members have the same marginal reserve requirements, why should there be any exclusion for Federal funds borrowed -- they are, after all, managed liabilities?

5. Large-time deposits with original maturity over one year are not subject to the marginal reserve requirements. Why not?

6. Only member banks and non-member banks have the marginal reserve requirement on managed liabilities. Large savings and loans and mutual savings banks also use managed liabilities and are depository institutions. Why aren't they covered also?

7. You were quoted this week as stating that money market funds "have contributed to the inflationary pressure" by "siphoning a good deal of credit away from thrifts and small banks." Is it proper for the Fed to utilize the 1969 Credit Control Act for the purpose of favoring one competitor over another? Do you have any statistical data to support the statement attributed to you that money market funds are "siphoning a good deal of credit from thrifts and small banks"? Will you please supply that data for the record.

QUESTION: (cont)

8. Since reserve requirements on money market funds hurt Fund shareholders, and if the Board's concern was about the kinds of investments made of the Funds, did the Board consider limiting the kinds of investments the Funds are making, rather than using the shot-gun approach of cutting the return to Fund shareholders?

9. In the Committee's monetary policy hearing on February 25, I discussed with you the desirability of establishing some kind of Federal credit budget. The purpose of this would be to control the unchecked growth of direct loan and loan guarantee programs and to allocate scarce Federal credit resources to areas where they can be used most effectively -- for instance, to small businesses rather than to Chrysler. Last week I wrote to the Chairman of the House and Senate Budget Committees urging them to set an aggregate ceiling on Federal credit programs in the first concurrent budget resolution for fiscal year 1981, as part of the anti-inflation effort. Such a ceiling could, of course, be modified in a later concurrent resolution if necessary in response to changing economic conditions. To follow up on my earlier questions, do you think this would be a good first step toward establishing a Federal credit budget? And would it be helpful to the Federal Reserve in its efforts to restrain the growth of the monetary and credit aggregates and to administer the credit controls program just laid out?

# Congress of the United States
JOINT ECONOMIC COMMITTEE
(CREATED PURSUANT TO SEC. 5(a) OF PUBLIC LAW 304, 79TH CONGRESS)
WASHINGTON, D.C. 20510



March 24, 1980



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

Dear Mr. Chairman:

Thank you for taking your valuable time to appear before the Joint Economic Committee on Thursday, March 20, 1980, to testify on President Carter's new economic proposals. The members of the Committee appreciate the assistance you have given us on this issue, and your testimony will be a valuable part of the hearing record.

Sincerely,

Lloyd Bentsen

Lloyd Bentsen
Chairman

LB:wbe

March 28, 1980

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

Dear Chairman Reuss:

I am writing in response to your request that we communicate directly with Dr. Peter Bekeny regarding his complaint against Bank of America, International, and a Guatemalan bank.

We are quite aware of Dr. Bekeny's complaint and, as you also know, it has been thoroughly investigated by the Federal Reserve Bank of New York. Since completion of the investigation, staff of the New York Reserve Bank have spoken with Dr. Bekeny on a number of occasions, as have Board staff. Additionally, staff of the Division of Consumer and Community Affairs and the Division of Banking Supervision and Regulation have carefully reviewed the case file provided by the Reserve Bank and concur with the analysis and conclusions of the Reserve Bank. Since there is no evidence of improper or illegal activity or any violation of federal law by the Bank of America, International, there is nothing further the Federal Reserve System can do to help him.

I am enclosing a copy of our response to Dr. Bekeny for your information. 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
KAC:JPB:CO:vcd (V-21)
bcc: Ms. Casey
Mrs. Mallardi

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

NINETY-SIXTH CONGRESS

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

#21



225-4247

January 23, 1980

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

Dear Chairman Volcker:

Please find attached a letter and correspondence regarding a complaint Dr. Peter Bekeny has made against the Bank of America and a Guatemalan bank. Though this matter has apparently been investigated in detail by the New York Federal Reserve Bank, I would appreciate it if your staff would review this matter and respond to Dr. Bekeny.

Sincerely,

Henry S. Reuss

Henry S. Reuss
Chairman

Enclosures

This has been discussed with Reuss' staff and our Division of Supervision and Regulation will review.

Dr. PETER BEKENY

[redacted]

Jan 17. 1980.

Certificate NO
795-9465

RECEIVED

Hon. Henry Reuss
Chairman of the House
Banking Committee
3129 Rayburn
Washington D.C. 20515

... 2 1980

Banking, Finance & Urban Affairs Committee

COMPLAINT.

Steve Verdier?
Joe

Sir:

REFERENCE IS MADE TO OUR TELEPHONE CONVER
WITH STEVE VERDIER ESQ. ATTORNEY AT LAW, - OF TODAY. —
THE ENCLOSED COPY'S, SPEAKING FOR THEMSELVES. —

1. IT IS AN UNQUESTIONABLE FACT THAT OR CREDITO HIPOTECARIO STOLED OUR
BANKAMERICA (EDGE NYC.) [redacted] + 1% COMMISSION.

2. I BOUGH BA DRAFTS NOT CREDITO'S CHECK - "FED.
BANK OF AMERICA HAS TO PAY OR GO AFTER "CREDITO." TO PROTEC THE
RESERVE N.Y.C. DOES ABSOLUTELY NOTHING,
CHEATED PUBLIC!!

3. CREDITO SHOULD BE PROHIBIDED TO DO BUSINESS
IN THE U.S.A. —

4. THIS ROBBERY IS NOT IN ACCORDANCE WITH
HIGH STANDARDS OF BANKING OR FINANCIAL
PRUDENCE". — (REGULATION K. JUN 14. 1979.) —

I AM ASKING, FOR AN ORDER, TO BANK OF AMERICA,
FOR IMMEDIATE PAYMENTS, AND ASKING FOR A
PERSONAL APPOINTMENT. —

Very truly yours,

[signature]

Dr. PETER BEKENY

MISC 10 (11/77)

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, NEW YORK 10045

January 3, 1980

COPY

Bela Szathmary, Esq.
Vice President and Assistant General Counsel
Bank of America
299 Park Avenue
New York, New York 10017

Dear Mr. Szathmary:

Your Reference Number 2991

Peter Bekeny has requested me to inform you that he is prepared to settle his disagreement with Bank of America, New York, respecting the two items totaling [redacted] that he received at Credito Hipotecario Nacional de Guatemala for an amount which I understand to be substantially less than [redacted]. I am making no recommendation as to whether you should pursue his offer but am merely forwarding this information to you. If you do wish to pursue his offer, I suggest that you contact directly his attorney, James A. Hillary.

Very truly yours,

Donald L. Bittker

Donald L. Bittker
Assistant Counsel

DLS/is

cc: Mr. Peter Bekeny
[redacted]

James A. Hillary, Esq.
23 West 39th Street
New York, New York 10018

Mr. Juncker
Miss Van Story

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045

AREA CODE 212-791-5000

December 3, 1979

In Reply Please Refer
To 10575

Dr. Peter Bekeny
P.O. Box 185
Larchmont, New York 10538

Re: European American Bank/lost drafts

Dear Mr. Bekeny:

This is to advise you that as a result of your recent correspondence submitted to our office, we are reopening your case for further investigation.

Consequently, we have contacted the bank in question, and we will advise you of our findings upon completion of our review of the matter.

Very truly yours,

James M. McNeil, Chief
Regulations Division
Consumer Affairs and Bank
Regulations Department

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045

AREA CODE 212-791-5000

December 10, 1979

IT'S CONTRA DICTARI - I WAS THE BUYER!

Dr. Peter Bekeny
Post Office Box 185
Larchmont, New York 10538

Dear Mr. Bekeny:

This refers to the numerous recent meetings and telephone conversations with me and members of my staff concerning your complaint against Bank of America, New York, in which you seek repayment of two lost drafts which you purchased from Credito Hipotecario Nacional de Guatemala, Guatemala ("Credito"). We have, together with our Legal Department, carefully reviewed the entire file including the recent correspondence you submitted.

I regret that the most recent correspondence does not alter the views indicated in our previous letters of August 22, and May 29, 1979. The response by Credito which is quoted in Mr. Bala Szathmary's letter, dated October 23, 1979, to James A. Hillary, Esq., does no more than indicate that the drafts were paid over to the buyers. This information does not reflect upon the conduct of Bank of America as it does not show any improper action by Bank of America. Although your claim is that you have lost [redacted], there is nothing to suggest that Bank of America had any responsibility for the drafts drawn on it by Credito since the drafts were never presented to Bank of America for payment.

The Federal Reserve System has no regulatory or administrative jurisdiction over Credito. Accordingly, again we are informing you that, unless you can provide substantive new information, we are not prepared to consider your problem any further. Any new information must support your claim of improper conduct by Bank of America. However, we are conducting an investigation in response to the question you raised as to the authenticity of Credito's response as quoted in Mr. Szathmary's letter. We will inform you of our findings upon its completion.

NOT RECEIVED

We are also enclosing a copy of Federal Reserve Regulation K, "International Banking Operations" which should resolve the question regarding the business activities of Edge Act corporations, which you discussed with me on December 7, 1979.

Very truly yours,

George R. Juncker

George R. Juncker, Manager
Consumer Affairs and Bank
Regulations Department

BANK OF AMERICA

BELA SZATHMARY
Vice President
and
Assistant General Counsel

October 23, 1979

OCT 29 1979

James A. Hillary, Esq.
25 West 39th Street
New York, New York 10018

Re: Bank of America ("Bank")
Peter Bekeny ("Mr. Bekeny")
United States Estate Bank ("United")
Credito Hipotecario Nacional
de Guatemala ("Hipotecario")
Checks for [redacted] and [redacted]
(Our Ref. No. 2491)

Dear Mr. Hillary:

This is to inform you that in reply to the telex sent to Hipotecario pursuant to your letter of October 12, 1979, Bank of America received from Hipotecario the following reply:

> "EN RESPUESTA A SUS TELEX 9/17/79 Y 10/17/79 REF NUESTROS GIROS NO. [redacted] Y [redacted] MR. BEKENY'S. LAS CANTIDADES DE US[redacted] Y US[redacted] FUERON REEMBOLSADAS A LOS COMPRADORES DE LOS GIROS. POR REQUERIMIENTO DE ELLOS NUESTRA INSTITUCION CONSIDERA CERRADO ESTE CASO."

Sincerely yours,



NOT SIGNED - INVALID

2491

FROM : CREDITO HIPOTECARIO NACIONAL

GUATEMALA REP.OF GUATEMALA

RECEIVED LATIN AMERICA 7640-33 OCT 19 1979 BANK OF AMERICA NEW YORK

RECEIVED LEGAL DEPT. OCT 22 1979 BANK OF AMERICA

1701 10/183
BA FOREX 82317

BA FOREX 82317

BANK OF AMERICA OF NEW YORK
NEW YORK

DE CREDITO HIPOTECARIO NACIONAL DE GUATEMALA

OCT/18/79 REF: 790

ATT. ZAGAR/LAD/BANY

?? FL

"EN RESPUESTA A SUS TELEX 9/17/79 Y 10/17/79 [redacted] . MR. BEKENY'S.
REF NUESTROS GIROS NO. [redacted] FUERON REEMBOLS-
LAS CANTIDADES DE US[redacted] Y US[redacted] POR REQUERIMIENTO DE ELLAS
SADAS A LOS COMPRADORES DE LOS GIROS. POR REQUERIMIENTO
NUESTRA INSTITUCION CONSIDERA CERRADO ESTE CASO"

BANK OF AMERICA N.Y.
1979 OCT 18 PM 6:48
F. X. DEALING

OCT 18 '79

TRANSLATIONS
Bank of America, N

4138 BANCRE GU
BA FOREX 82317

NOT SIGNED.

SEP 1[illegible] 1979

x

Zagar
9/17/79

F. A. ZAGAR/LAD

CREDITO HIPOTECARIO NACIONAL DE
GUATEMALA
GUATEMALA, ((GUATEMALA))

THIS IS FURTHER TO YOUR TELEX OF MAY 16, 1978 PLACING, AT MR. BEKENY'S REQUEST, STOP PAYMENT ORDER ON YOUR INSTRUMENTS NO. [redacted] DATED APRIL 7, 1978 FOR US[redacted] AND NO. [redacted] DATED APRIL 17, 1978 FOR US[redacted] BOTH DRAWN ON US AND PAYABLE TO THE ORDER OF UNITED STATES ESTATE BANK AS WELL AS FURTHER TO YOUR TELEX OF MAY 17, 1978 INFORMING US THAT THE POLICE OF YOUR COUNTRY ARE INVESTIGATING THE AFOREMENTIONED TWO INSTRUMENTS AND YOU WILL ADVISE US LATER STOP AT MR. BEKENY'S REQUEST ON<< AND ON HIS BEHALF AND WITHOUT RESPONSIBILITY ON OUR PART WE REQUEST THAT YOU INFORM US WHAT, IF ANYTHING, IS PREVENTING YOU FROM TRANSFERRING THE US[redacted] FUNDS REPRESENTED BY THE AFORESTATED INSTRUMENTS IN FAVOR OF THE ORIGINAL PAYEES WHO, PURSUANT TO MR. BEKENY'S STATEMENT, PAID YOU FULL VALUE STOP WOULD GREATLY APPRECIATE YOUR IMMEDIATE TELEX REPLY STOP

ZAGAR/LAD/BANY

I AM NOT THERE CLIENT:
BY SENDING TELEXES LETTERS I
[illegible] ASSUMED RESPONSIBILITY.

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045

AREA CODE 212-791-5000

August 22, 1979

Dr. Peter R. Bekeny
P.O. Box 185
Larchmont, NY 10538

Dear Dr. Bekeny:

After your visit on August 20, 1979, we reviewed our files covering your complaint against Bank of America, New York, New York, with respect to the two drafts you purchased from Credito Hipotecario Nacional de Guatemala. We also reviewed the matter with our Legal Department.

It is our conclusion, based on the facts developed in our investigation of your problem, that the type of draft you purchased from Credito Hipotecario Nacional de Guatemala was a liability of that institution and not of the Bank of America. We have no regulatory or administrative authority over the Guatemalan bank. We also found that the Bank of America has not violated any U.S. law or regulation in this matter. It is our conclusion that we cannot be of further assistance in resolving your problem.

We understand that Bank of America, New York, New York, continues to offer to follow up on this matter in your behalf. We believe this may be your best course of action, although you may wish to seek the advice of private counsel.

Based upon this latest review, I must inform you that we are not prepared to consider your problem any further unless you can provide substantive new information.

Very truly yours,

Leon Korobow

Leon Korobow
Assistant Vice President

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045

AREA CODE 212-791-5000

August 21, 1979

Dr. Peter Bekeny
P.O. Box 185
Larchmont, NY 10538

Dear Dr. Bekeny:

In our conversation yesterday, I recalled that at some point in your file, there was an indication that someone had been unable to verify that a Mr. Andreansky was an employee of Chase Manhattan Bank, N.A., a fact that we both know can be readily verified.

I reviewed the file and have determined this reference was supplied to us by you as part of your March 2, 1979, letter. That letter included a copy of a United States Government memorandum which indicated the Bank of Guatemala had determined that Chase did not have an employee by the name of Andreansky. There is no other indication in the file that Mr. Andreansky could not be verified as an employee of Chase.

I hope this clarifies our discussion.

Very truly yours,

George R. Juncker

George R. Juncker, Manager
Consumer Affairs and
Bank Regulations Department

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045

AREA CODE 212-791-5000

May 29, 1979

Dr. Peter Bekeny
330 East 56 Street
New York, N.Y. 10022

Dear Dr. Bekeny:

This is in response to your letters concerning the loss of two bank drafts purchased from Credito Hipotecario Nacional de Guatemala (Credito Hipotecario) and payable at Bank of America, New York, New York. You requested that Bank of America issue duplicate drafts payable to you or your company; the United States Estate Bank.

We have reviewed the correspondence submitted by you, as well as that submitted by Bank of America in response to your complaint. The facts in the case appear to be as follows:

1. You purchased drafts, Nos. [redacted] and [redacted], from Credito Hipotecario, for U.S. [redacted] and [redacted], respectively, drawn on its account with Bank of America and payable to the United States Estate Bank;

2. Subsequent to the above purchase, on April 19, 1978 the two drafts were stolen from you;

3. At your request, Credito Hipotecario issued a stop payment order on the drafts to Bank of America in May 1978. To date, the drafts have not been presented for payment.

4. Bank of America telexed, again at your request, Credito Hipotecario to ask that it remit funds representing the value of the lost drafts on which the stop payment orders were placed. In its telexes of May 16 and 17, 1978, Credito Hipotecario confirmed the stop payment orders issued by it on the drafts and stated that the drafts should not be paid since the Guatemalan police were still investigating the matter.

You recently claimed during a visit to our office that the drafts you purchased in Guatemala were, in fact, obligations of Bank of America and that Bank of America was therefore obligated to reissue them or pay you the [redacted]. You also requested that a review be made of that bank's records to verify this fact.

In response to this request, our representatives did visit Bank of America to review its handling of the Credito Hipotecario account. They reported that the account represents a correspondent banking deposit account used primarily to clear dollar drafts and other collection drafts issued by the Guatemala bank. All of the items which were processed to the account bore the identification that at time of issuance they were issued by, and were solely liabilities of, Credito Hipotecario or its branches.

Based on the foregoing information, it does not appear that Bank of America has violated any regulation over which the Federal Reserve has administrative responsibility in this matter. In fact, it would appear that resolution of the matter must be pursued with Credito Hipotecario. In this regard Bank of America did offer to follow up the matter with Credito Hipotecario on your behalf provided that you withdraw your claim against Bank of America. If you are unwilling to accept this offer, then I would suggest that you seek private counsel since there would remain a conflict in facts between you and Bank of America which can only be resolved in the courts.

I regret that we can be of no further assistance in helping you resolve this matter.

Very truly yours,

Edward F. Kipfstuhl, Manager
Consumer Affairs and Bank
Regulations Department

BANK OF AMERICA

NEW YORK

May 15, 1978

Mr. Peter Bekeny
[redacted]
New York

Dear Mr. Bekeny:

We acknowledge receipt of [redacted] representing cable charges for two cables to Credito Hipotecario Nacional de Guatemala concerning your request to stop payments of two checks.

Thank you.

Sincerely,

F. V. Parravicini

F. V. Parravicini
Assistant Cashier

X F. Parravicini

RRAVICINI 5/4/78

TC-0499 ~~305~~

CREDITO HIPOTECARIO NACIONAL

GUATEMALA CITY, ((GUATEMALA, C.A.))

MR. PETER BEKENY SUPPOSEDLY REPRESENTATIVE UNITED STATES ESTATE BANK SAN VINCENT CLAIMS HE PURCHASED FROM YOUR COBAN BRANCH TWO CHECKS DLRS [redacted] AND DLRS [redacted] DRAWN ON US APPROXIMATELY APRIL 4 AND 17, 1978 PAYABLE TO ABOVE BANK STOP NO OTHER DETAILS GIVEN STOP HE CLAIMS SUCH CHECKS WERE STOLEN IN COBAN AND CABLED YOU TWICE APRIL 27 AND 30, 1978 FROM MIAMI INSTRUCTING YOU STOP PAYMENTS AND ISSUE NEW CHECKS STOP YOU MAY WISH TO CABLE REPLY TO MR. BEKENY c/o OUR BANK MY ATTENTION REGARDS

PARRAVICINI

FRANCESCO V. PARRAVICINI
ASSISTANT CASHIER

ANK OF AMERICA
BROAD STREET • NEW YORK, N. Y. 10004 • 747-6512

PLEASE LET ME KNOW COST

X

PARRAVICINI

COPY OF TELEGRAM OR CABLEGRAM DISPATCHED
RECEIPTED COPY FOR ORIGINATING SECTION
BANK OF AMERICA

| Authorized | Authorized | |
|---|---|---|
| Date 5/08/78 | Written By | Checked |

CREDITO HIPOTECARIO NACIONAL DE GUATEMALA

GUATEMALA CITY, ((GUATEMALA, C.A.))

PETER BEKENY

THANKS YOU FOR YOUR CABLE REPLY CONCERNING STOP PAYMENT OF TWO DRAFTS NO. [redacted] AND [redacted] ORDER UNITED STATES ESTATE BANK SAN VINCENT STOP MR. BEKENY URGES YOU TO REMIT FUNDS INVOLVED BY URGENT TELEX TO BANK OF AMERICA NEW YORK ATTENTION F. V. PARRAVICINI FOR ACCOUNT UNITED STATES ESTATE BANK STOP THANKS REGARDS

PARRAVICINI

| D | | Indicate complete Name, Address & Our and Their References | CABLE DEPARTMENT: PLEASE ADVISE F. V. PARRAVICINI OF COST OF CABLE. THANK YOU. |
|---|---|---|---|
| B | | | |
| A | | | |

IT WAS A DRAFT

THIS CHECK MUST BE PRESENTED FOR PAYMENT WITHIN A REASONABLE TIME AFTER DATE OF ISSUE OTHERWISE ISSUING BANK WILL BE RELEASED FROM ALL LIABILITY.

NOTE: DRAFTS DRAWN IN U.S. DOLLARS ARE PAYABLE AT CHANGE'S BUYING RATE FOR BANKERS CHECKS ON NEW YORK OR SAN FRANCISCO. WHEN DRAWN IN ANY OTHER CURRENCY PAY LESS YOUR CHARGES

BANK OF AMERICA

P O BOX NO 466 CHURCH STREET STATION
NEW YORK, NEW YORK 10015 U.S.A

FOREIGN CHECK NO. [redacted]

JANUARY 18, 1979
DATE

U.S.DOLLARS
[redacted]

PAY TO THE ORDER OF ****DR.PETER BEKENY ************************

BANK OF AMERICA

TO CREDITO HIPOTECARIO NACIONAL DE
GUATEMALA,
GUATEMALA, GUATEMALA
35136

AUTHORIZED SIGNATURE
M. BORDOSKI

DETACH

BANK OF AMERICA
P.O. BOX NO 466
NEW YORK NY 10015

JANUARY 18, 1979
DATE

| PURCHASER | |
|---|---|
| DR.PETER BEKENY | |
| [redacted] | |
| KIND OF CURRENCY: U.S.DOLLARS | RATE |
| DRAFT AMOUNT | [redacted] |
| U S $ EQUIVALENT | [redacted] |
| COMMISSION AND POSTAGE | [redacted] |
| RECEIVED FROM CUSTOMER | [redacted] |

Vicki
VERSION
NOT LOOK
AS CASH
EXCHANGE

CONDITIONS

IT IS AGREED BY THE PERSON WHO ACCEPTS THIS RECEIPT AND BY THE BANK HEREIN NAMED.

1. THAT THE CHECK REFERRED TO HEREIN WILL BE PAID IN ACCORDANCE WITH THE LAWS OF THE COUNTRY ON WHICH DRAWN.
2. THAT IF FOR ANY REASON SAID CHECK IS NOT PAID ABROAD AND IS PRESENTED FOR REFUND OR PAYMENT IN THE COUNTRY OF ISSUE, THE REMITTER WILL ACCEPT REFUND ON THE BASIS OF THE BUYING RATE OF SAID BANK ON THE DATE OF REFUND FOR THE FOREIGN MONEY OR LOCAL CURRENCY SPECIFIED IN SAID CHECK LESS ANY CHARGES AND EXPENSES INCURRED
3. THAT ANY ALTERATION OR MUTILATION WILL VOID SAID CHECK.
4. THAT THE PURCHASER SHALL NOTIFY IMMEDIATELY THE BANK OF AMERICA INTERNATIONAL NEW YORK IN CASE SAID CHECK IS LOST OR STOLEN
5. THAT THIS PURCHASE IS SUBJECT TO THE BANK OF AMERICA INTERNATIONAL, NEW YORK'S RULES AND REGULATIONS APPLICABLE THERETO

NOTICE

TO INSURE DELIVERY TO PROPER PERSON YOU ARE URGED TO FORWARD THIS CHECK TO DESTINATION BY REGISTERED MAIL

NY 7 215 (REV. 2-72) PURCHASER'S RECEIPT

CHECK NO [redacted]

## TERMS AND CONDITIONS

BHI'S
RESPON
BLI
||

### FOR FOREIGN CHECK

It is understood and agreed that the check will be forwarded immediately for presentation to the drawee, and that the drawer will be released from any and all liability should the check be [illegible] after delay in presentation. Neither the Bank of America nor any of its correspondents or subagents shall be responsible for any loss or damage, delay or nonperformance, or interference with or prevention of presentation or payment of any check sold hereunder, resulting from error, mutilation or omission by any cable, wireless or telegraph company or in the mails, or resulting from war, blockade, insurrection, civil commotion, breakdown or interruption of communications, or because of any moratorium, law, decree, control or act of any domestic or foreign government, rightfully or wrongfully exercised, or because of any other acts beyond the control of the Bank of America, its correspondents, agents or subagents. In no event shall the Bank of America be responsible [illegible] of any of its correspondents, agents or subagents, or of the drawee of any check, to identify the payee or the endorser. If the check has not been paid by the drawee and drawer consents to cancel the check, any refund made thereon shall not exceed the market value in New York of the currency in which the check was drawn, at the time the refund is made. The drawer will in no case cancel the check until payment thereon has been effectively stopped and the drawer is in possession of the relative funds, and the original check and duplicate, if any, are surrendered to it or in lieu thereof a satisfactory bond of indemnity is furnished to the drawee.

### FOR TRANSFER OF FUNDS TO BE REMITTED ABROAD

**1. BANK OF AMERICA WILL ONLY BE RESPONSIBLE FOR ITS OWN ACTS**

The Bank of America as the agent of the applicant may act through a correspondent, its agents or subagents, and shall not be responsible for any default, negligence or misfeasance thereof, whether in identifying the payee or otherwise, if it shall exercise reasonable care in its selection of a correspondent. Cable, wireless or telegraph messages may be used and may be in plain language, code or special cipher, and neither the Bank of America nor any of its correspondents shall be responsible for any loss, damage or nonperformance resulting from delay, error, mutilation or omission by any cable, wireless or telegraph company or in the mails, or resulting from war, blockade, insurrection, civil commotion, breakdown or interruption in communications, or because of any moratorium, law, decree, control or act of any domestic or foreign government, rightfully or wrongfully exercised, or because of any other act beyond the control of the Bank of America, its correspondents, agents or subagents.

**2. TRANSFER OF DOLLARS CONVERTIBLE ABROAD**

For dollars which are to be transferred and converted abroad it is hereby understood and agreed that the foreign correspondent of the Bank of America, its agent or any subagent of the foreign correspondent may at its option at any time convert the dollars into the currency of the country where payment is to be made at said correspondent's agent's or subagent's buying rate of exchange for dollar checks on New York at the time of such conversion.

If for any reason payment is not effected, and the dollar shall not have been converted into foreign currency, the Bank of America will not be liable for any sum in excess of the original dollar amount of the transfer, but if the dollars shall have been converted into foreign currency, the Bank of America will not be liable for any sum in excess of the current market value in New York of such foreign currency at the time of the refund.

**3. TRANSFER OF FOREIGN EXCHANGE**

The Bank of America converts dollars delivered to it by the customer for transfer into the currency of the country to which remittance is to be made at the Bank of America's selling rate on the date such funds are received and the confirmation of the Bank of America shall be conclusive evidence that such conversion has been effected.

If for any reason payment is not effected the Bank of America will not be liable for any sum in excess of the current market value in New York of said foreign money at the time the refund of same is made.

**4. CANCELLATIONS AND REFUNDS**

It is understood and agreed that the Bank of America does not guarantee payment to the beneficiary [illegible] instructions in accordance with the directions set forth on the reverse side hereof, and that [illegible] dispatched the Bank of America will not be liable for any sum in excess of the amount stipulated under that one of the foregoing paragraphs Nos. 2 and 3 applicable to the particular transaction.

Furthermore, in respect to either of the above transfers, if payment is not effected the Bank of America shall not be required to make any refund whatsoever until it shall have received advice from its correspondent that payment is cancelled and said Bank of America is in possession of the relative funds.

CREDITO HIPOTECARIO NACIONAL GUATEMALA

: BANKAMERICA

N YORK CITY

AY 5/78 TM-79

R. PETER BEKENY / ATTN. BARRANDINA

---

REF YOUR TELEX TODAY, ON MAY 4/78 WE SENT MR. BEKENY THE FOLLOWING MESSAGE:

LT –

BEKENY BANK REPRESENTATIVE

PRESIDENT HOTEL 1423 COLLINS

MIAMI BEACH/ FLORIDA

MAY 4/78

ON MAY 2/78 BY MAIL WE HAVE STABLISHED STOP PAYMENT ON DRAFTS

NOS. [redacted]

TO GIVE THE DRAFTS TO AN UNKNOWN 3RD PARTY IS A DOUBLE ROBBERY

THIS IS SIGNED AND IN ENGLISH

APPLICATION FOR FOREIGN CHECK OR TRANSFER OF FUNDS BY AIR MAIL, CABLE OR WIRELESS

TO:
BANK OF AMERICA, 41 BROAD ST., NEW YORK 10004 N.Y.

DATE 1/18/79

PLEASE ISSUE CHECK OR TRANSFER FUNDS AS INDICATED BELOW.

☐ CHECK TO ORDER OF Dr. PETER BEKENY
(PLEASE PRINT)
GUATEMALA, GUATEMALA
(CITY) (COUNTRY)

DRAW ON OR TRANSFER THROUGH ______ (BANK USE ONLY)

☒ TRANSFER OF FUNDS: REMIT BY ☐ AIR MAIL ☐ CABLE OR WIRELESS

TO (PLEASE PRINT FULL NAME AND COMPLETE ADDRESS) CREDITO HIPOTECARIO NACIONAL DE GUATEMALA

FOR ACCOUNT OF GUATEMALA, GUATEMALA

BY ORDER OF ______

AMOUNT OF CHECK OR TRANSFER ______ RATE ______ $ 20.00

SPECIAL INSTRUCTIONS, IF ANY

BANK OF AMERICA
41 BROAD STREET
N.Y. 10004

| | |
|---|---|
| AIR/MAIL CABLE CHARGES | |
| HANDLING CHARGES | 3.00 |
| TOTAL | 23.00 |

It is hereby understood and agreed that this transaction is undertaken by Bank of America only upon the terms and conditions appearing on the reverse side hereof which shall not be altered unless expressly agreed to in writing. Bank of America will take its customary steps for remittance.

PURCHASER Dr. PETER BEKENY

ADDRESS [redacted]

☐ CASH / CHECK HEREWITH

☐ CHARGE MY / OUR ACOUNT

T. PL 01-1700

(AUTHORIZED SIGNATURE)

YFX 149 10M 9/72

March 27, 1980

The Honorable Bob Eckhardt
Chairman
Subcommittee on Oversight and Investigations
Committee on Interstate and Foreign Commerce
House of Representatives
Washington, D. C. 20515

Dear Chairman Eckhardt:

Thank you for your letter of March 25 inviting the Board to testify before your Subcommittee regarding the Federal Reserve's program of restraint on certain types of consumer credit.

I am pleased to inform you that Governor Nancy H. Teeters will appear on behalf of the Board at 10:00 a.m. on April 1.

Sincerely,

S/Paul A. Volcker

CO:vcd (#V-111)
bcc: Gov. Teeters
Janet Hart
Mrs. Mallardi (2)

NINETY-SIXTH CONGRESS

BOB ECKHARDT, TEX., CHAIRMAN

JIM SANTINI, NEV.
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(EX OFFICIO)

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
OF THE
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE
WASHINGTON, D.C. 20515

ROOM 2323
RAYBURN HOUSE OFFICE BUILDING
PHONE (202) 225-4441

MARK J. RAABE
CHIEF COUNSEL/STAFF DIRECTOR

March 25, 1980

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

Dear Mr. Volcker:

The Subcommittee on Oversight and Investigations, under Rules X and XI of the United States House of Representatives, is conducting an investigation into proposed Federal Reserve Board actions designed to restrict the availability of consumer credit.

Pursuant to this inquiry you are requested to appear before the Subcommittee on April 1, 1980 at 10:00 a.m. in the Rayburn House Office Building.

The Subcommittee will employ the following procedures in this hearing:

1. Each witness will be asked to provide an opening statement of any length that will be included in its entirety in the published hearing record.

2. Witnesses will be asked to summarize their opening statements in not more than ten minutes.

3. After the witness has made his opening remarks, he will be asked to respond to the questions of the Subcommittee Members concerning his testimony.

4. Witnesses are requested to provide the Subcommittee with fifty (50) copies of their opening statement twenty-four hours in advance of their testimony.

If you have any questions, please contact Mary Foldes of the Subcommittee staff at (202) 225-4441.

On behalf of the Subcommittee, I would like to thank you in advance for your assistance and cooperation. We look forward to seeing you.

Sincerely,

Bob Eckhardt

Bob Eckhardt
Chairman
Subcommittee on
Oversight and Investigations

March 27, 1980

The Honorable Berkley Bedell
House of Representatives
Washington, D. C. 20515

Dear Berkley:

Thanks for your letter of March 5 concerning dissemination of regulations and amendments thereto. I share your views about the need to cut down on regulations and unnecessary paper work, and can sympathize with the problem that bankers have in keeping up with all the regulatory material that crosses their desks. I can also assure you of the Board's interest in finding ways to make it easier for the industry and general public to deal with new or amended regulations.

I would like to clarify one point regarding the annual percentage rate amendments to Regulation Z, which you discussed with our staff. Your letter mentions the disclaimer in the Federal Register about the material not being intended for day-to-day use by creditors in their lending operations. This language referred only to the material identified as Supplement I, which contains the mathematical formulas used by manufacturers of calculation tools to verify the accuracy of their products. Creditors do need to become familiar with the other provisions published by the Board, which contain rules with which creditors must comply.

Our staff has been working on the possibility of reducing the amount of regulatory materials that are distributed to persons who are not directly affected. We hope to be able to make some significant changes in this direction. As you can understand, a program of this kind must be worked out very carefully, in order to make sure that materials of legitimate interest to bankers do reach them. For example, the recent consumer credit restraint program was of interest, I am sure, to all banks, even the smallest ones, although even there it might have been possible to omit details of the regulatory package that only affect other sectors of the credit industry. Also, in some cases a regulation must be adopted within a statutory deadline and if the maximum time for comment is to be available, those affected may need to receive the text as quickly as possible. But even given these constraints, it should be possible to reduce substantially the volume of mailings.

We can, of course, also work harder at identifying prominently whether a particular proposal or rule is something that creditors need to examine in detail.

I appreciate having your views.

Sincerely,

S/Paul A. Volcker

DS:JPB:JH:vcd (#V-73)

bcc: Delores Smith
Janet Hart
Mrs. Mallardi (2)

BERKLEY BEDELL
6TH DISTRICT, IOWA

COMMITTEES:
AGRICULTURE
SUBCOMMITTEES:
LIVESTOCK AND GRAINS
FAMILY FARMS, RURAL DEVELOPMENT AND SPECIAL STUDIES
CONSERVATION AND CREDIT
SMALL BUSINESS
SUBCOMMITTEES:
ANTITRUST AND RESTRAINT OF TRADE ACTIVITIES AFFECTING SMALL BUSINESS

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

WASHINGTON OFFICE:
405 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-5476

DISTRICT OFFICES:
479 FEDERAL BUILDING
FORT DODGE, IOWA 50501
(515) 573-7169

318 FEDERAL BUILDING
SIOUX CITY, IOWA 51101
(712) 252-4164 EXT. 281



March 5, 1980

#1173

The Honorable Paul A. Volcker
Chairman
The Federal Reserve Board
20th St. and Constitution Avenue, NW
Washington, D.C. 20551

Dear Paul:

I am writing to follow up on a series of phone conversations that I had with one of the members of your Board as well as several of your very able staff concerning the Federal Reserve Board's policy with respect to dissemination of regulations and amendments thereto. The purpose of this letter is to ensure that I did not misunderstand the intentions of your people with respect to streamlining your regulation/paperwork operation, as well as to enlist your personal support in this effort.

The specific catalyst of my phone calls was a letter I received from one of my banking constituents, Jim Lipton (letter attached). I found that I had great sympathy for his argument that the amendment to Regulation Z that the Federal Reserve Board has sent out to all bankers not only seemed to be a very expensive enterprise (printing, handling, mailing, etc.), but that it represented a terrific drain on bankers' time due to its complexity and the time required for reading it.

In my calls to your people, I was able to determine that not only was the length and complexity of the regulation not a statutory requirement (which had initially been contended), but that, in fact, hidden away in the back of the material was the qualifier that "This material ... is not intended for day-to-day use by creditors in their lending operations. Rather, it is used by manufacturers of calculation tools in producing and verifying their products." I find it hard to disagree with my constituent's contention that this sort of disclaimer should be prominently displayed at the beginning of the material to save uninterested and busy persons from having to wade through the entire material.

Of even more interest was the revelation by one of your people that consideration has been given to sending out only a brief explanatory listing of the recent amendments or new regulations issued by the Federal Reserve. In this way, anyone interested in detailed information on the issue could then order the comprehensive treatment of it. Obviously, such an approach has many benefits: the taxpayer benefits from reduced governmental costs due to the reduction of printing, mailing, and handling; the private sector benefits from a saving of time (and possible anxiety); and the government would also benefit from the reduced handling and paperwork requirements.

I am confident, Paul, that you share my desire to see that unnecessary regulation and paperwork is eliminated in all areas of the government. I look forward to working with you in this regard. Thank you for your consideration of this matter, and I look forward to meeting with you on the 14th.

With best regards, I am

Sincerely,

Berkley Bedell

Berkley Bedell

BB:dhc

Bank/Regulations/Lipton

# IDA COUNTY STATE BANK

Ida Grove, Iowa 51445

TEL. 712-364-3393

February 4, 1980

Rep. Berkley Bedell
503 Cannon House Office Building
Washington, D. C. 20515

Dear Berkley:

I am enclosing the most recent of a flood of regulations to change regulations that have been amended by previous bulletins.

I am sure some bureaucrat worked long and hard on this masterpiece - "Designed to promote greater uniformity and accuracy -- to simplify."

The Fed. accepted public comment until last August, the regulations were issued December 1979 but are not effective until October 1980. The public is exposed to this great peril but no action need be taken for over a year.

They require accuracy within 1/8th of 1%. This amounts to $1.25 a $1,000.00 per year. The rate is effective only if payments are made on the exact due date each month. Any variance of a day or two in payment would distort the interest more than this amount. There is not one note in a thousand that is paid exactly on the due date, especially since we do not conduct business on the 104 Saturdays and Sundays and twelve legal holidays - about one-third of the year.

I have not read nor expect to read 11 pages of extremely small type. I would call your attention to the last four pages and ask if you know of anyone that can interpret them. I would venture that in the whole Federal Reserve System not over 1/8th of 1% of their employees could give a logical explanation.

Although the Fed. say that they received favorable comments on this proposed regulation, I doubt that the commentators had a chance to see the final results.

This is asinine, ridiculous, another example of Ivory Tower thinking and a burden on every financial institution in the United States. Because of such regulations, we are subject to civil and criminal liabilities far in excess of $1.25 per year.

How can we run a business and try to cope with this and the other amendments and regulations that come across our desk daily from all the other bureaus and agencies.

Sincerely,

James Lipton
James Lipton
President

A FULL SERVICE BANK

JL:jvs

FEDERAL RESERVE BANK OF CHICAGO
230 SOUTH LA SALLE STREET
CHICAGO, ILLINOIS 60690
(312) 322-5322

January 29, 1980

To the Member and Nonmember Banks
and Others Concerned in the Seventh
Federal Reserve District:

**REGULATION Z**
**TRUTH IN LENDING**

The Board of Governors of the Federal Reserve System has adopted amendments to Regulation Z, "Truth in Lending," relating to the calculation and simplification of the annual percentage rate. The amendments become mandatory on October 1, 1980, but may be put in use at any time before then.

The Board has also amended its Supplement No. I to Regulation Z setting forth the equations and instructions for determining the exact annual percentage rate.

Copies of the Board's press release, the adopted amendments, and Supplement No. I in the Federal Register form, are enclosed.

Robert P. Mayo
*President*

FEDERAL RESERVE press release

For immediate release December 21, 1979

The Federal Reserve Board today announced amendments to Regulation Z, Truth in Lending, bearing on disclosure to borrowers of the annual percentage rate (APR) and other credit terms.

The APR expresses the cost to the consumer of borrowing money and paying for purchases on credit.

The Board proposed these changes for public comment in August. They are designed to promote greater uniformity and accuracy in the calculation of the APR by creditors, and to simplify its use, in order to enhance the ability of consumers to shop for credit.

The amendments become mandatory October 1, 1980, but may be put in use at any time before then. The Board acted after consideration of numerous comments on its August proposal, mostly favorable.

The three most important changes adopted by the Board relate to (1) Tolerances permitted in disclosure of the annual percentage rate, (2) The special treatment accorded certain minor irregular payment schedules--generally entered into as a convenience for customers, such as a long first payment period to make payments coincide with the customer's payday, and (3) The protection provided creditors against liability for errors in annual percentage rates and finance charges resulting from the use in good faith of faulty calculation tools.

The amendments adopted include:

1. As a general rule, an annual percentage rate will be considered accurate if it is within 1/8 of 1 percentage point above or below the correct annual percentage rate. The current rule permits only the precise rate or rounding to the nearest 1/4 of 1 percentage point.

2. The minor irregularities provision provides essentially the same latitude as now available for computing an annual percentage rate, while making it easier to determine which irregularities fall within specified permissible ranges. A chart illustrating the provisions of the amended rule for tolerance of minor irregularities in computing the APR is attached. A parallel provision that relates to the computation of the finance charge and other terms has also been adopted, in order to make similar protection available to those creditors who would have difficulty taking account of payment schedule irregularities.

3. Regulation Z states that an error in the disclosed annual percentage rate due to a corresponding error in a chart or table used in good faith by a creditor is not a violation. The Board has extended this rule to errors resulting from malfunction of any calculation tools used by the creditor in good faith, without regard to type.

The Board also took action on several other special exceptions relating to the degree of accuracy in the annual percentage rate, certain common creditor practices, and revisions of Supplement I to Regulation Z.

The Board decided not to adopt certain changes it had proposed to make in Volume I of the Board's Annual Percentage Rate Tables, as well as several minor revisions relating to open end credit.

The Board's amendments are attached.

-0-

## MINOR IRREGULARITIES PROVISIONS FOR APR COMPUTATIONS

| | No matter what the unit-period is | | |
|---|---|---|---|
| For a term of the transaction of . . . | Up to 1 year | 1-10 years | Over 10 years |
| The first period may be treated as regular even though it differs from regular by up to this many days: | 6 shorter<br>13 longer | 11 shorter<br>21 longer | any number shorter<br>32 longer |

AND

Any payment irregularity that results from the first period irregularity may be disregarded

**FEDERAL RESERVE SYSTEM**

**12 CFR Part 226**

**[Reg. Z; Docket No. R-0239]**

## Truth in Lending; Calculation and Disclosure of Annual Percentage Rates

**AGENCY:** Board of Governors of the Federal Reserve System.

**ACTION:** Final rule.

---

**SUMMARY:** The Board is adopting revisions in the requirements of Regulation Z, Truth in Lending, with regard to the calculation and disclosure of the annual percentage rate and other credit terms. The most important changes are: (1) adoption of a tolerance of ⅛ of 1 percentage point in either direction from the exact annual percentage rate, in place of the existing rounding rule; (2) adoption of simplified rules for treating minor payment schedule variations; and (3) expansion of the protection available to creditors who have relied in good faith on faulty calculation tools. The revisions, which are set forth below, include amendments to §§ 226.5 and 226.8 of the regulation, deletion of several Board Interpretations, and expansion of Supplement I to Regulation Z. The issues addressed were the subject of a prior proposal published by the Board (44 FR 45141, August 1, 1979).

**EFFECTIVE DATE:** January 10, 1980, but compliance optional until October 1, 1980.

**FOR FURTHER INFORMATION CONTACT:** Regarding the regulation: Dolores S. Smith, Section Chief (202-452-2412), Ellen Maland, Attorney (202-452-3867), or Margaret Stewart, Attorney (202-452-2412), Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551. Regarding the economic impact analysis: Thomas A. Durkin, Economist (202-452-2503), Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

**SUPPLEMENTARY INFORMATION:** (1) Introduction. In January 1979, the

Board's staff undertook an extensive review of the provisions of Regulation Z relating to calculation and disclosure of the annual percentage rate. This rate expresses in percentage terms the cost of a consumer credit transaction. Because of its usefulness as a tool for comparing various credit sources, this term is considered to be the most important disclosure required by the Truth in Lending Act. The Act directs the Board, as part of its rulemaking responsibilities, to prescribe rules for calculating and disclosing this rate.

The review focused primarily on the variety of special rules in the regulation regarding annual percentage rate determination and the absence of specific guidance in certain areas. The study was prompted by adoption in January 1979 of uniform guidelines for the enforcement of Regulation Z (44 FR 1222, January 4, 1979), efforts by Congress and the Board to simplify the requirements of the Act and Regulation Z, and the Board's Regulatory Improvement Project.

The proposal published by the Board last January (44 FR 1116, January 4, 1979) described five areas in which the Board believed clarification or further guidance was necessary, together with alternative ways of dealing with the issues raised. Based on the more than 300 comments received in response to this publication, the Board in August 1979 (44 FR 45141, August 1, 1979), published specific regulatory changes which it proposed to make regarding these issues. The August publication proposed amendments to §§ 226.5 and 226.8 of the regulation, revision of the Board's Supplement I (the rules for determination of the annual percentage rate), and revision of Volume I of the Board's Annual Percentage Rate Tables.

Approximately 235 commenters responded to the August proposal. The great majority of comments were from banks and other financial institutions. Based on these comments and the Board staff's analysis, the Board now adopts amendments to §§ 226.5 and 226.8, together with revisions to Supplement I to Regulation Z. These changes are discussed below. The Board has decided not to make the proposed changes to Volume I of the Board's Annual Percentage Rate Tables.

In order to assist creditors in adapting to the requirements of the regulation as amended, the Board will not require them to comply with the revised regulation until October 1, 1980. However, the Board notes that many of the revisions, such as the ⅛ of 1 percentage point tolerance, provide creditors with greater protection than is available to them under the existing regulation. Therefore, the Board has determined that the revised provisions should be effective concurrently with the existing regulation until October 1, 1980. Creditors who have the capability and who wish to comply with the revisions before that time may do so, while creditors who require a longer period of adjustment may continue to operate under the existing rules in the interim. After October 1, 1980, all creditors will be required to comply with the new rules.

Set forth below is a discussion of the changes to be made and the economic impact of the changes, followed by the text of the amendments to §§ 226.5 and 226.8, and the revised Supplement I to Regulation Z.

(2) Regulatory Provisions. *Tolerance.* Section 226.5(b)(1) sets forth the general standard of accuracy for calculation and disclosure of the annual percentage rate in closed end credit transactions. An annual percentage rate will be considered accurate, subject to the exceptions discussed below, if it is within ⅛ of 1 percentage point above or below the exact annual percentage rate. Currently, the annual percentage rate must be disclosed either as an exact rate or rounded to the nearest ¼ of 1 percentage point.

The Board notes that the ⅛ of 1 percentage point tolerance is in accord with the Truth in Lending amendments now being considered by Congress and that a large majority of the commenters addressing this issue supported such a tolerance. The comments indicated no basis for applying different tolerance rules depending on such factors as length of the transaction or type of credit extended. Therefore, the tolerance will be available, as a general rule, without regard to any distinguishing factors.

The regulation continues to recognize both the actuarial method and the United States Rule method in calculation of the annual percentage rate. Under the actuarial method, the unpaid balance of the obligation is increased by the finance charge earned during each unit-period (or fractional unit-period), and decreased by any payments made at the end of that period. Under the United States Rule method, which is used by many credit unions, any earned, unpaid finance charge is not added to the unpaid balance of the obligation, but is accumulated separately until such time as payments are sufficient to pay the earned unpaid finance charge. A second characteristic distinguishing this method from the actuarial method is that no interest calculation is made until a payment is received.

In application of the ⅛ of 1 percentage point tolerance, the accuracy of the disclosed annual percentage rate will be judged in accordance with whichever of these two methods was used in calculating the disclosed rate. In transactions involving equal payments and equal periods, either method will produce the same annual percentage rate. In irregular transactions, however, there may be slight variations in the annual percentage rate.

*Supplement I.* Supplement I to Regulation Z, which was first adopted 10 years ago, sets forth equations and instructions for determining the exact annual percentage rate. This material, which is incorporated by reference in the regulation, is not intended for day-to-day use by creditors in their lending operations. Rather, it is used by manufacturers of calculation tools in producing and verifying their products. These products are in turn used by a great majority of creditors; in this sense, the supplement provides a standard of accuracy for the credit industry.

In its August proposal, the Board suggested revising Supplement I to expand the number and variety of examples, to include explanations and equations for determining the annual percentage rate in accordance with the United States Rule as well as the actuarial method, and to provide further guidance on determination of unit-periods and fractional unit-periods.

With the exception of the material relating to the United States Rule, the revisions proposed in Supplement I have been adopted by the Board. The material relating to the United States Rule has not been adopted because the comments and other information available to the Board indicated that there is no compelling need for this material. In view of the apparent lack of necessity for such an expansion, the Board has determined that Supplement I should continue to be based solely on the actuarial method. As indicated above, however, the supplement has been expanded to provide further examples and more specificity regarding the determination of unit-periods and fractional unit-periods. The existing Supplement I permits fractional unit-periods in the denominator for the actuarial method equation to be expressed in either a linear or an exponential form. In order to provide a more uniform standard, the new supplement requires the use of the linear form, which is widely used in the credit industry.

*Board tables and other tools.* Section 226.5(b)(2)(i) describes Volumes I and II of the Annual Percentage Rate Tables. This material provides creditors with a readily-usable calculation tool applying the technical information contained in Supplement I. An annual percentage rate computed in accordance with the instructions in the tables is deemed to comply with the regulation, even in those cases where its use may produce an annual percentage rate that falls outside the general rule on accuracy. Volume I, the more commonly-used of the tables, applies to credit transactions involving equal payment amounts and periods, as well as to transactions with an odd first payment, odd first period, or odd final payment.

In its August proposal, the Board had suggested revising Volume I by expanding the explanatory material regarding its use, amending the adjustments needed to accommodate certain irregularities, and reprinting the factor tables in ⅛ of 1 percentage point rather than ¼ of 1 percentage point increments. The Board has now determined that the proposed changes are not warranted. In making this decision, the Board was particularly mindful of the possible difficulties creditors would experience in adjusting to the new material, as compared to the relatively slight increase in accuracy produced by the revisions. The Board also notes that this volume has been widely distributed throughout the credit industry in the last 10 years, compounding the difficulty of disseminating new material.

Section 226.5(b)(2)(ii) authorizes the use of any other computation tool, including charts, tables, computers and calculators, which produces the same degree of accuracy as called for by § 226.5(b)(1).

*Single add-on rate.* Section 226.5(b)(3) permits creditors assessing finance charges in a certain manner to disclose an annual percentage rate which may not meet the general accuracy requirements of the regulation. Where a single add-on rate is applied to all transactions up to 60 months in length, the creditor may disclose for all those transactions the single highest annual percentage rate. For example, an add-on rate of $10 per $100 per year would produce the following annual percentage rates at various maturities: at 3 months, 14.9%; at 21 months, 18.18%; and at 60 months, [illegible]. Under this provision, the creditor may disclose for all transactions up to 60 months an annual percentage rate of 18.18% (the highest annual percentage rate). This provision reflects the current Board Interpretation § 226.502. In its August proposal, the Board had suggested limiting this special rule to transactions with maturities greater than 9 months since short-term transactions produce the greatest degree of overstatement. As an alternative, the Board also requested comment on whether the rule could be eliminated entirely.

The available evidence indicates that the present rule may still be necessary for certain creditors, for short-term transactions as well as those over 9 months in length. Therefore, the Board is retaining the current rule enunciated in Interpretation § 226.502. For organizational purposes, however, the Board is eliminating the interpretation and placing this special rule in the body of the regulation itself, as reflected in § 226.5(b)(3). The Board emphasizes that this provision continues to be available only in transactions which are payable in equal installments at equal intervals.

*Range of balances.* Section 226.5(b)(4), like the preceding paragraph, represents an exception to the general rule on accuracy of disclosed rates, for creditors assessing finance charges by a certain method. This special rule is currently reflected in § 226.5(c)(2)(iv). Under this rule, creditors applying a single finance charge to all balances within a specified range may understate the annual percentage rate by up to 8% of the actual rate for the lowest balance, by disclosing for all balances within that range the annual percentage rate computed on the median balance. That is, if a finance charge of $9 applies to all balances between $91 and $100, an annual percentage rate of 10% (the rate on the median balance) may be disclosed as the annual percentage rate for all balances, even though a $9 finance charge applied to the lowest balance ($91) would actually produce an annual percentage rate of 10.7%.

In its August publication, the Board had proposed two alternatives: (1) limit the special rule to transactions involving orders by mail or telephone, or (2) eliminate the special provision entirely. The available evidence indicates that a need may continue to exist for this provision, but only with respect to the preliminary disclosures made on series of sales agreements and orders by mail or telephone. Therefore, the Board is limiting § 226.5(b)(4) to annual percentage rates disclosed pursuant to §§ 226.8(r)(1) and (2) and 226.8(b)(1).

*Minor irregularities—annual percentage rate.*—The Board is adopting two provisions, §§ 226.5(b)(5) and 226.8(r), that deal with the impact of minor payment schedule irregularities on the annual percentage rate, finance charge and other disclosures. A common irregularity is an initial payment period that is longer or shorter than the other periods; another involves one payment that differs in amount from the other payments.

The new § 226.5(b)(5) states that, for purposes of computing an annual percentage rate, the irregularity of an initial payment period may be disregarded if it is within a specified number of days longer or shorter than a regular period. Since first period irregularities have a greater impact on the rate in short-term than in long-term transactions, the provision makes distinctions based on the length of the term. The degree of first period irregularity that may be ignored under the new provision is shown in the following table:

| For a term of the transaction of | Up to 1 yr...... | At least 1 yr Less than 10 yrs. | 10 yrs and over |
|---|---|---|---|
| The first period may be treated as regular if it differs from regular by up to this many days | 6 shorter, 13 longer | 11 shorter, 21 longer | Any number shorter, 32 longer |

In addition, any payment irregularity that results from an irregularity in the first period within these specified ranges could also be disregarded.

This new provision replaces the minor irregularities provisions in the existing § 226.5(d) of the regulation and Board Interpretation § 226.503. It provides a similar approach in defining which irregularities in the first period may be disregarded by comparing the number of days in the irregular period to the number of days in a regular period. The new rules are simpler to apply, however, since they make no distinctions based on the length of the unit-period. Elimination of that distinction appears justified since the effect of first period variations on the annual percentage rate is more closely related to the term of the transaction than to the unit-period's length; furthermore, dropping the distinction permits a simpler and more understandable rule for determining which irregularities may be disregarded. The ranges of irregularities specified are basically those that have been applicable to transactions payable monthly under the existing rules. This choice was made because a month is the most common unit-period and because these ranges are the most generous.

The new provision also differs from the existing version in its treatment of variations in payment amounts. The existing rule requires that the irregular payment be measured against the regular payment to see if it falls within 25% or 50% (depending on the transaction's term) of the regular payment. If it met that test, it could be disregarded. The new rule simply states that any payment irregularity that *results from* a first period irregularity within the specified ranges may be ignored. By describing the variation in payment amount in terms of its cause, the most common minor irregularity will be taken care of, while the need to independently measure the irregular payment is eliminated.

In its August proposal, the Board had offered three alternative ways of dealing with the effect on the annual percentage rate of payment schedule irregularities. The most stringest of the alternatives was to eliminate the minor irregularities provisions and require all creditors to disclose a rate meeting the general standard of accuracy of ⅛ of 1 percentage point. There was relatively little support for this approach among the commenters. The second alternative suggested was to continue the approach currently taken and simply improve the regulatory language. This alternative received the greatest support from the commenters. The third option was to replace the existing provision with one permitting a larger degree of overstatement (but a smaller degree of understatement) where an initial payment or payment period is irregular.

The board has chosen the second of the three alternatives by adopting a provision that provides essentially the same protections now available to creditors computing an annual percentage rate, while simplifying the determination of which irregularities fall within the specified ranges.

*Minor irregularities—finance charge.* The new § 226.8(r) provides a similar minor irregularities provision for purposes of computing and disclosing the finance charge and the schedule of payments. It is parallel to the annual percentage rate provision discussed above, new § 226.5(b)(5), in that it defines in the same way the first period irregularities that may be disregarded. It differs from both Board Interpretation § 226.505 (which it replaces) and the new § 226.5(b)(5), however, in that it permits disregarding only variations in the *final* payment that result from first period irregularities. The Board believes that this limitation is warranted, on the grounds that adjustments made in other ways do not require this special treatment. If an adjustment is made to the first payment to account for an irregular first period (for example, where a first payment due January 1 on a mortgage loan made on November 20 is increased to pay the extra 10 days' interest) or where the charge for the odd first period is spread out among all the payments, it is a simple matter to reflect the adjustments when disclosing the finance charge and the payment schedule.

The minor irregularities protection is needed, however, when the adjustment for an irregular first period is made at the end of the transaction. For example, a credit union making a loan on November 20 with the first payment due January 1 will frequently collect payments that are determined as if there were a regular first period, but will accrue interest based on the actual time the principal is outstanding and will adjust the final payment to account for the effect of the long first period. The new § 226.8(r) permits the credit union to disregard the effect of such a practice in disclosing the finance charge and payment schedule.

This provision differs from the one proposed in August in several ways. Its applicability is not limited to certain so-called simple interest obligations. Furthermore, it permits less overstatement (resulting from long first periods), while countenancing some degree of understatement (resulting from short first periods). The comments suggested that long first periods are far more common than short ones and that the minor irregularities provision should be expanded to cover them. In addition, the provision adopted has the advantage of providing parallel rules for defining period irregularities for purposes of both annual percentage rate and finance charge computation.

It should be noted in connection with both of the minor irregularities provisions that creditors are always free to arrange payment schedules with irregularities that fall outside the categories defined in those provisions. In such cases, a creditor has two choices: it can take specific account of the effect such irregularities have on the disclosures; alternatively, in the case of the annual percentage rate, it can ignore the irregularity provided the disclosed rate is not more than ⅛ of 1 percentage point from the true rate.

*Certain creditor practices.* The new § 226.8(s) states that, when making calculations and disclosures, creditors may ignore the effect of certain facts or practices, namely, collecting of payments in whole cents, changing dates of payments and advances when the scheduled date falls on a weekend or holiday, and the fact that months have different numbers of days. These things have very slight effects on disclosures and the Board believes the negligible benefit to consumers of taking account of such matters does not justify the burden of doing so.

This provision differs from the August proposal in that the authorization to treat all months as equal is not restricted to simple interest creditors, and the requirement to mark as an estimate the finance charge disclosed in reliance on such a provision has been deleted.

*Faulty calculation tools.* Section 226.5(c) represents an extension of the existing § 226.5(c)(3). Under the latter provision, an annual percentage rate or finance charge error that results from an error in the chart or table used by the creditor does not violate Regulation Z. The Board proposed in its August publication to extend this provision to errors resulting from the use of faulty calculators and computers, or, in the alternative, to eliminate the provision entirely. The first alternative—extension of the protection to all types of calculation tools—would not have extended to the software or programming elements of electronic calculation tools. This proposal was suggested in an effort to limit the protection of the rule to errors beyond the creditor's control and to alleviate possible enforcement difficulties in confirming errors in software.

The comments received by the Board on this issue clearly supported the extension of the provision to all calculation tools, including software elements of calculators and computers. The Board believes that this protection should be made available for all calculation tools, without regard to type, and new § 226.5(c), set forth below, reflects this decision. In the Board's view, the vast majority of creditors do not possess the specialized technical knowledge necessary to evaluate calculation tools internally and must continue to rely on the producers of those tools to provide that knowledge.

The inaccuracies which may be countenanced by this provision will, in the Board's view, be offset by the restrictions imposed on the availability of the protection. First, the creditor's reliance on the tool must be in good faith. This imposes on the creditor a reasonable degree of responsibility for assuring that the tool in question provides the degree of accuracy required by the regulation. For example, the creditor might verify the results obtained by use of the tool by comparing those results to the figures obtained by use of another calculation tool. The creditor might also reasonably rely on the expertise of the enforcement agency in making such a determination.

Second, any creditor with reason to believe that the tool is in fact inaccurate must promptly discontinue use of that tool and notify the Federal Reserve Board of the error. That is, a creditor who was aware of the error and continued to use the tool for disclosure purposes would no longer have the protection of § 226.5(c) as to inaccurate disclosures made after that time. The Board imposes no specific requirement on creditors with regard to the information contained in the notification to the Board. However, the description of the tool in question must be specific enough to identify the tool. The Board envisions that the notification would normally include the name of the manufacturer or producer of the tool, a trade name, or a model name or number. In describing the error, the creditor need not identify the specific source of the error, as for example by determining the steps in a calculator program which produced the inaccurate results. While the creditor is encouraged to include its opinion regarding the source of the error, a description of the erroneous results and the transactions to which they relate would be sufficient for purposes of this requirement.

*Open end credit.* Section 226.5(a), relating to the determination of the annual percentage rate in open end credit, has been retained in its present form except for the addition of the ⅛ of 1 percentage point tolerance. Thus, an annual percentage rate calculated and disclosed pursuant to § 226.5(a) would be subject to the same standard of accuracy as that set forth for closed end credit transactions. The Board staff's analysis, together with the comments, indicates no basis for making any other changes in the provisions of § 226.5(a) at this time.

*Effective date.* In accordance with 5 U.S.C. 553(d)(1) and (3), the Board has determined that the effective date of these amendments need not be delayed 30 days, but may be issued effective immediately since these amendments for the most part are less restrictive than the provisions that they replace. In addition, compliance with the amendments is not required until 9 months have elapsed, thus providing persons subject to these provisions sufficient time to analyze their procedures and tools in light of the changes made and adjust to the new requirements. Although mandatory compliance is not immediately required, the Board has determined that both the new and existing provisions shall be in effect concurrently during the 9 month interim period so that creditors wishing and able to take advantage of the new provisions at this time may do so.

(3) Economic Impact Analysis. According to § 102 of the Act, Truth in Lending was intended "to assure a meaningful disclosure of credit terms so that the consumer will be able to compare more readily the various credit terms available to him and avoid the uninformed use of credit. . . ." However, in the 10 years since the effective date of the Act, the complexity of the Act and its implementing regulation has presented serious compliance difficulties. Despite indications that most financial institutions have made good-faith attempts to comply with Regulation Z, technical violations are common. In its *Annual Report on Truth in Lending for the Year 1978*, the Board reported that more than four-fifths of the banks and almost three-fifths of the credit unions examined that year by the Federal regulatory agencies were found not to be in complete compliance with Regulation Z. This *Annual Report* indicated, though, that "for both kinds of institutions most violations were nonsubstantive." (See p. 11, *Annual Report for 1978*.) Nonsubstantive violations include such things as errors that might arise on account of misunderstanding the regulation, clerical errors, carelessness, and oversights that do not materially affect the accuracy of the most important disclosures. The difficulties of complying in good faith with a complex law and regulation, along with indications that not all current provisions of Truth in Lending are helpful to consumers in shopping for credit, have prompted Congressional calls for Truth in Lending simplification.

Earlier this year, as part of its own efforts to simplify its regulations, the Board requested public comment on certain relatively technical issues concerning methods of calculating and disclosing annual percentage rates and finance charges under Regulation Z (44 FR 1116, January 4, 1979, and 44 FR 45141, August 1, 1979). Each of the changes resulting from this review appears to be consistent with the goal of simplifying the regulation. In general, the amendments should increase somewhat the levels of technical compliance with the regulation without requiring creditors to make costly adjustments in their operations. Also, although technical compliance is made somewhat easier, it is done without sacrificing important consumer protections.

The first major amendment concerns the degree of tolerance allowed in disclosures of annual percentage rates which would comply with Regulation Z. Existing § 226.5(b) of Regulation Z requires, as a general rule, that the annual percentage rate disclosed be either the precise rate or the precise rate rounded to the nearest ¼ of 1 percentage point. Apparently some creditors have interpreted this provision to be a true tolerance, which it is not.

The amendment will permit a fixed tolerance of ± ⅛ of 1 percentage point on all transactions, which is the tolerance proposed in the Truth in Lending Simplification Act that has passed the Senate. The amendment will have the effect of bringing into compliance some transactions which are, technically, not in compliance because of misconceptions about or errors in using the rounding rule. Consumer protections should not be sacrificed because the tolerance allowed to aid compliance is relatively narrow. At present, there is no available evidence that consumers make credit decisions on the basis of variations in annual percentage rates as small as ⅛ of 1 percentage point. In terms of dollars and cents, a tolerance of ⅛ of 1 percentage point is about 7 cents per $100 financed on 12-month loans and about 22 cents per $100 on 36-month loans. On larger, longer-term loans like mortgages where ⅛ of 1 percentage point may be more significant in absolute dollar terms, it is still a small proportion of the annual percentage rate at current market levels.

The second major amendment concerns the part of Regulation Z known as the minor irregularities rule. A relatively narrow tolerance, such as the tolerance resulting from either the ⅛ of 1 percentage point rule or the rule of rounding to the nearest ¼ of 1 percentage point, may not be sufficient to ease certain compliance problems in cases involving irregular payments. Creditors often arrange, mostly for the convenience of their customers, payment patterns which allow minor irregularities in the schedule of payments. A common example is an abnormally long first period so that monthly payments can be due on the customer's payday. The problem is that on loans with relatively short maturities a long (or short) first payment or other irregularity may cause the true annual percentage rate to deviate from the disclosed rate by more than the allowed tolerance. The result is an added burden for creditors attempting to comply with the regulation in good faith but also trying to satisfy the payment period desires of their customers. For this reason Regulation Z allows, in effect, wider tolerances for certain variations in payment amounts and patterns that fall within the minor irregularities provisions.

The existing minor irregularities rule is complex. It allows a payment to be classified as regular for purposes of computing an annual percentage rate if it varies in size from regular payments by no more than a certain percentage. It also permits a first payment period to be treated as regular if it varies from the other periods by no more than a certain number of days. The number of days in first periods that may be counted as regular depends upon the frequency of payment and upon the original maturity of the loan contract. All other payments must be equal in size and be scheduled at equal intervals.

The new minor irregularities provisions appear to be a useful simplification because they achieve the basic purpose of the minor irregularities rule—reducing the compliance burden for creditors attempting to accommodate customers—and it makes the present rule clearer and easier to understand. This approach, together with the tolerance rule, should aid good-faith compliance efforts somewhat, especially for newer or smaller creditors not as familiar with the technicalities of Regulation Z but attempting to comply without the aid of expensive legal advice or calculating equipment. For two reasons it does not seem that understatement or overstatement of the annual percentage rate disclosed as a result of the minor irregularities rule is harmful to consumers. First, if a long first period or a smaller first payment is counted as regular under the minor irregularities rule, to the extent that the disclosed rate varies from the exact annual percentage rate, the exact rate will be lower. Since a long first period is probably the most frequent minor irregularity, consumers generally will not be burdened with annual percentage rates higher than those disclosed. Second, minor irregularities in the first period are often arranged for the convenience of consumers *after* the essentials of the credit offer are accepted. As a result, variations in annual percentage rates resulting from minor irregularities in such cases are not likely to be very useful in credit shopping.

The third major provision concerns extending to users of calculating equipment the existing protection from liability provided to creditors relying in good faith on faulty charts or tables. In many cases the sophistication of the technical skills needed to evaluate the performance of these tools requires creditors to rely on the assurances of manufacturers. On occasion, minor errors beyond their control could subject creditors to major litigation costs and civil penalties. Although the ⅛ of 1 percentage point tolerance may obviate the need for protection from some minor errors, protection for a creditor using calculating devices and computers in good faith appears reasonable. Consumer's interests should be protected by the fact that conscious errors or continued use of devices known to produce erroneous results would subject creditors to the penalties of Truth in Lending, as with any other violation. Furthermore, protection for creditors using calculating devices and computers in good faith should facilitate the adoption of improved calculating equipment.

(4) Text of Amendments. In consideration of the foregoing and pursuant to the authority granted in § 105 of the Truth in Lending Act (15 U.S.C. 1604 (1970)), the Board amends Regulation Z (12 C.F.R. Part 226) as follows:

**§ 226.5. [Amended]**

1. Effective October 1, 1980, existing § 226.5(a) is amended by deleting both the title "General rule—open end credit accounts" and the first sentence beginning "The annual percentage rates for open end credit" and ending "nearest quarter of 1 percent."; §§ 226.5 (b) through (e), Interpretations §§ 226.500, 226.503, and 226.505, and Supplement I to Regulation Z are rescinded.

2. Effective January 10, 1980 § 226.5 is amended by amending paragraph (a) and revising paragraphs (b) and (c) in their entirety. Section 226.8 is amended by adding paragraphs (r) and (s) and Supplement I to Regulation Z, to read as follows:

**§ 226.5. Determination of annual percentage rate.**

(a) *Open end credit—general rule.* The annual percentage rate is a measure of the cost of credit, expressed as a yearly rate. An annual percentage rate shall be considered accurate if it is not more than ⅛ of 1 percentage point above or below the annual percentage rate determined in accordance with this section.

* * * * *

(b) *Credit other than open end.* (1) *General rule.* The annual percentage rate is a measure of the cost of credit, expressed as a yearly rate, which relates the amount and timing of value received by the consumer to the amount and timing of payments made. The annual percentage rate shall be determined in accordance with either the actuarial method or the United States Rule method and shall be considered accurate if it is not more than ⅛ of 1 percentage point above or below the annual percentage rate determined in accordance with whichever method is used. Explanations, equations and instructions for determining the annual percentage rate is accordance with the actuarial method are set forth in Supplement I, which is incorporated in this Part by reference.

(2) *Computation tools.* (i) The Regulation Z Annual Percentage Rate Tables produced by the Board may be used to determine the annual percentage rate, and any such rate determined from these tables in accordance with the instructions contained therein will comply with the requirements of this section. Volume I of the tables applies to single advance transactions involving up to 480 monthly payments or 104 weekly payments. It may be used for regular transactions, and for transactions with any of the following irregularities: an odd first period, an odd first payment, and an odd final payment. Volume II applies to transactions involving multiple advances and any type of payment or period irregularity.

(ii) Creditors may use any other computation tool in determining the annual percentage rate so long as the annual percentage rate so determined equals the annual percentage rate determined in accordance with Supplemental I, within the degree of accuracy set forth in paragraph (b)(1) of this section.

(iii) Supplement I and Volumes I and II may be obtained from any Federal Reserve Bank or from the Board in Washington, D.C. 20551.

(3) *Single add-on rate transactions.* If a single add-on rate is applied to all transactions with maturities up to 60 months and if all payments are equal in amount and period, a single annual percentage rate may be disclosed for all such transactions, provided that it is the highest annual percentage rate for any such transaction.

(4) *Certain transactions involving ranges of balances.* For purposes of disclosing the annual percentage rate referred to in §§ 226.8(g) (1) and (2) (Orders by mail or telephone) and 226.8(h)(1) (Series of sales), if the same finance charge is imposed on all balances within a specified range of balances, the annual percentage rate computed for the median balance may be disclosed for all of the balances. However, if the annual percentage rate computed for the median balance understates the annual percentage rate computed for the lowest balance by more than 8% of the latter rate, the annual percentage rate shall be computed on whatever lower balance will produce an annual percentage rate which does not result in an understatement of more than 8% of the rate determined on the lowest balance.

(5) *Payment schedule irregularities.* In determining and disclosing the annual

percentage rate, a creditor may disregard an irregularity in the first period [1k] that falls within the limits described below and any payment schedule irregularity that results from the irregular first period:

(i) For transactions in which the term [1k] is less than 1 year: a first period not more than 6 days shorter or 13 days longer than a regular period;

(ii) For transactions in which the term is at least 1 year and less than 10 years: a first period not more than 11 days shorter or 21 days longer than a regular period; or

(iii) For transactions in which the term is at least 10 years: a first period shorter than or not more than 32 days longer than a regular period.

(c) *Errors in calculation tools.* An error in disclosure of the annual percentage rate or finance charge shall not, in itself, be considered a violation of this Part if:

(1) The error resulted from a corresponding error in any calculation tool, such as a chart, table, calculator or computer, used in good faith by the creditor, and

(2) Upon discovery of the error, the creditor promptly

(i) Discontinues use of that calculation tool for disclosure purposes, and

(ii) Notifies the Board in writing of the error in the calculation tool. The notification shall include an identification of the tool and a description of the error, and shall be addressed to the Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

* * * * *

§ 226.8 Credit other than open end—specific disclosure.

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(r) *Payment schedule irregularities.* In determining and disclosing the finance charge and the payment schedule under paragraph (b)(3) of this section, a creditor may disregard an irregular final payment or portion of a final payment that results from an irregular first period [1x] within the limits described below and may treat the irregular first period as if it were regular:

(i) For transactions in which the term [1x] is less than 1 year: a first period not more than 6 days shorter or 13 days longer than a regular period;

(ii) For transactions in which the term is at least 1 year and less than 10 years: a first period not more than 11 days shorter or 21 days longer than a regular period; or

(iii) For transactions in which the term is at least 10 years: a first period shorter than or not more than 32 days longer than a regular period.

(s) *Disregarding certain practices.* In making calculations and disclosures, a creditor need not take into account the effects of the following:

(1) The fact that payments are collected in whole cents;

(2) The fact that the dates of payments and advances are changed because the scheduled date falls on a Saturday, Sunday, or holiday; and

(3) The fact that months have different numbers of days.

* * * * *

Supplement I to Regulation Z

Rules for Determining the Annual Percentage Rate for Other than Open End Credit Transactions Pursuant to § 226.5(b) of Regulation Z

*I. Introduction*

Section 226.5(b) of Regulation Z provides that the annual percentage rate for other than open end credit transactions shall be determined in accordance with either the actuarial method or the United States Rule method. This supplement contains an explanation of the actuarial method as well as equations, instructions and examples of how this method applies to single advance and multiple advance transactions and transactions involving required deposit balances (as defined in § 226.8(e) of the regulation).

Under the actuarial method, at the end of each unit-period (or fractional unit-period) the unpaid balance of the amount financed is increased by the finance charge earned during that period and is decreased by the total payment (if any) made at the end of that period. The determination of unit-periods and fractional unit-periods shall be consistent with the definitions and rules in Sections II (C), (D) and (E) and the general equation in Section II (H).

In contrast, under the United States Rule method, at the end of each payment period, the unpaid balance of the amount financed is increased by the finance charge earned during that payment period and is decreased by the payment made at the end of that payment period. If the payment is less than the finance charge earned, the adjustment of the unpaid balance of the amount financed is postponed until the end of the next payment period. If at that time the sum of the two payments is still less than the total accrued finance charge for the two payment periods, the adjustment of the unpaid balance of the amount financed is postponed still another payment period, and so forth.

*II. Instructions and Equations for the Actuarial Method*

(A) *General rule.* The annual percentage rate shall be the nominal annual percentage rate determined by multiplying the unit-period rate by the number of unit-periods in a year.

(B) *Term of the transaction.* The term of the transaction begins on the date of its consummation, except that if the finance charge or any portion of it is earned beginning on some other date, the term begins on that other date. The term ends on the date the last payment is due, except that if an advance is scheduled after that date, the term ends on the later date. For computation purposes, the length of the term shall be equal to the time interval between any point in time on the beginning date to the same point in time on the ending date.

(C) *Definitions of time intervals.* (1) A period is the interval of time between advances or between payments and includes the interval of time between the date the finance charge begins to be earned and the date of the first advance thereafter or the date of the first payment thereafter, as applicable.

(2) A common period is any period that occurs more than once in a transaction.

(3) A standard interval of time is a day, week, semimonth, month, or a multiple of a week or a month up to, but not exceeding, 1 year.

(4) All months shall be considered equal. Full months shall be measured from any point in time on a given date of a given month to the same point in time on the same date of another month. If a series of payments (or advances) is scheduled for the last day of each month, months shall be measured from the last day of the given month to the last day of another month. If payments (or advances) are scheduled for the 29th or 30th of each month, the last day of February shall be used when applicable.

(D) *Unit-period.* (1) In all transactions other than a single advance, single payment transaction, the unit-period shall be that common period, not to exceed 1 year, that occurs most frequently in the transaction, except that

(a) If 2 or more common periods occur with equal frequency, the smaller of such common periods shall be the unit-period; or

(b) If there is no common period in the transaction, the unit-period shall be that period which is the average of all periods rounded to the nearest whole standard interval of time. If the average is equally near 2 standard intervals of time, the lower shall be the unit-period.

(2) In a single advance, single payment transaction, the unit-period shall be the term of the transaction, but shall not exceed 1 year.

(E) *Number of unit-periods between 2 given dates.* (1) The number of days between 2 dates shall be the number of 24-hour intervals between any point in time on the first date to the same point in time on the second date.

(2) If the unit-period is a month, the number of full unit-periods between 2 dates shall be the number of months measured back from the later date. The remaining fraction of a unit-period shall be the number of days

[1k] For purposes of this paragraph, the "first period" is the period from the date on which the finance charge begins to be earned to the date of the first payment, and the "term" is the period from the date on which the finance charge begins to be earned to the date of the final payment.

[1x] For purposes of this paragraph, the "first period" is the period from the date on which the finance charge begins to be earned to the date of the first payment, and the "term" is the period from the date on which the finance charge begins to be earned to the date of the final payment.

measured forward from the earlier date to the beginning of the first full unit-period, divided by 30. If the unit-period is a month, there are 12 unit-periods per year.

(3) If the unit-period is a semimonth or a multiple of a month not exceeding 11 months, the number of days between 2 dates shall be 30 times the number of full months measured back from the later date, plus the number of remaining days. The number of full unit-periods and the remaining fraction of a unit-period shall be determined by dividing such number of days by 15 in the case of a semimonthly unit-period or by the appropriate multiple of 30 in the case of a multimonthly unit-period. If the unit-period is a semimonth, the number of unit-periods per year shall be 24. If the number of unit-periods is a multiple of a month, the number of unit-periods per year shall be 12 divided by the number of months per unit-period.

(4) If the unit-period is a day, a week, or a multiple of a week, the number of full unit-periods and the remaining fraction of a unit-period shall be determined by dividing the number of days between the 2 given dates by the number of days per unit-period. If the unit-period is a day, the number of unit-periods per year shall be 365. If the unit-period is a week or a multiple of a week, the number of unit-periods per year shall be 52 divided by the number of weeks per unit-period.

(5) If the unit-period is a year, the number of full unit-periods between 2 dates shall be the number of full years (each equal to 12 months) measured back from the later date. The remaining fraction of a unit-period shall be:

(a) The remaining number of months divided by 12 if the remaining interval is equal to a whole number of months, or

(b) The remaining number of days divided by 365 if the remaining interval is *not* equal to a whole number of months.

(6) In a single advance, single payment transaction in which the term is less than a year and is equal to a whole number of months, the number of unit-periods in the term shall be 1, and the number of unit-periods per year shall be 12 divided by the number of months in the term.

(7) In a single advance, single payment transaction in which the term is less than a year and is *not* equal to a whole number of months, the number of unit-periods in the term shall be 1, and the number of unit-periods per year shall be 365 divided by the number of days in the term.

(F) *Percentage rate for a fraction of a unit-period.* The percentage rate of finance charge for a fraction (less than 1) of a unit-period shall be equal to such fraction multiplied by the percentage rate of finance charge per unit-period.

(G) *Symbols.* The symbols used to express the terms of a transaction in the equation set forth in Section II (H) are defined as follows:

$A_k$ = The amount of the kth advance.

$q_k$ = The number of full unit-periods from the beginning of the term of the transaction to the kth advance.

$e_k$ = The fraction of a unit-period in the time interval from the beginning of the term of the transaction to the kth advance.

m = The number of advances.

$P_j$ = The amount of the jth payment.

$t_j$ = The number of full unit-periods from the beginning of the term of the transaction to the jth payment.

$f_j$ = The fraction of a unit-period in the time interval from the beginning of the term of the transaction to the jth payment.

n = The number of payments.

i = The percentage rate of finance charge per unit-period, expressed as a decimal equivalent.

Symbols used in the examples shown in this supplement are defined as follows:

$\ddot{a}_{\overline{x}|}$ = The present value of 1 per unit-period for x unit-periods, first payment due immediately.

$$= 1 + \frac{1}{(1+i)} + \frac{1}{(1+i)^2} + \cdots\cdots\cdots + \frac{1}{(1+i)^{x-1}}$$

w = The number of unit-periods per year.

I = wi x 100 = The nominal annual percentage rate.

(H) *General equation.* The following equation sets forth the relationship among the terms of a transaction:

$$\frac{A_1}{(1+e_1 i)(1+i)^{q_1}} + \frac{A_2}{(1+e_2 i)(1+i)^{q_2}} + \cdots + \frac{A_m}{(1+e_m i)(1+i)^{q_m}} = \frac{P_1}{(1+f_1 i)(1+i)^{t_1}} + \frac{P_2}{(1+f_2 i)(1+i)^{t_2}} + \cdots + \frac{P_n}{(1+f_n i)(1+i)^{t_n}}$$

(I) *Solution of general equation by iteration process.* The general equation in Section II(H), when applied to a simple transaction in which a loan of $1000 is repaid by 36 monthly payments of $33.61 each, takes the special form:

$$A = \frac{33.61\,\ddot{a}_{\overline{36}|}}{(1+i)}$$

Step 1:
Let $I_1$ = estimated annual percentage rate = 12.50%
Evaluate expression for A, letting $i = I_1/(100w)$ = .010416667
Result (referred to as A′) = 1004.674391

Step 2:
Let $I_2 = I_1 + .1$ = 12.60%
Evaluate expression for A, letting $i = I_2/(100w)$ = .010500000
Result (referred to as A″) = 1003.235366

Step 3:
Interpolate for I (annual percentage rate):

$$I = I_1 + .1\left[\frac{(A - A')}{(A'' - A')}\right]$$

$$= 12.50 + .1\left[\frac{(1000.000000 - 1004.674391)}{(1003.235366 - 1004.674391)}\right] = 12.82483042\ \%$$

Step 4:
First iteration, let $I_1$ = 12.82483042% and repeat
Steps 1, 2, and 3 obtaining a new I = 12.825557859%
Second iteration, let $I_1$ = 12.82557859% and repeat
Steps 1, 2, and 3 obtaining a new I = 12.825575529%

In this case, no further iterations are required to obtain the annual percentage rate correct to two decimal places, 12.83%.

When the iteration approach is used, it is expected that calculators or computers will be programmed to carry all available decimals throughout the calculation and that enough iterations will be performed to make virtually certain that the annual percentage rate obtained, when rounded to two decimals, is correct.

Annual percentage rates in the examples below were obtained by using a 10 digit programmable calculator and the ...

*III. Examples for the Actuarial Method*

(A) *Single advance transaction, with or without an odd first period, and otherwise regular.* The general equation in Section II (H) can be put in the following special form for this type of transaction:

$$A = \frac{1}{(1+fi)(1+i)^t}\left(P\,\ddot{a}_{\overline{n}|}\right)$$

*Example (A)(1): Monthly payments (regular first period)*
Amount advanced (A) = $5000. Payment (P) = $230.
Number of payments (n) = 24.
Unit-period = 1 month. Unit-periods per year (w) = 12.
Advance, 1–10–78. First payment, 2–10–78.
From 1–10–78 through 2–10–78 = 1 unit-period. (t = 1; f = 0)
Annual percentage rate

Amount advanced (A) = \$6000. Payment (P) = \$200.
Number of payments (n) = 36.
Unit-period = 1 month. Unit-periods per year (w) = 12.
Advance, 2-10-78. First payment, 4-1-78.
From 3-1-78 through 4-1-78 = 1 unit-period. (t = 1)
From 2-10-78 through 3-1-78 = 19 days. (f = 19/30)
Annual percentage rate (I) = wi = .1182 = 11.82%

*Example (A)(3):* Semimonthly payments (short first period)
Amount advanced (A) = \$5000. Payment (P) = \$219.17.
Number of payments (n) = 24.
Unit-period = ½ month. Unit-periods per year (w) = 24.
Advance, 2-23-78. First payment, 3-1-78. Payments made on 1st and 16th of each month.
From 2-23-78 through 3-1-78 = 6 days. (t = 0; f = 6/15)
Annual percentage rate (I) = wi = .1034 = 10.34%

*Example (A)(4):* Quarterly payments (long first period)
Amount advanced (A) = \$10,000. Payment (P) = \$385.
Number of payments (n) = 40.
Unit-period = 3 months. Unit-periods per year (w) = 4.
Advance, 5-23-78. First payment, 10-1-78.
From 7-1-78 through 10-1-78 = 1 unit-period. (t = 1)
From 6-1-78 through 7-1-78 = 1 month = 30 days. From 5-23-78 through 6-1-78 = 9 days. (f = 39/90)
Annual percentage rate (I) = wi = .0897 = 8.97%

*Example (A)(5):* Weekly payments (long first period)
Amount advanced (A) = \$500. Payment (P) = \$17.60.
Number of payments (n) = 30.
Unit-period = 1 week. Unit-periods per year (w) = 52.
Advance, 3-20-78. First payment, 4-21-78.
From 3-24-78 through 4-21-78 = 4 unit-periods. (t = 4)
From 3-20-78 through 3-24-78 = 4 days. (f = 4/7)
Annual percentage rate (I) = wi = .1496 = 14.96%

(B) *Single advance transaction, with an odd first payment, with or without an odd first period, and otherwise regular.* The general equation in Section II(H) can be put in the following special form for this type of transaction:

$$A = \frac{1}{(1+fi)(1+i)^t}\left[P_1 + \frac{P\,\ddot{a}_{\overline{n-1}|}}{(1+i)}\right]$$

*Example (B)(1):* Monthly payments (regular first period and irregular first payment)
Amount advanced (A) = \$5000. First payment ($P_1$) = \$250.
Regular payment (P) = 230. Number of payments (n) = 24.
Unit-period = 1 month. Unit-periods per year (w) = 12.
Advance, 1-10-78. First payment, 2-10-78.
From 1-10-78 through 2-10-78 = 1 unit-period. (t = 1; f = 0)
Annual percentage rate (I) = wi = .1008 = 10.08%

*Example (B)(2):* Payments every 4 weeks (long first period and irregular first payment)
Amount advanced (A) = \$400. First payment ($P_1$) = \$39.50.
Regular payment (P) = \$38.31. Number of payments (n) = 12.
Unit-period = 4 weeks. Unit-periods per year (w) = 52/4 = 13.
Advance, 3-18-78. First payment, 4-20-78.
From 3-23-78 through 4-20-78 = 1 unit-period. (t = 1)
From 3-18-78 through 3-23-78 = 5 days. (f = 5/28)
Annual percentage rate (I) = wi = .2850 = 28.50%

(C) *Single advance transaction, with an odd final payment, with or without an odd first period, and otherwise regular.* The general equation in Section II(H) can be put in the following special form for this type of transaction:

$$A = \frac{1}{(1+fi)(1+i)^t}\left[P\,\ddot{a}_{\overline{n-1}|} + \frac{P_n}{(1+i)^{n-1}}\right]$$

*Example (C)(1):* Monthly payments (regular first period and irregular final payment).
Amount advanced (A) = \$5000. Regular payment (P) = \$230.
Final payment ($P_n$) = \$280. Number of payments (n) = 24.
Unit-period = 1 month. Unit-periods per year (w) = 12.
Advance, 1-10-78. First payment, 2-10-78.
From 1-10-78 through 2-10-78 = 1 unit-period. (t = 1; f = 0)
Annual percentage rate (I) = wi = .1050 = 10.50%

*Example (C)(2):* Payments every 2 weeks (short first period and irregular final payment)
Amount advanced (A) = \$200. Regular payment (P) = \$9.50.
Final payment ($P_n$) = \$30. Number of payments (n) = 20.
Unit-period = 2 weeks. Unit-periods per year (w) = 52/2 = 26.
Advance, 4-3-78. First payment, 4-11-78.
From 4-3-78 through 4-11-78 = 8 days. (t = 0; f = 8/14)
Annual percentage rate (I) = wi = .1222 = 12.22%

(D) *Single advance transaction, with an odd first payment, odd final payment, with or without an odd first period, and otherwise regular.* The general equation in Section II (H) can be put in the following special form for this type of transaction:

$$A = \frac{1}{(1+fi)(1+i)^t}\left[P_1 + \frac{P\,\ddot{a}_{\overline{n-2}|}}{(1+i)} + \frac{P_n}{(1+i)^{n-1}}\right]$$

*Example (D)(1):* Monthly payments (regular first period, irregular first payment, and irregular final payment)
Amount advanced (A) = \$5000. First payment ($P_1$) = \$250.
Regular payment (P) = \$230. Final payment ($P_n$) = \$280.
Number of payments (n) = 24. Unit-period = 1 month.
Unit-periods per year (w) = 12.
Advance, 1-10-78. First payment, 2-10-78.
From 1-10-78 through 2-10-78 = 1 unit-period. (t = 1; f = 0)
Annual percentage rate (I) = wi = .1090 = 10.90%

*Example (D)(2):* Payments every two months (short first period, irregular first payment, and irregular final payment)
Amount advanced (A) = \$8000. First payment ($P_1$) = \$449.36.
Regular payment (P) = \$465. Final payment ($P_n$) = \$200.
Number of payments (n) = 20. Unit-period = 2 months.
Unit-periods per year (w) = 12/2 = 6.
Advance, 1-10-78. First payment, 3-1-78.
From 2-1-78 through 3-1-78 = 1 month. From 1-10-78 through 2-1-78 = 22 days. (t = 0; f = 52/60)
Annual percentage rate (I) = wi = .0730 = 7.30%

(E) *Single advance, single payment transaction.* The general equation in Section II (H) can be put in the special forms below for single advance, single payment transactions. Forms 1 through 3 are for the direct determination of the annual percentage rate under special conditions. Form 4 requires the use of the iteration procedure of Section II (I) and can be used for all single advance, single payment transactions regardless of term.

Form 1 - Term less than 1 year:

$$I = 100w\left(\frac{P}{A} - 1\right)$$

Form 2 - Term more than 1 year but less than 2 years:

$$I = \frac{50}{f}\left\{\left[(1+f)^2 + 4f\left(\frac{P}{A} - 1\right)\right]^{1/2} - (1+f)\right\}$$

Form 3 - Term equal to exactly 1 year or exact multiple of a year.

$$I = 100\left[\left(\frac{P}{A}\right)^{1/t} - 1\right]$$

Form 4 - Special form for iteration procedure (no restriction on term)

$$A = \frac{P}{(1+fi)(1+i)^t}$$

*Example (E)(1):* Single advance, single payment (term of less than 1 year, measured in days)
Amount advanced (A) = \$1000. Payment (P) = \$1080.
Unit-period = 255 days. Unit-period per year (w) = 365/255.
Advance, 1-3-78. Payment, 9-15-78.
From 1-3-78 through 9-15-78 = 255 days. (t = 0; f = 0)

Annual percentage rate
(I) = wi = .1145 = 11.45%. (Use Form 1 or 4.)

*Example (E)(2):* Single advance, single payment (term of less than 1 year, measured in exact calendar months)

Amount advanced (A) = $1000. Payment (P) = $1044.

Unit-period = 6 months. Unit-periods per year (w) = 2.

Advance, 7–15–78. Payment, 1–15–79.

From 7–15–78 through 1–15–79 = 6 mos. ($t = 1$; $f = 0$)

Annual percentage rate
(I) = wi = .0880 = 8.80%. (Use Form 1 or 4.)

*Example (E)(3):* Single advance, single payment (term of more than 1 year but less than 2 years, fraction measured in exact months)

Amount advanced (A) = $1000. Payment (P) = $1135.19.

Unit-period = 1 year. Unit-periods per year (w) = 1.

Advance, 7–17–78. Payment, 1–17–80.

From 1–17–79 through 1–17–80 = 1 unit period. ($t = 1$)

From 7–17–78 through 1–17–79 = 6 mos. ($f = 6/12$)

Annual percentage rate
(I) = wi = .0876 = 8.76%. (Use Form 2 or 4.)

*Example (E)(4):* Single advance, single payment (term of exactly 2 years)

Amount advanced (A) = $1000. Payment (P) = $1240.

Unit-period = 1 year. Unit-periods per year (w) = 1.

Advance, 1–3–78. Payment, 1–3–80.

From 1–3–78 through 1–3–79 = 1 unit-period. ($t = 2$, $f = 0$)

Annual percentage rate
(I) = wi = .1136 = 11.36%. (Use Form 3 or 4.)

(F) *Complex single advance transaction.*

*Example (F)(1):* Skipped payment loan (payments every 4 weeks)

A loan of $2135 is advanced on 1–25–78. It is to be repaid by 24 payments of $100 each. Payments are due every 4 weeks beginning 2–20–78. However, in those months in which 2 payments would be due, only the first of the two payments is made and the following payment is delayed by 2 weeks to place it in the next month.

Unit-period = 4 weeks. Unit periods per year (w) = 52/4 = 13.

First series of payments (single payment) occurs 26 days after 1–25–78. ($t_1 = 0$; $f_1 = 26/28$)

Second series of payments begins 9 unit-periods plus 2 weeks after 2–20–78. ($t_2 = 10$; $f_2 = 12/28$)

Third series of payments begins 6 unit-periods plus 2 weeks after start of second series. ($t_3 = 16$; $f_3 = 26/28$)

Last series of payments begins [illegible] unit-periods plus 2 weeks after start of third series. ($t_4 = 23$; $f_4 = 12/28$)

The general equation in Section II (H) can be written in the special form:

$$2135 = \frac{100\,\ddot{a}_{\overline{9|}}}{(1+(26/28)i)} + \frac{100\,\ddot{a}_{\overline{6|}}}{(1+(12/28)i)(1+i)^{10}} + \frac{100\,\ddot{a}_{\overline{6|}}}{(1+(26/28)i)(1+i)^{16}} + \frac{100\,\ddot{a}_{\overline{3|}}}{(1+(12/28)i)(1+i)^{23}}$$

Annual percentage rate
(I) = wi = .1200 = 12.00%

*Example (F)(2):* Skipped payment loan plus single payments

A loan of $7350 on 3–3–78 is to be repaid by three monthly payments of $1000 each beginning 9–15–78, plus a single payment of $2000 on 3–15–79, plus 3 more monthly payments of $750 each beginning 9–15–79, plus a final payment of $1000 on 2–1–80.

Unit-period = 1 month. Unit-periods per year (w) = 12.

First series of payments begins 6 unit-periods plus 12 days after 3–3–78. ($t_1 = 6$; $f_1 = 12/30$)

Second series of payments (single payment) occurs 12 unit-periods plus 12 days after 3–3–78. ($t_2 = 12$; $f_2 = 12/30$)

Third series of payments begins 18 unit-periods plus 12 days after 3–3–78. ($t_3 = 18$; $f_3 = 12/30$)

Final payment occurs 22 unit-periods plus 29 days after 3–3–78. ($t_4 = 22$; $f_4 = 29/30$)

The general equation in Section II (H) can be written in the special form:

$$7350 = \frac{1000\,\ddot{a}_{\overline{3|}}}{(1+(12/30)i)(1+i)^{6}} + \frac{2000}{(1+(12/30)i)(1+i)^{12}} + \frac{750\,\ddot{a}_{\overline{3|}}}{(1+(12/30)i)(1+i)^{18}} + \frac{1000}{(1+(29/30)i)(1+i)^{22}}$$

Annual percentage rate (I) = wi = .1022 = 10.22%

*Example (F)(3):* Mortgage with varying payments

A loan of $39,688.56 (net) on 4–10–78 is to be repaid by 360 monthly payments beginning 6–1–78. Payments are the same for 12 months at a time as follows:

| Year | Monthly payment |
|---|---|
| 1 | $291.81 |
| 2 | 300.18 |
| 3 | 308.78 |
| 4 | 317.61 |
| 5 | 326.65 |
| 6 | 335.92 |
| 7 | 345.42 |
| 8 | 355.15 |
| 9 | 365.12 |
| 10 | 375.33 |
| 11 | 385.78 |
| 12 | 385.42 |
| 13 | 385.03 |
| 14 | 384.62 |
| 15 | 384.17 |
| 16 | 383.67 |
| 17 | 383.13 |
| 18 | 382.54 |
| 19 | 381.90 |
| 20 | 381.20 |
| 21 | 380.43 |
| 22 | 379.60 |
| 23 | 378.68 |
| 24 | 377.69 |
| 25 | 376.60 |
| 26 | 375.42 |
| 27 | 374.13 |
| 28 | 372.72 |
| 29 | 371.18 |
| 30 | 369.50 |

Unit-period = 1 month. Unit-periods per year (w) = 12.

From 5–1–78 through 6–1–78 = 1 unit-period. ($t = 1$)

From 4–10–78 through 5–1–78 = 21 days. ($f = 21/30$)

The general equation in Section II (H) can be written in the special form:

$$39{,}688.56 = \frac{\ddot{a}_{\overline{12|}}}{(1+(21/30)i)(1+i)}\left[291.81 + \frac{300.18}{(1+i)^{12}} + \frac{308.78}{(1+i)^{24}} + \cdots\cdots + \frac{369.50}{(1+i)^{348}}\right]$$

Annual percentage rate (I) = wi = .0980 = 9.80%

(G) *Multiple advance transactions.*

*Example (G)(1):* Construction loan

Three advances of $20,000 each are made on 4–10–79, 6–12–79, and 9–18–79.

Repayment is by 240 monthly payments of $612.36 each beginning 12–10–79.

Unit-period = 1 month. Unit-periods per year (w) = 12.

From 4–10–79 through 6–12–79 = (2 + 2/30) unit-periods.

From 4–10–79 through 9–18–79 = (5 + 8/30) unit-periods.

From 4–10–79 through 12–10–79 = (8) unit-periods.

The general equation in Section II (H) is reduced to the single advance mode by treating the 2nd and 3rd advances as negative payments:

$$20{,}000 = \frac{612.36\,\ddot{a}_{\overline{240|}}}{(1+i)^{8}} - \frac{20{,}000}{(1+(2/30)i)(1+i)^{2}} - \frac{20{,}000}{(1+(8/30)i)(1+i)^{5}}$$

Annual percentage rate (I) = wi = .1025 = 10.25%

*Example (G)(2):* Student loan

A student loan consists of 8 advances: $1800 on 9–5–78, 9–5–79, 9–5–80, and 9–5–81; plus $1000 on 1–5–79, 1–5–80, 1–5–81, and 1–5–82. The borrower is to make 50 monthly payments of $240 each beginning 7–1–78 (prior to first advance).

Unit-period = 1 month. Unit-periods per year (w) = 12.

Zero point is date of first payment since it precedes first advance.

From 7-1-78 to 9-5-78 = (2 + 4/30) unit-periods.

From 7-1-78 to 9-5-79 = (14 + 4/30) unit-periods.

From 7-1-78 to 9-5-80 = (26 + 4/30) unit-periods.

From 7-1-78 to 9-5-81 = (38 + 4/30) unit-periods.

From 7-1-78 to 1-5-79 = (6 + 4/30) unit-periods.

From 7-1-78 to 1-5-80 = (18 + 4/30) unit-periods.

From 7-1-78 to 1-5-81 = (30 + 4/30) unit-periods.

From 7-1-78 to 1-5-82 = (42 = 4/30) unit-periods.

Since the zero point is date of first payment, the general equation in Section II (H) is written in the single advance form below by treating the first payment as a negative advance and the 8 advances as negative payments:

$$-240 = \frac{240\,\ddot{a}_{\overline{49}|}}{(1+i)} - \frac{1800}{1+(4/30)i}\left[\frac{1}{(1+i)^{2}} + \frac{1}{(1+i)^{14}} + \frac{1}{(1+i)^{26}} + \frac{1}{(1+i)^{38}}\right] - \frac{1000}{1+(4/30)i}\left[\frac{1}{(1+i)^{6}} + \frac{1}{(1+i)^{18}} + \frac{1}{(1+i)^{30}} + \frac{1}{(1+i)^{42}}\right]$$

Annual percentage rate (I) = wi = .3204 = 32.04%

(H) *Transaction involving required deposit balance.*

*Example (H)(1):* Required constant deposit balance

Creditor advances $1000 on 4-12-79 and requires borrower to maintain a deposit balance of $200 throughout the 12 month loan. The loan is to be repaid by 12 equal monthly payments of $90 each beginning 5-12-79. The deposit balance will be released on 4-12-80.

Unit-period = 1 month. Unit-periods per year (w) = 12.

From 4-12-79 through 5-12-79 = 1 unit-period.

From 4-12-79 through 4-12-80 = 12 unit-periods.

The general equation in Section II (H) can be written as:

$$800 + \frac{200}{(1+i)^{12}} = \frac{90\,\ddot{a}_{\overline{12}|}}{(1+i)}$$

or for iteration solution as:

$$800 = \frac{90\,\ddot{a}_{\overline{12}|}}{(1+i)} - \frac{200}{(1+i)^{12}}$$

Annual percentage rate (I) = wi = .2223 = 22.23%

*Example (H)(2):* Required periodic deposits into a restricted account

Creditor advances $1000 on 6-15-79. Borrower is required to make 12 monthly payments of $110 each beginning 7-15-79, of which $20 is to be deposited into an account. The account will be released to the borrower at time of final payment on 6-15-80.

Unit-period = 1 month. Unit-periods per year (w) = 12.

From 6-15-79 through 7-15-79 = 1 unit-period.

The general equation in Section II (H) can be written as:

$$1000 + \frac{240}{(1+i)^{12}} = \frac{110\,\ddot{a}_{\overline{12}|}}{(1+i)}$$

or for iteration solution as:

$$1000 = \frac{110\,\ddot{a}_{\overline{12}|}}{(1+i)} - \frac{240}{(1+i)^{12}}$$

Annual percentage rate (I) = wi = .1779 = 17.79%.

By order of the Board of Governors, December 21, 1979.

Theodore E. Allison,

*Secretary of the Board.*

[FR Doc. 79-39611 Filed 12-28-79; 8:45 am]

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March 27, 1980

The Honorable George McGovern
United States Senate
Washington, D.C. 20510

Dear Senator McGovern:

Thank you for your letter of March 19, 1980, regarding the impact of monetary policy. We at the Federal Reserve share your concern about the hardships caused by high interest rates and tighter credit availability and would like very much to see a meaningful relaxation of financial conditions.

As you know, this country currently is confronted with a severe inflation problem. We cannot hope to solve that problem without adequate restraint on the growth of money. Unfortunately, in a circumstance where credit demands are enhanced by expectations of continued rapid price increase, such monetary restraint places upward pressures on interest rates. It is our hope that, as the public recognizes that policies are in place that are inconsistent with the continuation of recent inflationary trends, price expectations will moderate and interest rates will decline.

The speed with which this adjustment in expectations and credit demands occurs can be influenced considerably by the stance of other governmental policies. If, in particular, there is complementary restraint in federal fiscal policy and the Treasury's demands on financial markets are limited, we can expect salutary effects on inflation and interest rates. Moderation in private wage and price actions also can be very helpful.

While I think it is by no means certain that there will be a serious national recession, we run that risk. But it is not a risk that can be avoided by an "easier" monetary policy. Such a policy would only exacerbate inflationary pressures and lead ultimately to more serious economic disruptions and dislocations.

This is not to say that we can be sanguine about the difficulties facing particular sectors of the economy. I am familiar with the problems you note in your letter; they clearly extend well beyond the borders of your home state. It is impossible to shelter completely housing, small businesses, or agriculture from the impacts of monetary restraint. However, as a part of the special credit restraint program that we have announced recently, attention was given to the needs of those sectors. The special deposit requirement applied to money market mutual funds, for example, was designed in part to moderate the diversion of funds from institutions that typically are important in meeting the credit needs of housing, small business, and agriculture. The guidelines for commercial bank lending also recognize the desirability of giving due consideration to the credit needs of those sectors.

I believe that we have come to a point where no sector can look forward with any confidence to a prosperous future unless we are able to reverse the trend of inflation. The Federal Reserve can restore price stability alone only at great cost; we therefore hope that the other branches of the government will continue to move in the direction of fighting inflation.

Sincerely,

S/Paul A. Volcker

MJP:JLK:pjt (#V-99)
bcc: Mr. Kichline
Mr. Prell
Mrs. Mallardi (2)

GEORGE McGOVERN
SOUTH DAKOTA

Action assigned Mr. Kichline

# United States Senate

WASHINGTON, D.C. 20510

1980 MAR 21 AM 10: 21

March 19, 1980

#775
#99

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

Dear Mr. Chairman:

I want to register my deep concern and grave reservations over the nation's monetary policy.

I have never personally felt that "high interest rates and tight money" were an especially satisfactory way to fight inflation. Over the course of the past few days I have been visiting with scores of farmers, businessmen, bankers and savings and loan officials from South Dakota.

Their message is the same; namely that, in their view, we are headed toward a serious recession that will bankrupt many of them. Let me call the following points to your attention:

1. Agricultural producers - both farmers and cattlemen - traditionally require a firm line of credit to meet their operational expenses. This is needed to provide funds to purchase basic herd stock, plant crops and other outlays which must run for a minimum of several months until a crop is harvested, livestock sold, etc.

   On-the-farm prices have not benefited from the inflationary spiral. For many commodities, the prices for the farmer are not much different than they were ten years ago - yet his cost of production keeps increasing. In some instances, the only thing that has kept them going is the inflated cost of their land which has given them the collateral to obtain credit for operating costs until they are able to sell their product.

   But no farmer or rancher - large or small - can afford upwards of a 20% interest rate. I am, frankly, fearful that many of them will not be able to plant this Spring or, if they have received a loan, they will not have the resources to pay it back.

2. Automobile, farm equipment and truck dealers in South Dakota have suffered a substantive reduction in sales. There is concern that they will not be able to maintain the interest or carrying charges on their inventory, depending on their individual relationship with the manufacturer and/or commercial lending institution. Some have advised me that they are considering terminating their operations entirely.

3. As is probably true in most of the country, the housing market has collapsed in South Dakota. Several real estate firms have already gone out of business and more are considering it. Construction firms have laid off most of their employees.

4. Small businessmen are reporting that they are unable to replace their inventories where a line of credit is required. They cannot afford the interest rate and other carrying charges which, in many cases, is simply not available.

5. Smaller banks are unable to provide loans to even their long time customers. "No farmer or businessman, regardless of how good an operator he is, can afford these interest rates. They will either go broke, or the bank will end up with a bad loan", one banker told me.

6. Savings and Loan Associations have suffered substantive withdrawals as depositors rush to invest in higher yield securities in an effort, often futile, to keep pace with inflation. In several instances, S&L officers report that they will show "red ink" this quarter for the first time since their association was formed.

7. Many families, depending on borrowing money for personal reasons, to finance their children's college education, or for other purposes - simply do not have access to the necessary funds.

Mr. Chairman, I would hope that the policy of the Federal Reserve Board is not to trigger a national recession or depression. Yet, in my State, we are right on the brink of a severe economic downturn that will cause hardships far in excess of the concerns that focus on inflation.

As a member of the Congressional Joint Economic Committee and the Senate Committee on Agriculture, Nutrition and Forestry, I am giving serious consideration to scheduling an inquiry into these "high interest rate - tight money" policies.

Before proceeding on that course, however, I would welcome any comments that you might have on this very serious economic situation.

With every good wish, I am

Sincerely,

George McGovern

George McGovern

March 27, 1980

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

Dear Chairman Proxmire:

This is in response to your request of March 13, 1980, concerning specific information as to what written instructions are in place and how our examiners review compliance with the Bank Secrecy Act.

Your letter included a request for information regarding the number of violations of the Bank Secrecy Act that were cited by our examiners in 1978-79, as well as the number considered serious enough to refer to the Treasury Department for further action, together with the reason for referral. You also requested a breakout of such violations involving Florida banks, and lastly, steps taken by the System to adopt Treasury Department proposals for tightening financial recordkeeping and reporting and currency distribution guidelines and examinations.

Enclosed are Board staff responses to the specific questions posed in your letter, together with appropriate attachments.

If you or members of your staff wish further information or have any questions concerning the responses, please call Robert A. Jacobsen, Assistant Director in the Board's Division of Banking Supervision and Regulation (452-2522).

Sincerely,

S/Paul A. Volcker

RAJ:vcd (#V-91)
bcc: Jack Ryan
Bill Wallace (with attachments)
Mrs. Mallardi (2)

Enclosures

Action assigned to Bill Wallace



**United States Senate**

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WASHINGTON, D.C. 20510

1980 MAR 17 AM 9:55

March 13, 1980

#91

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

Dear Chairman Volcker:

The Committee on Banking, Housing and Urban Affairs is concerned about illegal drug trafficking in Florida and the involvement of banks in the handling and laundering of drug-related money. The Committee, which is planning to hold hearings shortly on this problem, is interested in the records that banks are required to keep under the Bank Secrecy Act and other records of bank transactions that could be useful in determining whether drug-related or other illicit money may be flowing into or through a bank.

As background for its hearings, the Committee is interested in the following information:

--the written instructions to the Federal Reserve System examiners and a description of how the examiners actually go about reviewing compliance with the Bank Secrecy Act, especially the filing of IRS Form 4789 Currency Transaction Reports and the verification of exemptions granted by a bank to customers from the filing of Currency Transaction Reports; currency deposits or transactions at a bank, especially those that are unusually large or deviate from a bank's usual pattern of activity; bank requests for large denomination currency that are significantly greater than a bank's normal requirements and records retained concerning the purchase of money orders and cashier's checks;

--figures for 1978 and 1979 on the number of violations of the Bank Secrecy Act cited by your examiners, the number of violations of the Act referred to the Treasury Department as serious violations requiring further action and the nature of those serious violations. The Committee would like the figures on Florida banks broken out; and

--the steps taken by the Federal Reserve System to adopt Treasury Department proposals for tightening financial record-keeping and reporting and currency distribution guidelines and examinations.

The Committee would appreciate receiving a reply no later than March 31.

Thank you in advance for your cooperation.

Sincerely,

William Proxmire
Chairman

WP/bfj

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

PAUL A. VOLCKER
CHAIRMAN

March 26, 1980

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

Dear Mr. Stanton:

I am writing to you to express my strong hope that the House of Representatives will approve without delay H.R. 4986, the "Depository Institutions Deregulation and Monetary Control Act of 1980."

Present conditions in the financial markets and the urgency of the anti-inflation program only emphasize the need to improve our systems of financial control, to strengthen the structure of our thrift institutions, and to achieve fair and equitable competitive conditions among institutions. H.R. 4986 would make enormous strides toward those objectives. And, the bill would also greatly expand the flexibility of the Federal Reserve in meeting any particular liquidity problems that might arise in the current circumstances.

After several years of debate in the Congress, I believe the proposed legislation does indeed represent a broad consensus among affected institutions about what is feasible and desirable, and, most importantly, meets the principal concerns of those of us charged with supervisory responsibilities and the conduct of monetary policy.

Put simply, the legislation provides us with the tools we need to conduct effective policy during a particularly sensitive period. The progress of this bill is being watched carefully by markets and all interested parties. Failure to secure enactment at this juncture of our financial and economic affairs could only work to undermine our efforts to restore economic and financial stability.

Sincerely,

Paul A Volcker

March 26, 1980

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

Dear Senator Proxmire:

In response to your request of January 8, I am enclosing data and other information concerning State member banks and bank holding companies to be used in connection with hearings on the condition of the financial system.

If members of your staff have any questions about these materials, Mr. Samuel H. Talley, Assistant Director of our Division of Banking Supervision and Regulation, is available to assist them.

Sincerely,

S/Paul A. Volcker

Enclosures

BT:jmr (V-6)

bcc: Mr. Talley
Ms. Mallardi (2)

Action assigned Jack Ryan



United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WASHINGTON, D.C. 20510

1980 JAN 11 PM 4:16

January 8, 1980

#6

The Honorable Paul Volcker
Chairman, Federal Reserve Board

The Honorable Irvine Sprague
Chairman, Federal Deposit Insurance Corporation

The Honorable John Heimann
Comptroller of the Currency

The Honorable Jay Janis
Chairman, Federal Home Loan Bank Board

The Honorable Lawrence Connell
Administrator, National Credit Union Administration

Gentlemen:

This Committee has held annual hearings on the condition of the financial system for the past three years. We have found the record developed during those hearings to be most useful in our legislative and oversight functions.

I believe that it would be in the public interest to continue such hearings on the condition of the financial system at least once in each year. Accordingly, sometime in May 1980 this Committee intends to conduct the Fourth Hearing on the Condition of the Financial System.

In preparation for the hearings, I suggest that the following statistical data be supplied to the Committee separately stated for categories of institutions as appropriate. The categories are, of course: national banks; state member banks; insured nonmember banks; bank holding companies; mutual savings and loan associations; stock savings and loan associations; federally insured credit unions; and, mutual savings banks, separately stated for institutions with deposits of \$5 billion and over, \$1 billion to \$4.99 billion, \$500 million to \$.999 billion, \$100 million to \$499 million and \$0 million to \$99 million, for each of the past five years.

1) A list of each category of institutions and problem institutions utilized by each of your agencies in the exercise of your regulatory or supervisory jurisdiction, along with a detailed description of the characteristics that are considered in categorizing any particular institution into each such category. Pertinent copies of rules or manuals should be supplied. All additions and deletions to such categories utilized during the past five years should be specifically set forth, including the new uniform rating system that will become effective in 1980.

2) The number of institutions that each of your agencies placed in each such category as of December 31, 1975 to December 31, 1979, along with the combined assets and combined deposits of all such institutions in each such category (including, of course, composite categories 3, 4, and 5, which are the categories requiring more than normal and special supervisory attention, under the system for evaluating the soundness of depository institutions adopted in December 1979).

3) The number of institutions moving into and out of categories 3, 4, and 5 on each date along with their total assets and deposits. For each date, the length of time each institution had been so designated.

4) The number of days institutions in each category borrowed from the Federal Reserve, Federal Home Loan Bank Board, or National Credit Union Administration, and the amount of their average daily borrowings (i. e., under emergency borrowing procedures).

5) The total equity and debt capital of all such institutions. Further, equity capital expressed as percentages of total assets and total deposits; debt capital expressed as percentages of total capital; total capital expressed as a percentage of total assets and as a percentage of risk assets; also loan reserves as percentages of (a) capital and (b) loans.

6) A statement of the policy and procedures of each of your agencies that insure compliance by institutions with the terms of disciplinary standby agreements entered into by foreign countries with the International Monetary Fund. Copies of manuals or rules should be supplied along with a sampling of such IMF agreements and a list of all countries in which such agreements are in effect.

7) Aggregate assets classified by examiners as substandard, doubtful, loss and specially mentioned along with the average assets classified by examiners for institutions in each category including a separate breakdown for domestic and foreign operations.

8) Classified assets expressed as a percentage of total capital in the aggregate and averaged for institutions in each category including a separate breakdown for domestic and foreign operations.

9) Aggregate loans made by institutions in each category along with the loan to deposit ratios of institutions in each such category and the ratio of net loan losses to total loans including a separate breakdown for domestic and foreign operations.

10) The 30 day average daily borrowings of institutions in each category (Federal funds, borrowings from the Federal Reserve, Federal Home Loan Bank Board, or National Credit Union Administration, and securities sold under repurchase agreements) along with the ratio of such borrowings to 30 day average deposits.

11) The dollar volume of property held by such institutions as real estate owned other than premises. Include copies of all regulations, policy statements, or guidelines in effect on such matters during any of the past five years, along with an explanation of the reasons for changes in such regulations, policy statements, or guidelines.

12) The dollar volume of commitments undertaken by such institutions including, and separately stating, a figure for standby letters of credit. Also, total standby letters of credit for banks with total deposits over $1 billion.

13) The number of cease and desist actions under the Financial Institutions Supervisory Act of 1966 against (a) institutions and (b) individuals with a short description of each.

14) The number of institutions that failed along with their total assets and deposits and a description of the specific cause of failure in each case. The name of each failed firm should be supplied.

15) The number of institutions that were the subject of mergers or holding company acquisitions to avert a failure or for some other supervisory reason. Supply the total assets and deposits of such firms along with their names and the specific deficiency in each case.

16) A table showing the size of your insurance fund each year since its inception along with the percentage of such insurance funds to insured deposits, total deposits and total assets of the institutions that it covers (including all bank holding company assets), separately stated, for those years.

17) The number of institutions under the jurisdiction of your agency for each of the past five years along with the number of such entities that were the subject of full examination by your agency each such year.

18) Aggregate net income (after all charges and credits) and aggregate net income as percentages of average equity capital and average assets.

The data requested herein are to be supplied to the Committee by April 1, 1980 so that the Committee will have ample time to review the data before the May hearings. I would appreciate your staffs contacting Mr. Lindy Marinaccio, Special Counsel to this Committee, if there are any questions on the matters requested.

Coordination among all three agencies will ensure a standard reply format and uniform definitions of terms and methodology so that information from the agencies can be readily compared and combined. I understand that the FDIC has on its computer much of the data requested herein for all banks. A single reply prepared by the FDIC from its data may facilitate the standard format. This information has been supplied in past years and needs only to be updated. In supplying the information, I suggest that separate replies be made to each question setting out data going back five years so that trends and comparisons may be made. Unless otherwise specified, all data should be based on consolidated statements for domestic and foreign operations.

I thank you in advance for your cooperation with the work of this Committee on these hearings.

Sincerely,

Bill Proxmire

William Proxmire
Chairman

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

PAUL A. VOLCKER
CHAIRMAN

March 26, 1980

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

Dear Chairman Reuss:

I am writing to you to express my strong hope that the House of Representatives will approve without delay H.R. 4986, the "Depository Institutions Deregulation and Monetary Control Act of 1980."

Present conditions in the financial markets and the urgency of the anti-inflation program only emphasize the need to improve our systems of financial control, to strengthen the structure of our thrift institutions, and to achieve fair and equitable competitive conditions among institutions. H.R. 4986 would make enormous strides toward those objectives. And, the bill would also greatly expand the flexibility of the Federal Reserve in meeting any particular liquidity problems that might arise in the current circumstances.

After several years of debate in the Congress, I believe the proposed legislation does indeed represent a broad consensus among affected institutions about what is feasible and desirable, and, most importantly, meets the principal concerns of those of us charged with supervisory responsibilities and the conduct of monetary policy.

Put simply, the legislation provides us with the tools we need to conduct effective policy during a particularly sensitive period. The progress of this bill is being watched carefully by markets and all interested parties. Failure to secure enactment at this juncture of our financial and economic affairs could only work to undermine our efforts to restore economic and financial stability.

Sincerely,

Paul A Volcker

March 25, 1980

The Honorable Gillespie V. Montgomery
House of Representatives
Washington, D.C. 20515

Dear Mr. Montgomery:

Thank you for sending me a copy of Dr. Leo Cheatham's article on inflation, interest rates, and saving behavior.

Like Dr. Cheatham, I am very concerned about the level of savings. Moreover, I agree with him that in recent years the failure of expected inflation to be fully reflected in nominal interest rates probably has encouraged spending (often on credit) in advance of expected price increases. I also agree that government spending needs to be reduced. This is preferred before we consider major tax cuts to spur savings and investment.

Sincerely,

S/Paul A. Volcker

~~XXXXX~~

~~XXX~~ DL:DK:MJP:pjt (#V86)
bcc: Messrs. Laufenberg, Kohn, Prell
Mrs. Mallardi (2)

Action assigned to Jim Kichline

G.V. "SONNY" MONTGOMERY
3RD DISTRICT, MISSISSIPPI

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AREA CODE (202) 225-5031

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MERIDIAN, MISSISSIPPI 39301
AREA CODE (601) 693-6681

COMMITTEES:
ARMED SERVICES
VETERANS' AFFAIRS

ADMINISTRATIVE ASSISTANT
JACK VANCE

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

#86

1980 MAR 14 PM 12:37

March 12, 1980

Paul A. Volcker
Mr. ~~G. William Miller~~
Chairman, Federal Reserve System
Constitution Avenue and 20th Street, N.W.
Washington, D. C. 20551

Dear Mr. Chairman:

The President of one of the banks in Mississippi has called my attention to an enlightening article that I believe is worthy of consideration by your office. I am, therefore, taking the liberty of attaching it for your information.

With warm personal regards, I am

Sincerely,

G. V. Montgomery
GILLESPIE V. MONTGOMERY
Member of Congress

GVM:cmm

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## Citation Information

**Document Type:** Article

**Number of Pages Removed:** 6

**Citations:** Cheatham, Leo R. "Inflation Impacts on Interest Rates and Savings." 1980.

CM

March 25, 1980

The Honorable Ed Bethune
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Bethune:

This is in response to your letter of March 6 requesting the Federal Reserve's views on the use of reserve requirements as a tool for controlling credit availability.

At the outset I might note that the day-to-day operations of monetary policy--and movement toward credit restraint or ease--is implemented mainly through open market operations that control the supply of bank reserves. Discount rate and reserve requirement changes influence the cost and demand for reserves and are used as important supplements to open market operations. Reserve requirement changes can also be used both in a general way and to implement specific policy operations.

For example, beginning in the late 1960's the Federal Reserve used changes in reserve requirements mainly to influence banks' choices regarding the issuance of specific types of liabilities. Early in the 1970's the Board applied a reserve requirement to increases above a base level in Eurodollar borrowing by commercial banks. This "marginal reserve requirement," by raising bank costs of issuing additional Eurodollar liabilities, was designed to curb such financing of bank credit growth during a period of restrictive monetary policy. Similarly, in 1973 a marginal reserve requirement was applied against increases in the sum of large time deposits (in denominations of $100,000 or more) and funds obtained via bank-related commercial paper and sales of finance bills. And a series of actions were undertaken in the mid-1970's to encourage banks to seek to lengthen the maturity of their time deposit liabilities, and thereby improve their liquidity positions. These latter actions produced a structure of time deposit reserve requirements graduated according to maturity, with successively lower requirements on longer-term deposits.

Most recently, attempts to damp the rate of expansion of bank credit available to domestic residents have aimed at increasing the cost of banks' managed liabilities. On November 2, 1978 a supplementary reserve requirement of 2 percent was imposed on large-denomination time deposits. Then, on October 6, 1979 an 8 percent marginal reserve requirement was imposed on increases in the sum of certain managed liabilities in excess of the amount outstanding in late September 1979. Covered by the program were large member banks and U.S. agencies and branches of foreign banks; managed liabilities included large time deposits, net Eurodollar borrowings, securities sold under agreements to repurchase, and federal funds borrowed from institutions not covered by the program.

On March 14, 1980, as part of a broad government program to help curb inflationary pressures, the Federal Reserve announced a series of monetary and credit actions. Included among these actions was an increase from 8 to 10 percent in the aforementioned marginal reserve requirement on the managed liabilities of large member banks and U.S. branches and agencies of foreign banks and a reduction in the base upon which the liabilities subject to the requirement are calculated. Under the authority granted by the President by the Credit Control Act of 1969, this action was also applied to large nonmember banks.

Demand deposit reserve requirements were lowered several times in the 1970's as the Board believed that the level of such ratios was too high for competitive equity between member and nonmember banks. Within the constraints of effective monetary policy, the Board had to consider the increasing attrition from membership which largely reflected the cost to member banks of federal reserve requirements. Thus, when policy called for ease, reductions in demand deposit reserve ratios were used, along with other tools; when restraint was called for, other actions were taken. However, it still remains that bank reserve requirements have served as the fulcrum for the System's ongoing control of the money stock. The precision of such control depends on the stability of the money-reserve multiplier, i.e., the amount of money that can be supported by each dollar of bank reserves. With a relatively stable multiplier, and hence a predictable relationship between money and reserves, the Federal Reserve can provide an amount of reserves to the banking system which will bring about approximately the targeted level of the money stock. The larger the proportion of transactions deposits that are covered by federal reserve requirements, the better is our short-run control of money. That is why the Federal Reserve so strongly supports the broader reserve coverage of transactions accounts at all depository institutions provided by Title I of the Proxmire-Reuss Depository Institutions Deregulation and Monetary Control Act of 1980.

Sincerely,

S/Paul A. Volcker

Paul A. Volcker

JWilliams/DELindsey/ECEttin:kt
# V-74

Assigned to Mr. Kichline

#74

ED BETHUNE
2ND DISTRICT, ARKANSAS

WASHINGTON OFFICE:
1330 LONGWORTH
HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-2506

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

DISTRICT OFFICE:
1527 FEDERAL BUILDING
700 WEST CAPITOL
LITTLE ROCK, ARKANSAS 72201
(501) 378-5941

February 13, 1980



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

Dear Members of the Board of Governors:

The current schedule of the Subcommittee on Financial Institutions calls for the Federal Reserve to testify on February 20. At that time, it is my intention to ask you if the legislation which I am enclosing will enhance the competitive status of financial institutions.

This bill would authorize state chartered, insured banks; insured branches of foreign banks; insured lending institutions until Title IV of the National Housing Act; HUD approved mortgagees; Small Business Investment Companies; and federal chartered credit unions to charge on any loan subject to a state usury law, interest at the higher of the state usury ceiling or a rate of one percent above the Federal Reserve Bank discount rate where such financial institution is located. On December 17, 1979, the Senate Banking Committee held a hearing on S. 1988, a similar bill.

In addition to alerting you to my intentions during the upcoming hearing, I am hoping that you will take this opportunity to respond, in writing, to three important aspects of the legislation that are set forth below:

1. <u>Should there be parity among the financial institutions?</u> For 46 years, national banks have enjoyed the authority to lend at a maximum interest rate of one percent above the discount rate, regardless of state law. Only within the last year or so have high interest rates created a prolonged need for this authority. Similarly, exceedingly high interest rates and severe economic conditions have affected the relationship between national banks and other financial institutions that must abide by state usury laws. These conditions do not appear to be improving. In my state of

Arkansas, for example, national banks may lend at rates up to 13 percent, whereas other institutions are subject to the 10 percent usury limit set by the State constitution. Voters in my State won't have an opportunity to amend the constitutional usury law until next November, and any change could not take effect until the following July of 1981. Consequently, funds are drying up, particularly in small communities that do not have access to national bank service. Twentytwo other states have a restrictive usury rate on one or more types of loans.

2. Should Congress equalize competition between financial institutions now? Congress is presently deliberating over legislation to phase out Regulation Q, preempt usury laws on real estate loans, allow nationwide NOW accounts, and expand the powers of savings and loan institutions. If current economic conditions continue, the disparity between national banks and other financial institutions may increase, depite attempts in H.R. 4986 to give the financial community tools to compete more equitably. Would the enclosed legislation not support the intent of H.R. 4986?

3. Should parity be established permanently? The legislation I am sending you calls only for a temporary equalization, while S. 1988 addresses the situation permanently. Since national banks have been given permanent authority to lend, notwithstanding state usury laws, would it not be appropriate to treat this ameliorative legislation similarly? The intent of the 1933 Banking Act was to assure that lenders could continue to lend money at rates that cover the costs of their funds. Isn't it just as important to give state banks and other lenders permanent ability to cover their costs, as it is for national banks?

Thank you for your kind consideration. I look forward to hearing from you soon and discussing this matter with you at the upcoming hearing.

Sincerely,

Ed Bethune
Member of Congress

EB:vj

Enclosure

96th CONGRESS
2d Session

H. R. ______

---

IN THE HOUSE OF REPRESENTATIVES

---

Mr. Alexander introduced the following bill; which was referred to the Committee on ____________

---

A BILL

To equalize competition between State and national banks, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, Short Title

Section 1. This Act may be cited as the ``Interest Rate EQUALIZATION ~~Parity~~ Act of 1980''.

TITLE I--INTEREST RATE AMENDMENTS REGARDING STATE USURY CEILINGS ON CERTAIN LOANS

Insured Banks

Sec. 101. The Federal Deposit Insurance Act (12 U.S.C. 1811 et seq.) is amended by adding at the end thereof the following new section:

``Sec. 27. (a) In order to prevent discrimination against State-chartered insured banks or insured branches of foreign banks with respect to interest rates, if the applicable rate prescribed in this subsection exceeds the rate such State bank or insured branch of a foreign bank would be permitted to charge in the absence of this subsection, a State bank or an insured branch of a foreign bank may, notwithstanding any State constitution or statute, which is hereby preempted for the purposes of this section, take, receive, reserve, and charge on any loan or discount made, or upon any note, bill of exchance, or other evidence of debt, interest at a rate of not more than 1 per centum in excess of the discount rate on ninety-day commercial paper in effect at the Federal Reserve bank in the Federal Reserve district where the bank or insured branch of a foreign bank is located or at the rate allowed by the laws of the State, territory, or district where the bank is located, whichever may be greater.

''(b) If the rate prescribed in subsection (a) exceeds the rate such State bank or insured branch of a foreign bank would be permitted to charge in the absence of this paragraph, and such State fixed rate is thereby preempted by the rate described in subsection (a), the taking, receiving, reserving, or charging a greater rate of interest than is allowed by subsection (a), when knowingly done, shall be deemed a forfeiture of the entire interest which the note, bill, or other evidence of debt carries with it, or which has been agreed to be paid thereon. If such greater rate of interest has been paid, the person who paid it may recover in a civil action commenced in a court of appropriate jurisdiction not later than two years after the date of such payment, an amount equal to twice the amount of the interest paid from the State bank or insured branch of a foreign bank taking or receiving such interest.''.

Insured Savings and Loan Associations

Sec. 102. Title IV of the National Housing Act (12 U.S.C. 1724 et seq.) is amended by adding at the end thereof the following new section:

''Sec. 414. (a) If the applicable rate prescribed in this section exceeds the rate an insured institution would be permitted to charge in the absence of this section, such institution may, notwithstanding any State constitution or statute, which is hereby preempted for the purposes of this section, take, receive, reserve, and charge on any loan or discount made, or upon any note, bill of exchange, or other evidence of debt, interest at a rate of not more than 1 per centum in excess of the discount rate on ninety-day commercial paper in effect at the Federal Reserve bank in the Federal Reserve district where the institution is located or at the rate allowed by the laws of the State, territory, or district where the institution is located, whichever may be greater.

``(b) If the rate prescribed in subsection (a) exceeds the rate such institution would be permitted to charge in the absence of this section, and such State fixed rate is thereby preempted by the rate described in subsection (a), the taking, receiving, reserving, or charging a greater rate of interest than that prescribed by subsection (a), when knowingly done, shall be deemed a forfeiture of the entire interest which the note, bill, or other evidence of debt carries with it, or which has been agreed to be paid thereon. If such greater rate of interest has been paid, the person who paid it may recover, in a civil action commenced in a court of appropriate jurisdiction not later than two years after the date of such payment, an amount equal to twice the amount of the interest paid from the institution taking or receiving such interest.''.

Mortgage Bankers

Sec. 103. Title V of the National Housing Act (12 U.S.C. 1731 et seq.) is amended by adding at the end thereof the following new section:

''Sec. 530. (a) If the applicable rate prescribed in this section exceeds the rate an institution approved as a mortgagee under section 203 of this Act would be permitted to charge in the absence of this section, the mortgagee may, notwithstanding any State constitution or statute, which is hereby preempted for the purposes of this section, take, receive, reserve, and charge on any such loan, interest at a rate of not more than 1 per centum in excess of the discount rate on ninety-day commercial paper in effect at the Federal Reserve bank in the Federal Reserve district where the mortgagee is located or at the rate allowed by the laws of the State, territory, or district where the mortgagee is located, whichever may be greater.

''(b) If the rate prescribed in subsection (a) exceeds the rate such mortgagee would be permitted to charge in the absence of this section, and such State fixed rate is thereby preempted by the rate described in subsection (a), the taking, receiving, reserving, or charging a greater rate than is allowed by subsection (a), when knowingly done, shall be deemed a forfeiture of the entire interest which the loan carries with it, or which has been agreed to be paid thereon. If such greater rate of interest has been paid, the person who paid it may recover, in a civil action commenced in a court of appropriate jurisdiction not later than two years after the date of such payment, an amount equal to twice the amount of interest paid from the mortgagee taking or receiving such interest.''.

Insured Credit Unions

Sec. 104. Section 205 of the Federal Credit Union Act (12 U.S.C. 1785) is amended by adding at the end thereof the following new subsection:

``(f)(1) If the applicable rate prescribed in this subsection exceeds the rate an insured credit union would be permitted to charge in the absence of this subsection, the credit union may, notwithstanding any State constitution or statute, which is hereby preempted for the purposes of this section, take, receive, reserve, and charge on any loan, interest at a rate of not more than 1 per centum in excess of the discount rate on ninety-day commercial paper in effect at the Federal Reserve bank in the Federal Reserve district where the insured credit union is located or at the rate allowed by the laws of the State, territory, or district where the credit union is located, whichever may be greater.

``(2) If the rate prescribed in paragraph (1) exceeds the rate such credit union would be permitted to charge in the absence of this subsection, and such State fixed rate is thereby preempted by the rate described in paragraph (1), the taking, receiving, reserving, or charging a greater rate than is allowed by paragraph (1), when knowingly done, shall be deemed a forfeiture of the entire interest which the loan carries with it, or which has been agreed to be paid thereon. If such greater rate of interest has been paid, the person who paid it may recover, in a civil action commenced in a court of appropriate jurisdiction not later than two years after the date of such payment, an amount equal to twice the amount of interest paid from the credit union taking or receiving such interest.''.

Small Business Investment Companies

Sec. 105. Section 308 of the Small Business Investment Act of 1958 (15 U.S.C. 687) is amended by adding at the end thereof the following new subsection:

``(i)(1) The purpose of this subsection is to facilitate the orderly and necessary flow of long-term loans and equity funds from small business investment companies to small business concerns.

``(2) In the case of a business loan, the small business investment company making such loan may charge interest on such loan at a rate which does not exceed the lowest of the rates described in subparagraphs (A), (B), and (C).

``(A) The rate described in this subparagraph is the maximum rate prescribed by regulation by the Small Business Administration for loans made by any small business investment company (determined without regard to any State rate incorporated by such regulation).

''(B) The rate described in this subparagraph is the maximum rate authorized by an applicable State law which is not preempted for purposes of this subsection.

''(C)(i) The rate described in this subparagraph is the higher of the Federal Reserve rate or the maximum rate authorized by applicable State law (determined without regard to the preemption of such State law).

''(ii) For purposes of clause (i), the term 'Federal Reserve rate' means the rate equal to the sum of 1 percentage point plus the discount rate on ninety-day commercial paper in effect at the Federal Reserve bank in the Federal Reserve district in which the principal office of the small business investment company is located.

''(iii) The rate described in this subparagraph shall not apply to loans made in a State if there is no maximum rate authorized by applicable State law for such loans or there is a maximum rate authorized by an applicable State law which is not preempted for purposes of this subsection.

''(3) A State law shall be preempted for purposes of paragraph (2)(B) with respect to any loan if such loan is made before July 1, 1982.

''(4)(A) If the maximum rate of interest authorized under paragraph (2) on any loan made by a small business investment company exceeds the rate which would be authorized by applicable State law if such State law were not preempted for purposes of this subsection, the charging of interest at any rate in excess of the rate authorized by paragraph (2) shall be deemed a forfeiture of the greater of (i) all interest which the loan carries with it, or (ii) all interest which has been agreed to be paid thereon.

''(B) In the case of any loan with respect to which there is a forfeiture of interest under subparagraph (A), the person who paid the interest may recover from a small business investment company making such loan an amount equal to twice the amount of the interest paid on such loan. Such interest may be recovered in a civil action commenced in a court of appropriate jurisdiction not later than two years after the most recent payment of interest.''.

Effective Date

Sec. 106. The amendments made by sections 101 through 104 of this title shall apply only with respect to loans made in any State during the period beginning on the date of enactment of this Act and ending on July 1, 1982.

TITLE II--APPLICABILITY OF STATE USURY CEILINGS TO CERTAIN

OBLIGATIONS ISSUED BY BANKS AND AFFILIATES

Member Banks

Sec. 201. Section 19 of the Federal Reserve Act is amended by adding at the end thereof the following new subsection:

''(l) No member bank or affiliate thereof, or any successor or assignee of such member bank or affiliate or any endorser, guarantor, or surety of such member bank or affiliate may plead, raise, or claim directly or by counterclaim, setoff, or otherwise, with respect to any deposit or obligation of such member bank or affiliate, any defense, right, or benefit under any provision of a statute or constitution of a State or of a territory of the United States, or of any law of the District of Columbia, regulating or limiting the rate of interest which may be charged, taken, received, or reserved, and any such provision is hereby preempted, and no civil or criminal penalty which would otherwise be applicable under such provision shall apply to such member bank or affiliate or to any other person.''.

Insured Banks

Sec. 202. Section 18 of the Federal Deposit Insurance Act (12 U.S.C. 1828 et seq.) is amended by adding at the end thereof the following new subsection:

''(m) No insured nonmember bank or affiliate thereof or insured branch of a foreign bank, or any successor or assignee of such bank, affiliate, or insured branch or any endorser, guarantor, or surety of such bank, affiliate, or insured branch may plead, raise, or claim, directly or by counterclaim, setoff, or otherwise, with respect to any deposit or obligation of such bank, affiliate, or insured branch, any defense, right, or benefit under any provision of a statute or constitution of a State or of a territory of the United States, or of any law of the District of Columbia, regulating or limiting the rate of interest which may be charged, taken, received, or reserved, and any such provision is hereby preempted, and no civil or criminal penalty which would otherwise be applicable under such provision shall apply to such bank, affiliate, or insured branch or to any other person.''.

Savings and Loan Associations

Sec. 203. Section 5B of the Federal Home Loan Bank Act (12 U.S.C. 1425b) is amended by adding at the end thereof the following new subsection:

``(f) No member or nonmember association, institution, or bank or affiliate thereof, or any successor or assignee, or any endorser, guarantor, or surety thereof may plead, raise, or claim, directly or by counterclaim, setoff, or otherwise, with respect to any deposit or obligation of such member or nonmember association, institution, bank, or affiliate, any defense, right, or benefit under any provision of a statute or constitution of a State or of a territory of the United States, or of any law of the District of Columbia, regulating or limiting the rate of interest which may be charged, taken, received, or reserved, and any such provision is hereby preempted, and no civil or criminal penalty which would otherwise be applicable under such provision shall apply to such member or nonmember association, institution, bank, or affiliate or to any other person.''.

Effective Date

Sec. 204. The amendments made by sections 201, 202, and 203 of this title shall apply only with respect to deposits made or obligations issued in any State during the period beginning on the date of the enactment of this Act and ending on July 1, 1982.

TITLE III--GENERAL PROVISIONS

Effective Date

Sec. 301. The amendments made by this Act shall take effect on the date of the enactment of this Act, except that such amendments shall not apply in any case in which the amendments made by, or the provisions of, the Act of November 5, 1979 (93 Stat. 789; Public Law 96-104) or the Act of December 28, 1979 (93 Stat. 1233; Public Law 96-161) are applicable to the transaction involved.

Severability

Sec. 302. If any provision of this Act or the application of such provision to any person or circumstance shall be held invalid, the remainder of this Act and the application of such provision to any person or circumstance other than that as to which it is held invalid shall not be affected thereby.

V-34

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

March 25, 1980

The Honorable Robert A. Roe
House of Representatives
Washington, D.C. 20515

Dear Mr. Roe:

Thank you for your recent letter to Chairman Volcker requesting comment on the enclosed letter from Mr. Howard Grimes of Wayne, New Jersey, concerning interest rate ceilings and the time deposit early withdrawal penalty. Mr. Grimes' concerns apparently arise from his experiences with a Federal savings and loan association which is subject to regulations promulgated by the Federal Home Loan Bank Board. The Federal Reserve Board's regulations only apply to banks that are members of the Federal Reserve System. Comment on Mr. Grimes' concerns is being provided, however, since the Federal financial institution regulatory agencies have adopted similar interest rate regulations.

The Board of Governors has the responsibility for establishing the maximum rates of interest payable on savings and time deposits by banks that are members of the Federal Reserve System. Similar responsibility for setting rates payable by federally insured savings and loan associations rests with the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board, respectively. The present interest rate limitations are intended to preserve balanced competition among depository institutions and have been developed in part on the basis of legislation enacted by Congress in 1966 (Public Law 89-597) and renewed periodically since that time. The intent of Congress in enacting Public Law 89-597 was to halt the then prevailing interest rate escalation and the undue diversion of savings away from thrift institutions which have a major role in the financing of housing.

In May 1979, the Board and the other federal financial regulatory agencies announced a series of regulatory changes designed to help small savers obtain a higher return on their deposits, including a new time deposit with a maturity of four years or more with a ceiling rate of interest based on the yield for four-year Treasury securities. This variable ceiling time deposit category was replaced with a new 2-1/2 year variable ceiling time deposit effective January 1, 1980. The ceiling rate of interest payable on the new 2-1/2 year time deposit is based on the yield for 2-1/2 year Treasury securities. Mr. Grimes notes that the ceiling rate of interest payable on the new time deposit is substantially higher than the ceiling rate of interest payable on fixed-ceiling time deposits of comparable maturity. He states further that when he converted several lower yielding certificates of comparable maturity to a new higher yielding certificate, an interest forfeiture penalty of $885 was imposed by the savings and loan association. Mr. Grimes questions the appropriateness of applying such a penalty in a situation in which no funds are actually withdrawn from the institution.

The interest forfeiture rules for financial institutions have been in effect for many years. The purpose of the rules is to discourage requests for early withdrawals in recognition of the fact that financial institutions that obtain funds through the issuance of longer-term time deposits generally use those funds for immediate or long-term investments. Uncertainty regarding the possible withdrawal of large amounts of funds from the bank or other financial institution before the agreed upon maturity could seriously disrupt the institution's loan and investment programs. If such a practice became widespread, it could have a substantially adverse effect on the stability of the nation's banking system. From the standpoint of portfolio management, the conversion of an outstanding time deposit to a higher yielding instrument, even though the funds remain on deposit, has the same effect as an early withdrawal on a financial institution's ability to structure its loan and investment portfolios. Accordingly, the agencies have regarded it as appropriate to apply the early withdrawal penalty to conversions that result in an increase in the rate of interest paid on outstanding time deposits.

Mr. Grimes also comments on the severity of the early withdrawal penalty. The Board and the other agencies modified their interest forfeiture rules effective last July to generally lessen the severity of the early withdrawal penalty. Section 217.4(d) of the Board's Regulation Q (enclosed) provides that for deposits with original maturities of more than one year, the minimum required penalty is a loss of six months' interest. For deposits with original maturities of one year or less, the minimum required penalty is a loss of three months' interest. The former penalty rule required a reduction of the rate paid on the funds withdrawn to the savings deposit rate plus forfeiture of three months' interest at that rate. The new penalty rule applies to all time deposit contracts entered on or after July 1, 1979, and to all pre-existing time deposits that are renewed on or after July 1. In addition, financial institutions are permitted, at their option and with the consent of the depositor, to apply the new penalty rule to all other time deposits entered into prior to July 1, 1979. Since, as indicated in Mr. Grimes' letter, his time deposits were issued before July 1, 1979, and not renewed on or after that date, the deposits were subject to the former early withdrawal penalty.

The Federal Reserve Board and the other financial regulatory agencies are constantly reviewing their interest rate ceiling and time deposit regulations. With reference to interest rate ceilings, the Board for some time has taken the view that such ceilings are undesirable because they can distort credit allocation by diverting funds from their most effective use. In this regard, it should be noted that Congress is currently considering H.R. 4986 which, among other things, would provide for the gradual phase-out of all interest rate ceilings over a six-year period. The Federal Reserve supports this approach and believes that the gradual abolition of interest rate ceilings will work not only to the benefit of the small savers, but will benefit the financial system as well.

I hope this information is useful to you. Please let me know if I can be of further assistance.

Sincerely yours,

Donald J. Winn
Special Assistant to the Board

Enclosure

AFC:JHJ:jmr

Cong. V-34
GC-32

bcc: Mr. Cole
Mr. Jorgensen

Action assigned Mr. Petersen

ROBERT A. ROE
8TH DISTRICT, NEW JERSEY

PUBLIC WORKS AND TRANSPORTATION COMMITTEE
CHAIRMAN—ECONOMIC DEVELOPMENT
SUBCOMMITTEES:
SURFACE TRANSPORTATION
OVERSIGHT AND REVIEW

SCIENCE AND TECHNOLOGY
SUBCOMMITTEES:
ENERGY RESEARCH AND PRODUCTION
ENERGY DEVELOPMENT AND APPLICATIONS

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

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201-523-5152

158 BOONTON ROAD
WAYNE, NEW JERSEY 07470
201-696-2077

#34



February 4, 1980

Hon. Paul A. Volcker
Chairman, Board of Governors
Federal Reserve System
Constitution Avenue and 21st Street, N.W.
Washington, D.C. 20551

Dear Mr. Chairman:

Enclosed is a copy of a letter sent to you by one of my constituents wherein he expresses his amazement at the complex regulations regarding various interest rates.

His comments have considerable merit and I would appreciate your views on same.

Thank you for your assistance in this matter.

With all good wishes,

Sincerely,

Robert A. Roe

Robert A. Roe
Member of Congress

21 Staker Drive,
Wayne, N. J. 07470
January 18, 1980

Federal Reserve Bank,
Federal Reserve P.O. Station,
New York, N. Y. 10045

Attention: Mr. Paul A. Volcker, Pres.

Dear Mr. Volcker:

As I see the situation today, something is wrong with the Federal Reserve System and we are in trouble.

Federal regulations control the activities of the banking industry, including National Banks, Trust Companies and Saving & Loan Institutions. Each is operating under separate rules governing the rate they can charge for loans or the interest payable on savings accounts and certificates of deposit.

Many banks are spending thousands of dollars competing for business, advertising the amount of interest payable on savings, and offering gifts to entice people to put their money into all sorts of accounts. Passbook rates vary from 4% to 5.5%; certificates range from 6 months to 8 years at 6.5% for one year to 8% for eight years. In November 1979 some banks were offering 4 year certificates at 10.55% while others have 4 years at 7.50%. In January 1980 a new 2½ year certificate with $100.00 minimum is being offered at 10.40%, while other 2½ year certificates are offered at 6.75%. There is mass confusion and misunderstanding, while depositors switch from one type of certificate or savings to another to earn more interest.

The penalty for changing from one type to another is outrageous, as I recently discovered to the tune of [redacted]. The transaction involved changing two 6 year certificates to one 4 year certificate that took about 15 minutes and a few pieces of paper to cancel the two 7-3/4% certificates, [redacted] and [redacted] and issue a new 10.55% 4 year certificate for [redacted]. The money did not leave the bank at all, as the check drawn to cover the cancellation was endorsed to pay for the new certificate. Twenty-one months of earning at 7-3/4% was reduced to passbook rate of 5½% and the difference of [redacted] was withheld from the total accumulation of principal and interest, as a penalty.

I took my complaint to the President of the Saving & Loan two months later because it had me very upset. His reply to me was, "I feel very sorry for what happened, but we are bound by Federal regulations over which we have no control."

You know and I know that something is wrong but before requesting the AARP legislative committee to take any action, I would appreciate a reply from you or someone in Washington, D.C. to clarify any misunderstanding I may have.

Sincerely,

Howard Grimes

HOWARD GRIMES

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

PAUL A. VOLCKER
CHAIRMAN

March 25, 1980

The Honorable Ed Jones
House of Representatives
Washington, D.C. 20515

Dear Mr. Jones:

I have read the recent letter from your constituent, Mr. Joseph B. Wood, and I understand his concerns. There can be no doubt that the rise in interest rates has had an adverse effect on homebuilding and on the savings and loan industry.

A policy of monetary restraint, such as is currently being pursued by the Federal Reserve, is absolutely essential to any anti-inflationary effort. Unfortunately, such a policy, carried out in the face of credit demands conditioned by rapid inflation and intense inflationary expectations, brings with it considerable upward pressures on interest rates in the near term. Only when it becomes clear that inflation will moderate will those pressures abate and interest rates show a sustained decline.

Homebuilding tends to be highly sensitive to changes in interest rates. This is partly a result of the nature of the house itself as a long-lived investment, but it also reflects the nature of financial markets. Savings and loan associations, owing to the imbalance in the maturity structure of their assets and liabilities, tend to encounter liquidity and earnings pressures as interest rates rise. Various innovations, in many instances the result of federal regulatory action, have helped to reduce the impact of high interest rates on thrift institutions and the housing industry, but they have not eliminated that impact entirely.

The Federal Reserve has been sensitive to the relative harshness of monetary stringency on the housing sector. The Board's recently announced program of credit restraint was designed in part to reduce the disruption of normal flows of funds into the residential mortgage market. But Mr. Wood is quite correct in suggesting that a broadly based approach to solving our inflation problem is needed--and would ease the burden on the housing sector. I believe that the other parts of the government's anti-inflation program--including the focus on budgetary discipline and on improving productivity--are an important step in this direction and can help to alleviate the tensions in financial markets.

Sincerely,

S/Paul A. Volcker

MJP:jmr (V-96)

bcc: Mr. Prell
Mr. Kichline --Mrs. Mallardi (2)

Action assigned to Mr. K[illegible]chline

ED JONES
7TH DISTRICT, TENNESSEE
104 CANNON HOUSE OFFICE BUILDING
(202) 225-4714

COMMITTEE ON
AGRICULTURE

CHAIRMAN:
SUBCOMMITTEE ON
CONSERVATION AND CREDIT

COMMITTEE ON
HOUSE ADMINISTRATION

CHAIRMAN:
SUBCOMMITTEE ON
HOUSE SERVICES

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

ADMINISTRATIVE ASSISTANT
RAY H. LANCASTER

DISTRICT OFFICES:
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MEMPHIS, TENNESSEE 38127
(901) 358-4094

P.O. BOX 128
YORKVILLE, TENNESSEE 38389
(901) 643-6123

March 12, 1980

#96

80 MAR 17 AM 9:54

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

Dear Mr. Chairman:

Enclosed is a copy of a letter I recently received from Mr. Joseph B. Wood, one of my constituents.

I would appreciate your consideration of his comments, and I will be looking forward to your response.

With kindest regards and best wishes, I am

Sincerely yours,

Ed Jones

ED JONES, M. C.

EJ/st

Enc:

Germantown Trust
Savings and Loan

February 26, 1980

RECEIVED

FEB 29 1980

ED JONES, M.C.
7TH DISTRICT TENNESSEE

Congressman Ed Jones
Cannon Building
Room 104
Washington, D.C. 20515

Dear Congressman Jones:

Once again housing and home finance will bear the brunt of the government's single-dimension approach to controlling inflation.

Home loan activity in many markets throughout the country has slowed to a trickle and the Fed's action today could well shut it off completely.

Last October, the Federal Reserve pushed interest rates to record levels, but the results in terms of curbing inflation have been most disappointing and discouraging. Instead of curbing inflation, we must now consider whether the higher interest rate program is actually aggravating inflation and causing it to feed upon itself.

The savings and loan business as the mainstay of credit for home buyers and sellers calls upon President Carter, the Congress and the Federal Reserve to create a more balanced approach.

Sincerely,

Joseph B. Wood

Joseph B. Wood
President

JBW/kld

P.O. Box 38269, 7770 Poplar Ave., Germantown, TN 38138, (901) 754-5560

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

PAUL A. VOLCKER
CHAIRMAN

March 25, 1980

The Honorable Ed Jones
House of Representatives
Washington, D.C. 20515

Dear Mr. Jones:

I am responding to your recent letter asking for consideration of the concerns expressed by one of your constituents, Mr. Jeffrey S. Owen, regarding monetary policy. Mr. Owen described the impact of high interest rates on his business, a building materials firm. Clearly, construction activity is relatively sensitive to changes in financial conditions, and residential building has been relatively severely affected by the rise in interest rates over recent months.

Mr. Owen asks that current monetary policy be re-examined with an eye to the advisability of seeking lower interest rates. High interest rates, unfortunately, are an inevitable and unavoidable by-product of the rapid inflation confronting us today. Borrowers, anticipating further price increases and increased nominal incomes, are willing to pay relatively high interest rates, while lenders are seeking high rates in order to offset the prospective erosion of the purchasing power of later repayments. The Federal Reserve could offset the resultant pressures on interest rates only by expanding the supply of money at an accelerated pace; however, such a policy would add fuel to the fires of inflation and lead before long to still greater upward pressures on rates.

The only way we can achieve a lasting decline in interest rates is to get inflation under control. Monetary discipline is a necessary element in this effort; but if there is complementary restraint in fiscal policy and in private wage and price decisions, the slowing of inflation can be achieved more quickly and with less tension in financial markets. The need for such a broadly based approach is reflected in President Carter's anti-inflation program.

Sincerely,

S/Paul A. Volcker

MJP:jmr (#V-85)

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

Action assigned to Jim Kichline

ED JONES
7TH DISTRICT, TENNESSEE
104 CANNON HOUSE OFFICE BUILDING
(202) 225-4714

COMMITTEE ON
AGRICULTURE

CHAIRMAN:
SUBCOMMITTEE ON
CONSERVATION AND CREDIT

COMMITTEE ON
HOUSE ADMINISTRATION

CHAIRMAN:
SUBCOMMITTEE ON
HOUSE SERVICES

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

ADMINISTRATIVE ASSISTANT
RAY H. LANCASTER

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P.O. BOX 128
YORKVILLE, TENNESSEE 38389
(901) 643-6123

March 12, 1980

#85

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

Dear Mr. Chairman:

Enclosed is a copy of a letter I recently received from Mr. Jeffrey S. Owen, one of my constituents.

I would appreciate your consideration of his comments, and I will be looking forward to your response.

With kindest regards and best wishes, I am

Sincerely yours,

Ed Jones

ED JONES, M. C.

EJ/st

Enc:

# OWEN LUMBER & MILLWORK, INC.

2625 Summer Avenue • Memphis, Tennessee 38112 • P. O. Box 12765 • Phone (901) 324-4441

February 18, 1980

RECEIVED

FEB 20 1980

ED JONES, M.C.
7TH DISTRICT TENNESSEE

Congressman Ed Jones
104 Cannon Bldg.
Washington, D.C. 20515

Dear Congressman Jones:

I wish to discuss with you my concern over the present federal monetary policies that presently exsist in this country.

As of Friday, February 15, 1980 the Federal Reserve raised their rate to their member banks to 13%. I realize that everyone is struggling to hold inflation down, but I wish to bring several things to your attention.

We at Owen Lumber are typical medium size building materials business, we sell wholesale, as well as, retail and employ approximately 40-60 employees. The amount of employees depends upon the amount of local construction activity.

As of late, with the tightened money situation, it has caused our firm to lay off several employees, due to lack of construction. As of last week the wholesale price index rose 1.5%, this is the largest jump in the index since 1974. However, there are several things behind this that I feel should be brought to your attention.

Minimum wage just increased to $3.15 an hour, social security has taken an increase, gasoline has increased from approximately .68 per gallon wholesale a year ago to 1.06 wholesale per gallon presently, and interest rates have jumped nearly 30% since last year. A small business such as ours cannot continue to absorb the cost of doing business and not pass this along to the consumer. As government spending increases and contunued oil prices push upward, along with other factors this will extinguish much demand for housing or future building.

I urge you to re-examine the current monetary policy of this country. Especially the amount of interest being charged by the Federal Reserve, that has to be passed along to the consumer.

I would appreciate your attention to this problem, and look forward to your response, as well as your action.

Sincerely yours,

Jeffrey S. Owen
President

ah

"Service with integrity"

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

PAUL A. VOLCKER
CHAIRMAN

March 24, 1980

The Honorable Richard Bolling
Chairman
Committee on Rules
House of Representatives
Washington, D.C. 20515

Dear Chairman Bolling:

The Rules Committee this week will be considering H.R. 4986, the "Proxmire-Reuss Depository Institutions Deregulation and Monetary Control Act of 1980". I am writing to you to express my strong hope that this legislation will be promptly enacted.

Present conditions in the financial markets and the urgency of the anti-inflation program only emphasize the need to improve our systems of financial control, to strengthen the structure of our thrift institutions, and to achieve fair and equitable competitive conditions among institutions. H.R. 4986 would make enormous strides toward those objectives.

After several years of debate in the Congress, I believe the proposed legislation does indeed represent a broad consensus among affected institutions about what is feasible and desirable, and, most importantly, meets the principal concerns of those of us charged with supervisory responsibilities and the conduct of monetary policy.

Put simply, the legislation provides us with the tools we need to conduct effective policy during a particularly sensitive period. The progress of this bill is being watched carefully by markets and all interested parties. Failure to secure enactment at this juncture of our financial and economic affairs could only work to undermine our efforts to restore economic and financial stability.

Sincerely,

Paul A Volcker

March 24, 1980

The Honorable Don Ritter
House of Representatives
Washington, D.C. 20515

Dear Mr. Ritter:

Thank you for your recent letter regarding Federal Reserve policy. I share your concerns about the uneven impact of monetary restraint, and in particular about the effect of the rise in interest rates on homebuilding.

A policy of monetary restraint, such as is currently being pursued by the Federal Reserve, is absolutely essential to any anti-inflationary effort. Unfortunately, such a policy, carried out in the face of credit demands conditioned by rapid inflation and intense inflationary expectations, brings with it considerable upward pressures on interest rates in the near term. Only when it becomes clear that inflation will moderate will those pressures abate and interest rates show a sustained decline.

Homebuilding tends to be highly sensitive to changes in interest rates. This is partly a result of the nature of the house itself as a long-lived investment, but it also reflects the nature of financial markets. Thrift institutions, owing to the imbalance in the maturity structure of their assets and liabilities, tend to encounter liquidity and earnings pressure as interest rates rise. Various innovations, in many instances the result of federal regulatory action, have helped to reduce the impact of high interest rates on thrift institutions and the housing industry, but they have not eliminated that impact entirely.

The Federal Reserve has been sensitive to the relative harshness of monetary stringency on the housing sector. The Board's recently announced program of credit restraint was designed in part to reduce the disruption of normal flows of funds into the residential mortgage market. But you are quite correct in suggesting that a broadly-based approach to solving our inflation problem is needed--and would ease the burden on housing and other sectors that are especially sensitive to credit market conditions. I believe that the other parts of the government's anti-inflation program--including the focus on budgetary discipline and on improving productivity--are an important step in this direction and can help to alleviate the tensions in financial markets.

I look forward to working with you and your colleagues in the Congress to find solutions to our nation's serious economic problems.

Sincerely,

S/Paul A. Volcker

MJP:jmr

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

#V037)

Action assigned to Jim Kichline

DON RITTER
15TH DISTRICT, PENNSYLVANIA

COMMITTEES:

BANKING, FINANCE AND URBAN AFFAIRS

SUBCOMMITTEES:

HOUSING AND COMMUNITY DEVELOPMENT
DOMESTIC MONETARY POLICY
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SCIENCE AND TECHNOLOGY

SUBCOMMITTEES:

ENERGY DEVELOPMENT AND APPLICATIONS
SCIENCE, RESEARCH AND TECHNOLOGY
NATURAL RESOURCES AND ENVIRONMENT

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

#87

124 CANNON OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-6411

DISTRICT OFFICES:

SUITE 1005
1 BETHLEHEM PLAZA
BETHLEHEM, PENNSYLVANIA 18018
(215) 866-0916

ROOM 212
ALLENTOWN POST OFFICE BUILDING
ALLENTOWN, PENNSYLVANIA 18101
(215) 439-8861

ROOM 705
ALPHA BUILDING
EASTON, PENNSYLVANIA 18042
(215) 258-8383

1980 MAR 14 PM 12:51

March 12, 1980

Mr. Paul A. Volcker
Chairman
Board of Governors of
the Federal Reserve System
20th and C Streets, N.W.
Washington, D.C. 20551

Dear Mr. Chairman:

I am writing to you as a result of a meeting I held today with some fifty homebuilders, realtors and bankers from the Lehigh Valley area of Pennsylvania.

It is hard to describe in words their feelings of frustration bordering on desperation. They are extremely hard-working, productive individuals who employ large numbers of workers throughout the Allentown-Bethlehem-Easton area of Pennsylvania. They are feeling betrayed by the current financial situation, and believe that they have been unfairly singled-out for severe belt-tightening while other segments of the economy - the federal government in particular - benefit from inflation.

This meeting emphasized to me even more than before the negative short-term impact the recent Fed move to raise interest rates has had on the housing industry. I, too, am deeply disturbed that certain segments of our economy are "singled-out" to wage the fight against inflation. It is my feeling that the Fed policies to curb inflation, in the absence of discipline on the part of Congress and the Administration, can only lead to the further destruction of income-producing segments of our economy rather than fight inflation as originally intended. Reduced revenues to the Treasury will be the result as will larger deficits.

Mr. Chairman, I urge you to reevaluate current Fed policies and expedite further actions to work with Congress in supporting federal spending limitations, reductions in the tax rates to enhance productivity, slowing of monetary growth and the promotion of measures that work with the American economy, not against it. I appreciate your goals and share them with you. But solo Fed actions as currently being implemented take unfair advantage of a vital part of our economy to the detriment of all of us.

I would greatly appreciate your careful consideration of this plea for help by providing more positive methods to avoid the further decline of this vital segment of our economy.

With kindest regards, I am

Sincerely,

Don Ritter

DON RITTER
Member of Congress

DR:jmb

CM

March 24, 1980

The Honorable Claude Pepper
House of Representatives
Washington, D. C. 20515

Dear Mr. Pepper:

Thank you for your letter of March 14 enclosing the resume of Mr. Juan E. Acosta. Mr. Acosta's qualifications are impressive, and I appreciate your calling them to our attention.

President Carter has recently submitted a nomination -- that of Lyle E. Gramley -- to fill the existing vacancy on the Board of Governors, so there would be no way to consider Mr. Acosta for membership on the Board. We will keep his resume on file, however, and consider him for any vacancies that may occur in our Legal Division for which he would appear to be qualified.

Sincerely,

S/Paul A. Volcker

TEAllison:red
#V-98

bcc: Personnel
Legal

March 24, 1980

The Honorable Butler Derrick
House of Representatives
Washington, D. C. 20515

Dear Mr. Derrick:

Thank you for your recent letter inviting me to address the annual business meeting of the Greenwood, South Carolina, Chamber of Commerce.

In view of what has been happening in the economy in recent months, I have tried to avoid taking on new commitments, even as far away as November, and consequently I must send regrets to your kind invitation.

With best regards.

Sincerely,

S/ Paul

cc: Mrs. Mallardi
#68

JRC:tjf

JRC

Action assigned to Mr. Coyne

BUTLER DERRICK
3D DISTRICT, SOUTH CAROLINA

133 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-5301

COMMITTEE:
RULES

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

JOHN D. GREGORY
ADMINISTRATIVE ASSISTANT

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POST OFFICE BOX 4126
ANDERSON, SOUTH CAROLINA 29622
(803) 224-7401

124 FEDERAL BUILDING
GREENWOOD, SOUTH CAROLINA 29646
(803) 223-8251

#68

February 29, 1980

1980 MAR -5 AM 11:00

The Honorable Paul Volcker
Chairman
Federal Reserve System
Twentieth & Constitution Avenue
Washington, D. C. 20551

Dear Chairman Volcker:

The President of the Greenwood, South Carolina, Chamber of Commerce has extended to you an invitation through me to be the guest speaker at their annual business meeting in Greenwood. This meeting is to be a very special occasion with the Greenwood business community in attendance. Between three and four hundred persons should be present. They have offered to schedule it anytime during the month of November except Thanksgiving for your convenience.

The Chamber would be in a position to offer an honorarium of $2000.00 plus expenses.

Greenwood is one of the most outstanding small towns that I represent. It is a progressive and expanding community. I encourage you to accept this invitation to address the annual business meeting of the Greenwood Chamber of Commerce.

Thanking you for the courtesy of an early reply, I am

Respectfully,

BUTLER DERRICK
Member of Congress

D/lj

COUNTIES:
ABBEVILLE AIKEN ANDERSON EDGEFIELD GREENWOOD McCORMICK NEWBERRY OCONEE PICKENS SALUDA

THIS STATIONERY PRINTED ON PAPER MADE WITH RECYCLED FIBERS

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

PAUL A. VOLCKER
CHAIRMAN

March 24, 1980

The Honorable Richard Bolling
Chairman
Committee on Rules
House of Representatives
Washington, D.C. 20515

Dear Chairman Bolling:

The Rules Committee this week will be considering H.R. 4986, the "Proxmire-Reuss Depository Institutions Deregulation and Monetary Control Act of 1980". I am writing to you to express my strong hope that this legislation will be promptly enacted.

Present conditions in the financial markets and the urgency of the anti-inflation program only emphasize the need to improve our systems of financial control, to strengthen the structure of our thrift institutions, and to achieve fair and equitable competitive conditions among institutions. H.R. 4986 would make enormous strides toward those objectives.

After several years of debate in the Congress, I believe the proposed legislation does indeed represent a broad consensus among affected institutions about what is feasible and desirable, and, most importantly, meets the principal concerns of those of us charged with supervisory responsibilities and the conduct of monetary policy.

Put simply, the legislation provides us with the tools we need to conduct effective policy during a particularly sensitive period. The progress of this bill is being watched carefully by markets and all interested parties. Failure to secure enactment at this juncture of our financial and economic affairs could only work to undermine our efforts to restore economic and financial stability.

Sincerely,

Paul A Volcker

V-49

March 21, 1980

The Honorable Thomas Ludlow Ashley
House of Representatives
Washington, D.C. 20515

Dear Mr. Ashley:

I am writing in response to a letter you received from Mr. James F. Nagy of Toledo, Ohio, who is concerned that he is not getting full income tax deduction credit for interest he has paid on his loan with the Toledo Trust Company.

No federal law requires a creditor to give the customer a statement showing the amount of deductible interest paid during the tax year. The Truth in Lending Act and Regulation Z merely require that the creditor disclose the total amount of the finance charge, including interest, to be paid <u>over the total life of the loan</u> and the corresponding annual percentage rate. For these purposes, the law does not address itself to when the interest portion of the finance charge is considered earned by the creditor or paid by the consumer.

According to Toledo Trust personnel, the bank arrives at the figure to be deducted by the consumer for tax purposes by calculating the total interest to be paid over the life of the loan, dividing by the number of months in the loan, and multiplying the resulting figure by the number of monthly payments in the tax year. That is how the bank arrived at the [redacted] figure Mr. Nagy cites in his letter. The bank believes that by reporting interest paid in this way, the same amount will be deductible on a per-month basis during the life of the loan. This, they believe, is less confusing to the consumer.

Evidently Mr. Nagy asked for a January 1, 1980, pay-off figure in order to repay the loan. The bank informed us that, in such cases, the interest calculation is based on the Rule of 78's rebate method, which takes into account the fact that during the early stages of the loan the customer has the use of more loan funds than will be the case after payments have been made and the outstanding principal has been reduced. Consequently, during the early stages the customer pays, and the creditor earns, more interest than in the later stages. Therefore, a larger portion of each payment is allocated to interest during the early stages, as reflected by the [redacted] figure Mr. Nagy cites in his letter.

The bank informed us that it issued a payment coupon to Mr. Nagy that indicates the portion of each payment actually apportioned to interest payment. As we understand it, Mr. Nagy could add these figures together for payments made during the tax year and claim the resulting amount of interest as a deduction instead of using the level interest figures discussed previously.

Bank personnel indicated that they have discussed this matter at length with Mr. Nagy, have gone through an actual calculation, and believe that they have answered his question to his satisfaction.

I hope this information is useful to you. 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

GEL:JPB:pjt (#V-49)
bcc: Glenn Loney
Mrs. Mallardi

Assigned to Janet Hart

THOMAS LUDLOW ASHLEY
9TH DISTRICT, OHIO

COMMITTEES:
BUDGET
BANKING, FINANCE AND URBAN AFFAIRS
MERCHANT MARINE AND FISHERIES

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

2406 RAYBURN BUILDING
WASHINGTON, D.C. 20515

DISTRICT OFFICE:
FEDERAL BUILDING
234 SUMMIT STREET
TOLEDO, OHIO 43604

February 12, 1980

#49

Chairman Paul A. Volcker
Federal Reserve Board
Room #B-2046
20th and Constitution Avenue, N.W.
Washington, D.C. 20551

Dear Chairman Volcker:

Enclosed is a letter from Mr. James F. Nagy, Jr., [redacted], who complains that the Toledo Trust Bank is not giving him an accurate statement of the interest he paid in 1979 on a loan.

I understand that Toledo Trust is a State bank but is a member of the Federal Reserve and that the Reserve would therefore administer the Truth in Lending laws that apply.

Please give me a report on whether Toeldo Trust has accurately computed his interest and how they do it.

With thanks and best wishes, I am

Sincerely,

L

Thomas Ludlow Ashley, M.C.

10 FEB ... 80

JAMES F. NAGY JR.
[redacted]

Subject: Another Consumer Rip-off

Dear Congressman Ashley:

I am writing you concerning the false Truth in Lending Laws of Ohio. The lending institutions of Ohio are not giving consumers the full truth about the interest on their loans. An example is:

> Last year I took out a loan from Toledo Trust Bank for [redacted]. I paid nine (9) payments on this loan last year of [redacted] for a total of [redacted]. I want to claim the interest paid on this loan for Income Tax purposes. My bank claims that I paid [redacted] in interest. I requested from the bank a payoff balance as of January 1, 1980. They claim a payoff of [redacted]. If you subtract [redacted] from the original loan of $8100.10 you get [redacted]. Now subtract the [redacted] from the [redacted] I paid last year and I come up with [redacted], this being the true figure I paid in interest for the year 1979. The bank claims the interest figured is over the total time of the loan.

Most consumers either sell or trade their merchandise before the term of the loan and are losing several hundred dollars they could have claimed against their Income Tax.

I feel that the lending institutions should have to send consumers yearly facts on what the true payments consumers have paid in interest each year.

If I were to claim the [redacted] the bank claims I paid in interest, I would be losing [redacted].

This unjustice again puts the taxpayers in the position of another rip-off.

I am President of Local 1892 UAW and represent several hundred members who are in the same position. If we are going to have Truth in Lending Laws let's make the lending institutions tell the whole truth.

Sincerely yours

James F. Nagy Jr.

James F. Nagy Jr.

[redacted]

March 21, 1980

The Honorable Ed Jones
House of Representatives
Washington, D.C. 20515

Dear Mr. Jones:

I am pleased to respond to the concerns expressed by one of your constituents, Mr. Harold J. Plumley, regarding high interest rates and inflation.

We at the Federal Reserve recognize that the rise in interest rates is creating hardships for many businessmen and consumers across the country. We would very much like to see a return to lower interest rates and a circumstance in which the cost of credit would not prove a substantial impediment to the acquisition of homes and automobiles. Unfortunately, high interest rates are the natural and unavoidable consequence of the inflation that has mounted in intensity over the year.

When lenders fear that inflation will persist, they seek to protect themselves against a loss of purchasing power by asking for higher interest rates on loans. Meanwhile, borrowers who anticipate that their incomes will continue to rise with the general price level are willing to pay higher interest rates. The confluence of these forces tends to raise interest rates in line with the rise in expected inflation.

The Federal Reserve, by allowing the money supply to grow very rapidly, might be able to contain the upward pressures on interest rates for a time. But eventually the still stronger inflation that excessive monetary expansion would promote would force interest rates to even higher levels. Therefore, the Federal Reserve has set a course of monetary restraint which eventually should rein-in inflationary forces in the economy. Although this restraint has resulted in higher interest rates in the near term, it should help set the stage for a slowing of inflation and a lowering of inflationary expectations, which are necessary conditions for a sustained decline in interest rates.

Of course, this is not to deny the importance of other anti-inflationary actions. Mr. Plumley has identified two areas in which the government can do much to ease the inflationary pressures in the economy. Budgetary discipline and the avoidance of cost-raising actions such as increases in the minimum wage could do much to speed the achievement of price stability--and in the process relieve some of the pressures on interest rates.

Sincerely,

S/Paul A. Volcker

MJP:JPB:pjt (#V-92)
bcc: Mike Prell
Jim Kichline
Mrs. Mallardi (2)

Action assigned to Mr. Kichline

ED JONES
7TH DISTRICT, TENNESSEE
104 CANNON HOUSE OFFICE BUILDING
(202) 225-4714

COMMITTEE ON
AGRICULTURE

CHAIRMAN:
SUBCOMMITTEE ON
CONSERVATION AND CREDIT

COMMITTEE ON
HOUSE ADMINISTRATION

CHAIRMAN:
SUBCOMMITTEE ON
HOUSE SERVICES

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

ADMINISTRATIVE ASSISTANT
RAY H. LANCASTER

DISTRICT OFFICES:
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3179 NORTH WATKINS
MEMPHIS, TENNESSEE 38127
(901) 358-4094

P.O. BOX 128
YORKVILLE, TENNESSEE 38389
(901) 643-6123

March 12, 1980

1980 MAR 17 AM 9:55

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

Dear Mr. Chairman:

Enclosed is a copy of a letter I recently received from Mr. Harold Plumley, one of my constituents.

I would appreciate your consideration of his comments, and I will be looking forward to your response.

With kindest regards and best wishes, I am

Sincerely yours,

Ed Jones

ED JONES, M. C.

EJ/st

Enc:

RECEIVED

FEB 25 1980

ED JONES, M.C.
7TH DISTRICT TENNESSEE

# PLUMLEY RUBBER COMPANY

HAROLD J. PLUMLEY
President

February 21, 1980

Honorable Ed Jones
United States Representative
104 Cannon House Office Bldg.
Washington, D. C. 20515

Dear Ed:

In my opinion, high interest rates will never control increasing prices.

Let me give you an illustration. If oil were flowing in the stream behind my office, the cost for recovering it would be minimal, but whatever cost was involved would have to be included in the price of oil. When a pipeline has to be built from Alaska to Washington, the cost has to be included in the price of the oil. Additional costs of production are costs, and should not be considered inflationary.

What I am saying is, higher interest rates will not control rising prices.

Higher interest rates are really hurting us as a small business. They are really hurting the mobile home owner who would normally be ready to purchase a $35,000-$45,000 house. Higher interest rates are really hurting the car owner who has little equity in the old car and would like to buy a new one. Higher interest rates are going to be devastating to the Federal Government just to carry its debt.

The ways to reduce inflation is to balance the federal budget and to quit paying people for not working.

When the government mandates wage increases through minimum wage, prices must increase. It seems clear to me that some innovative statesmanship is now required to solve our current problems. The reduction in interest and putting people back to work who are now on unemployment or other forms of government hand-outs will not be accomplished by a simple stroke of the pen.

Very truly yours,

Harold J. Plumley

Harold J. Plumley

HJP:op

1101 NORTH MARKET STREET • PARIS, TENNESSEE 38242 • (901) 642-5582

March 20, 1980

The Honorable Lionel Van Deerlin
House of Representatives
Washington, D. C. 20515

Dear Mr. Van Deerlin:

Thank you for your letter urging me to accept an invitation to address the annual conference of the Pacific Coast Builders on June 28. Unfortunately, my schedule calls for me to be out of the country at that time and consequently, I have been forced to send my regrets to the builders conference.

With kind regards.

Sincerely,

S/Paul A. Volcker

cc: Mrs. Mallardi
#70

JRC:tjf
gre

March 20, 1980

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

Dear Chairman Proxmire:

During the hearing on February 28 you asked for a staff analysis of the impact of the wage-price controls and CID programs of the early 1970's.

I am pleased to furnish the enclosed staff analysis.

Sincerely,

S/ Paul

Enclosure

CO:pjt
bcc: Mrs. Mallardi (2)

(Insert drafted by Bob Gay & Jared Enzler)
(Encls.: "Analysis by the Staff of the Board of Governors of the Federal Reserve System on Incomes Policies: The 1971-74 ~~XXXX~~ Experience; "Shortages, Price Control Disruptions, and Capacity Constraints by John D. Paulus; and Report of the Committee on Interest and Dividends.)
(Mike Prell has cleared the Paulus paper with everyone concerned & it can be released.)

V-81

March 20, 1980

The Honorable Floyd D. Spence
House of Representatives
Washington, D. C. 20515

Dear Mr. Spence:

Thank you for your letter of March 10 requesting comment on correspondence you received from your constituent, Professor Morris B. Hughes, regarding his purchase of Treasury bills.

Professor Hughes indicates that he had submitted two [redacted] Treasury bill tenders--one on January 10 and the other on January 11--to the Charlotte Branch of the Federal Reserve Bank of Richmond. We have contacted the Charlotte Branch and they indicate that the account entries for both Treasury bills were transferred from the Charlotte Branch to the Treasury on February 11.

We have also contacted the Treasury Department regarding this matter and they indicate that they do hold both of the bills on their book-entry records--one listed under Morris B. Hughes and the other listed in his wife's name, Lillian G. Hughes. However, due to computer error, the statements of account for these bills were not generated until March 13. The Treasury Department informs us that Professor Hughes can expect to receive the statements of account within the next few days.

We regret any inconvenience that this delay may have caused for your constituent. 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

MB/CO:vcd (#81) M
BCC: Mr. Bermudez
Mr. Wallace
Mrs. Mallardi

Action assigned to Mr. Wallace

FLOYD SPENCE
2ND DISTRICT, SOUTH CAROLINA

WASHINGTON OFFICE:
2351 RAYBURN HOUSE OFFICE BUILDING
AREA CODE 202, 225-2452

DISTRICT OFFICES:
THURMOND FEDERAL BUILDING,
ROOM 1449
1835 ASSEMBLY STREET
COLUMBIA, SOUTH CAROLINA 29201
AREA CODE 803, 765-5871
AND
372 ST. PAUL STREET, NE.
ORANGEBURG, SOUTH CAROLINA 29115
AREA CODE 803, 536-4641

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

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STANDARDS OF
OFFICIAL CONDUCT

COUNTIES:
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BAMBERG LEXINGTON
BARNWELL ORANGEBURG
RICHLAND

W. A. "AL" COOK
ADMINISTRATIVE ASSISTANT

W. L. "SONNY" SANDERS
DISTRICT REPRESENTATIVE

March 10, 1980

18

The Honorable G. William Miller, Chairman
Board of Governors of the Federal Reserve System
Twentieth Street & Constitution Avenue, NW
Washington, D.C. 20551

Dear Mr. Miller:

Enclosed is a copy of a letter just received from Professor Morris B. Hughes, [redacted], regarding two Treasury Bills he and his wife purchased through the Charlotte Branch of the Federal Reserve Bank of Richmond. I believe his request is self-explanatory.

After you have had a chance to look into this matter, I would appreciate a report of your findings and any comments you might make in order that I may respond further to my constituent. I am sure that all interested parties would be very grateful for your prompt consideration of this request.

With kindest regards, I am

Sincerely,

Floyd Spence

FLOYD D. SPENCE
Member of Congress

FDS/km

Enclosure

[redacted]

March 5, 1980

The Honorable Floyd Spence
Congress of the United States
House of Representatives
Washington, D.C.

Dear Mr. Spence:

On January 10 and on January 11 I sent bank money orders to the Charlotte Branch of the Federal Reserve Bank of Richmond for [redacted] Treasury bills,6 months. According to the brochure,we were to expect receipts within 10 days after the Thursday following the Monday afternoon auction.By now,approximately two months have elapsed and I have never received receipts for either of the [redacted] treasury bills,although I did receive checks for the discount amounts. I wrote to the Charlotte Branch more than a month ago and wrote to the Bureau of the Public Debt,Department X, on February 21 to inquire if those receipts have been lost in the mail or whether they were ever sent. I have had no reply from either organization.

I am quite disturbed that neither of these two Federal organizations have answered my query.[redacted] represents a considerable part of my entire capital. When I was on the Staff of Clemson I always answered all letters within a week. I felt this was just common courtesy,even when no money was involved. Could you find out for me why these organizations do not answer my letters? Thank you very much for any help you can give me in this way.

Yours truly,

Morris B. Hughes

Morris B. Hughes
Emeritus Professor
Clemson University

P.S. We listed depositors for these bills as Morris B. and Lillian G, Hughes. They were non-competitive and our Social Security nos were [redacted] and [redacted]

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

PAUL A. VOLCKER
CHAIRMAN

March 20, 1980

The Honorable Adlai E. Stevenson
United States Senate
Washington, D. C. 20510

Dear Senator Stevenson:

I am pleased to respond to your recent letter requesting additional information in regard to matters raised at the February 25 oversight hearing on monetary policy.

With respect to the first matter you mentioned, namely the composition of bank lending, I can report that the Board, as part of its special credit restraint program, has established a system of reporting that will permit us to better assess the extent to which credit is flowing to productive uses as opposed to the financing of purely speculative and economically unproductive undertakings. At this time, however, we have no data that would permit any submission for the hearing record.

Your letter also requested my views on S. 359, the proposed "Inflation Review Board Act". It may be most useful to comment on the proposals for prenotification and for deferral of price and wage increases specified in the bill in the context of the voluntary standards that we now have. As you know, the President has announced that prenotification of wage and price increases will be an integral part of the anti-inflation effort, but the full details have yet to be worked out. In any plan involving prenotification of price increases, there could be benefits from informing a company in advance that it was not complying with the standard, or from calling public attention to the prospect of a violation. However, the value of these benefits will be diminished somewhat by extra reporting burdens and surveillance costs, and these costs could be substantial if companies were required to report in advance their planned price increases for individual products and services, as is proposed in S. 359. It seems to me more useful and less burdensome to limit prenotification requirements to the average price adjustments planned for a company's various products--a procedure that would be consistent with the current reporting requirements specified by COWPS.

On the wage side, I might simply note that prenotification of proposed settlements in the collective bargaining sector could seriously disrupt the bargaining process. Furthermore, knowledge of the various offers and counter-offers would provide little information of ultimate value to the monitoring agency. With negotiated agreements, it seems adequate to require immediate notification of the details of a tentative settlement once it is reached so that compliance could be determined prior to membership ratification.

Granting COWPS or some similar agency the authority to establish an effective mechanism for temporarily deferring wage or price increases would clearly be a step in the direction of mandatory controls, which the Administration has already disavowed. I concur in their opposition to mandatory controls, and I am skeptical that deferring wage and price increases would significantly reduce inflationary pressures. Indeed, such deferrals would carry the risk of creating the sorts of distortions and dislocations that outright controls can cause--with the possibility of producing ultimately greater wage/price pressures.

Sincerely,

S/Paul A. Volcker

RG:EMcK:MJP:JPB:vcd (#V-83)

bcc: Messrs. Prell, McKelvey, Gay
Mrs. Mallardi (2)

ADLAI E. STEVENSON
ILLINOIS

Action assigned to Steve Axilrod

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
SUBCOMMITTEE ON INTERNATIONAL FINANCE (CHAIRMAN)
COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION
SUBCOMMITTEE ON SCIENCE, TECHNOLOGY AND SPACE (CHAIRMAN)
SELECT COMMITTEE ON ETHICS (CHAIRMAN)
SELECT COMMITTEE ON INTELLIGENCE
SUBCOMMITTEE ON THE COLLECTION, PRODUCTION AND QUALITY OF INTELLIGENCE (CHAIRMAN)
DEMOCRATIC POLICY COMMITTEE

United States Senate
WASHINGTON, D.C. 20510

March 12, 1980

#83

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

Dear Mr. Chairman:

At the recent Senate Banking Committee oversight hearing on monetary policy, I asked you two series of questions which require more information for the record.

The first group of questions involved the October 1979 direction of the Federal Reserve to banks to extend credit for productive rather than speculative purposes. You stated that "we have reached a time where we need perhaps to do some surveys to get firmer information." In light of recent publicized transactions such as the acquisition of Harrah's Casino by Holiday Inns for some $300 million in cash and stocks and, on the other hand, increasing difficulty of home builders and small borrowers to obtain credit, I urge the Federal Reserve to make such a survey and, if possible, submit the results for the monetary policy hearing record.

Second, concerning wage and price policy, you stated that, while you were not particularly enamored of pre-notification and temporary suspension authorities for COWPS, you would not close your mind to them. Given the emergency economic situation and the inability of a tight monetary policy to curb inflation, I would appreciate your considered review of S. 359, which authorizes an independent Inflation Review Board with pre-notification and temporary suspension authorities, and the submission of your recommendations on this proposal for the record.

Thank you for your attention to these questions.

With best wishes,

Sincerely,

March 19, 1980

The Honorable Wes Watkins
House of Representatives
Washington, D. C. 20515

Dear Mr. Watkins:

I must apologize for the long delay in responding to the request you made, at the February 19 monetary policy oversight hearing, for a follow-up statement on the control of credit. Events in the economy and then in policy formation produced rapid changes in the situation and made any public statement untimely. I'm sure you can appreciate the sensitivity of the circumstances.

As you know, the Federal Reserve, acting under the Credit Control Act of 1969, has recently established a special credit restraint program as part of the government's effort to overcome the inflationary pressures in the economy. It had become apparent that, in the past month or so, adverse expectational forces had gathered considerable momentum and that urgent action was required to enhance the strength of the policies already in effect. While the special restraints on credit in no way reduce the need for discipline in monetary and fiscal policy, it is our hope that they will enable us to achieve our objective of slowing the rise of prices more quickly and with less disruption of financial markets and institutions.

To the extent that our program leads to some greater degree of non-price rationing of credit, interest rates--as you suggested at the hearing--may not be under as much pressure as otherwise would have been the case. Our program also takes note of the already depressed condition of the housing sector, a matter about which you expressed concern. This is reflected in the exemption of mortgage and other housing-related loans from the special deposit requirements for consumer credit and also in the special deposit requirement on money market mutual funds, which have diverted funds from traditionally key mortgage lending institutions.

I trust that our actions will compensate for the lack of a timely response to your query.

Sincerely,

S/Paul A. Volcker

MJP:vcd

bcc: Mr. Prell
Mrs. Mallardi (2)

March 19, 1980

The Honorable Parren J. Mitchell
Chairman
Subcommittee on Domestic Monetary Policy
Committee on Banking, Finance and
Urban Affairs
House of Representatives
Washington, D.C. 20515

Dear Chairman Mitchell:

I am pleased to respond to your letter of March 10 requesting the Board's current position on legislation requiring that detailed minutes of FOMC meetings be published on a deferred basis.

The Board continues to support the approach reflected in H.R. 6350. This bill, as you know, is the outgrowth of extensive discussions between members of our respective staffs. In our view, the measure incorporates the necessary safeguards against premature disclosure of sensitive information and flexibility as to the form of detailed minutes.

Sincerely,

S/Paul A. Volcker

JPB:pjt (#V-72)
bcc: Mr. Axilrod
Mr. Corrigan
Mr. Altman
Mr. Petersen
Mrs. Mallardi (2)

(Handwritten note from Chrmn)

P. S. I certainly would not make the time period any shorter.

PAV

PARREN J. MITCHELL, MD., CHAIRMAN
STEPHEN L. NEAL, N C.
NORMAN E. D'AMOURS, N.H.
DOUG BARNARD, GA.
JIM MATTOX, TEX.
JOHN J. CAVANAUGH, NEBR.

225-7315

Congressional Liaison Office handling
(Jay Brenneman)

GEORGE HANSEN IDAHO
RON PAUL, TEX.
DON RITTER, PA.

# U.S. HOUSE OF REPRESENTATIVES

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

#72

March 10, 1980

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

Dear Mr. Chairman:

Attached is H.R. 6350, a bill to require that detailed minutes of Federal Open Market Committee meetings shall be published on a deferred basis. This legislation was passed by the House last year as H.R. 4998 with the support of the Federal Reserve Board. Also, late last year it was approved by Senate Banking and placed on the Senate's "Consent" calendar. However, on the Senate floor, because of an objection by Senator Childs, H.R. 4998 was amended to delete all language pertaining to FOMC minutes. Hence it is necessary to begin the process anew. The Subcommittee plans to mark-up H.R. 6350 on March 20. We would appreciate it if you would let us know whether the Board still supports the legislation by writing to me before March 20.

Sincerely,

Parren J. Mitchell
Parren J. Mitchell
Member of Congress

PJM/rw;jb

Attachment

I

96TH CONGRESS
2D SESSION

# H. R. 6350

To amend the Federal Reserve Act to require that detailed minutes of Federal Open Market Committee meetings shall be published on a deferred basis.

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IN THE HOUSE OF REPRESENTATIVES

JANUARY 30, 1980

Mr. MITCHELL of Maryland (for himself, Mr. NEAL, Mr. D'AMOURS, Mr. BARNARD, Mr. MATTOX, Mr. CAVANAUGH, Mr. HANSEN, and Mr. PAUL) introduced the following bill; which was referred to the Committee on Banking, Finance and Urban Affairs

---

# A BILL

To amend the Federal Reserve Act to require that detailed minutes of Federal Open Market Committee meetings shall be published on a deferred basis.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That section 12A of the Federal Reserve Act (12 U.S.C. 263) is amended by adding at the end thereof the following:

"(d)(1) The Board of Governors of the Federal Reserve System shall take and maintain detailed minutes of all meetings of the Committee.

"(2) Subject to paragraph (3), the minutes of each such meeting shall include a transcript of the proceedings of such meeting. Such transcript may be edited, without changing the substance involved, in accordance with regulations prescribed by the Board. Such regulations may authorize the inclusion of staff reports. Views expressed by any member of the Committee shall be attributed to such member in such minutes.

"(3)(A) Before the publication of any minutes in accordance with the provisions of paragraph (4), the Board may delete from such minutes any information regarding any foreign country, central bank of a foreign country, or any international institution which has a majority of members who are foreign countries or central banks of foreign countries. Any such deletion shall be indicated in such minutes.

"(B) Not later than fifteen years after the date of each meeting with respect to which information is deleted under subparagraph (A), the Board shall review such information to determine whether such information should be published.

"(C) Not later than thirty years after the date of each meeting with respect to which information is deleted under subparagraph (A) and withheld from publication under subparagraph (B), the Board shall publish such information.

"(4) The minutes of each meeting of the Committee, prepared pursuant to paragraphs (1) through (3), shall be published by the Board on, but not before, the first business day of February of the fourth calendar year following the calendar year in which the meeting involved occurs.".

SEC. 2. (a) The amendments made by the first section of this Act shall apply only to meetings of the Federal Open Market Committee which are held after the date of the enactment of this Act.

(b) With respect to any meeting of the Federal Open Market Committee which was held before April 1, 1976, not later than six months after the date of the enactment of this Act, the Board of Governors of the Federal Reserve System shall publish all minutes of such meetings which have not previously been published.

O

March 19, 1980

The Honorable Berkley Bedell
House of Representatives
Washington, D.C. 20515

Dear Mr. Bedell:

Thank you for your letter of February 13 enclosing correspondence from Mr. E. W. Youell, Jr., regarding the proposed policy statement dealing with the disposition of credit life insurance income. At the end of 1979, the Board of Governors of the Federal Reserve System approved the issuance for public comment of a policy statement regarding the disposition of credit life insurance income. The policy statement was developed by the Federal Financial Institutions Examination Council on behalf of its member agencies, namely, the Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, Federal Home Loan Bank Board, and the National Credit Union Administration.

The Board shares your and Mr. Youell's concerns regarding the potentially adverse effects of regulatory policies on the day-to-day operations of small banks. As a result, all regulatory and supervisory policy objectives are carefully analyzed to determine the most effective and least burdensome way to achieve the intended regulatory purpose. With respect to the credit life insurance policy, the Federal agencies are concerned that the diversion of commission income to insiders could constitute an unsafe or unsound banking practice. However, the agencies do recognize the practical problems involved and have proposed that financial institutions not now subject to a rule be given up to one year to comply with the policy. Moreover, the policy also provides that certain financial institutions may be excepted from the general rule on a case-by-case basis if a clear hardship exists and satisfactory assurance is provided that compliance will be forthcoming within an appropriate period of time. In short, the proposed policy reflects an effort to address a legitimate supervisory concern while remaining sensitive to the policy's practical effect on individual institutions.

The Board appreciates receiving your comments and those of Mr. Youell. You may be assured that these comments have been made a part of the record and will be carefully considered before the Board makes any decision regarding the policy statement.

Sincerely,

S/Paul A. Volcker

SG:RS:pjt (2 #V-55)
bcc: Sandy Greene
Rich Spillenkothen
Jack Ryan
Mrs. Mallardi (2)

Assigned to Jack Ryan.

BERKLEY BEDELL
6TH DISTRICT, IOWA

COMMITTEES:
AGRICULTURE
SUBCOMMITTEES:
LIVESTOCK AND GRAINS
FAMILY FARMS, RURAL DEVELOPMENT AND SPECIAL STUDIES
CONSERVATION AND CREDIT
SMALL BUSINESS
SUBCOMMITTEES:
ANTITRUST AND RESTRAINT OF TRADE ACTIVITIES AFFECTING SMALL BUSINESS

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

WASHINGTON OFFICE:
405 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-5476

DISTRICT OFFICES:
479 FEDERAL BUILDING
FORT DODGE, IOWA 50501
(515) 573-7169

318 FEDERAL BUILDING
SIOUX CITY, IOWA 51101
(712) 252-4164 EXT. 281

February 13, 1980

#55

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

Dear Mr. Volcker:

I am enclosing two letters I recently received from a constituent of mine, Mr. E.W. Youell, Jr., regarding the Credit Life Insurance Income regulations of the Federal Reserve System.

I share Mr. Youell's concern over governmental regulations that apply the same to large and small organizations, the result of which is usually a tremendous and disproportionate burden placed on small organizations. The provisions Mr. Youell comments on appear to be a good example of this type of inappropriate regulations, therefore, I am forwarding these letters on to you for your reaction.

I look forward to receiving your response.

Sincerely,

Berkley Bedell

BERKLEY BEDELL
Member of Congress

BB/mky

MSB

MANSON STATE BANK
MANSON, IOWA 50563 ▪ PHONE (712) 469-3355

Jan 22, 1980

The Honorable Berkley Bedell
U. S. House of Representatives
Washington, D. C.

Dear Berk:

Enclosed is a copy of a Letter I wrote to the Federal Reserve Board. I am sure I have wasted my time.

Most members of the Board are either college professors or former government employees in some branch of government. I doubt if many of them have ever had any practical banking experience. I doubt if any of them have any conception what a real honest to goodness small bank is like.

In my banks the stockholders at their annual meeting each year give approval how credit life insurance income is to be distributed. The Board of Direcrors also approves this. After this is done why should the Fed or FDIC dome along and dictate what you must do with it?????

The stated purpose to preserve the safety and soundness of financial institutions is a bunch of hog wash .

It is just more of their unannouced policy of wanting to put a lot of small banks out of business.

When I was in Washington last spring one Fed Borader memver said we had too many banks. Mr Coldwell things we should accept more bank failures - of course small banks. He would want to use the full resources of the government to prevent a large New York City bank from going under.

Very truly yours,

E. W. Youell, Jr.

MANSON STATE BANK

MANSON, IOWA 50563 ▪ PHONE (712) 469-3355

E. W. YOUELL, JR.
CHAIRMAN

Jan 22, 1980

Re: Disposition of Credit Life
Insurance Income

Federal Reserve Board
Washington, D. C.

Gentlemen:

I own controlling interest in a bank that was organized in 1928 and has 39 stockholders. Of these 39 stockholders:

11 or 28% inherited their stock from their grandparents
17 or 44% in total inherited their stock
15 or 38% live outside the State of Iowa
14 or 36% to the best of my knowledge we have never met
18 or 46% do no business whatsoever with the bank

Eliminate the Board of Directors and the rest of the stockholders would have less than $100,000.00 on deposit at this bank.

I am at a complete loss to understand why you are so concerned about the stockholders when 46% of them contribute absolutely nothing toward the success of this bank.

I believe it is all wrong to make rules that apply the same to a ten million dollar bank as a ten billion dollar bank. The small bank is usually run by some one who has a subtainal stake is his bank and knows full well keeping the Credit Life Insurance Income out of the bank is not going to effect the safety and soundness of his bank.

The result of your ruling is it is going to make it more difficult to get good people to work for small banks to say nothing about it making it hard for a person to buy and pay for a small bank.

Of course this ruling is in keeping with the Fed and FDIC's unacknowleged goal of eliminating many of the small banks over a period of time.

Very truly yours,

E W Youell Jr

E. W. Youell, Jr.
cc - Senator John Culver
cc - Senator Roger Jepson
cc - Represenative Berkley Bedell

A FULL SERVICE BANK

MSB

# MANSON STATE BANK

MANSON, IOWA 50563 ▪ PHONE (712) 469-3355

E. W. YOUELL, JR.
CHAIRMAN

Jan 26, 1980

The Honorable Berkley Bedell
U. S. House of Representatives
Washington, D. C.

I really don't know why I send you the enclosed. I know you can't do anything about it. Congress does not run this country- the bureaucrats do.

As much as I have invested in my banks you know and anyone with any common sense knows I am not going to do anything to jeopardize the safety and soundness of my banks.

I can never understand why when ordinary people, once they get to Washington suddenlt think they have acquired the wisdom of Soloman and think they know more what is good for me than I know myself.

The stockholders who own the bank should have the right to determine how Credit Life Insurance Income should be disiributed- NOT the Federal Reserve Board of Governors.

Very truly yours,

E. W. Youell, Jr.

A FULL SERVICE BANK

MSB

# MANSON STATE BANK

MANSON, IOWA 50563 ▪ PHONE (712) 469-3355

E. W. YOUELL, JR.
CHAIRMAN

Jan 23, 1980

Re: Docket Number R-0265

Mr. Theodore E. Allison, Secretary
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

Dear Mr. Allison:

In my life time I have owned the controling interest in four different banks. Three of these banks I purchased, using in each case a One Bank Holding Company as the vehicle. In each case I borrowed 100% of the purchase price. I have serviced this debt without placing a strain on the bank's resources or straining the capital of the subsidiary bank.

Under your proposed rules I would have been unable to buy any of these banks.

I realize you must have bench marks but debt not to exceed 75% of the purchase price should not be engraved in stone.

The quality of the bank's assets, the ability to service the debt and the competency of the management are far more important than any debt ratio.

Your rule is going to help but under it it will still be difficult for an individual to buy a bank.

Very truly yours,

E W Youell Jr

E. W. Youell, Jr.

cc - Senator John Culver
cc - Senator Roger Jepsen
cc - Representative Berkley Bedell

A FULL SERVICE BANK

MANSON STATE BANK
MANSON, IOWA 50563 ▪ PHONE (712) 469-3355

E. W. YOUELL, JR.
CHAIRMAN

Jan 23, 1980

Re: Disposition of Credit Life
Insurance Income

Mr. Theodore E. Allison, Secretary
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

Dear Mr. Allison:

At the present time I own three banks each of which is controlled by a One Bank Holding Company.

One BHC does not own 80% of its subsidiary bank and I know of no way to acquire 80% of this bank's stock.

Consequently, to avoid this BHC from being declared a Personal Holding Company, subject to the 70% personal holding company tax, it is necessary for the BHC to have at least 40% of its adjusted ordinary gross income be other than what is considered, "personal holding company income", such as dividends.

Insurance commissions qualfiy for the 40% requirement. Consequently, we use credit life insurance income as part of the 40% base.

Take credit life insurance income from the BHC and it lowers the amount of its 40% base. To avoid becoming a Personal Holding Company the lower base reduces the amount of dividends that can be paid by the bank.

Forcing a bank, regardless of its earnings, to lower the amount of dividends it can pay out is a strange way for the Federal Reserve Board to be concerned about the welfare of the stockholders.

Very truly yours,

E. W. Youell, Jr.

cc - Senator John Culver
cc - Senator Roger Jepon
cc - Representative Berkley Bedell

A FULL SERVICE BANK

March 18, 1980

The Honorable Richard (Dick) Stone
United States Senator
Post Office Box 4081
Tallahassee, Florida 32303

Re: File 20065140010

Dear Senator Stone:

Thank you for the opportunity to respond to the enclosed letter from your constituents regarding the ceiling on 2-1/2 year certificate rates. The Board understands their concern, for it supports the creation of a new financial environment in which depositary institutions could pay market-determined rates of return on all their deposit liabilities. The cap on the deposit rate ceiling is temporary and we hope it will be short-lived. It was necessary to impose this restriction in the current high interest rate environment, because it would be quite disruptive for many banks and thrift institutions to pay effective yields in excess of 14 percent on relatively long-term obligations. Depositary institutions that hold a high proportion of their assets in longer-term fixed-rate loans paying the low interest rates of the past would find it particularly difficult to pay today's high market rates on longer-term certificates.

The Federal Reserve and the other financial regulatory agencies will continue to monitor financial markets closely, and we are hopeful that future conditions will allow this restriction to be lifted. In this connection, the Board supports the limited liberalization of thrift institution asset powers so that all deposit rate controls may be gradually eliminated. The Board endorses the goal that all savers--both small and large--be provided the opportunity to earn competitive rates of return on deposit instruments.

Sincerely yours,

(Signed) Donald J. Winn

Donald J. Winn
Special Assistant to the Board

SSA:JH:CO:pjt (#V-76)
bcc: Ms. Atkinson
Mrs. Mallardi

Enclosure

RICHARD (DICK) STONE
FLORIDA

COMMITTEES:
AGRICULTURE, NUTRITION, AND FORESTRY
FOREIGN RELATIONS
VETERANS' AFFAIRS

# United States Senate

WASHINGTON, D.C. 20510

1980 MAR 10 PM 2:26

March 10, 1980

Our File: Z0065140010

#76

Mr. Paul Volcker, Chairman
Federal Reserve System
20th Street & Constitution Ave., NW
Washington, D.C. 20551

Dear Mr. Volcker:

Because of the desire of this office to be responsive to all inquiries and communications, your consideration of the attached is requested. Your findings and views, in duplicate form, along with return of the enclosure, would be greatly appreciated. It would also be helpful to me if your response is mailed to my office at the address below and INCLUDES THE FILE NUMBER SHOWN ON THE COMMUNICATION I HAVE SENT TO YOU.

Cordially,

Richard (Dick) Stone

Richard (Dick) Stone

RDS/lah
Enclosure

PLEASE REPLY TO: POST OFFICE BOX 4081
TALLAHASSEE, FLORIDA 32303

1700 Pine Valley Dr. Apt. 308
Ft. Myers, Fla. 33907

March 1, 1980

Senator Richard Stone
Suite 200 B
2639 North Monroe
Tallahassee, Fla. 32303

Dear Sir:

We should like to ask your consideration of the regulatory cap on the 2-1/2 year Money Market Certificates of 12% effective March 1, 1980 when 13.75% would have been permitted by the increase in 2-1/2 year Treasury Certificates rates. We strongly object to this regulatory decision for the following reasons:

1. It is a discrimination against the small investor. Larger certificates are untouched.

2. The justification for the cap on the 13.75% rate would have been "disruptive to financial institutions" is a half truth. The 2-1/2 year Money Market Certificates constitute 0.7% of savings and loan deposits while the 6 month Certificates are 29.6% of their deposits. By all logic 29.6% is more disruptive than 0.7%.

3. Small investors are entitled to the same inflation protection as larger investors. Any unfair deviation discourages savings and adds to inflation.

4. It is a discriminatory form of price control because it applies only to those of limited means.

We would appreciate your help in correcting this injustice.

Yours very truly,

William B. Doll

William B. Doll

Dorothy L. Doll

Dorothy L. Doll

March 18, 1980

The Honorable Harry F. Byrd, Jr.
Chairman
Subcommittee on Taxation and
  Debt Management
Committee on Finance
United States Senate
Washington, D.C.   20510

Dear Harry:

Thank you for your letter of March 13 regarding your Subcommittee's hearing on the Administration's plans to seek an increase in the public debt ceiling.

I am looking forward to appearing on April 2 at 9:00 a.m.

Sincerely,

S/ Paul

CO:pjt (#V-97)
bcc: Mr. Corrigan
  Mr. Axilrod (w/copy of incoming)
  Mrs. Mallardi (2)

HARRY F. BYRD, JR
VIRGINIA

United States Senate

WASHINGTON, D.C. 20510

1980 MAR 17 AM 9:54

#97

March 13, 1980 a

My dear Paul:-

With further reference to our telephone conversation, the Subcommittee on Taxation and Debt Management will hold a public hearing on Wednesday, April 2, regarding the Administration's plans to seek an increase in the public debt ceiling.

While the Federal Reserve is not directly involved in this issue, the Committee feels that your expertise would be of much value in regard to the broad question of government spending, deficit financing, the ever-mounting debt, and the borrowing it necessitates and its effect on interest rates, etc.

The Committee appreciates your willingness to appear and has scheduled you as the first witness at 9 a.m.

In closing, may I say that I feel that it is vital that Congress attack the question of inflation with the same vigor as has the Federal Reserve Board under your leadership.

Cordially,

Harry

The Honorable Paul A. Volcker
Chairman
Board of Governors of the Federal Reserve System
Constitution Avenue between 20th and 21st Streets
Washington, D. C. 20551

March 18, 1980

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 Mr. Chairman:

Thank you for your letter of March 10 regarding your Subcommittee's hearings on consumer safeguards to guarantee fair treatment on variable rate, rollover, and renegotiable rate mortgages.

I am pleased to inform you that Mr. Nathaniel E. Butler, Associate Director, Division of Consumer and Community Affairs, will appear on behalf of the Board on March 27 at 10:00 a.m.

Sincerely,

S/Paul A. Volcker

CO:vcd (#V-78)

bcc: Mrs. Mallardi (2)
Neil Butler

Congressional Liaison Office negotiating with Hill regarding the hearing

BENJAMIN S. ROSENTHAL, N.Y., CHAIRMAN
ROBERT T. MATSUI, CALIF.
EUGENE V. ATKINSON, PA.
FERNAND J. ST GERMAIN, R.I.
JOHN CONYERS, JR., MICH.
ELLIOTT H. LEVITAS, GA.

LYLE WILLIAMS, OHIO
JIM JEFFRIES, KANS.
JOEL DECKARD, IND.

MAJORITY—(202) 225-4407

NINETY-SIXTH CONGRESS
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

#78

March 10, 1980

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

Dear Mr. Chairman:

The Commerce, Consumer, and Monetary Affairs Subcommittee has been concerned for some time with the adequacy of the consumer safeguards to guarantee fair treatment to the consumer who takes out a variable rate or rollover mortgage at a bank or thrift institution. Most recently, it has come to the subcommittee's attention that many questions have been raised concerning the adequacy of the consumer safeguards included by the Home Loan Bank Board in the proposed regulations for renegotiable rate mortgages (RRMs) at savings and loan associations. Finally, the subcommittee has some concern that no federal consumer safeguards have yet been established for variable rate, rollover, and renegotiable rate loans issued by commercial banks and savings banks.

In order to examine further the issues of consumer safeguards for these new mortgage instruments, the Commerce, Consumer, and Monetary Affairs Subcommittee will holding hearings March 26 and 27. I am writing to request the testimony of the Federal Reserve at these hearings on March 27 at 10 AM.

The three main topics on which I am requesting the Federal Reserve to testify are (1) truth in lending disclosures on variable-rate and related mortgage instruments, (2) the role of the Federal Reserve in regulating unfair and deceptive trade practices and its applicability to variable rate and related mortgage instruments, and (3) the use of an index to limit rate changes on individual loans. I am also requesting the views and plans of the Board on certain other aspects of consumer protections for these instruments.

More specifically, the Federal Reserve's statement should cover the following questions:

1. <u>Truth in Lending:</u>

   a. What special truth in lending disclosure problems arise in the case of variable-rate and renegotiable rate mortgages, and how does the Federal Reserve handle these problems under Regulation Z?

b. Do the disclosure requirements of the Federal Home Loan Bank Board in the existing regulations for variable-rate mortgages and the proposed regulations for renegotiable rate mortgages meet the truth in lending requirements?

c. If not, does this lack of conformity, with the consequent need for a supplemental truth in lending disclosure, create any potential problems, such as creating confusion for borrowers or causing an unnecessary paperwork burden on lenders?

d. Does the Federal Reserve have any concern that lack of conformity in the disclosures might impede effective truth in lending enforcement by increasing unnecessarily the burden on the compliance examiners?

e. What efforts is the Federal Reserve making to ensure that its concerns are known to the Bank Board and to achieve the most effective truth in lending disclosures in the case of variable rate and renegotiable rate mortgage instruments?

2. Unfair/deceptive trade practices:

a. Does the Federal Reserve's authority under the FTC Improvement Act of 1975 to regulate unfair and deceptive practices at banks provide a possible legal basis for imposing minimum consumer protection restrictions on the terms of variable rate, renegotiable rate, and rollover mortgages issued by banks (including savings banks)?

b. Does this authority of the Federal Reserve extend to such loans issued by savings and loan associations?

c. Has the Federal Reserve any plans to regulate the terms of such mortgages issued by banks under either this or any other authority? If so, please describe these plans.

d. To what standards would variable rate and renegotiable rate mortgages have to adhere in order not be in violation of the Federal Reserve's general standards for fairness and lack of deception?

3. Rate changes:

a. What are the views of the Board on whether it would be acceptable for banks to issue variable rate or renegotiable rate mortgages whose rate changes were not pegged to any index but whose contract terms permitted the renewal rate to be set at the individual lender's "then-current market rate of interest on similar loans?"

b. In the Board's judgment, might it frustrate the Truth In Lending Act objective of meaningful cost disclosure for comparison shopping if rollover or renegotiable rate mortgages are issued having contract terms that permit the lender to set the renewal rate, at the time of renewal, at whatever rate is that individual lender's "then-current market rate of interest on similar loans?"

c. Might it be an unfair trade practice for a commercial or savings bank to issue a renegotiable rate mortgage having contract terms that permit the lender to set the renewal rate, at the time of renewal, at whatever rate is that individual lender's "then-current market rate of interest on similar loans"?

4. Monitoring:

What are the plans or present programs of the Federal Reserve to monitor the market for variable rate and related mortgage instruments, including monitoring the pattern of contract terms, interest rates, costs and fees, consumer acceptability and complaints, and aggregate lending flows or portfolio investments in such instruments?

The rules of the Government Operations Committee, as you know, require that prepared statements be available at the subcommittee office 24 hours in advance of the hearing. I shall look forward to hearing the Federal Reserve's testimony.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:tb

March 17, 1980

The Honorable Adlai E. Stevenson
Chairman
Subcommittee on International Finance
Committee on Banking, Housing and
Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Chairman Stevenson:

Thank you for your letter of February 29 inviting the Board to testify at your Subcommittee's hearing on export trading company and trade association legislation.

I am pleased to inform you that Governor Henry C. Wallich will appear on behalf of the Board on March 19 at 4:00.

Sincerely,

S/Paul A. Volcker

CO:pjt (#V-69)
bcc: Gov. Wallich
Messrs. Hurley, Gemmill, Martinson and Eisenbeis
Mrs. Mallardi (2)

CM
V-40

March 17, 1980

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

Dear Mr. Chairman:

Enclosed, as requested in your February 7 letter, are tables for recent quarters showing various measures of borrowing from the Federal Reserve System by member commercial banks in different size categories.

As one would expect, larger banks account for a bigger share of the overall dollar volume of borrowing from the Federal Reserve than smaller banks; however, smaller banks regularly borrow larger shares of their required reserves. Because borrowings by larger banks do respresent the lion's share of the total dollar volume of borrowing, any calculation of the value of obtaining credit at a discount rate below the federal funds rate also sums to a greater absolute dollar total for large banks than for small banks. However, the value of the rate spread to large banks is not very large when measured as a ratio to bank assets or bank capital.

Large money market banks are expected to borrow from the Federal Reserve only on a very temporary basis to assist in making orderly adjustments to unexpected deposit and credit flows. For this reason, money market banks are infrequent borrowers, and in the weeks they do borrow, their use is typically for only one day in the bank settlement period, either on the final day or just before the weekend. These borrowings are repaid the following business day.

When large banks do borrow, the dollar sums needed are often relatively large--as is suggested by some of the numbers in the accompanying tables. However, the administrative rules for access to the discount window effectively limit this use to days when legitimate adjustment credit needs develop. Moreover, as you know the System has recently imposed a 3 percentage point surcharge above the basic discount rate on borrowings by large banks for ordinary adjustment credit when such borrowing occurs successively in two statement weeks or more, or when the borrowing occurs in more than four weeks in a calendar quarter.

I hope this information satisfies your needs.

Sincerely,

S/Paul A. Volcker

PMK:dmg-b

cc: Mr. Axilrod
Mr. Keir

Action assigned to Mr. Axilrod



United States Senate

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

February 7, 1980

#40

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

Dear Mr. Chairman:

At the Joint Economic Committee hearing on Friday, February 1, 1980, we had a brief discussion about the use of the Federal Reserve discount window and the subsidy it provides member banks and the effect that the spread between the discount rate and market rate may have on monetary policy. I asked that additional analysis be prepared on this issue in time for the oversight hearing on monetary policy on February 25.

I have attached details of three types of tables that I wold like your staff to prepare as part of this exercise. The first would look at borrowing in relation to required reserves by bank size. The second would look at the average subsidy given to borrowing banks by bank size. The third would look at the interest rates for borrowing. These tables should be prepared for each calendar quarter beginning at mid-year 1978. I would appreciate it if your staff would also provide an analysis of these tables and their implications for changes in the Federal Reserve discount mechanism.

Sincerely,

William Proxmire
Chairman

Enclosure

WP:srl

The following tables should be prepared on a quarterly basis beginning Q III:1978 to Q IV:1979.

Table I: Member Bank Borrowing in Relation to Required Reserves, by Bank Size.

Size Categories:
- 0 to 5 Million
- 5 to 10 Million
- 10 to 25 Million
- 25 to 50 Million
- 50 to 100 Million
- 100 to 500 Million
- 500 to 1,000 Million
- 1,000 to 5,000 Million
- 5,000 and over
- Totals All Banks

Column Headings:
(1) Number of Banks: total # members
(2) Number of Banks: borrowing at the Fed
(3) Borrowing banks as percentage of total
(4) Average number of borrowing days during month
  (a) Average number of borrowing days during quarter
(5) Daily average amount of required reserves
(6) Daily average amount borrowed
(7) Borrowing as a percentage of required reserves.

Table 2. Average Subsidy Given Borrowing Banks, by Bank Size.

Size Categories: Same as above

Column Headings:
(1) Number of Borrowing Banks
(2) Average Monthly Subsidy*
  (a) Average Quarterly Subsidy*
(3) Average Amount Borrowed
(4) Distribution of Average Subsidy (Quarterly)

Table 3. Daily Average Interest Rates Paid by Borrowing Banks (monthly)

Column Headings:
(1) Federal Funds Rate
(2) Federal Reserve Discount Rate
(3) Spread

* Subsidy would be calculated as follows:

(Fed Funds Rate - Discount Rate)/365 x (# borrowing days per month) x (daily average borrowing per bank).

FERNAND J. ST GERMAIN, R.I., CHAIRMAN
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ED BETHUNE, ARK.

U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
SUPERVISION, REGULATION AND INSURANCE
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
NINETY-SIXTH CONGRESS

WASHINGTON, D.C. 20515

#36

February 7, 1980

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

Dear Mr. Chairman:

The Subcommittee on Financial Institutions Supervision, Regulation and Insurance will conclude its current round of hearings on the Senate amendments to H.R. 4986, H.R. 6198 and H.R. 6216 on February 21. We wish to extend an opportunity to the Federal Reserve Board to testify on February 20 at 9:30 a.m. in Room 2222 of the Rayburn House Office Building. Copies of the relevant bills, my opening statement of January 24, Deputy Secretary Carswell's statement of January 30 and Federal Home Loan Bank Board Chairman Janis' statement of January 24 are enclosed.

While the Subcommittee in no way wishes to limit the Board's presentation on any of the myriad of issues raised in the pending legislation, we anticipate a restatement of the Board's position on Regulation Q, including an evaluation of the concepts presented in my opening statement as well as differing approaches advocated by Congressman Barnard (H.R. 6198) and Congressman Patterson (H.R. 6216).

Inasmuch as the Senate amendments contain a number of banking proposals on which there has been little or no public testimony and very little floor debate, the Board is invited to comment as fully as deemed necessary on any of these provisions. You may wish, for example, to restate the Board's position on bank stock loan provisions of the Senate amendments. The Subcommittee will have available your letter of January 22 for distribution as well as copies of the Board's press release of December 13, 1979, in furtherance of Governor Partee's statement during the Subcommittee's recent bank holding company hearings.

We assume also that the Board may wish to comment specifically on the proposed foreign acquisition moratorium of U.S. financial institutions. The Board's attention is called to the Administration's position appearing on page 11 of Deputy Secretary Carswell's statement of January 30.

The problem of state usury laws, not confined to interest ceilings, is a particularly troublesome problem for the Subcommittee for a number of understandable reasons. As we review the range of proposals for temporary or permanent override, we are troubled about the thrust of certain of these proposals insofar as their long range affect on the ability of the Federal Reserve Board to efficiently discharge its primary monetary policy objectives. As a consequence, the Board's counsel in this respect is deemed essential.

While the Subcommittee, of course, would be honored to have your testimony on behalf of the Board, given the many demands on your schedule, your designee will be fully acceptable.

Pursuant to the rules of the Committee, please furnish the Subcommittee with 100 copies of your written statement to permit advance distribution by 12:00 noon on February 19 to be delivered to the Subcommittee office (Room B303 Rayburn). Your verbal presentation should be limited to ten minutes to permit adequate time for questioning. Your written statement will be placed in its entirety in the record.

Sincerely,

Fernand J St Germain

Fernand J. St Germain
Chairman

FJStG:gSj
Enclosures

March 17, 1980

Dear Ken:

I appreciate the memento -- we'll have it framed!

Sincerely,

Mr. Kenneth A. McLean
Staff Director
Committee on Banking, Housing
and Urban Affairs
United States Senate'
Washington, D. C. 20510

PAV:ccm

**United States Senate**

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

March 7, 1980



Chairman Paul A. Volcker
Federal Reserve System
20th St. & Constitution Ave.
Washington, D.C. 20551

Dear Mr. Chairman:

I thought you might like to have the "official" talley sheet used to record the vote of the Senate conferees when they accepted the final version of the Fed membership legislation.

Sincerely,

Kenneth A. McLean

Kenneth A. McLean
Staff Director

Enclosure

Dear Ken—
I appreciate the memento— We'll have it framed!
Sincerely,
Paul

# United States Senate

MEMORANDUM

Proxmire Y

Williams Y

Cranston Y

Garn N

Tower N

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

PAUL A. VOLCKER
CHAIRMAN

March 17, 1980

The Honorable Bruce Vento
House of Representatives
Washington, D. C. 20515

Dear Mr. Vento:

I am pleased to respond to the questions you raised in your letter of March 5.

In regard to the first question, which dealt with the impact of monetary policy on government interest costs, there is of course no disputing that the higher interest rates associated with the Federal Reserve's efforts to restrain monetary expansion in an environment of strong inflation have tended to raise federal interest payments. It is our expectation that, by applying the needed restraint, we will turn the corner on inflation and create the potential for a sustained lowering of interest rates. If we fail to get inflation lower, then the hope for lower interest rates is futile. Obviously, we can use all the help we can get in turning the present situation around. That is why the effort to restrain spending and balance the budget is so important. That effort will, of course, limit the debt, and therefore interest payments, directly.

Your second question concerns federal "tax expenditures". I do not have a specific recommendation for the accounting of these items, though it clearly is important that they be given due attention in light of their impact on resource allocation and on federal revenues. Nor do I have a firm position on the taxation of social security payments; it has long been argued that the "ability to pay" principle of equity in taxation might lead to consideration of the social security recipient's total income and possibly to some form of taxation of social security payments. However, this gets one into a very complex area of the philosophy of the social security system, and I would not feel comfortable in expressing a view on the issue at this time.

Your third query deals with legislative or constitutional constraints on the growth of the monetary aggregates. As I have remarked on a couple of occasions recently, I have some sympathy for the view that such constraints might add to the credibility of the Federal Reserve's commitment to the anti-inflationary control of monetary expansion. I also have noted, however, the concern that any highly specific or rigid formulation of this objective would run a serious risk of proving counter-productive as unpredictable economic developments or changes in the public's financial behavior made a prescribed target unattainable or undesirable. Under the circumstances, I would prefer not to go down the legislative or constitutional avenue at this time. I might note that, while I have stated that I find myself increasingly favorably disposed toward the idea of federal spending limits, I have noted as well my fears that the constitutional approach could have serious pitfalls. The notion of the Congress setting down some guidelines for itself as a means of coping with the difficult politics of budgetary discipline does, however, have some appeal and seems worth exploring.

Your final question raises the issue of the "underground economy" that operates on a cash-only basis. The analysis of the Board's staff reveals no extraordinary increases in the public's demand for currency in recent years, suggesting that the growth of this phenomenon may be exaggerated. While I doubt the phenomenon has changed so strikingly as to account for the surprisingly robust business picture generally, I do share some of the view that rising inflation, taxes, and regulation may be leading to a sub rosa "off the books" economy.

Sincerely,

S/Paul A. Volcker

MJP:PAV:vcd (#V-71)

bcc: Mike Prell
Mrs. Mallardi (2)

Action assigned to Mr. Axilrod

BRUCE F. VENTO
4TH DISTRICT, MINNESOTA

230 CANNON HOUSE OFFICE BUILDING
(202) 225-6631

ROBERT E. HESS
ADMINISTRATIVE ASSISTANT

DISTRICT OFFICE:
ROOM 544
FEDERAL BUILDING AND U.S. COURT HOUSE
316 NORTH ROBERT STREET
SAINT PAUL, MINNESOTA 55101
(612) 725-7869

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

HOUSE COMMITTEE ON
BANKING, FINANCE AND
URBAN AFFAIRS

SUBCOMMITTEES:
ECONOMIC STABILIZATION
CONSUMER AFFAIRS
HOUSING AND
COMMUNITY DEVELOPMENT

HOUSE COMMITTEE ON
INTERIOR AND INSULAR AFFAIRS

SUBCOMMITTEES:
ENERGY AND THE ENVIRONMENT
NATIONAL PARKS AND
INSULAR AFFAIRS

March 5, 1980

#71

1980 MAR -7 AM 9:37

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

Dear Mr. Chairman:

It was a pleasure to have you appear before the House Banking Committee on February 19th. I was very interested in your testimony and enjoyed having the opportunity to hear your responses to the various questions posed by the Committee members.

As our individual question time was limited to five minutes, I was unable to pursue several important questions I have regarding the monetary policies of the Federal Reserve Board. I would appreciate very much if I might pose these questions to you now.

My first question relates closely to one I asked you during the hearing concerning the Fed's tight monetary policies and their effect on the rapid escalation on interest payments on the national debt over the last several years. In 1978, with T-bill interest rates averaging 6.6%, the interest paid on the national debt was $48.7 billion; in 1979, with T-bill rates averaging 9.25%, interest on the debt rose to $59.8 billion; and, in 1980, assuming a T-bill rate of 11.1%, interest on the debt has been estimated at $73.3 billion. There is no doubt that Fed policy has significantly affected these increases in interest on the debt through the encouragement of rising interest rates. How do you justify such Fed actions in forcing up interest payments in light of your expressed desires for limits on federal spending, extreme fiscal restraint and possible tax reform. If we didn't have to cope with ever-increasing payments on the national debt, tax reform might be a real possibility.

Second, with regard to your claims that the government must limit federal spending and adopt a tighter fiscal budget, how do you feel we should account for tax expenditures? Bear in mind that our nation's largest tax expenditures are on social security payments, the money our nation's elderly depend on to survive. Should this money be taxed in order to tighten the federal budget?

Third, you indicated support for a spending limit on the fiscal side tied to the GNP. Should not a similar policy apply to the growth targets for the monetary aggregates as established by the Federal Reserve Board? Would you favor legislative or constitutional action to establish rigid floors and ceilings for monetary growth? Such limits, for example, could be tied to GNP indices or perhaps more appropriately the unemployment rate.

Finally, reports indicate that there is a very sizable amount of money in circulation that is being used in off-the-record, cash only transactions. Given our present inflationary situation, it is quite probable that more and more people will be seeking to purchase goods and services off the record as a way to cut costs. What are your feelings on this phenomenon? Could these transactions help explain some of the bouyancy in the economy? Could they be affecting our inability to accurately predict the onset of a recession?

I would very much appreciate learning your responses to these questions. Thank you very much for your attention to these concerns. I look forward to hearing from you.

Warm regards.

Sincerely,

Bruce F. Vento

Bruce F. Vento
Member of Congress

BFV/sr

March 17, 1980

The Honorable Robert W. Daniel, Jr.
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Daniel:

In your letter of March 7, you asked if the Board had considered raising the reserves that banks have to hold instead of increasing the discount rate. As you know, in early October the Board imposed a marginal reserve requirement on increases in managed liabilities and last Friday the Board increased that reserve requirement and took other actions to stiffen its impact, as well as extending it to more institutions under the President's authorization using the Credit Control Act of 1969. At the same time, the Board introduced a surcharge to the discount rate for larger banks who borrow relatively frequently; the basic discount rate remained unchanged. These and other actions taken last Friday are described in the enclosed documents.

I believe that these measures--in conjunction with those taken by the President and I hope by the Congress on the fiscal front--will tend to constrain inflationary trends with a minimum of upward interest rate pressure. However, I must point out that, taken alone, increases in the discount rate and increases in reserve requirements, each tend to raise interest rates. These two tools, along with open market operations, are the major traditional vehicles used to implement monetary policy in the United States.

I appreciate your interest and concern about the tools of monetary policy.

Sincerely,

S/Paul A. Volcker

Paul A. Volcker

Enclosures. (3/14/80 p.r.)

ECEttin:kt
# - V-77

Action assigned to Steve Axilrod

ROBERT W. DANIEL, JR.
4TH DISTRICT, VIRGINIA

COMMITTEES:
ARMED SERVICES
DISTRICT OF COLUMBIA

THAD S. MURRAY
ADMINISTRATIVE ASSISTANT

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

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CONSTITUENT SERVICE OFFICES:
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PORTSMOUTH, VIRGINIA 23704
(804) 441-6797

ROOM 209, POST OFFICE BUILDING
PETERSBURG, VIRGINIA 23803
(804) 732-2544

March 7, 1980

1-77

Mr. Paul A. Bolcker
Chairman
Board of Governors of
the Federal Reserve System
Federal Reserve Building
Constitution Avenue
Washington, D. C. 20551

Dear Mr. Bolcker:

I have recently received inquiries concerning the Board's actions in raising the discount rate which results in the increase in interest rates being charged by banks. The question was raised as to whether consideration has been given by the Board to raising the reserves that banks have to hold in order to reduce the availability of money.

I shall appreciate your advice concerning whether consideration has been given to such an effort and any comment you may care to make concerning the feasibility of such a vote.

Sincerely,

Robert W. Daniel, Jr.

Robert W. Daniel, Jr.

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

PAUL A. VOLCKER
CHAIRMAN

March 17, 1980

The Honorable Clarence J. Brown
House of Representatives
Washington, D. C. 20515

Dear Mr. Brown:

I am pleased to respond to the questions you raised in regard to Professor Feldstein's remarks at your recent hearings.

With respect to the first question, I must note that it is very difficult in practice to assess the level of "real" interest rates, since they involve the expectations of the public about inflation and these cannot be measured. Actual inflation rates are only a crude proxy--one based on the overly simple assumption that people expect future price increases to match those in the current period. Moreover, in terms of assessing the impact of any given level of interest rates on aggregate demand and thus on inflationary pressures, it is necessary to ask whether, after taking all the risks into consideration, businessmen and consumers view the expected real returns on investments as exceeding the real costs of credit. In a sense, the only real test of whether monetary policy is "tight" enough or not is whether excessive borrowing and inadequate savings are contributing to the inflationary process. Certainly the performance of the economy and inflationary pressures at this time would be difficult to reconcile with overly tight policies.

More generally, monetary policy--as represented by the ranges we have specified for the monetary aggregates--should exert sustained restraint on inflationary forces in the months ahead. As the Federal Reserve pursues its monetary growth objectives, there will be a tendency for interest rates to move in an "automatically stabilizing" fashion--that is, as inflation or inflationary expectations rise and credit demands intensify, there will be a tendency for interest rates to rise and thereby exert some restraint on borrowing and spending.

Your second question deals with the effects of taxes on saving and borrowing. It is quite clear that higher levels of saving are necessary to free additional resources for capital formation. Higher after-tax rates of return should promote increased saving, and the kind of problem that Dr. Feldstein indicates seems to me serious indeed. I should note that voluminous research over the years has not indicated that as a practical matter personal saving is highly responsive to changes in interest rates, but those studies do not reflect a period of high inflation and interest rates when the difference between before- and after-tax yields is so large. While some tax relief for savers could be helpful in enhancing capital formation, I would caution the Congress to look very closely at the design of any proposed incentives. Many that have been mentioned, including the exemption for interest and dividends agreed to recently by the conference committee on the windfall profits tax, would likely produce very little additional saving in the aggregate while giving up sizable amounts of federal revenue.

I believe that a more cost-effective means of enhancing business capital formation is likely to be found by improving incentives for investment. There are any number of devices that might be used. More generous depreciation allowances may be one of the more desirable options--and they do represent one indirect way of compensating for the impact of inflation on corporate tax burdens--but others should be considered as well. Unfortunately, however, this does not appear to be an appropriate time for tax actions that will cut into federal revenues and enlarge the government's budget deficit. A deeper deficit would add to inflationary forces and to pressures on credit markets. Neither of these developments would be favorable to capital formation. I would hope that sometime soon, having turned the corner on our present difficulties and having achieved adequate restraint on the spending side of the federal budget, there will be an opportunity to modify the structure of taxation in such a way as to promote greater investment.

Finally, I must say that the present problem for savers has become so acute because of the strength of inflationary pressures. Getting control of that situation is the first priority today.

Sincerely,

S/Paul A. Volcker

MJP:JLK:PAV:vcd (#V-61)
bcc: Messrs. Prell and Kichline
Mrs. Mallardi (2)

Mr. John M. Albertine, Executive Director, JEC

Action assigned Mr. Kichline



# Congress of the United States
JOINT ECONOMIC COMMITTEE
(CREATED PURSUANT TO SEC. 5(a) OF PUBLIC LAW 304, 79TH CONGRESS)
WASHINGTON, D.C. 20510



February 20, 1980

#61

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

Dear Chairman Volcker:

Representative Clarence J. Brown has requested that the enclosed material and questions be sent to you for comment. They, along with your answers, will be included in the record of the hearings on our Annual Report which were held on February 1.

We would appreciate your reply as soon as possible in order to insert the answers in the final transcript.

Thank you for your attention to this matter.

Sincerely,

John M. Albertine

John M. Albertine
Executive Director

JA:sel
Enclosure

1980 FEB 22

QUESTIONS POSED BY
REPRESENTATIVE CLARENCE J. BROWN

Mr. Chairman,

On January 31, a number of Minority Members of this Committee had breakfast with Dr. Martin Feldstein of Harvard.

Dr. Feldstein said that interest rates were very misleading. They look high, but they are barely above the rate of inflation, which is now 11 to 13 percent, depending on which index you use. Borrowers can repay their loans in cheaper dollars, while savers see the value of their savings slipping away. Thus, the real cost of borrowing and the real reward to saving is about zero.

He went further. Interest paid is tax deductible. Interest earned is taxed. After taxes, for someone in the 25 percent tax bracket, a 12 percent mortgage costs only 9 percent, and the real cost of money after taxes is a negative 3 percent. The same is true for savers. If they earn 12 percent on a Treasury bill, they keep 9 percent after taxes, and lose 3 percent in real terms.

Dr. Feldstein said that we were punishing savers and subsidizing borrowers, and beating investment over the head with inadequate depreciation allowances. The inflation, in other words, is reducing the nation's savings, and steering most of our available savings into consumer borrowing and away from investment in plant and equipment, which cripples productivity and opens the door to imports. (Business borrowers also see a lower real interest rate, but this is offset by a lower rate of return on investment.)

We have sharply lowered the incentive to save since the late 1960's. In 1967, Treasury bills were paying 4 to 5 percent. Inflation was just under 3 percent. There was a 1 to 2 percent real interest rate (before taxes) for both borrowers and lenders.

There was even a $\frac{1}{2}$ to $1\frac{1}{2}$ percent real interest rate after taxes to both borrowers and lenders, depending on their tax bracket. Saving was encouraged, at least a little. Borrowing cost something, at least a little. Today, the real interest rate is zero before taxes, and 2 to 6 percent below zero after taxes, depending on the tax bracket. Yet we thought interest rates were low in 1967, and we think they are high today. Is it any wonder that saving was 7.5 percent of personal income in 1967, and only 4.5 percent in 1979 (3.5 percent by year-end 1979)?

Chairman Volcker, I have three questions:

First, is monetary policy tight or isn't it, judging from real after-tax interest rates; and is it really fighting inflation?

Second, hadn't we better make room in the budget to reduce the tax burden on savers if we want to get more economic growth?

Third, hadn't we better make room in the budget to do something about the depreciation problem?

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

PAUL A. VOLCKER
CHAIRMAN

March 14, 1980

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 Mr. Chairman:

This is in response to your request of February 12, 1980, for copies of interagency memoranda and other information regarding the monitoring of foreign ownership of U. S. depository institutions. Enclosed are Board staff responses to the specific questions posed in that letter, along with several other attachments.

- Your letter included a request for a copy of Mr. Carswell's letter of August 2 regarding the regulatory agencies' monitoring system and any subsequent response. A copy of that letter is enclosed as Attachment A. The subject matter was discussed by the Interagency Coordinating Committee, of which Mr. Carswell is a member. Consequently, while a general approach was agreed upon with the ICC, no formal response was made to Mr. Carswell.

If you or members of your staff wish further information or have any questions concerning the responses, please call John E. Ryan, Director of the Board's Division of Banking Supervision and Regulation (452-2893).

Sincerely,

S/Paul A. Volcker

Enclosures
JVH:vcd (#V-46) & V-88
bcc: Messrs. Ryan, Dahl, Houpt
Mrs. Mallardi (2)

BENJAMIN S. ROSENTHAL, N.Y., CHAIRMAN
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MAJORITY—(202) 225-4407

NINETY-SIXTH CONGRESS

# 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

#88

1980 MAR 14 PM 12:51

March 13, 1980

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

Dear Chairman Volcker:

It is my understanding that Mr. Houpt of the Federal Reserve staff has been working for some months on a research study of the effects of foreign ownership on U.S. banks and that this work is virtually complete. I am writing to request that a copy of this study be made available to the Commerce, Consumer and Monetary Affairs Subcommittee prior to the forthcoming hearing, tentatively scheduled for April 15 and 16, on the nonbanking activities of foreign bank holding companies.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:tv

Action assigned to Jack Ryan

BENJAMIN S. ROSENTHAL, N.Y., CHAIRMAN
ROBERT T. MATSUI, CALIF.
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LYLE WILLIAMS, OHIO
JIM JEFFRIES, KANS.
JOEL DECKARD, IND.

MAJORITY—(202) 225-4407

NINETY-SIXTH CONGRESS

**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

February 12, 1980

#46

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

Dear Mr. Chairman:

In connection with the Commerce, Consumer, and Monetary Affairs' investigation of foreign ownership of U.S. financial institutions, it has come to the subcommittee's attention that the Commerce Department, which has been assigned responsibility by the President for monitoring foreign direct investment in the U.S. economy, has been seeking improved data from the banking regulatory agencies on foreign ownership of U.S. banks and other depository institutions. This request for better data and coordination was conveyed to Mr. Heimann in his capacity as chairman of the Federal Financial Institutions Examination Council in a memorandum from C. Fred Bergsten on July 20, 1979.

In a recent letter to me, a copy of which is attached, Mr. Heimann stated that Mr. Robert Carswell made a similar request to all five depository institution regulatory agencies on August 2, 1979. Mr. Heimann's response also suggests that the Federal Reserve would be able to respond more fully to questions on this subject. I am writing to request copies of relevant interagency correspondence and additional information.

Specifically, I am writing to request copies of (a) Mr. Carswell's letter of August 2; (b) the Federal Reserve's response to this letter (or any joint response from the Federal Reserve acting jointly with other agencies); (c) any subsequent related correspondence between you or your staff and Mr. Carswell or other Treasury staff; and (d) any subsequent related correspondence between you or your staff and the Commerce Department's Office of Foreign Investment in the U.S. or other Commerce Department offices or officials.

In addition, please provide to the subcommittee answers to the following questions, to the extent the information requested is not already provided in the correspondence you will be sending:

1. What information, in addition to the names of the affected institutions, will be kept on the second and third lists identified in the attached letter from Mr. Heimann (lists of institutions for which a change of control has been approved or for which a change of control application or notice has been filed)?

2. Will these second and third lists be publicly available?

3. Will the second and third lists (or equivalent information) be made available regularly and in a timely fashion to any other government agencies?

    a. If so, please state which agencies and the details of the information sharing arrangements.

    b. If not, please state the reasons for not sharing this information.

4. Is it correct, as asserted by Mr. Westbrook Murphy in a comment article in the February 7 American Banker (copy attached), that there is no procedure for the bank management or other parties affected by a prospective change in bank control to receive notice of or to comment on the prospective change of control?

    a. If this is essentially correct, please state the Board's (or the joint agencies') reasoning for not providing notice or an opportunity to comment.

    b. If this is not in substance correct, please state what are the Board's (or the joint agencies') position and procedures regarding notice of and opportunity to comment on prospective changes of control.

5. Has the Board received any public comments or correspondence requesting notice and the opportunity to comment on prospective changes in control? If so, please provide copies of all such correspondence.

6. What actions has the Board taken or will it take to identify the banks that were under foreign ownership or control prior to the effective date of the Change in Bank Control Act?

7. Will the list of institutions under foreign ownership or control be formatted in such a way as to identify in distinct and separate sections of the list the following classes of institutions:

    a. U.S. chartered banks owned or controlled by foreign individuals,

    b. U.S. chartered banks owned or controlled by foreign banks,

    c. U.S. chartered banks owned or controlled by domestic bank holding companies under foreign control,

    d. FDIC-insured branches of foreign banks, and

    e. other branch and agency offices of foreign banks?

8. Will the Federal Reserve or any other agency provide, in a regularly scheduled periodic public report or tabulation, aggregate statistics showing the numbers of institutions, dollar amounts of assets and deposits, and related information on foreign owned institutions? If so,

a. What items will be reported?

b. Will the information be tabulated separately for each class of institutions identified in the previous question?

c. Will the information be tabulated by state?

d. How frequently will this information be updated and released?

9. Will institutions to be listed on the first list identified in Mr. Heimann's letter (the publicly available list of institutions under foreign ownership and control) be entered on the list only subsequent to actual consummation of an acquisition or actual formation of a new unit? If so, how will the Federal Reserve and other agencies determine that this final step has occurred? What report or other source of information will be relied upon as the "trigger" for entering onto the first list an institution that was previously on the second list?

I would appreciate receiving the requested correspondence and information by Friday, March 7.

Sincerely,

Benjamin S. Rosenthal
Chairman

Enclosures

BSR:tb

Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219

CONGRESSMAN BEN ROSEN[illegible]

STAFF

PARA:

COMMENTS:

FILE CODE:

January 31, 1980

Dear Mr. Chairman:

This will have reference to your letter of January 9, 1980, asking for information on how the banking agencies have collectively addressed the question of improved information on foreign investment in the U.S. banking industry.

Your concern relates particularly to actions taken as a result of a memorandum dated July 20, 1979, addressed to me from Mr. C. Fred Bergsten, Chairman of the Committee on Foreign Investment in the U.S. Mr. Bergsten's memorandum, which transmitted a copy of an earlier and more detailed memorandum from Mr. Milton A. Berger, Director of the Office of Foreign Investment in the United States, sought the cooperation of the banking agencies under the aegis of the Federal Financial Institutions Examination Council. The Council's mandate, however, is limited to matters of an examination and supervisory nature whereas the request of Messrs. Bergsten and Berger seemed to have much broader implications. At almost the same time Mr. Robert Carswell, Deputy Secretary of the Treasury, on August 2, 1979, wrote to the three federal banking agencies, the Federal Home Loan Bank Board and the National Credit Union Administration, requesting that identical concerns be deliberated before either the Interagency Coordinating Committee or the Examination Council. Since the areas of concern of the ICC reach beyond the examination process, it seemed far more logical and appropriate that these issues be discussed by the Coordinating Committee.

Accordingly, ICC members considered and recommended, on November 30, 1979, that the individual agencies fully participate in the maintenance of a master listing of institutions controlled by foreign interests.

Most of the information to be maintained will be derived from the Change of Control Reports filed pursuant to Titles VI and VII of FIRA as originally proposed. There will actually be four listings maintained by the Federal Reserve, each representing a different stage in the process of acquiring control, ranging from publicly reported "rumors" to final acquisition.

The first list will present the name, location and size of the institution and the percent of ownership and citizenship of the foreign owner. This list will include the following institutions controlled by foreigners: American banks, holding companies, Edge Act and Agreement subsidiaries, savings and loan associations, agencies in the U.S. of foreign banks, and New York investment companies. Since this list would be publicly available, an interagency legal group advised the ICC members that public comment should first be solicited pursuant to The Privacy Act. Preparations are now being made by the legal staffs of the Federal Reserve and the Federal Deposit Insurance Corporation to fulfill this recommendation.

The second list will consist of the names of institutions for which foreigners have applied for and received approval to acquire control but where the actual acquisition of control has not yet been consummated.

The third list will consist of the names of institutions for which change of control applications have been filed by foreigners but which have not been approved or disapproved.

The fourth list will consist of information obtained through newspapers, including The American Banker, Wall Street Journal, Journal of Commerce and New York Times, relating to foreign ownership of U.S. depository institutions. This list will be publicly available.

So far as this Office is concerned, it will cooperate fully in this interagency effort and it has every reason to believe that all of the affected members of the ICC intend to do the same.

If we may be of further service, please call upon us. However, we suggest for more precise information and greater detail on the scope and operation of the plan that is now being implemented that you contact the Federal Reserve Board directly.

Sincerely,

John G. Heimann
Comptroller of the Currency

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

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## Citation Information

**Document Type:** Magazine article

**Number of Pages Removed:** 1

**Citations:** Murphy, C. Westbrook. "Return of the Huggermugger." *American Banker*, February 7, 1980.

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## Citation Information

**Document Type:** Magazine article

**Number of Pages Removed:** 1

**Citations:** Murphy, C. Westbrook. "Return of the Huggermugger." *American Banker*, February 7, 1980.

March 14, 1980

The Honorable Walter F. Mondale
President of the United States Senate
Washington, D. C. 20510

Dear Mr. Vice President:

The Board of Governors of the Federal Reserve System is pleased to submit its fifth Annual Report on the Board's functions with respect to Section 18(f) of the Federal Trade Commission Act.

Sincerely,

S/Paul A. Volcker

Enclosure

President of the U. S. Senate received (date) ________________

President of the U. S. Senate by ____________________________

bcc: Mrs. Mallardi (2)
Desiree J. Weidaw

Action assigned Mr. Allison

CLAUDE PEPPER
14TH DISTRICT, FLORIDA

COMMITTEE ON RULES

CHAIRMAN,
SELECT COMMITTEE ON AGING

ROBERT S. WEINER
STAFF DIRECTOR

JAMES A. BRENNAN
ASSISTANT TO THE CHAIRMAN

712 HOUSE ANNEX 1
WASHINGTON, D.C. 20515

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

JAMES F. SOUTHERLAND
ADMINISTRATIVE ASSISTANT

CHARLOTTE DICKSON
OFFICE MANAGER

2239 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515

DON PETIT
DISTRICT REPRESENTATIVE

DISTRICT OFFICE:
ROOM 823 FEDERAL BUILDING
MIAMI, FLORIDA 33030

~~#97~~ #98

March 14, 1980

Dear Mr. Chairman:

You will please allow me to call to your attention the resume of Mr. Juan E. Acosta of Miami, Florida, who has expressed his desire to serve on the Board of Governors of the Federal Reserve System. As his enclosed resume will attest, Mr. Acosta possesses a very fine legal background, in addition to his experience in the financial and banking affairs of Latin America and his experience as advisor to the Boards of Directors of the Sunshine State Bank and the Total Bank of Coral Way.

Mr. Acosta has also expressed the desire that, should there be no existing vacancies on the Board at the present time, he would like very much to serve the Federal Reserve System in a legal capacity.

Both Mr. Acosta and I will be most grateful to you for any consideration which can properly be given to his application.

Kind regards, and

Very sincerely,

Claude Pepper

Claude Pepper
Member of Congress

Honorable Paul A. Volcker, Chairman
Board of Governors of the Federal Reserve System
Federal Reserve Building
Constitution Avenue between 20th and 21st Streets
Washington, D.C. 20551

Enclosure

# Removal Notice

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## Citation Information

**Document Type:** Resume

**Number of Pages Removed:** 2

**Citations:** Resume, Juan E. Acosta, 1980.

March 14, 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 of the Federal Reserve System is pleased to submit its fifth Annual Report on the Board's functions with respect to Section 18(f) of the Federal Trade Commission Act.

Sincerely,

S/Paul A. Volcker

Enclosure

Speaker of the House of Representatives received (date)________

Speaker of the House of Representatives by ____________________

bcc: Mrs. Mallardi (2)
Desiree J. Weidaw

March 13, 1980

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:

Thank you for your letter of January 29 regarding your Subcommittee's oversight hearing on the administration of the Bank Holding Company Act as applied to the overseas nonbanking activities of foreign bank holding companies.

It is my understanding that the hearing date has been set for April 16 at 10:00 a.m. I am pleased to inform you that Governor Henry C. Wallich will appear on behalf of the Board.

Sincerely,

S/Paul A. Volcker

CO:pjt (#V-30)
bcc: Gov. Wallich
Messrs. Gemmill, Dahl, Hurley
Mrs. Mallardi (2)

BENJAMIN S. ROSENTHAL, N.Y., CHAIRMAN
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NINETY-SIXTH CONGRESS
**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

#30

January 29, 1980

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

Dear Mr. Chairman:

The Commerce, Consumer and Monetary Affairs Subcommittee, as you know, has been conducting an oversight review of the public policy issues raised by the Federal Reserve Board's approval last March of the Hongkong and Shanghai Banking Corporation's application to take over control of the Marine Midland Bank in New York. In connection with this oversight review, I am writing to request your testimony before the subcommittee at an oversight hearing on the administration of the Bank Holding Company Act as applied to the overseas nonbanking activities of foreign bank holding companies. I am also writing to request a postponement of any final rulemaking by the Federal Reserve to implement Sections 2(h) and 4(c)(9) of the Bank Holding Company Act until the subcommittee has had a reasonable time to submit comments based upon the record at this hearing.

On December 11, 1979, I wrote to you to suggest that the Federal Reserve should withdraw its approval, previously granted under the requirements of the Bank Holding Company Act, of the application of the Hongkong and Shanghai Banking Corporation to acquire control of the Marine Midland Bank of New York. In that letter I also requested that the Federal Reserve report to the subcommittee, at the time of any reconsideration of this application, on its findings with regard to certain questions concerning the qualifications of the Hongkong and Shanghai Bank and the Federal Reserve Board's policy toward the nonbanking activities of foreign bank holding companies.

In your response of January 14, 1980, you stated that it would be inappropriate for the Board to vacate its previous approval order, but that you would be prepared to discuss with the subcommittee the public policy issues involved in foreign bank acquisitions of domestic banks. You attached to your response a Board staff memorandum addressing certain questions that I had raised in my December letter.

After reviewing your January 14 letter and the attached staff memorandum, I have concluded that this response does not address the central substantive question the subcommittee is raising. That central question is whether, and for what reasons, it is in the public interest and not substantially at variance with the purposes of the Bank Holding Company Act for the Federal Reserve to grant the Hongkong and Shanghai Banking Corporation an exemption from the nonbanking prohibitions of Section 4 of the Bank Holding Company Act.

The Congress, in approving the Bank Holding Company Act, recognized that there could be circumstances in which the public interest would be served by exempting certain foreign organizations from the nonbanking prohibitions of the Act. However, this Act assigns to the Federal Reserve the responsibility to determine, by regulation or order, what exemptions granted under the authority of Section 4(c)(9) would be consistent with the public interest and the purposes of the Act. In other words, the Act requires the Federal Reserve to define the public interest, as regards allowing U.S. banks to be owned by foreign corporations having major nonbanking interests.

This the Federal Reserve has not done, at least not publicly. While extensive overseas nonbanking activities may not have been an issue in any major holding company applications prior to the Hongkong case, it is clearly a major circumstance in this case. Consequently, because of the precedent setting nature of this case, especially as regards the extensive nonbanking activities controlled by the applicant, it is essential, and necessary for adherence to responsible administrative procedure, for the Federal Reserve to state publicly and analytically the basis for its conclusion that exemption from the nonbanking prohibitions of the Act is in the public interest and not substantially at variance with the purposes of the Act.

In order to facilitate a congressional review of this fundamental issue, therefore, I am writing to request your testimony before a subcommittee hearing to present the Federal Reserve's analysis on these questions. I would like to hold this hearing, at a date to be determined, as early in March as a suitable prepared statement can be completed and your schedule permits such an appearance.

As the subcommittee's oversight hearing will deal directly with certain issues that are (or may soon be) before the Board in rulemaking proceedings related to the overseas nonbanking activities of foreign bank holding companies, I am also requesting that the Board postpone the issuance of any final rules or rule revisions concerning the implementation of Sections 2(h) and 4(c)(9) of the Bank Holding Company Act until after the subcommittee's hearing on this topic and until after the subcommittee has had a reasonable time to prepare comments to the Federal Reserve on the basis of the hearing record. This request for a postponement in final rules need not apply to the issuance of proposed rules for public comment.

While you should feel free to include in your prepared statement for the subcommittee hearing any points or material that you believe to be relevant, this statement should contain at least the following elements:

a. A statement of the nonbanking prohibitions that apply to domestic bank holding companies and the public policy basis for these prohibitions;

b. The Federal Reserve's analysis of (i) how the public interest may be advanced by an exemption from the nonbanking prohibitions for certain foreign bank holding companies, (ii) how such an exemption for foreign bank holding companies is consistent with the policy of prohibiting domestic bank holding companies from having any nonbanking activities not closely related to banking, even if such activities were located overseas, and (iii) how extensive an involvement in nonbanking activities on the part of a foreign bank holding company the Federal Reserve is willing to accept as consistent with the general public policy objectives of Section 4 of the Bank Holding Company Act;

c. A statement of how the general position stated above applies to the Hongkong and Shanghai Banking Corporation; and

d. A statement of whether it is consistent with the policy of "national treatment" for foreign holding company organizations with extensive nonbanking activities overseas to be permitted to own major U.S. banks when (i) U.S. organizations with similar nonbanking interests overseas are not permitted to own U.S. banks and (ii) U.S. banking organizations are not permitted to own nonbanking businesses overseas of the sort controlled by Hongkong and Shanghai?

In addition to the elements identified above, I would also appreciate having your statement address the following questions:

e. Is it still the Board's position that "it would be inconsistent with the purposes of the Act and would not be in the public interest for the exemptions afforded by Section 4(c)(9) of the Act and Section 225.4(g) of Regulation Y to be extended to a foreign organization that is not principally engaged in banking?" (This statement appears in the supplementary information issued in April 1979 in connection with the proposed rule change that would alter the definition of "foreign bank holding company.")

f. What is the Board's current thinking, or what alternatives are currently being considered by the Board, concerning a revised definition of "foreign bank holding company?"

g. Has the Federal Reserve under consideration any other possible rules or rule changes to implement the statement of policy identified in question e. above (or any similar revised policy position)? If so, please explain the nature of the alternatives being considered.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dtv

March 13, 1980

The Honorable Thomas S. Foley
House of Representatives
Washington, D. C. 20515

Dear Mr. Foley:

Thank you for your letter dated February 22, 1980, requesting comments on correspondence you received from Mr. G. David Robinson, Executive Vice President of Spokane's First National Bank, concerning proposed regulations of the Office of Federal Contracts Compliance Programs of the Department of Labor (OFCCP). The regulations as originally promulgated defined federal deposit insurance as a government contract for the purposes of Executive Order 11246. Under the regulations as proposed, OFCCP would have the authority to terminate the deposit insurance of an insured bank for noncompliance with the Order or its implementing regulations.

The Board of Governors of the Federal Reserve System joined the other financial regulatory agencies in vigorously opposing OFCCP's inclusion of deposit insurance in the definition of a government contract. In response to the concerns of the financial regulatory agencies and other commentors, OFCCP issued a "clarifying amendment" to its proposed regulations on February 14, 1980. The amendment states that OFCCP will not debar financial institutions from future federal deposit or share insurance or cancel, terminate or suspend existing federal deposit or share insurance. Notwithstanding the clarifying amendment, OFCCP continues to assert that deposit and share insurance are government contracts. The Board, along with the other agencies, continues to resist this definition. The matter is pending before the Equal Employment Opportunity Commission for resolution under the dispute resolution procedures in Executive Order 12067.

For your convenience, I have enclosed a copy of OFCCP's clarifying amendment.

Sincerely,

S/Paul A. Volcker

Enclosure

JJJ:CO:ved (#V-67)
bcc: Mrs. Mallardi (2), Mr. Petersen, Ms. Jennifer Johnson

Action assigned Mr. Petersen

THOMAS S. FOLEY
5TH DISTRICT, WASHINGTON

CHAIRMAN
COMMITTEE ON AGRICULTURE

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

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AREA CODE 509, 456-4680

40 SOUTH COLVILLE
WALLA WALLA, WASHINGTON 99362
AREA CODE 509, 529-6111

February 22, 1980

#67

Dear Mr. Volcker:

Enclosed is a self-explanatory letter that has come to my office indicating problems that could occur should certain regulations of the Office of Federal Contract Compliance Programs be approved.

These regulations would have, it appears, a detrimental effect on the efficient operations of member banks; and a number of such institutions in my district have asked under what authority such regulations can be approved and what the position of the Federal Reserve is on this most important matter.

Sincerely,

Tom Foley

Thomas S. Foley
Member of Congress

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

TSF:wbk

Enclosure

Spokane's First National Bank

BOX 2149 SPOKANE, WASHINGTON 99210 . . . . . . . . 455-6424

EXECUTIVE VICE PRESIDENT
G. DAVID ROBINSON

January 31, 1980

Mr. Werner Brandt
Office of Congressman Thomas S. Foley
1201 Longworth House Office Building
Washington, D.C. 20515

Dear Werner:

A matter has come to my attention that I feel indicates the problems which we have with the regulatory bodies, and am writing you to bring it to the attention of the Congressional office, as Congress may be able to influence the final resolution of this matter.

Briefly what has happened is this. Late last year the Office of Federal Contract Compliance Programs, in proposing new regulations, requested that that agency, in the event of a finding of non-compliance with this regulation, could administratively debar a bank from Federal Deposit Insurance (Sec. 60-15(a)). I believe that this is an extremely serious matter which carried potential that is detrimental to the public good. There are some legal grounds for arguing against this proposal which are briefly:

1. The OFCCP, whose authority is derived from an executive order, has no authority to enforce their laws on independent regulatory agencies (FDIC, etc.).

2. The explicit and exclusive guide lines covering the issuance or revocation of deposit insurance do not include references to compliance with the executive order granting authority to the OFCCP. Non-compliance with this executive order may not legitimately be a consideration governing the subscription to deposit insurance.

3. Deposit insurance is not a contract inasmuch as it is a condition of membership in the Federal Reserve System, the granting of a National bank charter, and in most states, the granting of a State charter. Deposit insurance is more in the nature of a License from these regulatory bodies rather than a contract with them. To revoke the deposit insurance would, in most

cases, cause the revocation of the bank's charter. The reasons for revocation of deposit insurance relate to practices which jeopardize depositors' funds - not to violations which in no way affect the solvency or liquidity of the bank.

I think it is a matter of extreme public concern that a field operator of the Office of Federal Contract Compliance could, hypothetically, by a single telephone call, remove the deposit insurance of all of the depositors in a bank. I feel this is contrary to the public interest and totally beyond the scope of authority of the OFCCP as well as the intent of equal opportunity legislation. In effect, an alleged violation of a law affecting one person could be detrimental to thousands or hundreds of thousands of depositors. Moreover, I look at this particular move as a sterling example of the total tunnel vision of Federal regulators who fail to comprehend the over-all effects of their particular actions.

If the congressional office can exercise any influence with the OFCCP it would be greatly appreciated, not only by the banking industry but also its millions of depositors.

Best personal regards.

G. David Robinson
Executive Vice President

GDR ej

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

PAUL A. VOLCKER
CHAIRMAN

May 2, 1980

The Honorable Adlai E. Stevenson
United States Senate
Washington, D. C. 20510

Dear Adlai:

I am replying to your letter of April 22 regarding your bill to encourage the creation of export trading companies.

I agree fully that the United States needs a strong export sector. As you know, our export performance in the past several years has been good, with exports of nonmanufactured goods rising by 20 percent in volume during that time. Fundamental to continued growth in our exports is a sharp reduction in the rate of inflation in this country. But marketing considerations are also important.

The Export Trading Company Act (S. 2379) puts great emphasis on the need for bank investment in trading companies. As I understand it, banks are regarded as a source of expertise in international transactions and as a source of investment capital for trading company ventures. By and large, bank expertise in a range of aspects of international trade is now available to bank customers as an adjunct to the trade financing that banks have traditionally supplied. When one turns to banks as a source of venture capital, it is necessary to ask whether this scarce resource--and, to my regret and concern, bank capital is becoming increasingly scarce--should be conserved as support for bank lending, or permitted to be diverted to other lines of activity that may yield national benefits. I confess that I tend to be conservative in such matters.

United States banks with expertise in international banking are already able to make investments in up to 5 percent of the stock of export trading companies through their parent holding companies. To my knowledge, there have been few (if any) such investments to date. If it should prove necessary to expand the present scope for bank investments in trading companies, I hope that such action could be taken cautiously, subject to statutory limits and regulatory restraints, perhaps on a case-by-case basis. It would be important to guard against significant involvement by banks that do not have the requisite experience in international finance.

I should be glad to discuss the response to those questions further if it would be helpful. I also understand that Governor Wallich is responding to a number of questions that you have raised in connection with his statement on S. 2379.

Sincerely,

Paul

P.S. I frankly in the past week have not been able to give this the personal attention it deserves. I will call next week.

PAV

March 11, 1980

The Honorable Stephen L. Neal
Chairman
Subcommittee on International Trade,
  Investment and Monetary Policy
Committee on Banking, Finance and
  Urban Affairs
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

Thank you for your letter of March 10 inviting the Board to testify at your Subcommittee's hearings on the role of U. S. banks in "recycling" the OPEC surplus, particularly to less-developed countries.

Governor Henry C. Wallich will appear on behalf of the Board on April 1 at 10:00 a.m.

Sincerely,

S/Paul A. Volcker

CO:vcd (#V-80)

bcc: Gov. Wallich
Mr. Gemmill
Mrs. Mallardi (2)

**U.S. House of Representatives**

SUBCOMMITTEE ON INTERNATIONAL TRADE, INVESTMENT
AND MONETARY POLICY
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
NINETY-SIXTH CONGRESS
**Washington, D.C. 20515**

3/17

180

March 10, 1980



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

Dear Mr. Chairman:

This Subcommittee would like to invite a member of the Board of Governors to testify on the role of U.S. banks in "recycling" the OPEC surplus, particularly to less-developed-countries.

We have completed several days of Hearings on H.R. 5970, a bill to increase the quota of the United States in the International Monetary Fund. Much of the testimony stressed that, though banks will continue to play an important role in financing the current account deficits of developing economies, they may not be able to finance as large a share of the anticipated level of deficits as they have in the past. Thus, alternative channels for "recycling" the OPEC surplus must be found. If those alternative channels are not adequate, the deficits of oil-importing countries will fall below desired levels, to the detriment of their plans for economic development, with possible damage to the world economy.

In the course of this testimony, serious concerns have been raised about the role of U.S. banks in this "recycling" process. If they were to reduce their role in recycling to a significant extent, the danger could arise that, even with greater reliance on the IMF, the alternative channels would not be adequate to the task. If, on the other hand, U.S. banks increase their international lending, to whatever extent might be required to insure the financing of the projected non-OPEC deficits, they could be saddled with a dangerous level of risk on their international assets.

It is important that the proper role of the banking system in the "recycling" process be well understood, and that the risks of an excessive role be thoroughly evaluated. Such an evaluation would be an important component of the rationale for policies that promote alternative channels for "recycling," such as the IMF. To help us evaluate the proper role of the banks, the risks they face in international lending, and the activity of bank regulators in identifying and minimizing those risks, we invite the Board, through the Governor it designates, to address these questions:

(1). What will constrain the role of banks, in the future, in financing LDC deficits, relative to the role they have played over the past six years?

(2). Does the increase in the absolute level of debt owed by many LDC's substantially increase the risk of further lending to them?

(3). Is the capital of major U.S. banks adequate to support further lending to LDC's?

(4). How do the supervising and regulating authorities evaluate "country risk" in examining bank loans? Are there indications of an increase in "country risk?"

(5). If the major banks engaged in international lending reach their prudential or legal limits of exposure in various LDC's, will other banks, not previously involved in significant international lending, be drawn into the process? Is it realistic to expect that they could take on a large amount of international lending? Would it be desirable for them to try? Should bank regulators discourage extensive international lending on their part?

(6). Should constraints on bank lending to LDC's be modified or relaxed, in recognition of the need to "recycle" a much larger OPEC surplus, and recognition of a lack of major alternative channels outside the banking system?

(7). If U.S. banks cannot, or should not, play quite as large a role in "recycling" the OPEC surplus, can the banks of other countries be expected to fill the gap?

(8). How do the banking authorities evaluate the riskiness of loans of foreign branches and subsidiaries of U.S. banks? Are the examination procedures and criteria the same as those applied to foreign loans extended by banks in the United States? Do the risks incurred by banks, and the potential dangers to the banking system, differ significantly between loans extended from domestic banks and loans extended from their foreign branches or subsidiaries?

While we have formulated these questions to indicate our concerns, and the issues we would like to explore, this list is not meant to be rigid or exhaustive. Please feel free to extend your testimony to any related matters that would be useful to our Hearing. We have also invited the Comptroller of the Currency to testify on these questions.

The Hearing is scheduled for 10:00 a.m., in room 2128 of the Rayburn House Office Building, on Tuesday, April 1.

Sincerely,

Steve Neal

Stephen L. Neal
Chairman

SLN/bj

March 11, 1980

The Honorable Douglas Bereuter
House of Representatives
Washington, D.C. 20515

Dear Mr. Bereuter:

I am pleased to respond to the concerns of one of your constituents, Mr. John E. Vakoc, about the recent conduct of monetary policy and its effect on the homebuilding industry.

The recent sharp increases in interest rates have followed from the acceleration of inflation and monetary restraint. The major objective of Federal Reserve policy has been to contain the aggregate growth of money and credit and thereby assist in the nation's effort to fight inflation. Progress toward ensuring an adequate supply of mortgage credit at reasonable rates of interest requires that inflationary pressures be reduced. By adopting an inordinately easy monetary policy, the Federal Reserve might be able to force the general level of interest rates to decline--including mortgage rates--and foster a more ample supply of mortgage credit. An excessive increase in supplies of money and credit, however, would provide only temporary relief. Before long, both lenders and borrowers would adjust their behavior to a quickened pace of inflation, and interest rates would rise sharply despite the outpouring of newly created money. Inflation and high interest rates tend to go together, as history amply demonstrates, and both lead to serious difficulties for homebuyers and homebuilders.

The Federal Reserve understands that periods of tight credit create problems for the housing industry in particular. In this regard, it is important that the burden of fighting inflation not rely on the Federal Reserve alone and that banks and other institutions take care in meeting the appropriate credit needs of the housing industry. I have urged the banking community to make special efforts to accommodate worthy borrowers, including homebuyers, and small businesses among others.

Hopefully, additional governmental efforts to gain control of inflation will be forthcoming and will hasten the return of lower interest rates.

Sincerely,

S/Paul A. Volcker

JLK:pjt (#V-65)
bcc: Mr. Kichline
Mrs. Mallardi (2)

DOUGLAS BEREUTER
1st District, Nebraska

COMMITTEE ON INTERIOR AND INSULAR AFFAIRS

SUBCOMMITTEES:
ENERGY AND ENVIRONMENT
NATIONAL PARKS AND INSULAR AFFAIRS
WATER AND POWER RESOURCES

COMMITTEE ON SMALL BUSINESS

RURAL CAUCUS

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

WASHINGTON OFFICE:
1314 Longworth House Office Building
Washington, D.C. 20515
(202) 225-4806

DISTRICT OFFICES:
1045 K Street
P.O. Box 82454
Lincoln, Nebraska 68501
(402) 471-5400

220 West 7th Street
P.O. Box 213
Wayne, Nebraska 68787
(402) 375-3030

1980 March 3

February 26, 1980

#65

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

Dear Mr. Chairman:

Please find enclosed a copy of a letter I have received from a constituent of mine.

Would you please address the concerns he expresses in a letter to me?

Thank you for your attention to this matter.

Best wishes,

Doug Bereuter

DOUGLAS BEREUTER
Member of Congress

DB/rwh

Action assigned to Mr. Kichline

# Vakoc Construction Co.

113 South Main • Wayne, Nebraska 68787 • Phone 375-3374
Residential and Industrial Building
Robert L. Vakoc, President - John E. Vakoc, Vice-President

February 21, 1980

Honorable Doug Bereuter
House of Representatives
Washington, D.C. 20515

Dear Congressman Bereuter:

IT'S NOT WORKING!

Chairman of the Federal Reserve Board Volcker's attempt to fight inflation with tight money is akin to fighting a fire with gasoline.

As homebuilders and operators of a retail building materials outlet, we are caught in a battle where few buyers can afford current house prices and mortgage rates and, where at the same time, wholesale prices continue to rise at better than 1% per month.

We have already seen a collapse of auto sales and housing sales. The forced maintenance of those inventories with high interest financing is proving calamitous to businessmen in both industries.

Our 33 year-old family business is struggling to survive with the prospect of success becoming dimmer each day. By the time this reaches you 75% of our work crews will have been laid off.

Our attempt to realign our operation with a market crying for affordable housing by developing a subdivision of small building lots may soon be squashed under the impact of regulatory costs and high interest.

Congressman, we need relief and we need it quickly!

Sincerely yours,

John E. Vakoc,
Vice-president

JEV/ck

March 8, 1980

The Honorable Norman D. Shumway
House of Representatives
Washington, D.C. 20515

Dear Mr. Shumway:

In response to several petitions, including your February 8 letter, the Board has delayed until May 31, 1980, the effective date of its action revoking the Truth in Lending amendment regarding the rescission requirements for certain open-end credit plans secured by borrowers' homes. As is presently required, creditors would be prohibited from offering new plans or expanding existing plans during the two-month extension.

The press release announcing this decision is enclosed for your information.

Sincerely,

S/Paul A. Volcker

Enclosure (press release dtd. 2/29/80.)
BR:MPE:DJW:pjt (#V-45)
bcc: Mrs. Mallardi

March 7, 1980

The Honorable Jim Sasser
United States Senate
Washington, D.C. 20510

Dear Senator Sasser:

Thank you for your letter of February 12 concerning complaints you received from Mr. Hoyte Odom, Executive Vice President of the Citizens Bank, Smithville, Tennessee, regarding certain examination procedures and findings. Your letter indicates the following two specific complaints by Mr. Odom:

1. That Mr. Odom and his wife have been called to account by Federal Reserve examiners for small overdrafts of short duration in their personal accounts at the Citizens Bank; and

2. That the Citizens Bank is being unduly monitored by the Federal Reserve Bank of Atlanta as evidenced by the fact that two examinations of the bank have been conducted in the past twelve months.

With respect to examination frequency, it is the policy of the Federal Reserve System to examine each State member bank at least once per calendar year. In scheduling the examination of a particular bank, it is sometimes necessary or desirable to vary the timing of the examination within the calendar year. Such changes in scheduling are the result of a variety of factors including availability of personnel, coordination with State examinations and in some cases the need to preserve the element of surprise in the bank examination process.

Regarding the issue of overdrafts by bank insiders, our examiners are charged with the responsibility to enforce the prohibitions on such practices as outlined in the recently enacted Financial Institutions Regulatory and Interest Rate Control Act of 1978. The Federal Reserve Bank of Atlanta has been requested to review the facts supporting the examiner's findings with respect to Citizens Bank and to communicate the results to Mr. Odom.

Sincerely,

S/Paul A. Volcker

WT:CO:pjt (#V-53)
bcc: Bill Taylor
Jack Ryan
Mrs. Mallardi (2)

Assigned to Jack Ryan.

JIM SASSER
TENNESSEE

COMMITTEES:
APPROPRIATIONS
BUDGET
GOVERNMENTAL AFFAIRS

United States Senate

WASHINGTON, D.C. 20510

1980 FEB 19 PM 12:53

February 12, 1980

#53

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

Dear Mr. Chairman:

Mr. Hoyte Odom, Executive Vice President of Citizens Bank, Smithville, Tennessee, has contacted me concerning what he considers to be a minor infraction in connection with his banking activities. Mr. Odom contends that slight overdrafts by him or his wife do not remain on the bank's books more than a few days at a time, and it is his feeling that he should not be called to account for them.

Also, Mr. Odom indicated that it is highly unusual for a bank examination to take place in September, and then another to occur in late January.

The attached remarks were provided by Mr. Odom as having been made by the Federal Reserve Bank of Atlanta, Georgia during the September examination. It is his feeling that the Citizens Bank is being unduly monitored.

I wanted to pass Mr. Odom's complaint along to you for your information and for any action you may deem appropriate. I will be pleased to share with my constituent any report you may wish to provide on the matter.

Sincerely,

Jim Sasser

Jim Sasser
United States Senator

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## Citation Information

**Document Type:** Bank examination

**Number of Pages Removed:** 1

**Citations:** Report of bank examination of Citizens Bank, Smithville TN, by the Federal Reserve Bank of Atlanta, 1980.

March 7, 1980

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:

This is to acknowledge your letter of February 27, in which you object to Board proposals that would delay the effective date of certain limited portions of Regulation E.

Please be assured that your request for withdrawal of these proposals will be considered carefully when the Board takes up the matter after the close of the comment period on March 7.

The Board appreciates having your comments.

Sincerely,

S/Paul A. Volcker

DSS:CO:pjt (V-64)
bcc: Delores Smith
Mrs. Mallardi (2)

Action assigned Janet Hart

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

CURTIS A. PRINS,
STAFF DIRECTOR

TELEPHONE: 225-0181

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

#64

February 27, 1980

Docket No. R-0272

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

Dear Chairman Volcker:

I strongly protest the Board's proposals to delay the effective date of some of the provisions of Regulation E. The proposed delays are completely unjustified and exceed Board regulatory authority.

Congressional criticism of the Federal Trade Commission for exceeding its authority should perhaps be directed at the Board for blatantly exceeding its authority with respect to the Electronic Fund Transfer Act.

Consumers may be harmed by the proposed delays. The periodic statement information proposed to be omitted is needed to provide consumers meaningful periodic statements, for resolution of errors and for periodic statements to be usable proof-of-payment documents. The other proposed delay, the requirement of having an electronic terminal receipt available at the time of a transaction, is also important to avoid errors.

The proposed delays are not warranted. Financial institutions have been on notice since November 10, 1978, that the Electronic Fund Transfer Act and its implementing regulations would go into effect on May 10, 1980. With respect to the proposed periodic statement delays, the Board staff conceded at the January 23 Board meeting that 50 percent of the financial institutions were prepared to be in compliance by the May 10, 1980 effective date.

Similarly, with respect to the proposed delay in requiring cash dispensing terminals to make a receipt available to consumers, the Board staff at the January 23 Board meeting indicated that only two financial institutions had notified the Board that they anticipated a compliance problem.

If the financial institutions who are requesting these delays would incur additional costs in the event no delays are permitted, that is a price they should pay for not making a good faith effort to meet the compliance requirements of the law and Regulation E as other financial institutions have done.

Furthermore, as I stated in my letter to you of January 18, regardless of when Regulation E or any of its provisions go into effect, the Electronic Fund Transfer Act will go into effect as Congress provided in the statute, on May 10, 1980.

For all of these reasons, I believe the Board should withdraw these two proposals for delay.

With every best wish,

Sincerely,

Frank Annunzio

Frank Annunzio
Chairman

March 6, 1980

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:

Thank you for your letter of February 27, with which you enclosed your comments to the Federal Home Loan Bank Board on their renegotiable rate mortgage proposal. You are concerned that the Bank Board's proposed regulations may permit financing arrangements that effectively frustrate a consumer's ability to comparison shop for credit.

We are aware that the renegotiable rate mortgage raises some difficult questions about how to make useful and accurate disclosures to consumers under both the Truth in Lending Act and the Bank Board's regulations. Our staff has initiated discussions with the Bank Board staff on this matter. I am hopeful that we will be able to develop a solution that conveys the most meaningful information to the consumer at a time and in a manner that facilitates intelligent credit shopping.

With regard to your inquiry about consumer protections applicable to variable rate and renegotiable rate mortgages, I would note that all lenders offering those mortgages are required to disclose fully the terms under Regulation Z. In particular, when a variable rate feature is included, the regulation requires disclosure of information about when and how rate increases will occur and examples of what effect a rate increase would have on the payment amount or maturity.

The Board does not contemplate restricting the issuance of variable rate or renegotiable rate mortgages by state member banks. We do, however, monitor the growth of various alternative mortgage instruments, and we will certainly explore any abuses or unfair practices that may develop.

I appreciate your concern about this matter.

Sincerely,

S/Paul A. Volcker

EM:pjt (#V-63)
bcc: Ms. Maland
Mrs. Mallardi (2)

Action assigned to Janet Hart

BENJAMIN S. ROSENTHAL, N.Y., CHAIRMAN
ROBERT T. MATSUI, CALIF.
EUGENE V. ATKINSON, PA.
FERNAND J. ST GERMAIN, R.I.
JOHN CONYERS, JR., MICH.
ELLIOTT H. LEVITAS, GA.

LYLE WILLIAMS, OHIO
JIM JEFFRIES, KANS.
JOEL DECKARD, IND.

MAJORITY—(202) 225-4407

NINETY-SIXTH CONGRESS
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

#63

1980 FEB 28 PM 11:59

February 27, 1980

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

Dear Mr. Volcker:

Enclosed is a copy of my comments to the Federal Home Loan Bank Board on the proposed regulations for renegotiable rate mortgages. I would urge your particular attention to the possible effect of these regulations in permitting contractual arrangements that may frustrate the basic truth-in-lending objective of facilitating comparison shopping.

Consequently, I would urge that serious consideration be given to the imposition of basic consumer protections on renegotiable rate mortgages issued by state member banks. Any such consumer protections should include, in my judgment, a requirement that the rate change at the time of renewal be based upon the movements of an index of national average market interest rates. Renewals at the banks' own prevailing interest rates should be prohibited.

Are you currently considering the imposition of any consumer protection restrictions on variable rate or renegotiable rate mortgages issued by state member banks? If so, when might such regulations be proposed for comment, and what basic consumer protections may they contain?

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dtv

Enclosure

MAJORITY—(202) 225-4407

NINETY-SIXTH CONGRESS

# 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

February 26, 1980

Hon. Jay Janis
Chairman
Federal Home Loan Bank Board
1700 G Street N.W.
Washington, D. C. 20552

Dear Chairman Janis:

From the perspective of consumers, the Federal Home Loan Bank Board's proposed regulations for "renegotiable rate mortgages" (RRM's) are seriously deficient in certain respects. I am writing to state the most important elements of the proposed regulations that need revision or strengthening in order to meet the requirements of fairness to consumers.

My criticisms, in summary, are that (a) the provision permitting the interest rate on renewals to be set at the individual association's current market rate is inherently unfair to consumers and will prevent effective comparison shopping for RRM's; (b) it is essential that the interest rate at which renewals are made be based upon changes in a national index of market rates, not upon the individual association's current market rate; (c) an index reflecting the average cost of funds of associations (or some related measure based upon the rates being paid on depository institution liabilities) is inherently unfair to consumers and should not be used as a substitute for an index of market rates; (d) the proposed disclosure requirements omit several essential disclosures; (e) as a consumer protection measure lenders should be required to provide in their RRM contracts the option for the borrower to renegotiate the rate on an outstanding RRM at any time prior to the contract renewal date; and (f) as an alternative to the renewal option for borrowers, the index on which rate changes would be based at the time of renewal should be a moving average of market rates over the previous five years (or other period of time between renewals).

Disclosure of the cost of credit in a meaningful way that facilitates comparison shopping by prospective borrowers has been a fundamental objective of the Congress for many years. The Truth in Lending Act is built around this principle, and the disclosures to consumers concerning the terms of variable-rate mortgages have also had as one of their objectives facilitating meaningful comparison shopping by prospective borrowers. If at the time of renewal of renegotiable rate mortgages lenders are permitted to charge interest rates determined at their own discretion, then the objective of meaningful cost disclosure for comparison shopping will be completely frustrated. Prospective borrowers will have no basis for determining which lender's mortgage loan will be the least costly in future years.

If the future interest rates on all renegotiable rate mortgages are required to have their rate changes move up or down according to the movements of the same national index of interest rates, on the other hand, then every prospective borrower will be able to know with certainty that (a) two lenders who offer to charge the same interest rate initially will always charge the same interest rate in the future also (i.e., they will both impose the same permitted rate increases or decreases in the future) and (b) any lender whose loans initially have a lower interest rate than those of competitors will continue to charge a lower interest rate in the future, after renewals, for the same reason. Therefore, it is essential to meeting the minimum requirements of cost disclosure for comparison shopping that all renegotiable rate mortgages be required to base their interest rates at renewal on the movements of a national index.

In the absence of this requirement that renewal rates be based on a national index, some associations may be expected to raise their rates to their RRM customers by more than market rates have gone up. A likely scenario would be for an association to experience a profit squeeze or a shortage of new loan funds (due to poor deposit growth, for example) at some future date and to decide as a consequence to charge a higher rate on its new mortgages than competing lenders are charging. The consequence of such a decision, taken quite possibly for sound business reasons, would be that borrowers whose RRM's were renewed at this time would be subjected potentially to greater rate increases than comparable borrowers at other associations.

The theoretical option for the borrower to refinance with another lender at this time is not a satisfactory protection against such abnormal rate increases. Substantial costs and fees must be incurred by the borrower who refinances with another lender. Furthermore, at certain times and in certain local lending markets, mortgage funds become virtually unavailable, and the borrower who attempts to refinance under such conditions may be unable to find any alternative source of funds at any reasonable terms.

Consequently, it is essential that the renegotiable rate mortgage regulations provide protections to guarantee that borrowers will be able to receive fair and reasonable lending terms on all renewals with the same lender with whom the initial loan is contracted. This, as I have stated above, requires that any interest rate changes at the time of renewal be constrained to be no greater than changes in a national index.

For reasons that I have stated in previous correspondence, a national cost of funds index (or some other index based upon the rates paid on depository institutional liabilities) is not an acceptable substitute for a national market rate index. Rather than repeat the analysis I have presented previously, I am attaching to this letter my previous correspondence and article.

The proposed regulations for renegotiable rate mortgages do not provide adequately for disclosures of information that would enable the borrower to make an intelligent judgment. In addition to the disclosures already provided, there should be disclosure of (a) the exact dollar or percentage amount of any prepayment penalties that will be assessed in the event of prepayment at times other than a renewal date; (b) the history for the past 15 years of any index to which the changes in the mortgage rate on an RRM are pegged; and (c) the exact charges that will be made for documents or other costs at the time of renewal.

In addition, if it is decided to permit renewals at each individual association's current market rate, then the disclosures at the time of the initial loan must be structured in such a way as to convey forcefully and prominently the information that this contractual arrangement permits the borrower to raise the rate on this loan by more than the increase in general market interest rates for other comparable borrowers. While this is a minimal disclosure requirement for this situation, it in no way would make adequate cost comparisons possible. Consequently, provision of this disclosure would not meet the objection raised earlier that effective cost comparisons are not possible if renewal rates can be based on the lender's own current market rate.

There has in the past been a substantial cyclical element in the movements of mortgage interest rates, such that these rates may at certain times change up and down by as much as two percentage points or more in a period of less than two years. Because of this cyclical element, whose future pattern borrowers can not know in advance at the time they contract for a loan, certain unlucky borrowers will be subjected to greater increases in their rates at the time of renewal than other borrowers whose renewal takes place at a more favorable time in the interest rate cycle. In order to lessen the impact of this random unfairness in the operation of the RRM's, therefore, all lenders should be required to provide in their RRM contracts the option for the borrower to renew his loan at any time prior to the contractual renewal date. In the case of unlucky borrowers whose initial renewal has occurred at the time of a cyclical peak in interest rates, this option will provide them the opportunity to get a lower rate one or two years later when the rates have declined from the cyclical peak.

As an alternative to the early renewal option, the index on which rate changes would be based at the time of renewal should be a moving average of past market interest rates, averaged over the previous five years (or whatever other period of time corresponded to the span of time between renewals). This use of a moving average index would also protect borrowers from random unfairness because their renewal dates happened to coincide with a cyclical peak in interest rates. Cyclical peaks would be averaged together with more normal interest rates in constructing the moving average, and consequently all borrowers would be treated in a more nearly equal fashion in the setting of renewal rates.

I hope that the weaknesses of the proposed regulations that these recommendations have addressed can be fully corrected by the Bank Board before the promulgation of final regulations.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dtv

Attachments

March 6, 1980

The Honorable Alan Cranston
United States Senate
Washington, D.C. 20510

Dear Senator Cranston:

In response to several petitions, including your February 19 letter, the Board has delayed until May 31, 1980, the effective date of its action revoking the Truth in Lending amendment regarding the rescission requirements for certain open-end credit plans secured by borrowers' homes. As is presently required, creditors would be prohibited from offering new plans or expanding existing plans during the two-month extension.

The press release announcing this decision is enclosed for your information.

Sincerely,

S/Paul A. Volcker

Enclosure (press release dtd. 2/29/80)
BR:MPE:DJW:pjt (#V-56)
bcc: Mrs. Mallardi

(Identical letters also sent to Senators Garn and Tower.

March 5, 1980

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

Dear Senator Metzenbaum:

Thank you for your recent letter regarding the effectiveness of monetary policy in slowing inflation. You have raised a number of specific points as well as the broader question of the relationship between interest rates and inflation. I would like to make a number of comments in response.

First, you are correct that higher interest rates do raise the costs of doing business and in some other ways place upward pressures on the general level of prices in the short run. However, I believe that, over any meaningful period of time, the net effect of a rise in interest rates--more particularly, "real" rates--is to reduce inflationary pressures. Indeed, the rise in interest rates can broadly be associated with the inflationary process itself. Savers of money will be no more willing than producers of goods and services to keep their prices low indefinitely when other prices are rising. Savers will instead spend, as they are doing today.

I am acutely aware of the fact that higher mortgage interest rates do raise the Consumer Price Index; and if one measures price performance by this index, the tendency for interest rates and measured inflation to be positively correlated is maximized. I think, however, that there are many persuasive reasons for questioning the reliance on the CPI--with its special conceptual treatment of home ownership costs--as the gauge of inflation. As you undoubtedly know, many economists inside and outside of government have expressed this view of late. It is ironic that rising house prices--and they have generally risen more rapidly than mortgage rates--are counted as part of the Consumer Price Index while no allowance is made on the other side of the consumer balance sheet for the rising value of the house. Unfortunately, many cost-of-living escalators are based on the CPI, creating a mechanism that reinforces the sort of interest rate-inflation link that you mention.

Returning to the more general question, however, there is considerable evidence that in the absence of monetary restraint in recent months, demand in the economy would be still stronger, inflationary expectations greater, and prices rising still faster. As you know, the auto, housing, and inventory situations have been restrained, and while I might wish the impact were more even, the net result has been some restraint on prices from what otherwise would have occurred.

It must be emphasized that it has not been the objective of monetary policy to raise interest rates, per se. Rather, the Federal Reserve has sought to restrain the growth of the monetary aggregates to rates consistent with progress toward price stability. There is broad agreement that inflation can proceed only if it is nourished by excessive expansion of the money supply; it is our firm intention to avoid such inflationary excesses. With demands for money and credit enlarged by the current inflation and by anticipations of future inflation, the rising level of interest rates has been an unavoidable by-product of our economic situation. In fact, in the present circumstances it is quite clear that even if we opened up the monetary taps a notch or two in order to try to bring interest rates down, any relief would be short-lived because greater inflation and inflationary expectations would soon push interest rates higher. Given the state of expectations, there might not even be short-term relief, but rather a further decline in bond prices out of concern over future inflation.

Thus, the reality of the current situation is that high interest rates are more the product than the cause of inflation. There can be no hope of sustained progress toward lower inflation rates, as measured by the CPI or any other index, unless there is monetary restraint. I would hope that public recognition of the firm intention of the Federal Reserve to stick to this course will have some settling effect on the markets and promote a lowering of inflationary expectations. In any event, complementary restraint by federal fiscal policy and in private wage and price actions will greatly alleviate the strains associated with monetary restraint and hasten the day when we will see significantly lower interest rates.

Sincerely,

S/Paul A. Volcker

MJP:SHA:PAV:vcd (#V-60)

bcc: Mr. Prell
Mr. Axilrod
Mrs. Mallardi (2)

Action assigned Steve Axilrod



# United States Senate

COMMITTEE ON THE BUDGET
WASHINGTON, D.C. 20510

1980 FEB 25 PM 1:36

February 25, 1980

#60

The Honorable Paul A. Volcker
Chairman, Board of Governors
Federal Reserve System
20th and Constitution Ave. N.W.
Room B2046
Washington, D.C. 20551

Dear Chairman Volcker:

In your recent testimony before the House Banking Committee, you made clear your intent to continue indefinitely the tight money policy that you announced on October 6, 1979, after your return from the Belgrade meeting of the International Monetary Fund.

I share your sense of urgency about the compelling need for tough and effective anti-inflation measures. But I am concerned because the high interest rates produced by the Fed's actions have had no apparent success to date in bringing down the inflation rate. It is time that the policy be re-evaluated.

As the accompanying chart demonstrates, our recent history gives little reason to believe that interest rates have had much effect on controlling inflation.

There is no dispute about the fact that a high interest rate policy contributes in the short run to the very inflation that it is designed to counter. Last year, for example, soaring home mortgage rates contributed a staggering 2.4 percentage points to the overall increase in the Consumer Price Index. And it is clear that mortgage rates represent just one part of the inflationary impact of rising interest rates. Ultimately, the interest costs of doing business in every sector of the economy show up in the prices paid by consumers.

In theory, higher interest rates should reduce demand and thereby reverse the upward pressure on prices. In housing, an industry highly responsive to interest rates, starts are, in fact, approaching record lows and savings and loan institutions report a thirty percent drop since last September in the volume of their lending.

The Honorable Paul A. Volcker
February 25, 1980
Page Two

But high prices and interest rates have not suppressed the demand for housing. Rather, slower growth in new housing has sharply increased prices for existing homes and has encouraged the nationwide trend to conversion of rental units to condominiums. And bankers report that purchasers remain willing to pay thirteen and fourteen percent mortgage interest rates in the expectation that future appreciation in property values will more than offset today's high interest costs.

These inflationary expectations may or may not prove justified, but it is a fact that continued strong demand for housing is based on more than the willingness of some purchasers to speculate. Housing demand is strong and will remain strong for no other reason than the movement into the market of millions of Americans born during the post-World War II baby boom. Their demand is such that instead of contracting, housing should at this time be a vigorously expanding industry.

It has also been argued that higher interest rates will dampen demand for goods and services outside the housing sector. But that hasn't happened. Retail sales in January increased on a seasonally adjusted basis by 2.8 percent over the December level and according to the Congressional Budget Office, this translates to an extraordinary compound annual rate of increase of 30.8 percent as compared to an increase of 10.5 percent in 1977-78 and 10.6 percent in 1978-79. Clearly, people are buying in anticipation of higher prices in the future, a judgement that is confirmed by January's 4.3 percent increase in orders for durable goods.

Another argument that has been made is that we can slow down business expansion and capital investment by raising the prime rate. But that hasn't happened. Business and industry have not been at a loss for loan funds -- the pattern has been to "pay the rate" and pass the added costs on to consumers. Furthermore, Henry Kaufman of Salomon Brothers has said that the disorderly behavior of the bond market is likely to produce new corporate borrowers in the short-term credit market.

I need not tell you that one of the most challenging problems facing the Congress is the need to balance the Federal budget. But higher interest rates have made that task all the more difficult. According to the Congressional Budget Office, each one percent increase in the interest rate on Federal instruments in calendar year 1980 will add $1 billion to debt service outlays in FY 1980, $2 billion in FY 1981 and $1.1 billion in FY 1982. And just last week, the Dow Jones average of twenty municipal bonds crossed the eight percent mark for the first time since the New York City crisis, thereby ensuring higher debt service outlays in the future for state and local units of government, which already face serious problems in balancing their budgets.

In conclusion, Mr. Chairman, I urge you once again to undertake an immediate policy review in the light of what I believe to be persuasive evidence that high interest rates contribute to, rather than reduce, inflation.

Sincerely,

Howard M. Metzenbaum
United States Senator

HMM:dgp

cc: The President
The Honorable William Proxmire

| 1977 | PRIME INTEREST RATE | CPI ANNUAL RATE OF INCREASE |
| --- | --- | --- |
| JANUARY | 6.25 % | 8.0 % |
| MAY | 6.5 | 5.0 |
| JUNE | 6.75 | 5.0 |
| SEPTEMBER | 7.25 | 5.0 |
| DECEMBER | 7.75 | 7.0 |
| 1978 | | |
| JANUARY | 8.0 | 8.0 |
| MAY | 8.5 | 9.5 |
| JUNE | 8.75 | 9.5 |
| JULY | 9.0 | 9.5 |
| SEPTEMBER | 9.0 | 8.5 |
| OCTOBER | 10.0 | 9.0 |
| DECEMBER | 11.75 | 11.0 |
| 1979 | | |
| JANUARY | 11.75 | 11.0 |
| MAY | 11.75 | 13.0 |
| JUNE | 11.5 | 13.0 |
| SEPTEMBER | 13.0 | 13.0 |
| OCTOBER | 14.5 | 13.0 |
| DECEMBER | 15.25 | 13.4 |

March 5, 1980

The Honorable Donald W. Riegle, Jr.
United States Senate
Washington, D.C. 20510

Dear Senator Riegle:

During the hearing on February 25 you requested that I furnish information on particular sectors of the economy affected by high interest rates.

For your information, I am pleased to enclose a copy of the material I am furnishing for the hearing record.

Sincerely,

S/Paul A. Volcker

Enclosure
CO:pjtbcc: Mrs. Mallardi

(Insert prepared by Larry XXX Slifman and Mike Prell)

Chairman Volcker subsequently submitted the following information for the record of the hearing:

Economic activity has been well maintained since interest rates rose sharply in the aftermath of the Federal Reserve policy announcements on October 6. Real GNP in the fourth quarter advanced at a 2 percent annual rate. Moreover, production and spending have continued to advance in many sectors since the beginning of the year; industrial production rose .3 percent in January, and there were sizable gains in spending for consumer goods and business capital goods.

This is not to say that higher interest rates have had no impact on economic activity--agregate demand pressures likely would have been still stronger if the Federal Reserve had attempted, at the cost of excessive monetary expansion, to hold interest rates down. In response to your request, the paragraphs that follow summarize developments in certain sectors that typically are viewed as especially sensitive to interest-rate changes.

Residential construction. The most noticeable impact of the recent rise of interest rates has occurred in the housing sector. Interest rates on new commitments for conventional home mortgages at savings and loan associations have increased more than 2 percentage points, on a nationwide average basis, since October. Nonprice terms of lending, such as downpayment requirements, also have tightened. A combination of lender caution and reduced demand for loans has been reflected in a substantial decline in the volume of new mortgage loan commitments extended by thrift institutions. Banks and other institutions also have tightened their terms on construction loans, adding to the downward pressures on homebuilding activity. While government support of various types (for example, government guarantees of pass-through securities and Federal Home Loan Bank advances) has tended to buttress mortgage credit availability compared to what was experienced in past periods of monetary restraint, there has been a considerable drop in housing demand. Sales of new and existing houses have declined, and prices have shown a tendency to level off. Housing starts have fallen from around a 1.8 million unit annual rate last spring and summer to a 1.4 million unit rate in January.

Autos. The impact of higher interest rates on auto demand is difficult to disentangle from other forces operating on the sector--especially the 60 percent rise in gasoline prices and concern about future fuel availability. However, total auto sales--both imported cars and those built in North America--have been running well below year ago levels, and credit conditions likely have played some part. Extensions of consumer installment credit to purchase automobiles have fallen over 15 percent from the peak level of September 1979. Reflecting the higher costs of funds to lenders, consumers have encountered higher interest rates, shorter loan maturities, and, especially where usury ceilings are relatively low, some problems with respect to credit availability. Dealers also have been finding it increasingly expensive to carry their inventories.

State and local government. In recent weeks, a number of state and local governmental units have called off bond issues as a result of the rise in interest rates. For example, in February nearly $600 million of proposed bond issues were canceled or postponed--about twice the average amount. In most cases, issues were withdrawn because the offering agencies, exercising their discretion, decided that interest rates were unattractive; in some cases, however, statutory ceilings prohibited financing at prevailing rates. (Bonds issued by 19 states have interest rate ceilings and local governmental units in 29 states have interest rate ceilings; not all of the ceilings are binding at present.) Some state and local governments have removed or are planning to remove interest rate ceilings, which should increase their ability to tap the bond market. However, historically, state and local units have frequently found alternative means of financing planned outlays--for example, by drawing down liquidity or through intragovernmental transactions--so that actual short-run financial impacts have been small. To date, it doesn't appear that higher interest rates have significantly affected state and local spending.

Small businesses. The Board's staff has made a special effort to monitor the impact of recent interest rate increases on small businesses, focusing especially on commercial bank business lending. The evidence suggests that high interest rates have cut loan demand by small businesses. Although bank interest rates for larger borrowers also have risen rapidly--indeed, apparently faster than for small firms--the increase in rates perhaps has been more burdensome for smaller firms, since these companies may have fewer financial resources and alternative credit sources to fall back on. The non-rate terms of credit to small businesses also have been tightened somewhat in recent months, but the firmer policies are about in line with restrictions affecting large business borrowers. Many banks have instituted special below prime base rates for small customers, and more generally banks have taken account of the more limited flexibility small businesses typically have in their finances and have made special allowances in setting loan terms.

March 4, 1980

The Honorable William R. Cotter
House of Representatives
Washington, D.C. 20515

Dear Mr. Cotter:

Thank you for your recent letter expressing your concern about the ability of commercial banks in Connecticut to attract funds if the thrift institutions' yield differential reemerged on the six-month money market certificates (MMCs).

Commercial banks across the United States--and particularly the small banks that generally rely on the consumer market--found MMCs to have been their principal source of deposit growth during 1979. Late last year, the agencies authorized another consumer-type variable ceiling account, carrying a minimum 2-1/2 year maturity, that also promises to allow the institutions to compete effectively against open market instruments. Future reliance on MMCs is likely to be balanced against reliance on the longer-term variable ceiling deposit, hence permitting a better match between the institutions' assets and liabilities. Regarding the differential on MMCs, let me assure you that the regulatory agencies are sensitive to the possible earnings and liquidity repercussions that might stem from an alteration of the inter-institutional competitive balance now in place on MMCs.

The Federal Reserve Board has been on record for a number of years as favoring the gradual removal of all deposit interest rate ceilings. In this event, whatever differential remained would be determined by market forces. This view was reiterated in testimony given on February 20 by Governor Partee, and a copy of his remarks is enclosed for your possible interest.

Sincerely,

S/Paul A. Volcker

Enclosure
BO:DEL:JLK:CO:pjt (#V-48)
bcc: Mr. Kichline
Mr. Lindsey
Ms. Opper
Mrs. Mallardi (2)

Assigned to Jim Kichline

WILLIAM R. COTTER
1ST DISTRICT, CONNECTICUT

WASHINGTON OFFICE:
2134 RAYBURN BUILDING
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-2265

WAYS AND MEANS
COMMITTEE

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

February 13, 1980

#48

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

Dear Mr. Volcker:

The number one problem that commercial banks in Connecticut face today is the substantial potential loss of deposits which will be caused by the reimposing of the rate differential on six month ($10,000) certificates in favor of the thrift institutions at such time as the controlling Treasury Bill rate drops to 9 percent or less.

A very substantial percentage of commercial bank deposit growth during 1979 centered around this six month certificate. I have just learned that in some Connecticut banks virtually all of their deposit growth was in the six month certificate.

The very real possibility of losing a substantial percentage of these deposits, at such time as a drop in interest rates triggers in the differential, imposes very severe limitations in the use of these funds by commercial banks. They cannot utilize them in making commercial loans which are needed by business and industry in Connecticut, nor can they utilize them in the type of loans related to the Community Reinvestment Act.

In the event the differential is reimposed, this would increase deposits at savings banks, but not in the type of funds that could be used for mortgages. It also will increase the attractiveness of the various "money market funds." These "funds" use the money collected to purchase CDs of major money center banks, purchasing only CDs from banks of three billion dollars and up. There are no banks this large in Connecticut. Without question, all of these much needed funds will leave our state.

In summary, a reimposition of the differential will cause an outflow of deposits from commercial banks shifting it to thrift institutions that could not use it for mortgages and to money market funds that will re-deposit it only in large money center banks. Connecticut's smaller commercial banks will be especially hard hit.

I urge you as a member of the Interagency Coordinating Committee to address this issue now, and to preserve interest rate parity across the board on six month CDs irrespective of interest rates on Treasury Bills, and thus allow Connecticut's commercial banks to utilize these deposits in a most positive manner in the form of loans to business and industry and to individuals.

Sincerely,

William R. Cotter

WILLIAM R. COTTER
Member of Congress

March 4, 1980

The Honorable Matthew J. Rinaldo
House of Representatives
Washington, D.C. 20515

Dear Mr. Rinaldo:

Thank you for your letter of February 15, concerning Mr. James W. Allen's comments on premium programs being offered by financial institutions as an inducement to gain new deposits.

Chairman Volcker received a copy of Mr. Allen's letter and responded directly to him. The Board is currently examining premium programs generally and is expected to make a decision on this subject in the near future. This study is being conducted in cooperation with the other federal financial institution regulatory agencies and will address the principal issues raised by Mr. Allen. Please be assured that Mr. Allen's comments will be given due consideration in this regard.

We would be pleased to keep you informed of whatever decision is made by the Board. Thank you for your interest in this matter.

Sincerely yours,

(Signed) Donald J. Winn

Donald J. Winn
Special Assistant to the Board

DLR:CO:pjt (#V-54)
bcc: Dan Rhoads
Mrs. Mallardi
Legal Files

MATTHEW J. RINALDO
12TH DISTRICT, NEW JERSEY

WASHINGTON OFFICE:
2338 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-5361

DISTRICT OFFICE:
1961 MORRIS AVENUE
UNION, NEW JERSEY 07083
(201) 687-4235

Assigned to Neal Peterson.

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

COMMITTEES:
INTERSTATE AND FOREIGN COMMERCE
SUBCOMMITTEES:
OVERSIGHT AND INVESTIGATIONS
CONSUMER PROTECTION AND FINANCE

SELECT COMMITTEE ON AGING
SUBCOMMITTEE:
HUMAN SERVICES

February 15, 1980

#54

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

Dear Chairman Volcker:

A constituent of mine, Mr. James W. Allen, has informed me that he sent a copy of the attached letter to you.

I would appreciate being kept advised of your action in this matter. Thank you for your assistance.

Sincerely yours,

Matt Rinaldo

MATTHEW J. RINALDO
Member of Congress

MJR:bwl
Enclosure

102 East Front Street at Park Avenue ★ The Savings Bank of Central Jersey ★ Plainfield, New Jersey 07061
201 - 755-5700

JAMES W. ALLEN
President and
Chief Executive Officer

February 8, 1980

Mr. Irvine H. Sprague, Chairman
Federal Deposit Insurance Corporation
Washington, D.C. 20429

Dear Chairman Sprague:

I am enclosing copies of newspaper advertisements which are appearing almost daily in our local papers, offering premiums which have wholesale costs substantially greater than that which is permitted under F.D.I.C. regulations. I assume that the inter-agency council members have also issued similar regulations to those institutions regulated by them. It is obvious that the wholesale cost of most of these items exceeds the maximum permitted under regulations as has been evidenced to me by quotes I have received from wholesalers who have been attempting to offer these premiums to our bank. A copy of prices quoted to us is also enclosed.

I would like to go on record in opposing the use of premiums by depository institutions for solicitation of deposits. I am especially concerned when the cost of those premiums violates regulations which have been imposed by Federal regulatory authorities for the express purpose of precluding the use of said premiums in the past as a method of increasing the interest paid on deposits. While it is acknowledged that the consumer benefits from the use of these premiums to solicit his funds, there are a number of negatives with respect to use of these premiums that I would urge the Federal regulatory agencies to consider:

1) The use of premiums as a general practice, simply adds to the cost of operations of thrift institutions which in this market are already operating on the thinnest margins of earnings in their history. Indeed, many thrift institutions including The Savings Bank of Central Jersey, will be operating a break-even or in the red, in 1980 if current rates continue. The cost of premiums further enhances that possibility.

2) The interest paid to depositors who are being solicited by these premiums, is directly related to short-term money market rates and, therefore, those deposits have no stability and cannot be invested in other than short-term securities by the financial institutions soliciting those deposits.

3) The newspapers, premium vendors, and product manufacturers are growing rich as a result of a practice which is really doing nothing but shifting the deposits from one institution to another, depending on who is giving the larger gift this week. No new deposit growth is being generated. Existing deposits are just costing more.

4) As if the cost of the premium itself was not a significant factor in increasing the cost to the bank, the fact that the premium cost, when added to the interest cost contracted for with the depositor, substantially improves the interest yield that the customer will be earning on his deposit, allowing that yield to exceed the maximum permitted under the regulations laid down by the Federal regulatory agencies. Gifts being offered have wholesale costs ranging from the low $20.00 figure, to as much as $39.00 for the La Machine food processor. When adding that premium cost to the interest cost on a $10,000 deposit, the yield to the depositor is increased almost 3/4 of a percent, considering that the customer can get one six month C.D. and obtain a premium and six months later get another six month C.D. and get a second premium even though the funds might remain in the same institution.

5) The whole concept of offering gifts for deposits is becoming a mockery and causing financial institutions to react in self-defense and offer the same premiums so that their deposit flow would not be hurt to the same degree that they have been for the last several months.

A survey of our official checks issued during the period from December 26, 1979 through January 31, 1980 points out that over $2,100,000 can be allocated to deposits having gone to competing institutions in the immediate trade area who are offering gifts which exceed the price range permitted under Federal regulations. It should be noted here that our bank had previously offered a premium program in October 1979 with premiums limited to the maximum of $10.00 per item. That particular program was not at all successful. The Savings Bank of Central Jersey cannot tolerate another outflow of deposits similar to that which it has experienced within the last 60 days. During that period of time, we had a net cash outflow of almost 2-1/2% of our total deposit base, in excess of 4.7 million dollars.

It would appear that no attempt is being made by regulatory authorities to control the violation of regulations limiting costs of premiums by many thrift institutions. I implore you to act promptly along with the other Interagency Coordinating Committee members to require our competitors to comply with regulations spelling out maximum costs of premiums by issuing immediate cease and desist orders in the form of a general regulation to all financial institutions under your jurisdiction.

All regulations issued by the Federal regulators are in jeaprody of being violated if nothing is done relative to premiums.

While it has not been our intention to violate regulations pertaining to cost of premiums, our bank will have no alternative but to join the violators in the next few weeks unless our competition is forced to comply with the regulations which we have previously abided by. Fair is fair, but the current competition is grossly unfair as well as damaging to the overall concept of "Truth in Advertising" and everyone playing the game under the same set of rules.

I look forward to your early reply.

Very truly yours,

THE SAVINGS BANK OF
CENTRAL JERSEY

James W. Allen
President and
Chief Executive Officer

JWA:ahs
Enc.
cc: Senator Williams
Sentor Bradley
Congresswoman Fenwick
Congressman Rinaldo
Congressman Patten

March 4, 1980

The Honorable Adlai E. Stevenson
Chairman
Subcommittee on International Finance
Committee on Banking, Housing and
Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Chairman Stevenson:

Enclosed is a copy of a report on foreign exchange operations by the Treasury and the Federal Reserve covering the period from August 1979 through January 1980. The report will be printed in the March issue of the Federal Reserve Bulletin. It is being released to the press for use in tomorrow morning's newspapers.

Sincerely,

S/Paul A. Volcker

Enclosure

Identical letters to: Sen. Heinz (ranking minority member of Senate Bkg. Subcmte. on International Finance)
Chrmn. Neal (House Bkg. Subcmte. on International Trade, Investment and Monetary Policy)
and Cong. Jim Leach (ranking min. member)
Ranking minority members--Sen. Javits (JEC)
Sen. Garn (Senate Bkg.)
Cong. Stanton (House Bkg.)

JRC:vcd
bcc: Mrs. Mallardi (2)

March 4, 1980

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

Dear Chairman Bentsen:

Enclosed is a copy of a report on foreign exchange operations by the Treasury and the Federal Reserve covering the period from August 1979 through January 1980. The report will be printed in the March issue of the Federal Reserve Bulletin. It is being released to the press for use in tomorrow morning's newspapers.

Copies of the report are also being sent to the Chairmen of other interested Committees. Additional copies are enclosed for the use of members and staff of your Committee.

Sincerely,

S/Paul A. Volcker

Enclosures (30 copies)

Identical letters to: Chairman Proxmire (20 copies)
Chairman Reuss (50 copies)

JRC:vcd

bcc: Mrs. Mallardi (2)

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

PAUL A. VOLCKER
CHAIRMAN

March 4, 1980

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

Dear Henry:

The proposals under discussion reducing reserve requirements give rise to a technical problem regarding collateral against Federal Reserve notes. Put simply, as currency rises and reserves decline, the Fed might run out of collateral, as presently defined (essentially Government securities, discounts, and gold certificates) to back Federal Reserve notes.

A large part of this collateral problem could be resolved by eliminating the present requirement that notes remaining in the vaults of the Federal Reserve Banks be collateralized. It would also be of assistance if assets arising out of foreign currency operations were added to the list of assets eligible for collateralizing currency, as is common practice among central banks holding foreign assets. In that connection, I would note we are now limited to holding private obligations abroad, and our operations would be facilitated, and some interest earnings obtained, if the Federal Reserve could invest in short-term foreign government obligations when we acquire foreign currencies as a by-product of our operations.

I am enclosing an amendment that would make these changes and which would effectively solve the problem.

Sincerely,

Paul

Enclosure

Collateral

H.R. 7 is amended by redesignating section 7 as section 8 and by adding a new section 7 as follows:

"Sec. 7. The second paragraph of section 16 of the Federal Reserve Act (12 U.S.C. 412) is amended (1) by adding at the end of the third sentence the following:

", or assets that Federal Reserve Banks may purchase or hold under § 14 of this Act." and (2) by adding at the end thereof the following: "Collateral shall not be required for Federal Reserve notes that are held in the vaults of Federal Reserve banks."

(2) Section 14(b)(1) of the Federal Reserve Act(12 U.S.C. 355) is amended by inserting after the words" United States" the first time it appears the following:

"and obligations of, or fully guaranteed as to principal and interest by, a foreign government or agency thereof,".

Purpose: In view of the reserve requirement reductions that are required as a result of the monetary improvement legislation, the Federal Reserve will have insufficient collateral required for Federal Reserve notes. This amendment insures that there will be sufficient assets available to collateralize Federal Reserve notes by broadening the types of assets that can be used as collateral, including obligations of foreign governments, and by eliminating the requirement that notes held in Federal Reserve Bank vaults be collateralized.

March 4, 1980

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

Dear Senator Tower:

Enclosed are responses to the additional questions concerning monetary improvement legislation that you sent with your letter of February 19, 1980. Relative to the material informally supplied to your staff earlier, there have been some minor revisions to questions 1, 4, and 5.

Sincerely,

S/Paul A. Volcker

Enclosure

GEC:ECE:JMB:DJW:pjt (#V-58)
bcc: Mr. Ettin
Mr. Brundy
Mrs. Mallardi (2)

1. On page six of your statement you state that the Fed needs about $20 billion in reserve balances (in 1977 terms) to effectively conduct monetary policy. S. 353, with or without the supplemental provides this. S. 85, as modified, does not. Would you suggest supplemental reserve authority if S. 85, as modified, is made the vehicle for legislation by the Committee?

Whatever structure of basic reserve requirements is made the vehicle for legislation, the Federal Reserve urges the Committee to enact standby authority for the Board to call for interest-bearing supplementary deposits. This approach would provide the Federal Reserve with assurance that reserve balances adequate for effective monetary control will be available if needed.

The precision of money control depends on the size and stability of the money/reserve multiplier--i.e., the quantity of money that can be supported by each dollar of reserves. With a relatively stable multiplier, the Federal Reserve is assured of a fairly predictable relationship between money and reserves and can provide an amount of reserves to the banking system which will bring about the desired level of the money stock. For a stable multiplier relationship, Federal reserve requirements against transactions balances must be binding at most depository institutions, that is, an increase in the required reserves associated with increases in deposits at these institutions must lead to a nearly proportional increase in total reserves. This will occur if excess reserves at these institutions are minimal.

If Federal reserve requirements on transactions balances were uniform and binding at all banks, then the multiplier relationship would not change with shifts in the distribution of deposits among banks. On the other hand, if reserve requirements are not binding on all banks, then a shift of deposits between banks with binding reserve requirements and banks at which the requirement is not binding could result in an excess or deficiency of reserves in the banking system. Such excesses or deficiencies permit expansion or contraction of the money stock, even though there is no change in the total reserves the Federal Reserve has provided. Thus, a reserve structure in which not all banks are bound by a uniform reserve requirement introduces instability into the money/reserve multiplier when deposit shifts occur. Simple models of the monetary control process show that the smaller the proportion of transactions deposits that are bound by Federal reserve requirements, the more variability is introduced into the money/reserve multiplier.

Under the current reserve structure, about 70 percent of all transactions balances are at member banks, virtually all of whom have binding reserve requirements. Some alternative reserve structures which result in required balances of $15 to $20 billion can generate a similar proportion of transactions balances at banks with binding reserve structures. However, it is difficult to predict whether or not, after the banking system adjusts to an alternative reserve structure, the size and stability of the multiplier will be adequate for monetary control. We have suggested that reserve balances of about $20 billion in 1977 terms might be adequate for purposes of monetary policy. To achieve that or a somewhat higher level of reserves without imposing unacceptable costs on the Treasury and without extending the tax-like features of reserve requirements to the point where they will drive deposits out of the banking system is best achieved by the interest-bearing supplemental.

2. You object to the unanimous vote and the 4-year sunset provisions of the supplemental amendment. How would you change this to make it more acceptable to you?

To ensure the workability of the supplementary deposit proposal, the unanimity requirement should be replaced by a requirement that five or more members of the Board affirmatively vote to require supplementary deposits. The Board should make a finding that such deposits are necessary to effectuate monetary policy or for the efficient operation of the payments mechanism. The Board should consult with the other Federal financial institution regulators before requiring supplementary deposits and should report to Congress after such deposits are required on the reasons for exercise of the supplementary deposit authority.

There should be no "sunset" provision because the need for supplementary deposits for monetary policy purposes would not be expected to cease at the same time that the authority expires under a "sunset" rule. The Board should, however, review and determine the need for continuing maintenance of supplementary deposits on a fixed interval, perhaps annually. After that review, it would be appropriate for the Board to report to Congress if there is a continued need for such deposits.

3. How can you justify the paying of interest on supplemental reserves but not paying interest on basic reserves? Would you accept supplemental reserves without the requirement of having to pay interest on them? By my calculations, given the mid-range of reserve ratios in S. 353, if interest of 6-1/2 percent were paid on basic reserves, but no interest was paid on supplemental reserves, the total cost would be approximately $200 million, which would be acceptable to the Administration.

An important criterion in evaluating the various proposals before the Congress has been their net effects on Treasury revenues. Those bills that pay interest on all basic reserves at or near a market rate would raise the cost to the Treasury to amounts in excess of that acceptable to the Administration and many members of Congress. By contrast, no earnings impact in excess of that chosen by Congress for either the banks or the Treasury would be caused by introduction of interest-earning supplemental requirements over and above the basic requirement. Yet such deposits guarantee that the Federal Reserve has a sufficient reserve base for monetary policy as well as operational purposes.

Authority to impose a noninterest-bearing supplemental deposit requirement would provide the Federal Reserve a type of "safety net" that would assure adequate reserves for monetary control. However, imposition of such a supplemental would have adverse earnings effects on the depository institutions covered under such a plan. Moreover, the ultimate impact on Treasury revenues would depend on whether or not the Federal Reserve used its standby authority. Thus, to meet the reserve constraint, it appears more straightforward to impose noninterest-bearing reserve requirements under the basic reserve provision and make supplementary deposits interest bearing. Decisions on using the supplementary deposit authority then can be based on monetary control and operational factors without regard to the effect on Treasury revenues, which would be negligible.

4. On page 14 you state that reserve requirements should be imposed on short-term nonpersonal accounts. Why don't you include short-term personal accounts as well? What is the preferred category of accounts upon which reserves should be placed? All short-term accounts? Personal short-term? Nonpersonal short-term? Please explain your reasoning.

If noninterest-bearing reserve requirements must be imposed on time deposits, they should be confined to short-term nonpersonal accounts and be relatively low. Saving and personal time accounts represent the principal depository vehicles for household savings. Imposition of noninterest-bearing reserve requirements amounts to a tax on such accounts, reducing the potential return the banks and thrifts can pay. At best, this tax leads to funds flowing out of depository institutions to other savings outlets; at worst, it could reduce total personal savings. Thus, noninterest-bearing reserve requirements on such accounts are undesirable and, partly for these same reasons, we understand that banking institutions vigorously oppose such reserve requirements. Of course, if a market interest rate were paid on reserves against these accounts these distortionary effects would not occur.

A noninterest-bearing reserve requirement on short-term nonpersonal time deposits could at times serve a useful purpose. These deposits are not generally used for long-term savings purposes; rather, they are similar to other market instruments and are normally used by depository institutions as managed liabilities. On occasion a noninterest-bearing reserve requirement on these managed liabilities would be useful to restrain excessively rapid growth of near-money or bank credit, particularly by large institutions. Thus, it is desirable to retain the authority to impose reserves on these deposits on a temporary basis in unusual and exigent circumstances.

On the other hand, imposition of a permanent, relatively high, reserve requirement on these funds poses an important problem. Competition for funds flowing into nonpersonal time deposits is intense and growing. The competitive handicap for covered institutions would be significant when the commercial paper market, the Eurodollar market, and money market mutual funds are growing rapidly, as they recently have been. A substantial permanent reserve requirement on such deposits would also place new burdens on thrift institutions and perhaps on their nonpersonal customers, including state and local governments.

5. On page 14 you state that financial institutions should remain free to choose a State or Federal charter and membership in the Federal Reserve System. If all depository institutions are required to keep reserves at the Fed, wouldn't they all become members? Why wouldn't they become members if they have to pay the price of maintaining reserves at the Fed without interest being paid on them?

Membership in the Fed provides certain benefits, but at the same time, it imposes obligations on member banks. The principal benefits are access to the discount window and to Reserve Bank services. The most important obligations, beyond maintenance of reserves, are supervision and regulation by the Federal Reserve (or the Comptroller of the Currency, in the case of national banks) rather than the state, and the requirement to purchase stock that yields only 6 percent.

The legislation now before the Congress greatly reduces the benefits of membership while affecting only the obligation to hold reserves. Each of the bills requires the Federal Reserve Banks to provide discount window credit to a broader class of institutions and to offer operational services to all institutions on the basis of service charges. Thus, these benefits of membership will be available to nearly all institutions[1] on almost equal terms. There will be very little motivation to become a member.

At the same time the obligations of membership, except for maintenance of reserves, will not decrease. Members (except national banks) will still be examined by Federal Reserve examiners as well as by state bank examiners.

---

1/ Senator Tower's bill (S. 353) affords these facilities to members and institutions voluntarily holding member bank reserves.

Members will still be required to purchase stock that yields only 6 percent, considerably less than the member bank could earn on alternative investments of the funds involved. These obligations impose substantial costs of membership, and there is little reason to suppose a large number of banks will voluntarily choose to assume them.

In the open access environment that would be created by the proposed legislation, merely to reduce reserve requirements or even to pay interest on reserves at a market rate should have little or no positive effect on membership. It is possible, however, that some (probably larger) nonmember banks might choose to convert to a national charter to obtain different powers from those permitted by its state bank supervisors. A national charter also permits a bank to avoid dual examination by both State and Federal examiners, because national banks are examined only by national bank examiners. In the past the high cost of Federal reserve requirements may have discouraged some state nonmember banks from making such a charter conversion to obtain the benefits. Of course, the state bank supervisors could take compensatory steps to prevent banks from being attracted by these advantages of national charters.

Even in a framework in which interest were paid on reserve balances, many banks might wish to retain non-member status either because they could obtain banking services from correspondent banks and/or because they preferred to maintain supervisory relationships with their respective state supervisors. The mere fact of holding reserves with the Federal Reserve does not preclude the exercise of such "freedom of choice" by individual banks. They may choose a national charter or a State charter based on their own evaluation of the relative benefits and powers that would accrue to them under each option.

6. The supplemental amendment would be implemented upon a finding that an emergency exists and the Fed cannot conduct monetary policy without supplemental reserves. What kind of emergency could you foresee which would require such a finding?

The authority for supplemental deposits would not be used unless the Federal Reserve found that, in practice, monetary control could not be effectively implemented with the balances required under the other provisions of the legislation. The precision of short-run monetary control depends on the size and stability of the money/reserve multiplier (see question 1). After the banks adjust to the new basic reserve requirement environment, the money/reserve multiplier may become much larger than currently, thus amplifying any errors made by the System in providing a targeted level of reserves. Moreover, the lower basic reserve requirements could lead to banks holding much greater excess reserves--a condition which likely would introduce additional unpredictable variation into the multiplier relationship. On the other hand, the legislative proposals generally spread the reserve requirements more uniformly and equitably across the banking system and thus could make the multiplier more stable.

Thus, we cannot be certain precisely how large reserve balances need to be to assure effective monetary control and a well functioning banking system. Only after the banking system begins to react to the new basic reserve requirements can the Federal Reserve determine whether the money/reserve multiplier relationship is behaving in a manner conducive to effective monetary control. If this relationship deteriorated from its current status--and thereby diminished our capacity to control the growth of money--then supplemental deposits would be necessary. Using the supplemental authority, it is anticipated, could stabilize monetary control before an emergency developed.

March 4, 1980

The Honorable Parren J. Mitchell
Chairman
Subcommittee on Domestic Monetary Policy
Committee on Banking, Finance and
Urban Affairs
House of Representatives
Washington, D.C. 20515

Dear Chairman Mitchell:

Thank you for your letter of February 27 inviting the Board to testify at your Subcommittee's hearings on the new measures of the monetary aggregates and new procedures for controlling the growth of these measures.

Governor J. Charles Partee will appear on behalf of the Board on March 20 at 10:00 a.m.

Sincerely,

S/Paul A. Volcker

CO:pjt (#V-62)
bcc: Gov. Partee
Mr. Axilrod
Mrs. Mallardi (2)

PARREN J. MITCHELL, MD., CHAIRMAN

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NORMAN E. D'AMOURS, N.H.
DOUG BARNARD, GA.
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225-7315

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# U.S. HOUSE OF REPRESENTATIVES

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

#62

February 27, 1980

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

Dear Mr. Chairman:

The Subcommittee is planning hearings on March 20 and 25 on the Federal Reserve's new measures of the monetary aggregates and new procedures for controlling the growth of these measures. In this latter regard, we are especially interested in the role being played and to be played by Reserve Banks' discount rates and administration of discounting. We plan to have outside experts testify on these matters on March 20 and would greatly appreciate it if you or a Board member you may wish to delegate would testify on March 25. We would welcome as well hearing from key staff persons at the Board and the New York Reserve Bank.

I would appreciate your early consideration of this request. We look forward to receiving the Federal Reserve's views on these matters.

Sincerely,

Parren J. Mitchell

Parren J. Mitchell
Chairman, Subcommittee on
Domestic Monetary Policy

PJM/rw:jb

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**CONGRESS OF THE UNITED STATES**
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**SUBCOMMITTEE ON ENERGY AND POWER**
OF THE
**COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE**
**WASHINGTON, D.C. 20515**

March 4, 1980



Honorable G. William Miller
Secretary
Department of the Treasury
15th and Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Subject: Energy Emergency Contingency Planning

Dear Mr. Miller:

Events are clearly drawing us closer and closer to the probability of a serious discontinuity in the worldwide flow of oil. Many of the major oil supplying countries have announced intended cutbacks in production or are nearing physical constraints on their ability to produce and export oil. At the same time, the free world's reliance on oil from a few, rather politically unstable, governments in the Middle East remains high. While U.S. oil consumption has apparently dropped by some 4% in the past year, there is no guarantee that this trend will continue, and our major allies have not been able to reduce oil use very much. Today this country still imports 40% of its oil needs, or nearly eight million barrels per day--44% of it from Middle East and Northern Africa producers. We are, by any reasonable measure, extremely vulnerable to disruptive events in that region.

I believe it is critically important that this government be prepared to deal with an energy emergency. Every response to such a crisis-- energy demand reduction, use of oil stocks, allocation and distribution, foreign policy, domestic and international economic and fiscal moves, administrative coordination and information dissemination, and military options--must be explored, and to the maximum extent practicable, the various contingency plans should be coordinated and consistent with one another.

To be sure, there is a wide variety of possible interruptions--short or long in duration, minor or major in severity, narrow or broad in scope and national involvement. Each conceivable "scenario" of disruption could produce a different set of appropriate response measures. It would seem to be desirable to have a "shelf" of response options, each suited to a different kind of interruption. If and when a crisis occurs, one could simply take the appropriate measures from the "shelf", modify them slighty for the particular circumstances, and proceed with their timely and effective implementation.

Stocking this shelf of response options is, I recognize, not an inxpensive or simple undertaking. In view of its critical bearing on national security and stability in time of crisis, however, I hope that you will proceed without delay, if you have not already done so, to identify and analyze the range of options that fall within your purview, that you will work closely with your colleagues in other agencies, and that you will keep us abreast of your considerations and analyses.

A fairly long list of potential emergency response measures are already being debated. On the energy demand reduction side, possible measures include gasoline rationing, product price decontrol, four day work weeks, alteration of environmental and other regulations, gasoline tax and rebate programs and other proposals. On the energy supply enhancement and shortage allocation side, possible actions include strategic petroleum reserve use (once it has been filled), accelerated decontrol of crude oil prices, import fees or quotas, natural gas imports, gasohol and other proposals. Internationally, there are the International Energy Agency oil import targets and the shortage sharing scheme, and a range of other foreign policy or military moves not unlike those taken or being considered during the current crisis in relations with Iran.

Some of these measures, properly defined and carried out, may be positive; others may well exacerbate the problem or have no impact at all. Also, a distinction must be drawn between actions to be imposed only in the event of an energy emergency, and actions which should be taken, in general, to reduce our vulnerability to oil import cutoffs.

I would appreciate knowing your agency's views on this mattter. For example, what "scenarios" have you considered as conceivable during the coming 6 months, or 18 months? Where, in your view, are the US and its allies most vulnerable to unilateral actions of oil suppliers? What signals exist which could warn of impending crisis? What are your plans for monitoring the situation, and keeping the Congress up-to-date?

What are the broad options available in your areas of responsibility for response to possible scenarios? What authority might be necessary if we are to be better able to meet possible emergencies? In sum, what is your state of readiness to pursue an organized, coordinated effective response to energy supply crises when and if these occur?

This issue of energy emergency contingency planning is one of the most critical questions which this country confronts today. I offer my support and counsel in your efforts to develop appropriate plans and programs, and I look forward to hearing from you.

Sincerely,

John D. Dingell
Chairman

JDD:jsn

cc: Paul A. Volcker, Chairman
Board of Governors of the Federal Reserve System

March 4, 1980

A SIMILAR LETTER IS BEING SENT TO THE FOLLOWING AGENCIES:

DEPARTMENT OF STATE

DEPARTMENT OF DEFENSE

DEPARTMENT OF ENERGY

DEPARTMENT OF THE TREASURY

DEPARTMENT OF TRANSPORTATION

OFFICE OF MANAGEMENT AND BUDGET

COUNCIL OF ECONOMIC ADVISERS

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

FEDERAL EMERGENCY MANAGEMENT AGENCY

CONGRESSMAN STEVE NEAL
HOUSE OF REPRESENTATIVES
502 CANNON BUILDING
WASHINGTON, D.C. 20515

I thought you might find this of interest.

Best Wishes

Steve

CONGRESSMAN STEVE NEAL
HOUSE OF REPRESENTATIVES

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1980 MAR 14 PM 12: 51

RECEIVED
OFFICE OF THE CHAIRMAN

# Congress of the United States
## House of Representatives

STEVE NEAL
5TH DISTRICT, NORTH CAROLINA

#90

March 3, 1980

The President
The White House
Washington, D. C. 20500

Dear Mr. President:

The time has come, I believe, for the Administration and the Congress, working together with the States, to significantly reduce our dangerous dependence on foreign oil.

The following suggestions are in no way meant to be criticism of you, Mr. President. I admire and respect the leadership you have shown and believe you are way ahead of Congress in your perception of the energy situation. Nor am I suggesting that the responsibility of taking the steps here outlined should be entirely yours. In fact, I have introduced a bill in the House to accomplish the same goals, and to give you a stronger indication of congressional support. I will continue to work for passage of the bill and am willing to help in whatever way that I can.

As you know, and have advised the American people many times, we are now importing almost half of all the oil we use. Much of it comes from countries which are unstable and/or unfriendly or hostile to the United States, and is transported over routes which are extremely vulnerable. Moreover, there is no short-term (two or three years) supply solution that could significantly reduce our imports. As a result we and our allies are precariously vulnerable--militarily, economically, and socially--to the whims of foreign governments and to the expansionist policies of the Soviet Union.

I believe that these conditions constitute a grave threat to our country, and that in dealing with the situation we have, basically, only four options:

(1) We can continue to do little or nothing for the short term and hope for the best.

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(2) We could add taxes of one kind or another to gasoline and other petroleum products (ration by price). That, in my opinion, would not be fair and would not pass the Congress.

(3) We could require nationwide rationing by coupon, but that would be bureaucratic, very expensive, and acceptable only as a last resort.

(4) We can impose a discipline on ourselves and determine that we are going to reduce imports by a specific amount by setting and achieving mandatory energy conservation targets in each state.

Mr. President, you have the authority, under Title II of the Emergency Energy Conservation Act of 1979, to set such conservation targets. I believe you should do so right away, and am further convinced that both Congress and the American people would approve of that action. At last week's Democratic Caucus in the House of Representatives, I introduced a resolution urging you to take this action. While a quorum was not mustered, the fifty or so members in attendance were, by and large, receptive to the idea. Several of these members have indicated that they wanted to co-sign this letter, so you will be receiving another similar letter within a few days.

In setting such conservation targets, I believe the goal should be to reduce our oil imports by ten percent by the end of the first six months of the program, and by another ten percent by the end of the second six months. Since we import about half our oil, to achieve this twenty percent reduction in imports, we would have to cut our total oil consumption by about ten percent. This twenty percent reduction in imports would produce many benefits, including:

(1) Our foreign oil bill (expected to be about $90 billion this year) would be reduced by a corresponding percentage, or about $18 billion. Our trade deficit would thus be lessened by approximately the same amount, and through the ensuing increased value of the dollar, the price of imports would be reduced also.

(2) Since at least four percentage points of inflation (as measured by the Consumer Price Index) are directly related

to the price of oil and the effects of the trade deficit, this action would fight inflation.

(3) The decrease in demand would put pressure on OPEC countries to limit price increases, in both amount and frequency, and conceivably could at some point encourage price reductions.

(4) Since we are presently importing about 1.8 million barrels of oil a day from the Persian Gulf states--which is almost twenty percent of our total imports--this reduction would put us in a position to virtually eliminate our dependence on the Persian Gulf area, if events should make that advisable or inescapable.

(5) While requiring such reductions in our imports would clearly show that our dependence on oil from abroad constitutes an emergency, it would, at the same time, lessen tensions among those people who perceive our expanded military presence in the Indian Ocean, and our increased emphasis on preparedness, as the beginning of "a war over oil."

(6) I have no doubt that as a result of mandatory conservation, the American people would think more seriously about using energy more efficiently. Perhaps the major benefit of this action would be the release of the creative vitality that exists in our market system and among individuals, who would find creative and innovative ways to overcome this threat to our security and our heritage.

Is such a conservation goal realistic? Can each American reduce his or her oil use by ten percent over the next twelve months? Certainly we can. We comprise about six percent of the world's population, but use thirty percent of the world's energy. A cutback to twenty-seven percent, in the objective view, constitutes very little sacrifice.

Finally, we must ask if the states can achieve the goals without implementing coupon rationing? I am convinced that they can. There are many things they could do to adjust to the shortfall. They could require that city lighting be reduced (most cities are lit up like carnivals at night). They could require that each car not be driven one day a week. Some states might want to go to a four-day work week. States could enforce or reduce highway speed limits. They could raise the age requirement for initial driver's license. States could work out many energy-savers on their own, and I believe they would ask only that the targets be set in an equitable way which does not penalize them for geography, demography, or inordinate dependence upon imported oil.

I was recently reminded, Mr. President, of a statement made by the late General Douglas MacArthur in the 1930's in a letter to William Allen White. "The history of failure in war can be summed up in two words: Too Late. Too late in comprehending the deadly purpose of a potential enemy; too late in realizing the mortal danger; too late in preparedness; too late in uniting all possible forces for resistance; too late in standing with one's friends." General MacArthur was of course writing in another era on another subject, but I think his comments are relevant to our energy situation. I believe the time to act is now and hope that you will give serious consideration to this proposal, which I believe to be the most effective and acceptable action that could be taken at this time.

Respectfully,

Steve Neal

STEPHEN L. NEAL
U. S. Congressman

# Congress of the United States
## House of Representatives

STEVE NEAL
5TH DISTRICT, NORTH CAROLINA

February 22, 1980

Dear Caucus Member:

I am writing to inform you that I have requested, along with more than 50 other Members, that the Resolution printed on the reverse of this page be taken up by the Democratic Caucus on Tuesday, February 26.

In petitioning the Chairman, I am compelled by the following facts: We are importing about one-half of the oil we use, often from countries which are unstable and/or unfriendly or hostile to us; this oil is transported over routes that are extremely vulnerable; and, finally, there is <u>no</u> short-term (2 or 3 years) supply side solution to the problem. These conditions, I believe, leave us and our allies precariously vulnerable -- militarily, socially and economically -- to the whims of foreign governments, to the expansionist policies of the Soviet Union, and to any number of other possible eventualities.

We are not yet facing up to this reality. As I see it, there are only four possible options: (1) We can continue to do little or nothing and hope for the best; (2) We could add taxes to gas and other petroleum products (rationing by price), but that would not be fair and would not pass Congress; (3) We could require nationwide rationing by coupon, but that would be bureaucratic, expensive, and acceptable only as a last resort; (4) We could pursue the option suggested in my Resolution.

The Resolution urges the President to use the authority of Title II of the Emergency Energy Conservation Act of 1979 to establish mandatory monthly emergency energy conservation targets for the states. It suggests cutting <u>imports</u> by 10% over the next six months, and another 10% over the following six months. To cut imports 20%, we need to cut total consumption about 10%.

I believe the public response to the action recommended would be both positive and productive. Convinced that a serious situation exists, I have no doubt that the American people would find creative and innovative ways to use petroleum more efficiently, and that as a matter of pride and patriotism they would attain the suggested goals.

Whether you agree or disagree with the Resolution, your advice and insight are needed. I hope you can attend the Caucus.

Best wishes,

Steve

STEPHEN L. NEAL
U.S. Congressman

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A RESOLUTION offered by MR. NEAL

Whereas the United States depends on foreign imports for approximately one-half of its petroleum needs; and

Whereas such dependency on foreign petroleum has contributed and will continue to contribute to the current strain on our economy, thereby thwarting efforts to reduce inflation and maintain a steady economic growth; and

Whereas much of this imported petroleum originates in countries which are politically unstable and militarily volitile, and in many instances hostile or unfriendly toward the United States; and

Whereas this petroleum is transported over routes which are increasingly vulnerable to potential aggressive action by adversary powers; and

Whereas there are no short term supply answers to the problems which would arise if the United States and its allies were deprived of a significant amount of these petroleum imports; and

Whereas this precarious supply situation leaves the United States and its allies extremely vulnerable should these critical foreign petroleum supplies be seized, blockaded, or controlled by an outside power; and

Whereas the President of the United States has the authority under Title II of the Emergency Energy Conservation Act of 1979 (42 U.S.C. 6261 et seq.) to establish mandatory monthly emergency energy conservation targets for gasoline, diesel fuel and home heating oil for the nation and for each State: Now, be it

Resolved that the Democratic Caucus of the House of Representatives expresses to the President of the United States its belief that the President should immediately move to establish the mandatory energy conservation targets authorized in the Emergency Energy Conservation Act of 1979 (42 U.S.C. 6261 et seq.); in determining the energy conservation targets, the President use the goal of reducing petroleum imports by 10 percent, beginning not later than 6 months after the program is put into effect, and by an additional 10 percent, beginning not later than 12 months after the plan is put into effect.

United States of America

# Congressional Record

PROCEEDINGS AND DEBATES OF THE 96th CONGRESS, SECOND SESSION

Vol. 126 WASHINGTON, WEDNESDAY, MARCH 5, 1980 No. 35

## WE MUST CUT OIL IMPORTS NOW

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from North Carolina (Mr. NEAL) is recognized for 30 minutes.

Mr. NEAL. Mr. Speaker, I have today introduced legislation which would require the President to set mandatory energy conservation targets for each of the States, in accordance with the provisions of title II of the Emergency Energy Conservation Act of 1979.

I have done so because the time has come, in my opinion, for the administration, the Congress, and the States to work together to significantly reduce this Nation's dangerous dependence on foreign oil.

Mr. Speaker, it is known to all of us that we are now importing almost half of all the oil we use. Much of it comes from unstable countries, some of which are unfriendly or hostile to the United States. Moreover, much of this oil is transported over precarious routes which are extremely vulnerable. We have no short-term supply solutions to a drastic curtailment of this oil, whether by embargo or by intervention in production and shipment. As a result, the United States and its allies are precariously vulnerable—militarily, economically, and socially—to the whims of foreign governments and to the threatening expansionist policies of the Soviet Union.

I believe these conditions pose a very grave threat to the United States, and that in dealing with the situation we have basically only four options.

First. We can continue to do little or nothing to lessen our dependence on foreign oil, and hope for the best.

Second. We could add burdensome taxes of one kind or another to gasoline and other petroleum products, but that would not be fair and, I believe, would not be approved by the Congress.

Third. We could require nationwide rationing by coupon, but that would be bureaucratic, very expensive, and acceptable only as a remedy of last resort.

Fourth. Finally, we can, by enacting proper legislation, impose a discipline upon ourselves and determine that we are going to reduce these imports by a specific amount by setting and achieving mandatory energy conservation goals in each of the 50 States, and thus in the Nation as a whole.

In setting these conservation targets, I believe the goal should be to reduce our oil imports by 10 percent by the end of the first 6 months of the program, and by another 10 percent by the end of the second 6 months. Since we import about half of all the oil we use, to reduce imports by 20 percent over a 12-month period would require that we reduce our total consumption by 10 percent. This 20-percent reduction in imports would, I believe, produce many benefits, including the following:

First. Our foreign oil bill (expected to be $90 billion this year) would be reduced by a corresponding percentage, or about $18 billion. Our trade deficit would thus be lessened by approximately the same amount, and through the ensuing increase in the value of the dollar, the price of our imports would also be reduced.

Second. Since at least 4 percentage points of inflation (as measured by the Consumer Price Index) are directly related to the price of oil and the effects of the trade deficit, this action would fight inflation.

Third. The decrease in demand would put pressure on OPEC countries to limit price increases, in both amount and frequency, and conceivably could at some point encourage price reductions.

Fourth. Since we are presently importing about 1.8 million barrels of oil a day from the Persian Gulf States—which is almost 20 percent of our total oil imports—this reduction would put us in a position to virtually eliminate our dependence on the Persian Gulf area, if events should make that advisable or inescapable.

Fifth. While requiring such reductions in our imports would clearly show that our dependence on oil from abroad constitutes an emergency, it would, at the same time, lessen tensions among those people who perceive our expanded military presence in the Indian Ocean, and our increased emphasis on preparedness, as the beginning of "a war over oil."

Sixth. As a result of mandatory conservation, the American people would think more seriously about using energy more efficiently. Perhaps the greatest benefit of this action would be the release of the creative vitality that exists in our market system and among individuals, who would find creative and innovative ways to overcome this threat to our security and our heritage.

Is such a conservation goal realistic? Can each American reduce his or her oil use by 10 percent over the next 12 months? Certainly we can. We comprise about 6 percent of the world's population, but we use about 30 percent of its energy. A cutback to 27 percent, in the objective view, would constitute very little real sacrifice, but some inconvenience.

Finally, Mr. Speaker, we must ask ourselves if the States can achieve the goals without resorting to coupon rationing. I am convinced that they can. There are many things they could do to adjust to the shortfall. They could require that city lighting be reduced (most cities are lit up like carnivals at night). They could require that each car not be driven 1 day a week. Some States might want to go to a 4-day workweek. States could enforce or reduce highway speed limits. They could raise the age requirement for initial driver's license. States could work out many energy-savers on their own, and I believe they would ask only that the targets be set in an equitable way which does not penalize them for geography, demography, or inordinate dependence on imported oil.

Mr. Speaker, I am reminded of a statement made by Gen. Douglas MacArthur in the 1930's to the famous Kansas newspaper editor, William Allen White. This is what the general wrote:

> The history of failure in war can be summed up in two words: Too late. Too late in comprehending the deadly purpose of a potential enemy; too late in realizing the mortal danger; too late in preparedness; too late in uniting all possible forces for resistance; too late in standing with one's friends.

General MacArthur was writing, of course, in another era about another subject, but I think his comments are relevant to our energy situation. I believe the way to avoid failure in the future is to act now. The most effective action we can take, in my judgment, is that which I have proposed in this bill.

Let it not be said by our own children, or by some future generation, that we did too little, and acted too late.

March 3, 1980

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:

This is in response to your letter of February 6, requesting an investigation and comment on an inquiry from Ms. Carol Anne Bugielski concerning the practice of the Bank of Commerce and Industry, Chicago, of levying service charges against dormant accounts. Ms. Bugielski states that the bank assessed a service charge of [redacted] against her daughter's savings account because of lack of activity in the account without giving notice of such action.

As a general matter, service charges imposed by financial institutions have traditionally been regarded as matters falling within the deposit agreement established between the institution and its depositors. Although State member banks are required to abide by State laws that prescribe the types of charges that may be imposed on dormant accounts, we understand that Illinois does not have any specific statutes or regulations with respect to these charges. It should be noted that many states, Illinois included, have statutory provisions for the escheat of funds in dormant accounts to the State after varying periods of time.

With regard to advising depositors of these terms, the Board has indicated its concern that member banks adequately disclose the material terms of deposit contracts, and changes in those terms that are adverse to the depositor, to all depositors. In this regard, the Board, in 1970, published an interpretation (12 C.F.R. § 217.148) relating to disclosing information to depositors regarding the computation of interest on deposits.

The Board's Legal Division has advised me that the provisions of this interpretation appear to be applicable to the allegations set forth in Ms. Bugielski's letter. Accordingly, the Board's staff will investigate the bank's policies and contract provisions with respect to disclosure of the terms and conditions of imposition of service charges on dormant accounts. Upon completion of the investigation, we will be pleased to inform you of our findings.

Sincerely,

S/Paul A. Volcker

DLR:DJW:pjt (#V-37)
bcc: Dan Rhoads (for follow-up with Reserve Bank)
Mrs. Mallardi (2)

Action assigned Mr. Petersen

FRANK ANNUNZIO, ILL., CHAIRMAN
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

February 6, 1980 #37

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

Dear Mr. Chairman:

I have received the enclosed correspondence from Ms. Carol Anne Bugielski, a constituent of mine in Chicago. Ms. Bugielski is unhappy with the high account inactivity penalty charge imposed by the Bank of Commerce and Industry, on her daughter's savings account. This high penalty reflects a change in policy by this bank apparently without notice to its depositors. This penalty reduced Ms. Bugielski's daughter's savings account from a balance of [redacted] to [redacted]. This penalty has resulted in Ms. Bugielski stating in her letter to me that she now has, " . . . a child who refuses to put her money in the bank again."

I would appreciate it if you would review the correspondence and investigate to determine if the conduct of the Bank of Commerce and Industry in this matter is legal, is consistent with its obligations under the passbook agreement it has with the depositor, and is in conformity with all applicable bank laws and regulations. The bank is located at 6104 N. Northwest Highway, Chicago, Illinois 60631 and the phone number there is (312) 775-8000.

Please inform me of the results of this investigation. Thank you for your cooperation in this matter.

With every best wish,

Sincerely,

Frank Annunzio

Frank Annunzio
Chairman

Enclosure

AUTHORIZATION CASE SHEET

RECEIVED
FEB 4 1980
SUBCOMMITTEE ON CONSUMER AFFAIRS

Congressman Frank Annunzio
11th Congressional District, Illinois
U.S. House of Representatives
Washington, D.C. 20515

Date Jan. 30, 1980

Dear Congressman Annunzio:

My name is Carol Anne Bugielski

Address [redacted]

Home Phone [redacted]

Business Phone 792-2880

Ward 45

Precinct

Complete blanks where applicable:

V.A. Claim number

Where and when filed

Soc. Sec. number

Type of benefits

Where and when filed

Military identification number

Other numbers identifying your case

My problem is as follows: Due to our relocation, my 12 yr old daughter wished to close out her savings acct at the Bank of Commerce & Industry (6100 Northwest Hgwy). Because of the inactivity of her passbook since Aug. 1977, on July 23 1979 - they withdrew [redacted] from her [redacted] account. When I went to the bank and spoke with Pat Godwin (an officer) she told me that every account that did not have at least one transaction a year (at least posting interest) would be charged [redacted] per year. When I asked her for a list of rules governing savings accounts, Ms Godwin

I hereby authorize Congressman Frank Annunzio or a member of his staff to make the appropriate inquiry in my behalf.

Sincerely,

(Use other side if more room is needed)

Carol Anne Bugielski
(Signature)

said they were still at the printer when I asked her when they would become available she told me their rules were changing every week and I would probably not be able to get them at all. Needless to say, they were not posted in the lobby either.

I know of several people, one a local businessman, who had accounts that were dormant for 2 or 3 years and the [redacted] was withdrawn from their accounts on the same date - July 23, 1979.

I am sure that many children and Senior Citizens in the area will be hurt by this [redacted] per year charge on their accounts, as they don't always go to the bank on a yearly basis.

If this is indeed a legal procedure, the Bank of Commerce and Industry should at least post notices in the bank so that their customers are aware of this charge. They have acted in a very underhanded way and now I have a child who refuses to put her money in the bank again.

Thank you for your time,

Carol Bugielski

# Removal Notice

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The item(s) identified below have been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to personally identifiable information.

## Citation Information

**Document Type:** Savings passbook

**Number of Pages Removed:** 4

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