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May 1, 1980

The Honorable Richardson Preyer
Chairman
Subcommittee on Government
Information and Individual Rights
Committee on Government Operations
House of Representatives
Washington, D.C. 20515

Dear Chairman Preyer:

Thank you for your letter of April 8 requesting the assistance of the Federal Reserve in examining current and future problems in transborder data flows. In carrying out its responsibilities, the Federal Reserve relies on data generally supplied by domestic sources; however, important information is needed from foreign offices of U.S. banks. To date we have not experienced any difficulty in receiving the foreign data necessary to carry out Federal Reserve functions.

It is our understanding that the restrictions on transborder data flow cited in your letter could have an impact on international commerce and have an adverse impact on the ability of United States companies to compete overseas. The Department of Commerce, through the National Telecommunications and Information Administration, is currently studying the impact such restrictions would have on international commerce. The Federal Reserve will continue to monitor transborder data flow problems and we will apprise you of any difficulties we experience that constrain our ability to fulfill our role.

Sincerely,

EMcE:MJH:JFB:pjt (#V-142)

bcc: Mr. Gemmill
Mrs. Mallardi (2)

S/Paul A. Volcker

RICHARDSON PREYER, N.C., CHAIRMAN
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JOHN N. ERLBORN, ILL.

225-3741

NINETY-SIXTH CONGRESS

Congress of the United States
House of Representatives

GOVERNMENT INFORMATION AND INDIVIDUAL RIGHTS
SUBCOMMITTEE

OF THE

COMMITTEE ON GOVERNMENT OPERATIONS

RAYBURN HOUSE OFFICE BUILDING, ROOM B-349-B-C
WASHINGTON, D.C. 20515

April 8, 1980

1980 APR 10 10:05

142

Honorable Paul A. Volcker
Chairman
Federal Reserve Board
20th Street and Constitution Avenue, NW
Washington, DC 20551

Dear Mr. Chairman:

The Subcommittee on Government Information and Individual Rights, which I chair, began hearings on March 10 to examine the emerging trade, cultural, and individual rights problems in the area variously labeled transborder data flow, transnational information policy, or international data flow. The hearings are designed to provide the opportunity for representatives of the private sector and officials of the Executive Branch to begin a dialogue with the Congress to define the parameters of international data flow issues and assist in determining how -- organizationally as well as substantively -- the United States should address these issues.

The subcommittee requests your assistance in determining the scope of current and future problems in this area. We would appreciate (1) your candid assessment of the range and complexity of problems in this area which may affect the accomplishment of your agency's mission; (2) a description of any particular problems you have encountered; and (3) your views on existing and potential problems for American business enterprises, other U.S. private sector groups, and our national interests.

The subcommittee also is interested in knowing what mandate your agency has to act in any aspect of this area, what actions you have taken to address these concerns, and what your views are on how the United States Government can effectively represent American interests and assist American business.

The issues in international data flow arise from the growing availability and use of global data processing and communications networks. Clear advantages result from the employment of these modern technologies; but their use raises new and significant questions of public policy. Several members of the European Community, for example, recently enacted data protection laws to assure the privacy of individuals when personal data is transmitted outside a country. While real questions of individual rights exist, some of these laws may result in protectionist actions or be employed as tools to restrict the conduct of business by companies in the computer and communications industries.

Honorable Paul A. Volcker
April 8, 1980

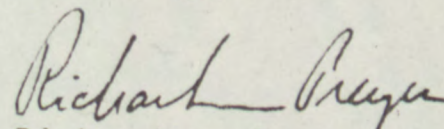
These and other barriers -- such as the imposition of inconsistent standards for regulating the transmission and production of information or the establishment of requirements to utilize government-controlled data communications networks -- threaten the overseas operations of American companies. The effects may be direct, through the loss of markets, or indirect, through hindering the use of efficient and cost-effective information and communications services. Such problems also could have a negative impact on the accomplishment of U.S. Government programs. The consequences of these kinds of restrictions will be felt in all sectors that employ data processing and communications technologies or that use services dependent upon these technologies, such as services offered by financial institutions or providers of data bases.

The subcommittee hearings focus on the broad range of economic and national sovereignty concerns associated with the creation of barriers by foreign nations that inhibit the effective conduct of business by American enterprises or adversely affect the interests of U.S. citizens and the U.S. Government. The subcommittee will also address the question of how our government can respond most effectively to these problems and ensure that American interests are protected.

We would appreciate your response by April 25, 1980, so that it will be available in a timely fashion for the subcommittee's deliberations. Should you have any questions or wish to discuss the subcommittee inquiry, please contact Mr. Christopher Vizas of the subcommittee staff at (202) 225-3741.

Again, my thanks for your cooperation and assistance.

Cordially,


Richardson Preyer
Chairman

May 1, 1980

The Honorable John J. Duncan
House of Representatives
Washington, D.C. 20515

Dear Mr. Duncan:

Thank you for your letter of April 28 regarding correspondence you received from Mr. David Burleson, Legislative Chairman of the Home Builders Association of Greater Knoxville.

I believe the enclosed letter from Governor Partee to the President of the Home Builders Association of Greater Knoxville is self-explanatory.

I hope that this is responsive to your inquiry.

Sincerely,

S/Paul A. Volcker

Enclosure (Ltr. dtd. 4/25/80)
CO:pjt (#V-183)
bcc: Mrs. Mallardi (2)

JOHN J. DUNCAN
2D DISTRICT, TENNESSEE

2458 RAYBURN HOUSE OFFICE BUILDING
PHONE: (AREA CODE 202) 225-5435

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MONROE
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Congressional Liaison Office will draft reply;
Partee has responded to Mr. Sharp's letter.

Governor

COMMITTEES:

WAYS AND MEANS

JOINT COMMITTEE ON
INTERNAL REVENUE
TAXATION

Congress of the United States

House of Representatives

Washington, D.C. 20515

April 28, 1980

#183

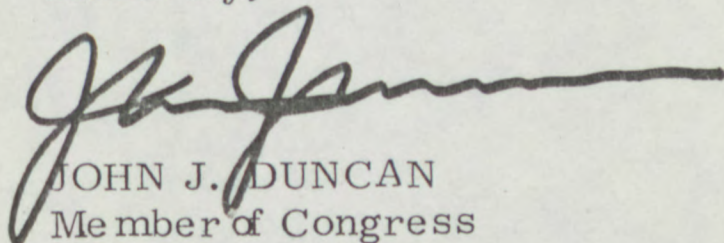
Honorable Paul Volcker
Chairman
Federal Reserve Board
21st Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Dear Mr. Chairman:

Attached hereto is a self-explanatory communication I have received from my constituent, Mr. David Burleson, Legislative Chairman of the Home Builders Association of Greater Knoxville.

I share Mr. Burleson's concern over the current plight of the housing industry and the recent remarks by Mr. Charles Partee on this subject. I shall appreciate your forwarding to me any available information concerning his inquiry.

Sincerely,


JOHN J. DUNCAN
Member of Congress

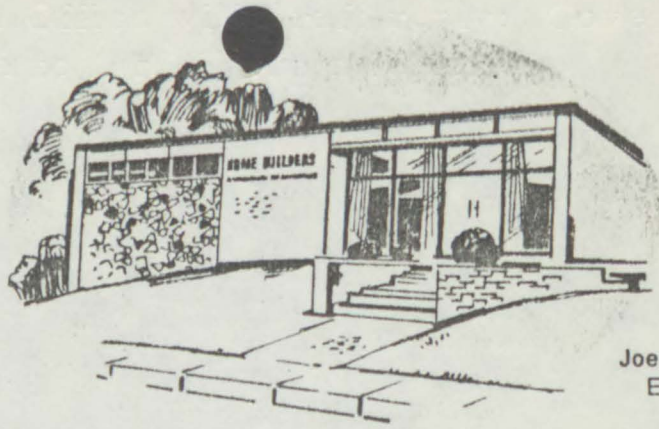
JJD/11

Enclosures

1980 APR 29 11:15

KNOXVILLE
BUILDERS

home builders association of Greater Knoxville



221 CLARK STREET, N.W.
KNOXVILLE, TENNESSEE 37921

Joe Cannon Davis
Executive Vice President
Telephone 546-4665

April 23, 1980

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Wade Keever — 1956
* John W. Card — 1955
Alex J. Harkness — 1954
Ralph Kinzalow — 1953
Martin L. Bartling, Jr. — 1951-52

* Deceased

The Honorable John J. Duncan
U. S. House of Representatives
2458 Rayburn House Office Building
Washington, D. C. 20515

Dear John:

Please find attached an article which appeared in the Knoxville News-Sentinel April 16, 1980. Also, a copy of a letter from our president expressing our feelings about the context of the article.

We find this article deplorable. We would ask that you, on our behalf, express our feelings directly to Paul Volcker and request a reply either to yourself or to our Association directly.

We are sick and tired of many of the upper level bureaucrats taking "shots" at our industry because they have let inflation get out of hand.

We solicit and will appreciate your action on behalf of our 860 members, their employees and families. Please advise of your position.

DATE: 4/26 DOC# _____
AIDE: LL REC# _____
CATS: _____
PARA: _____

Sincerely,

David T. Burleson, Chairman
Legislative Committee

DTB/jjl

Enclosures



NATIONAL ASSOCIATION OF HOME BUILDERS Member HOME BUILDERS ASSOCIATION OF TENNESSEE

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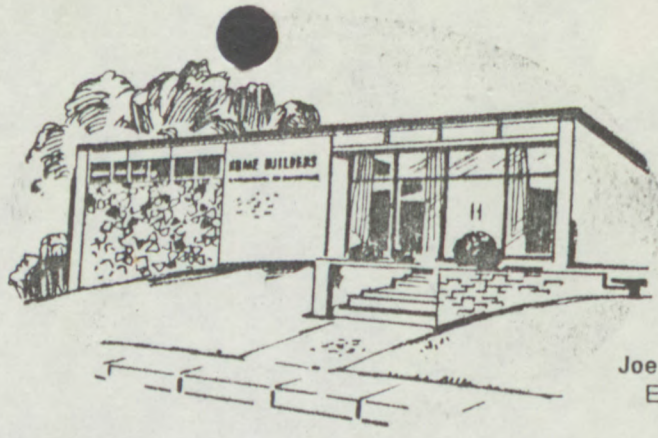
Document Type: Newspaper article

Number of Pages Removed: 1

Citations: Eskey, Kenneth. "Advice To Young: Stay Out Of Housing Market." *Knoxville News-Sentinel*, April 16, 1980.

KNOXVILLE
BUILDERS

home builders association of Greater Knoxville



221 CLARK STREET, N.W.
KNOXVILLE, TENNESSEE 37921

Joe Cannon Davis
Executive Vice President
Telephone 546-4665

April 23, 1980

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* John W. Card — 1955
Alex J. Harkness — 1954
Ralph Kinzalow — 1953
Martin L. Bartling, Jr. — 1951-52

* Deceased

Mr. J. Charles Partee
Board of Governors
Federal Reserve System
Federal Reserve Building
Constitution Avenue

Between 20th and 21st Streets
Washington, D. C. 20551

Dear Mr. Partee:

The attached article appeared in The Knoxville News Sentinel last Wednesday, April 16, 1980.

First of all, our 860 members, their employees and their families are outraged that someone in your position would make such absurd, contemptible statements that will add tremendously to the current strain our industry is feeling. We are, in fact, taking the brunt of the punishment that is being issued by the federal government.

Secondly, you are in error. True, interest rates will recede from current levels. However, as has been the case throughout the economic history of our country, as interest rates decrease, materials, labor and all other related items will show sharp increases inversely proportional to the interest rate decrease. This has always been the case and it will be no different this time.



NATIONAL ASSOCIATION OF HOME BUILDERS *Member* HOME BUILDERS ASSOCIATION OF TENNESSEE

Mr. Partee
Page Two
April 23, 1980

If a buyer purchases a home today, even at the current high rate, he will pay substantially less for the actual product. The buyer may then wait for a decrease in interest rates and refinance his present loan and come out thousands of dollars ahead over the life of the mortgage. The simplicity of this process has obviously escaped you.

We also strongly resent your reference to "fire sales" and "cut-rate prices". It is obvious that you would support potential buyers waiting until a builder has to sell a home at a loss due to the fact he has been saddled -- by the Fed -- with a 17% - 19% interest rate. It is this type of anti-builder sentiment we deplore.

With the Federal government using our industry as a "sacrificial lamb" during this period of unprecedented interest rates the last thing we need is someone in your position telling young Americans that a new home is not currently a good investment -- which, as previously stated, is not true.

In conclusion, Mr. Partee, we find your attitude toward our industry despicable and intend to protest your actions and comments in the most fierce but effective manner we can.

We request a reply to this communication.

Sincerely,

Earl Sharp
President

ES/jjl

Enclosure



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

*Mrs. Mallardi
(V-149)*

May 1, 1980

The Honorable Lloyd Bentsen
United States Senator
912 Federal Building
Austin, Texas 78701

Dear Senator Bentsen:

Thank you for giving me the opportunity to respond to the inquiry of your constituent, Mr. Perry Thompson, Jr. regarding Federal Reserve revenues and expenditures.

In 1979, Federal Reserve System earnings were approximately \$10.3 billion. The two major components of the System's earnings were interest on holdings of U.S. government securities and discount loans extended by the Federal Reserve System to member banks, amounting to \$10.1 billion and \$141 million, respectively. The Federal Reserve receives no dues or other such payments from member banks.

Federal Reserve expenditures are divided principally among the following: current operating expenses for the Board and Federal Reserve Banks (i.e., salaries, postage, building maintenance, and depreciation, etc.), capital losses realized on sales of U.S. government securities and foreign exchange operations, dividends paid to member banks, and return of the revenue surplus over these payments to the U.S. Treasury. In 1979, the first three items were \$744 million, \$141 million, and \$67 million, respectively. The Federal Reserve made payments to the U.S. Treasury of approximately \$9.3 billion.

A more detailed breakdown of the Federal Reserve System's revenues and disbursements can be found at page 297 of the enclosed Federal Reserve's 1979 Annual Report.

I hope these comments are useful to you.

Sincerely yours,

(Signed) Donald J. Winn

Donald J. Winn
Special Assistant to the Board

Enclosure

LLOYD BENTSEN
TEXAS

Action assigned Mr. Kichline

COMMITTEES:
FINANCE
ENVIRONMENT AND PUBLIC WORKS
JOINT ECONOMIC

United States Senate

WASHINGTON, D.C. 20510

April 4, 1980

#149

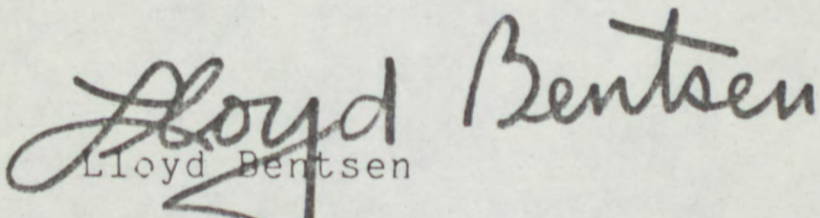
Chairman
Federal Reserve System
Constitution Avenue between
20th and 21st Streets, N.W.
Washington, D.C. 20551

Dear Chairman:

I recently received the enclosed constituent inquiry, and I would very much appreciate your providing me with any pertinent information you might have regarding the matter.

Your kind assistance is greatly appreciated.

Sincerely,


Lloyd Bentsen

Enclosure

PLEASE REPLY TO:

912 Federal Building
Austin, Texas 78701
ATTN: Luis Escareno

1980 APR 14 P. 12:07

AR


Perry Thompson, Jr.
TYLER, TEXAS

March 10, 1980

inc

Honorable Lloyd Bentsen
United States Senate
Washington, D.C. 20510

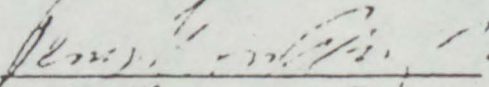
Dear Senator Bentsen:

Where is the money going for the increase in interest rates
by the Federal Reserve Board?

Please furnish me with a breakdown of increased revenue dues
received by the Federal Reserve Board and the dispersion of
these revenues.

I would appreciate your attention to this matter.

Very truly yours,

BY: 
Perry Thompson, Jr.

PT/dh

TEL: A. C. [REDACTED]

CM
V-163

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

The Honorable Adlai E. Stevenson
Page Two

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.

Paul

CM
V-168

May 2, 1980

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

Dear Chairman Proxmire:

I am replying to your letter of April 24 requesting my views on S. 2379, which would permit U. S. banking organizations to invest in export trading companies.

I, too, have reservations about an expansion of the scope for banks to invest in commercial activities, and about the particular provisions of S. 2379 that would permit such an expansion without some form of special oversight by bank regulatory agencies. The statement submitted by Governor Wallich on this bill outlined a number of concerns that the Board would have with any proposal that would breach the traditional separation of banking and commerce in the United States. It also emphasized the importance attached by the Board to the maintenance of bank capital positions that are adequate in relation to traditional banking activities. I fully share those concerns. In my judgment, it would be prudent to proceed cautiously and at a deliberate pace in opening up new areas of bank activity, especially at the present time.

Bank holding companies are now permitted to invest in up to 5 percent of the shares of any company and can do so without any regulatory approval. To our knowledge, there are now few, if any, domestic bank holding companies that have any such investments in trading companies in the United States. I am not in a position to say whether this is indicative of a lack of interest by banks in export trading companies or whether the level of ownership interest permitted to holding companies is too small to attract bank holding company investments. If investments in export trading companies by banks and bank holding companies were to be authorized beyond the level currently permitted, I would strongly favor requiring some form of prior approval. If that requirement were included, moreover, I believe that it would be very desirable if the legislation contained statutory standards on which regulatory decisions could

The Honorable William Proxmire
Page Two

be based. For example, one might wish to have special rules regarding commodity trading. Our staff would be willing to work with Committee staff to develop such standards,

Sincerely,

Paul

P.S. I simply haven't had the chance to concentrate on this in the last few days, and will be calling Senator Stevenson, in response to his request.

Paul

Action assigned Mr. Gemmill

WILLIAM PROXMIRE, WIS., CHAIRMAN	
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United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WASHINGTON, D.C. 20510

KENNETH A. MC LEAN, STAFF DIRECTOR
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MARY FRANCES DE LA PAVA, CHIEF CLERK

April 24, 1980

OFFICE
1980 APR 25 PM 10:45

168

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

Dear Mr. Chairman:

It is possible that the sponsor's of S. 2379 will request a mark-up the week of May 5, 1980.

I have serious reservations about the banking sections of the bill as I also have about the anti-trust sections and the funding provisions. Governor Wallich's written testimony on S. 2379, recently, voices many of my concerns. Unfortunately, neither the Federal Reserve nor the Antitrust Division testified in person at the hearings recently on S. 2379. I hope that we can schedule more hearings on S. 2379 to develop a full record.

However, if the sponsor's insist on a mark-up without hearings, I believe the Committee will be well served by the Federal Reserve's statement as to its position on S. 2379.

Specifically, on the substantive banking issues, S. 2379 authorizes banking institutions to invest in and own Export Trading Companies either by themselves or in partnership with any variety of individual, commercial, manufacturing or construction organizations among others. Such Export Trading Companies would be permitted by statute to engage in any variety of business or commerce such as trading in commodities, shipping, air freight, insurance or construction projects such as airports or telephone companies. In my judgment, S. 2379 as drafted is a radical departure from the traditional separation enjoyed in the U. S. between finance and commerce. Mr. Wallich, in his statement outlined well the potential conflict-of-interests which might be faced if banks were permitted to engage in such

The Honorable Paul Volcker
Page Two

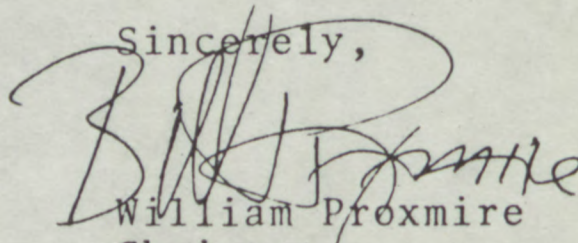
activities. I would appreciate the advice of the Federal Reserve on whether it recommends that banking organizations be permitted to engage in the range of activities sanctioned by S. 2379.

On the procedural issues, S. 2379 provides for a substantial revision in the existing prior approval statutory structure whereby the Federal Reserve rules on applications for nonbank activities prior to the applicant actually engaging in such activities. I am concerned that this procedural change in the administration of the banking statutes may operate in tandem with the substantive changes in S. 2379 and, as a result, alter the face of the banking industry without a serious review by the regulatory agencies charged with the safety and soundness of the financial system.

I am enclosing the most recent draft proposal revisions of S. 2379 by sponsors of the legislation which tighten to some extent the ability of banking organizations to engage in business and commerce without Federal Reserve approval. But, under the revisions, banking organizations could be permitted through Export Trade Companies to engage in banking and commerce; and significantly even with rulemaking authority lodged in the Federal Reserve the presumptions would run in favor of banking organizations engaging in commerce.

Your views on the points raised herein will be most useful to the Committee if it should meet in mark-up on S. 2379 the week of May 5. I thank you in advance for your cooperation with the work of this Committee.

Sincerely,



William Proxmire
Chairman

WP:1mg



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

PAUL A. VOLCKER
CHAIRMAN

May 6, 1980

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

Dear Mr. Quillen:

Thank you for your recent letter regarding the difficulties being faced by homebuilders and homebuyers. There is no doubt that conditions have deteriorated in recent months, in response to an acceleration of inflation and governmental policies designed to bring inflation under control. I also appreciate your sending samples of messages you have received from Tennessee builders who expressed their desire to have interest rates reduced and inflation brought under control.

The Federal Reserve is cognizant of the special problems that high interest rates have created in mortgage, housing, and other markets. In designing the Special Credit Restraint Program announced March 14, the Board asked commercial banks to give priority to maintaining a reasonable flow of funds to small businesses, such as local builders, and to serving the liquidity needs of thrift institutions. The special deposit requirements applying to increases in consumer credit specifically excluded mortgage credit for the purchase or improvement of homes. Also, the requirements imposed on any further expansion in the assets of money market mutual funds should leave more funds available in local markets to help meet local credit demands, including those associated with housing.

Furthermore, I have urged the banking community to make special efforts to accommodate the appropriate credit needs of small businesses, homebuilders, consumers, and farmers. Also, the Federal Reserve has long supported changes in regulatory processes that will make credit more readily available for housing during periods of high interest rates. Measures enhancing the ability of thrift institutions to compete for funds, such as the recently enacted legislation calling for deregulation of depository institutions (P.L. 96-221), are an important contribution in this regard.

Given the short-term outlook for depressed real estate activity, the Congress itself may wish to consider special programs to aid housing through this difficult period. The benefits expected

JAMES H. QUILLEN
FIRST DISTRICT, TENNESSEE

COMMITTEES:
RULES
RANKING MEMBER

Action assigned Mr. Kichline

WASHINGTON OFFICE:
ROOM 102
CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515

DISTRICT OFFICE:
ROOM 157—FIRST FLOOR
FEDERAL (POST OFFICE) BUILDING
KINGSPORT, TENNESSEE 37662

Congress of the United States
House of Representatives

Washington, D.C. 20515

April 24, 1980

#169

12
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Dear Mr. Chairman:

Accompanying this letter are several messages from homebuilders and frustrated potential homebuyers in Tennessee, who are unable to do business because of the high interest rates that now are in effect across the country.

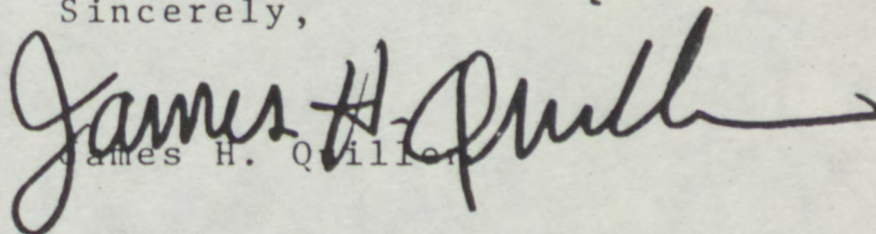
It might be beneficial for you to see first-hand some of the sentiments that prevail among the public, and read how these people feel about the policies of the Federal Reserve Board and their effects on the average small businessman and the average middle-income American worker.

Like these writers, I would prefer to see these timber "letters" used for what they were intended -- building homes and workplaces for enterprising Americans. The fact that they are being used in this way is a symptom of the economic disease that haunts us.

The current asinine policy of high interest is contributing to the disease of inflation, not its cure. One does not control inflation by further increasing prices, and that is what high interest rates do. The time has come to call a halt to this backward thinking. You are on the verge of sending the economy into a death spiral from which it may take years for us to recover, even after you and your board members are replaced by more competent individuals.

I urge you to now reassess these economically suicidal high interest policies, and turn them around. Lower interest rates will encourage investment, construction, expansion, and productivity. American workers can produce this country out of any economic woe that befalls us. All you have to do is give them the chance.

Sincerely,


James H. Quillen

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

May 5, 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:

I am writing with regard to your letter of April 21, in which you expressed concerns regarding a proposed staff interpretation of Regulation Z of the Truth in Lending Act. That interpretation, FC-0171, discusses the disclosures required in connection with so-called "loophole" certificates, which involve the loan by an institution of a portion of the minimum deposit required for money market certificates. You question the need for Truth in Lending disclosures under these circumstances.

As a general rule, the Truth in Lending Act and Regulation Z require disclosures in any consumer credit transaction. You state that the Board has authority to exempt certain types of credit transactions, such as life insurance policy loans, from Truth in Lending disclosures. We would like to emphasize that the treatment of policy loans is based on unofficial staff letters and does not represent an exemption from the regulation. The staff concluded that in these transactions no credit was extended, because the policy owner was simply drawing on the accrued cash value of the policy with no contractual obligation to repay that amount to the insurance company. In loophole transactions, on the other hand, the customer incurs a debt and enters into a contractual obligation to repay that amount. Under these circumstances, it would appear that credit has been extended.

Under Section 105 of the Act, the Board may except from the regulation any class of credit transactions if the Board finds that an exception is "necessary or proper to effectuate the purposes of this title, to prevent circumvention or evasion thereof, or to facilitate compliance." While the Board has never formally considered an exemption for this type of transaction, it appears that providing disclosures for these transactions does help to carry out the essential credit-shopping function of Truth in Lending. As an alternative to entering into the "loophole"

The Honorable Benjamin S. Rosenthal
Page Two

transaction with the financial institution, the customer could look elsewhere to obtain the funds necessary to make up the \$10,000 minimum amount for the certificate. Without disclosure of the cost or terms of the loan offered by the issuing institution under the loophole plan, a customer wishing to compare credit sources would be deprived of essential information necessary for that purpose. In this context, the Truth in Lending disclosures for the type of transaction described in the staff interpretation would be of assistance in carrying out the purposes of the Truth in Lending Act.

As you know, a request for public comment was received regarding FC-0171, thus suspending the effective date of the interpretation. Your letter will be treated as a public comment and fully considered, along with all other comments received on the interpretation. We appreciate having your views on this matter and will let you know as soon as any further action is taken.

Sincerely,

S/ Paul

MAS:JPB:pjt (#V-159)
bcc: Margaret Stewart
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

MAJORITY—(202) 225-4407

#159

April 21, 1980

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

Dear Mr. Chairman:

I am writing to express my views on staff interpretation FC-0171 of Regulation Z, concerning the cost disclosures required in connection with the loan portion of "loophole" money market certificates. The essence of my comment is that Regulation Z disclosures for the loan portion of a loophole account serve no useful function; on the contrary, they may confuse bank customers and may add unnecessarily to the regulatory burden on banks. I would appreciate having the Board's reasoning behind the disclosure requirements that have been imposed.

In a loophole account, the customer is not seeking a loan. He is not shopping for alternative sources of credit. The entire transaction, of which the loan is only a part, has as its purpose earning a return on a certain sum of the customer's money. The customer is interested in, and should receive meaningful disclosures about, the net return to him on his deposit balance from the complete transaction viewed as a whole.

To isolate and require separate disclosures about the loan portion of this transaction is to draw attention to a component of the entire transaction that has no meaning by itself. For this reason, such disclosures appear to serve no useful function. Instead, they may confuse bank customers unnecessarily. In addition, the additional burden they impose on banks may discourage some banks from offering such accounts, in which case the disclosure requirement will have worked to the disadvantage of the people it is meant to help.

In light of the need for regulatory simplification and avoidance of unnecessary regulatory burdens, I would suggest that the Board, in reviewing the staff interpretation in question, needs to determine

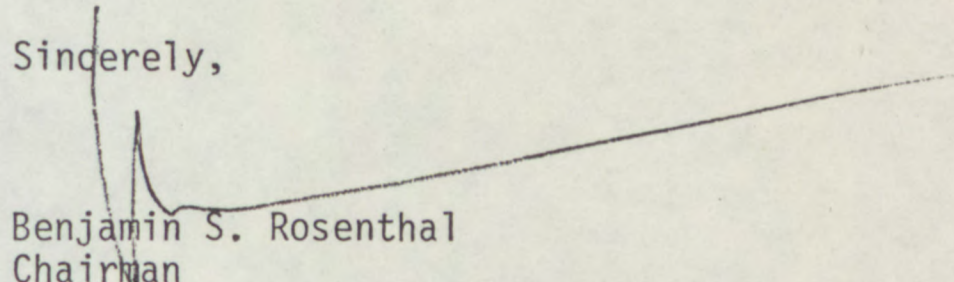
- a. what purpose is served from the point of view of the deposit customers in requiring separate cost disclosures in the loan portion of a loophole account,

April 21, 1980

- b. whether the Truth In Lending Act imposes an absolute requirement for disclosures in such transactions, without room for Board discretion, or whether the Board believes it has the authority under the Act to exempt those transactions from truth in lending disclosures if it finds an exemption to be justified (as I believe the Board has previously done for certain other specialized loan transactions, such as life insurance policy loans), and
- c. whether requiring truth in lending disclosures in such cases is consistent with or envisioned by the purpose of the Congress when it enacted Truth In Lending.

I would appreciate having the Board's reaction to this viewpoint. I also request that this letter be placed in the public comment file on interpretation FC-0171.

Sincerely,



Benjamin S. Rosenthal
Chairman

BSR:tb

May 7, 1980

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

Dear Senator McGovern:

I am writing in response to your letter of April 28, concerning some difficulties cited by Mr. Herman Lerdal in obtaining a credit line under the Federal Reserve's Temporary Seasonal Credit Program. We have contacted the Minneapolis Reserve Bank leading officer on this matter; he informs us that a \$2.5 million credit line has now been established for Mr. Lerdal's bank (The First National Bank of Mitchell, South Dakota). The lending officer will discuss the credit line arrangement with Mr. Lerdal when he returns to the bank later this week.

Sincerely,

S/Paul A. Volcker

JS:PMK:pjt (#V-179)
bcc: Mr. Spitzer
Mr. Keir
Mrs. Mallardi (2)

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ROGER W. JEPSEN, IOWA

United States Senate

COMMITTEE ON
AGRICULTURE, NUTRITION, AND FORESTRY
WASHINGTON, D.C. 20510

April 28, 1980

#179

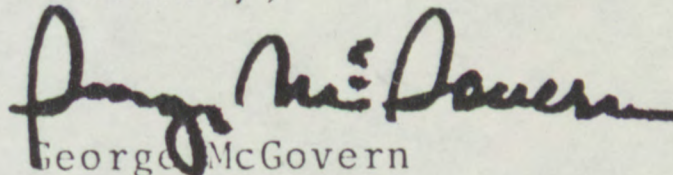
Gentlemen:

I am enclosing a letter and other documentation from Mr. Herman Lerdal, President of the First National Bank, Mitchell, South Dakota.

I have had a number of similar communications from banks in South Dakota about the problems outlined in Mr. Lerdal's letter. I would appreciate being advised on the difficulties cited by Mr. Lerdal.

With every good wish, I am

Sincerely,


George McGovern

Office of the Chairman
Board of Governors of the
Federal Reserve System
Washington, D.C. 20551

Enclosure



FIRST
NATIONAL
BANK

Serving the Mitchell Community since 1886

Mitchell South Dakota
57301
(605) 996-6611

April 22, 1980

Senator George McGovern
2313 Dirksen Senate Office Bldg.
Washington, D. C. 20515

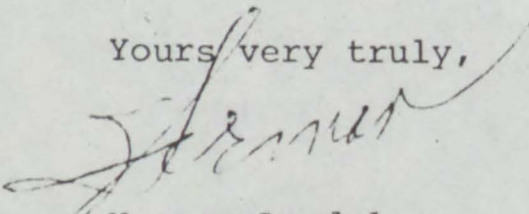
Dear George,

The combination of low prices, high interest rates and short supply of money is causing problems for rural South Dakotans both real and anticipated. I think the constant bombardment through the press of the economic factors that we are facing nationally coupled with the real factors which we face has meant that there has been more than an ordinary slowing down on the part of spending and investing on the part of rural South Dakotans.

This past week, a great deal, at least State news, was devoted to news that the Federal Reserve was making money available in large quantities and at low interest rates has really caused some false hope for our farm population. Enclosed you will find copies of the material that I sent to Mr. Schultz of the Federal Reserve Board, as well as Mr. Mark Willes, President of the Ninth Federal Reserve District. I have repeatedly contacted Minneapolis Federal Reserve with regard to using the seasonal borrowing privilege. First Mitchell National Bank serves more than farm people and, therefore, we do not have the fluctuation which are necessary to qualify under the borrowing privilege segment of the regulations. I am not certain how banks in South Dakota could qualify under the regulations that now exist. It is my feeling that the regulations that had been written for all of the Federal Reserve Banks need modification at least for the ninth district and its my belief that there are other districts that are also dependent upon agriculture that could use similar type amendments to the regulation.

We, at First Mitchell National, have always felt that we would attempt to provide credit to worthy borrowers. We cannot do that if we do not have the funds to lend. Our reserves at the Minneapolis Federal Reserve Bank average more than two million dollars daily. The opportunity to utilize, at least part of these reserves in the Mitchell community, would be of a great benefit, particularly at this time.

Yours very truly,


Herman Lerdal
President

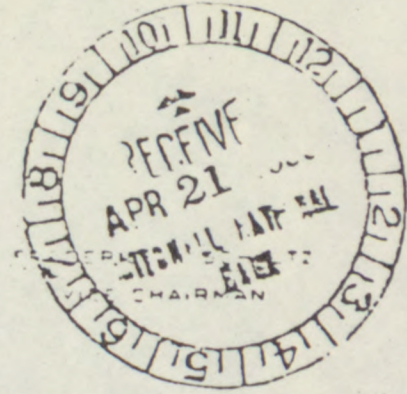
HL/kc

Enclosures

We care for you!



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



April 16, 1980

TO: Chief Executive Officers of All Commercial Banks

RE: Special Credit Restraint Program

As you know in meeting the guidelines for the growth in total bank credit of 6-9 per cent under the Special Credit Restraint Program banks are encouraged to avoid the financing of corporate takeovers or mergers and the retirement of corporate stock except in those limited circumstances where such a loan may be justified in terms of production or economic efficiency commensurate with the size of the loan. I wish to stress that the Board considers this policy to be applicable to the financing of formations of bank holding companies and acquisitions of bank holding companies, banks and nonbank subsidiaries. Accordingly, banks should take special measures to avoid loans for such purposes unless they meet the production or economic efficiency criteria.

The Board expects that banks will carefully review and modify their lending policies to be consistent with the policies expressed in this letter and will examine their outstanding nonbinding commitments covering acquisition financing with a view to reducing or terminating such commitments consistent with the purposes of the Special Credit Restraint Program.

I expect and appreciate your cooperation in this and all other aspects of the Board's and the Administration's anti-inflation program.

Sincerely,

Frederick H. Schultz

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Citation Information

Document Type: Newspaper article

Number of Pages Removed: 1

Citations: Montgomery, Andy. "Fed Action Eases Farm Loan Crisis." 1980.



Serving the Mitchell Community since 1886

Mitchell, South Dakota
57301
(605) 996-6611

April 22, 1980

Frederick H. Schultz
Vice President
Federal Reserve Board
Federal Reserve Bank
Washington, D. C. 20551

Dear Mr. Schultz,

I'm enclosing with this letter a copy of your letter of April 16th addressed to the Chief Executive Officer of All Commercial Banks and secondly, a copy of a front page story from the Sioux City Journal, Sioux City, Iowa of Friday, April 18, 1980.

I have, this morning, visited with John Danforth, Chief Economist for the ninth Federal Reserve District in Minneapolis, as well as Mr. Ray Heulet, Federal Reserve Bank in Minneapolis. The purpose of my call to these men was to seek an explanation of the "multitude of press releases" relative to "cheap money" for farmers that had been on our radio and t.v. stations over the week-end. Mr. Danforth and Mr. Heulet have both informed me that the press releases misquoted Mr. Danforth. Mr. Heulet informed me that the rules and regulations for a farm oriented bank, like First Mitchell National Bank, were still in effect with no changes. I visited at the Federal Reserve Bank in Minneapolis in February of this year and had a most pleasant visit with the principals of the bank. The purpose of my call at that time was to make arrangements for my credit needs for the summer. The officers who I visited with reviewed the past history of the bank as well as my future needs and we found that the First Mitchell National Bank did not meet the requirements so that I could borrow under the seasonal borrowing privilege. A good share of our loans are to farmers; however, we also attempt to serve the small businessman needs as well as putting funds into installment loans and housing. The fact that we do assist segments of the borrowing community other than farmers, meant that we did not meet the criteria as set forth for use of the discount window; we do not have peaks and valleys in our loan account. The men at the bank did give me suggestions so that I might go to the Federal Reserve for assistance for short-term liquidity, but it was deemed impractical and impossible to get funds for the seasonal needs of our farm borrowers. I left the Fed and visited with officers of the Northwestern National Bank of Minneapolis and found that with tight money their requirements were quite rigid and were at rates that our farm borrowers would not pay. This paragraph gives you a bit of background with regard to the attempts that I have made to secure loan funds for the borrowing customers of our bank.

Mr. Frederick H. Schultz

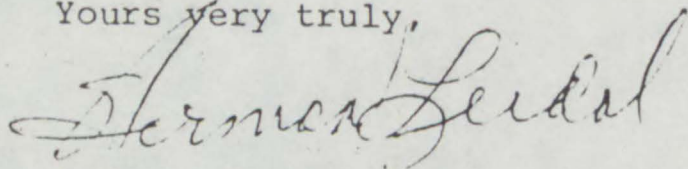
April 22, 1980

Page 2

When one of our larger livestock dealers brought me the Sioux City paper indicating that funds were available through the Federal Reserve Banks and the same mail brought the "general mailing" letter over your signature with regard to "Special Credit Restraint Program", I felt although there was a conflict in the policy of the Federal Reserve. I would not mind the conflict if the regulations were such that my agricultural loan officers could qualify our borrowers for their needed funds. It is my hope that the Federal Reserve will review its present policies and consider establishing new policies which could make "going to the window" a practical manner for many of us whose customers need operating money.

There are a multitude of factors that have created the credit crunch for agriculture and I'm certain that you are aware of all of them. The purpose of my letter is to express the quandary which I feel, as manager of First Mitchell National Bank. It is my hope that those Fed Districts that are highly dependent upon on an agricultural economic base should receive considerations that are necessary to maintain an adequate supply of funds for a sound agricultural business economy. Can the regulations be amended so those of us who need funds for our customers can qualify as borrowers? My reserves at the bank average about two million dollars. I would like the opportunity to provide some benefits to my customers through these "captive deposits".

Yours very truly,



Herman Lerdal
President

HL/kc

Enclosures

cc: Mark Willes, President
Federal Reserve Bank
Minneapolis, MN 55480

May 7, 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 April 29 inviting me to testify on H.R. 7001, the "Federal Reserve Modernization Act."

I am looking forward to appearing before your Subcommittee on May 15 at 10:30 a.m.

Sincerely,

S/ Paul

CO:pjt (4V-186)
bcc: Mr. Axilrod
Mr. Petersen
Mrs. Mallardi (2)

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U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

NINETY-SIXTH CONGRESS
2129 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515

April 29, 1980

J. WILLIAM STANTON, OHIO
CHALMERS P. WYLIE, OHIO
STEWART B. MCKINNEY, CONN.
GEORGE HANSEN, IDAHO
HENRY J. HYDE, ILL.
RICHARD KELLY, FLA.
JIM LEACH, IOWA
THOMAS B. EVANS, JR., DEL.
S. WILLIAM GREEN, N.Y.
RON PAUL, TEX.
ED BETHUNE, ARK.
NORMAN D. SHUMWAY, CALIF.
CARROLL A. CAMPBELL, JR., S.C.
DON RITTER, PA.
JON HINSON, MISS.

225-4247

H-186

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
1980 MAY - 2 PM / 59

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

Dear Mr. Chairman:

The Subcommittee is planning to hold hearings on H.R. 7001, a bill designed to restructure the Federal Reserve System. The dates scheduled for hearings are May 15, 22, and 29, 1980.

As author of H.R. 7001, Congressman Henry Reuss has already asked for your written comments on the bill. In addition, however, we would be interested in having you testify before the Subcommittee on May 15 at 10:00 a.m. We have asked the Presidents of four Federal Reserve District Banks to testify on May 22, and the representatives of several trade associations to testify on May 29.

We look forward to hearing your views on the various provisions of H.R. 7001.

Sincerely,

Parren J. Mitchell
Parren J. Mitchell
Chairman, Subcommittee on
Domestic Monetary Policy

GAYLORD NELSON, WIS., CHAIRMAN

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United States Senate

SELECT COMMITTEE ON SMALL BUSINESS
WASHINGTON, D.C. 20510

May 7, 1980

#199

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
1980 MAY -8 PM 11:26
OFFICE OF THE CHAIRMAN

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

Dear Mr. Volcker:

May 11-17 is Small Business Week. On May 12, 1980 the Small Business Administration will be sponsoring a panel on "Small Business and the Innovation-Productivity Crisis. The Vital Partners: Inventors; Entrepreneurs; Venture Capitalists."

The panel will provide an opportunity for small business and government officials to share information, mutual concerns and ideas on this subject. The panel discussion will be held from 2:30-5:00 p.m., in the Presidential Room of the Capital Hilton Hotel.

In my judgement, it is of utmost importance that you or a key representative attend this forum. As you know, innovation and productivity are highly important issues in the Congress and the Administration. The Senate Small Business Committee held hearings and I have introduced legislation on these subjects.

In addition to my responsibilities as Chairman of the Committee, the Senate Majority Leader, Robert Byrd, has asked me to chair a small business task force of ten Senators which is to a large degree responsible for overseeing implementation of the recommendations of the White House Conference on Small Business -- one of which is innovation.

Establishing a dialogue is essential to implementation and government-small business cooperation. Therefore, in my view, the discussion on May 12 is an event of high priority. Participation by your office ought to receive very serious consideration. The panel discussion will be noted in the Congressional Record and will be reported in a Committee Print.

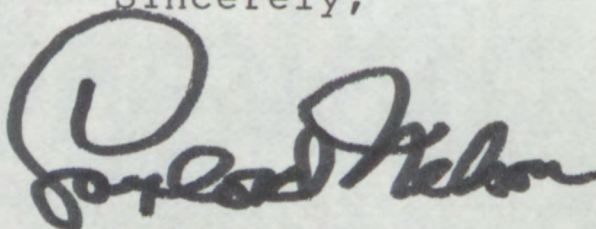
This event will give you an opportunity to learn about the capabilities, problems, and issues faced by small business, and, in turn, will inform small business about the assistance your office can provide.

Research will send representation
APC
5/9/80

May 7, 1980
Page 2

Could you inform Jody Anderson at 653-6072, at the Office of Advocacy, of the Small Business Administration, who will be attending from your office?

Sincerely,

A handwritten signature in dark ink, appearing to read "Gaylord Nelson". The signature is written in a cursive, flowing style with a large initial "G".

GAYLORD NELSON
Chairman

GN/wbc



FIRST DISTRICT
MASSACHUSETTS

SILVIO O. CONTE
HOUSE OF REPRESENTATIVES
WASHINGTON

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1980 MAY 12 AM 9:34

RECEIVED
OFFICE OF THE CHAIRMAN

8 May 1980

Dear Chairman Volcker:

I want to reconfirm your appearance as a speaker for the "Issues Symposium" I am hosting during the period 19-21 May 1980. I am delighted that you have accepted my invitation to speak to this important group of community and business leaders from my congressional district.

As we discussed on the phone, I suggest that you talk to us for ten to fifteen minutes about present Federal Reserve System policy and future actions which might be taken to adjust the economy. The last part of your presentation will be taken up with questions from the audience.

My staff has been in contact with yours concerning the details of this appearance. Should you need further information, please contact me.

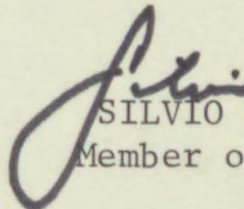
I am enclosing a copy of the most current schedule of events for your information. This schedule shows the times and location of your presentation.

I am hosting a reception for this group on Tuesday evening, 20 May 1980 at 6:00 PM to 8:00 PM. I want to extend my warmest invitation to you to join us.

I am anxiously looking forward to this exchange of ideas with you.

With my very best wishes, I am

Cordially,


SILVIO O. CONTE
Member of Congress

SOC:cw
Encl

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

*g
group
diary
Willard
Boothby*

SILVIO O. CONTE'S
SYMPOSIUM FOR
WESTERN MASSACHUSETTS MAYORS, SELECTMEN, CHAMBERS AND BUSINESSMEN
May 19-21, 1980

Monday, 19 May 1980

- Morning : Arrive Washington, D.C.--check into hotels
- Afternoon :
- 1:00-2:00 : Registration
- 2:00-2:30 : John Sawhill, Deputy Secretary, Department of Energy
Room 2359 Rayburn House Office Building (RHOB)
- 2:30-3:00 : Paul Volcker, Chairman, Federal Reserve Board
Room 2359 RHOB
- 3:00-3:30 : Bob Russell, Deputy Director, Council of Economic
Advisers Room 2359 RHOB
- 3:30-4:00 : State Department Representative. Room 2359 RHOB
- 4:00-4:30 : G. William Miller, Secretary, U.S. Treasury Department
Room 2359 RHOB
- 4:30-5:00 : Bill Cable, House of Representatives Liaison, White House
Room 2359 RHOB
- Evening : Events prepared by the Chambers and individual parties.

Tuesday, 20 May 1980

- Morning :
- 8:00-9:00 : Breakfast Meeting (coffee and donuts). Congressman Silvio O.
Conte, Ranking Minority Member, House Appropriations Committee.
Congressman Edward P. Boland, Chairman, HUD-Independent Agencies
Subcommittee of the House Appropriations Committee. Room 2359
- 9:00-10:00 : Lieutenant General John S. Pustay, Assistant to Chairman of
Joint Chiefs of Staff. Dr. Walter LeBerge, Deputy Undersecretary
of Defense for Research and Development. Room 2359 RHOB

- 10:00-10:30: Mortimer Downing, Assistant Secretary for Budget and Program, Department of Transportation. Rm 2359 RHOB
- BREAK
- 11:00-11:30: Moon Landrieu, Secretary, Housing and Urban Development. Room 2359 RHOB
- 11:30-12:00: Vernon Weaver, Administrator, Small Business Administration. Room 2359 RHOB
- 12:00-1:30 : Congressman Michel, Minority Whip, Republican Leadership Room 2172 RHOB
- 1:30-2:00 : Congressman Conable, Senior Ranking Minority Member, Ways and Means Committee. Room 2359 RHOB
- 2:00-2:30 : Congressman Erlenborn, 2nd Ranking Minority Member, House Education and Labor Committee. Room 2359 RHOB
- 2:30-4:00 : Tour of Capitol
- 4:00-4:30 : Barbara Blum, Deputy Administrator, Environmental Protection Agency. Room: 2359 RHOB
- 4:30-5:00 : Michael Pertschuk, Chairman, Federal Trade Commission. Room: Room 2359 RHOB
- Evening :
- 6:00-8:00 : Reception hosted by Congressman Silvio O. Conte for the Speaker, Senators, and select Members of the Massachusetts Congressional Delegation, and others. (Cocktails and Hors d'Oeuvres) Room 2359 RHOB

Wednesday, 21 May 1980

Morning :

Free to sightsee and meet with others as the representatives desire-- Congressman Conte's office will assist in arrangements.

Afternoon :

Depart

SYMPOSIUM

WESTERN MASSACHUSETTS MAYORS, SELECTMEN, CHAMBERS
AND BUSINESSMEN

Monday, 19 May 1980

Morning : Arrive Washington -- check into hotels.

Afternoon:

2:00-2:30: Opening Remarks of Honorable Silvio O. Conte.
Presentation by Northeast-Midwest Congressional
Coalition. Room 2359

2:30-3:00: Paul Volcker, Chairman, Federal Reserve Board,
Room 2359.

3:00-3:30: Bob Russell, Deputy Director, Council of Economic
Advisors, Room 2359.

3:30-4:00: John Sawhill, Deputy Secretary, Department of Energy,
Room 2359.

4:00-4:30: G. William Miller, Secretary, U.S. Treasury Depart-
ment, Room 2359.

4:30-5:00:

Evening : FREE

Tuesday, 20, May, 1980

Morning :

8:00-9:00: Breakfast: Congressman Silvio O. Conte, Ranking
Minority Member, House Appropriations Committee.
Congressman Edward P. Boland, Chairman, HUD-Independent
Agencies Subcommittee, House Appropriations Committee.
Room 2359.

9:00-10:00: Lieutenant General John S. Pustay, Assistant to
Chairman of Joint Chiefs of Staff. Room 2359

10:00-10:30: Bill Beckham, Deputy Secretary, Department of
Transportation. Room 2359

BREAK

11:00-11:30: Moon Landrieu, Secretary, Housing and Urban Development
Room 2359.

11:30-12:00: Vernon Weaver, Administrator, Small Business Administra-
tion. Room 2359.

- 12:00-1:30: Luncheon speaker, Congressman Bob Michel, Minority Whip, Republican Leadership. Room 2172
- 1:30-2:00: Congressman Barber Conable, Senior Ranking Minority Member, Ways and Means Committee. Room 2359
- 2:00-2:30: Congressman John Erlenborn, Ranking Minority, Education & Labor Committee. Room 2359
- 2:30-4:00: Tour of Capitol - Picture on steps of Capitol.
- 4:00-4:30: Barbara Blum, Deputy Administrator, Environmental Protection Administration. Room 2359
- 4:30-5:00: Michael Pertschuk, Chairman, Federal Trade Commission. Room 2359

Evening :

- 5:30-8:00: Reception by Congressman Silvio O. Conte for the Speaker, Senators, select members of the Massachusetts Congressional Delegation, and symposium participants.

Wednesday, 21 May 1980

Morning :

Free to sightsee and meet with others as the representatives desire -- Congressman Conte's office will assist in arrangements.

Afternoon:

DEPART.

GREAT HOLYOKE CHAMBER OF COMMERCE

WASHINGTON TRIP

FLIGHT &
ROOM RESERVATIONS

John B. Shea, Vice President
Third National Bank
341 Appleton Street
Holyoke, MA 01040

William J. Crean, Adm. Asst.
Holyoke Water Power
1 Canal Street
Holyoke, MA 01040

Steven C. Doychak, Exec. Vice Pres.
Greater Holyoke Chamber of Commerce
69 Suffolk Street
Holyoke, MA 01040

Owen F. Connolly, Administrator
Providence Hospital
1233 Main Street
Holyoke, MA 01040

Robert Gilbert, Vice President
Howd Insurance Agency
136 Suffolk Street
Holyoke, MA 01040

Guy Gaulin, President
Hitchcock Press, Inc.
78 Hitchcock Street
Holyoke, MA 01040

John V. Czelusniak, Sr., President
Czelusniak Funeral Home
145 Maple Street
Holyoke, MA 01040

Charles F. Murphy, CPA
56 Suffolk Street
Holyoke, MA 01040

Jess Collen, Proprietor
Woodlawn Pharmacy, Inc.
501 Newton Street
South Hadley, MA 01075

Mrs. Jess Collen
Woodlawn Pharmacy, Inc.
501 Newton Street
South Hadley, MA 01075

Atty. Richard Courchesne, President
Olde Holyoke Development Corp.
42 North East Street
Holyoke, MA 01040

Donald Breen, Partner
Breen Oil Company
54 Canal Street
Holyoke, MA 01040

Alexander J. Pijar, President
Pijar Insurance Agency, Inc.
300 High Street
Holyoke, MA 01040

Mrs. Alexander J. Pijar
66 Wedgewood Terrace
Holyoke, MA 01040

Nancy Prajzner, City Editor
Transcript-Telegram
120 Whiting Farms Road
Holyoke, MA 01040

Betty Sikes, Acting Manager
Westfield Chamber of Commerce
166 Elm Street
Westfield, MA 01085

Edward P. White
15 Bittersweet Lane
Granby, MA 01033

Mrs. Edward P. White
15 Bittersweet Lane
Granby, MA 01033

Wayne T. Boulais, Elec. Engineer
Holyoke Water Power
1 Canal Street
Holyoke, MA 01040

Richard Bonnoville, Pres./Treas.
All Star Dairy Foods, Inc.
456 Newton Street
South Hadley, MA 01075

Norma Ragnall, Public Rel. Officer
Vanguard Savings Bank
143 Chestnut Street
Holyoke, MA 01040

Elizabeth O'Connell, Pub. Aff. O.
Westover Air Force Base
439 C56/PA
Westover AFB, MA 01022

Richard Bedard, Vice President
Gordon Ainsworth Association
20 Sugarloaf Street
South Deerfield, MA 01373

Donald Saint-Pierre, Exec. V. Pres.
Franklin Chamber of Commerce
20 Federal Street
Greenfield, MA 01301

David Curry, President
Pioneer Valley Bank
1 Federal Street
Greenfield, MA 01301

Peter Elliott, Pres./Mgr.
Dumont Corporation
289 Wells Street
Greenfield, MA 01301

Charles Carter, Dean of Adm.
Greenfield Community College
1 College Drive
Greenfield, MA 01301

William Blanker, President
Esleek Manufacturing Company
Canal Street
Turners Falls, MA 01376

Nancy Goodwin, President
Greenfield Community College
1 College Drive
Greenfield, MA 01301

Walter Gutkowski, Proprietor
Westfield Welding
6 Clinton Avenue
Westfield, MA 01085

Mrs. Walter Gutkowski
Westfield Welding
6 Clinton Avenue
Westfield, MA 01085

John Glaze, Proprietor
Decorated Metals
1 Arch Road
Westfield, MA 01085

William Chevalier, Sales Mgr.
Decorated Metals
1 Arch Road
Westfield, MA 01085

Thomas Goodwin, Proprietor
Tire Outlet
Mainline Drive
Westfield, MA 01085

E. Edmund Wallace, Assoc. Publisher
Wallace Penny Saver/Westfield
Evening News
64 School Street
Westfield, MA 01085

James Brennan, Mgr. Residence
New England Telephone Company
2231 Northampton Street
Holyoke, MA 01040

Roger Brunelle, Exec. Director
Riverside Industries
1 Cottage Street
Easthampton, MA 01027

Lewis Knob, General Manager
J.P. Stevens Company, Inc.
26 Payson Avenue
Easthampton, MA 01027
(No Flight)

Burton Burger, Proprietor
Campus Shop
21 College Street
South Hadley, MA 01075
(No Flight)

Mrs. Dorton Burger
24 Hampshire Street
Fairview, MA
(No Flight)

WITHOUT FLIGHT OR ROOM RESERVATIONS

Mrs. Roy A. Scott
Mr. Roy A. Scott, President/Chief Executive Officer
Community Savings Bank
200 Main Street
Holyoke, MA 01040

Mr. Douglas Engbretson
Mrs. Douglas Engbretson, Administrative Secretary
Community Savings Bank
200 Main Street
Holyoke, MA 01040

Mr. Benjamin F. Perkins, Vice President
Wyatt, Inc.
1329-A Northampton Street
Holyoke, MA 01040

Alderman William McCarthy, Consultant
9 View Street
Holyoke, MA 01040

CENTRAL BERKSHIRE CHAMBER

Mr. Dale Vander Voort
President
Arnold Print Works

Mr. Richard Quinn

Mr. Ronald Straube
Director, Industrial Relations
Arnold Print Works

Mr. Bart Barry
Area Manager
Western Massachusetts Electric Co.

Mr. E. John Reinke
Vice President & Comptroller
Arnold Print Works

Dr. Jonathan Daube
President
Berkshire Community College

Mr. Alan Narden
Executive Director
Berkshire County Development
Commission

Senator Jack Fitzpatrick
Massachusetts State Senator
Berkshire County

Mr. Mickey Callahan
President
Callahan Outdoor Advertising

Mrs. Jane Fitzpatrick
Owner
Red Lion Inn & Country Curtains

Mrs. Esther Quinn
Vice President
Robertson & Quinn Real Estate

Mr. Robert Diodate
Director, Industrial Relations
Sprague Electric Company

Thelma Moss

CENTRAL BERKSHIRE CHAMBER

Mr. Everett Stewart
President
McKinsey & Company

Mr. Jack Mullen
President
Mullen-Mayflower

Mr. Richard Jackson, Sr.
Chairman of Board
WBEC

Mr. Glenn Harvey
President
Central Berkshire Chamber
of Commerce

arrive Sunday

Mrs. Margaret Kuntz

Ms. Debbie Donovan
Owner

Mr. Donald Kuntz
Executive Vice President
& Treasurer
Berkshire County Savings Bank

Mr. Del Virgilio
President
Virgilio Construction Co.

Mr. Leo Mahoney
President
McCormack and Tool

Ms. Janet Goldberg
Commissioner
Office of Community & Economic
Development

Mr. Donald Graves
Manager, Public Relations
& Utility Operations
Berkshire Gas Company

Mr. Gary
Vice President
First Agriculture Bank

Mr. Richard Reinhart
Manager, Public Relations
& Utility Operations
General Electric Company

NORTHAMPTON

Mr. Robert Saner
President
Kollmorgen

Mrs. Robert Saner

Mr. Peter De Rose
Co-Owner
Daily Hampshire Gazette

Mr. Bill Gardiner
Physical Plant
Smith College

Mr. Patrick Goggins
Vice President
Woodward & Gunnell

Mr. Richard Covell
President
Northampton Institute for
Savings

Mr. S. Russel Kenzman
President
Nonotuck Savings

Mr. Charles Lyons
President
Frances P. Lyons Insurance Co.

Mr. Walter Murphy
Marketing Director
Redevelopment Authority

Mr. Charles Gaudry
Personnel Director
VISTRON

Mr. James Tobey
President
Northampton Cooperative Bank

Mr. Robert Patenaude
President
Florence Savings Bank

Mr. Paul Walker, Executive Director
Greater Northampton Chamber of Commerce

Follow-up letter
30017C
for those who haven't
paid reg. fee
Cat 1604,151,30017

~~Mr. E. John Reinke
Vice Pres./Controller
Arnold Print Works, Inc.
Columbia Street
Adams, Massachusetts 01220~~

Halyok

~~Mr. Dale G. Vander Voort
President
Arnold Print Works, Inc.
Adams, Massachusetts 01220~~

Halyok

~~Mr. Ronald M. Straube
Personnel Manager
Arnold Print Works
Adams, Massachusetts 01220~~

Halyok

①

Mr. William Hefferman
President
A-B Dick Products Company
59 Interstate Drive
West Springfield, Massachusetts 01089

②

Mr. David Townsend
Traillease Corporation
Box 386
Agawam, Massachusetts 01001

③

Mr. William Keeley
Keeley International Trucks, Inc.
268 Park Street
West Springfield, Massachusetts 01089

④

Mr. Robert Clark
Tri-County Contractors' Supply Co.
149 Wayside Avenue
West Springfield, Massachusetts 01089

⑤

Mr. Ted Reilly
Alco Equipment Company
32 Century
Agawam, Massachusetts 01001

⑥

Mr. Robert W. Townsend
President
Alco Equipment, Inc.
P. O. Box 386
Agawam, Massachusetts 01001

⑦

Mr. Bruce Crain
Buxton, Inc.
265 Main Street
Agawam, Massachusetts 01001

③ Mr. Benjamin B. Winer
President,
Hartwin Motor Sales, Inc.
39 Beacon Street
Greenfield, Massachusetts 01301

~~Mr. Peter Ducharsne
EBTEC Corporation
120 Shoemaker Lane
Agawam, Massachusetts 01001~~

Cancelled

~~Mr. Ronald P. Lalli
Executive V.P. Treasurer
EBTEC Corp.
Box 465
Agawam, Massachusetts 01001~~

Cancelled

⑨ Mr. Allan T. Berger
Vice President-Operations
EBTEC Corporation
120 Shoemaker Lane Box 465
Agawam, Massachusetts 01001

⑩ Mr. Homer G. Perkins
Chairman of the Board
Stanley Home Products, Inc.
Westfield, Massachusetts 01085

⑪ Stephen C. Reville, Esquire
Legal Department
Stanley Home Products, Inc.
Westfield, Massachusetts 01085

~~Mr. Laurence S. Derosé
EBTEC Corp.
P.O. Box 465
Agawam, Massachusetts 01001~~

Cancelled

⑫ Dr. Eugene McMurtry
Director
Cooperative Extension Service
University of Massachusetts
Amherst, Massachusetts 01003

⑬ Ms. Cheryl A. Wiles
Sales Manager
Mohawk Orchards, Inc.
Shelburne Falls, MA 01370

⑭ Mr. Marvin Peck
Valley View Orchards, Inc.
Peckville Road
Shelburne, MA 01370

⑮ Mr. George Barker, Jr.
[REDACTED]
[REDACTED]

⑯ Mr. Walter Melnick
Regional Administrator
Berkshire Coop. Extension Service
1499 Memorial Drive
West Springfield, MA 01089

⑰ Fred Ruteberg pt
Stoughton

⑱ Joseph F. Wenczyk pt

⑲ Brian A. Slozier pt

May 9, 1980

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

Dear Chairman Bentsen:

In accordance with arrangements that have been made with your Committee, enclosed is a staff report covering financial developments in the first quarter of 1980.

Sincerely,

S/Paul A. Volcker

Enclosure

MS:vcd

cc: Joint Economic Committee (along with 30 copies of ltr. & rept.)
Vice Chairman Bolling
Elinor Bachrach, Tommy Brooks, Steve Roberts (Senate Bkg.)
Paul Nelson, Graham Northup (House Bkg.)
Bob Weintraub (Domestic Monetary Policy Subcmte. of House Bkg.)
John Farmer (Vice Pres. Mondale's office)
Mike Hugo (House Approps.)

bcc: Ms Mallardi (2)

May 9, 1960

The Honorable Frank Church
United States Senate
Washington, D. C. 20510

Dear Senator Church:

Thank you for your letter of April 28 inquiring about the eligibility criteria for the Temporary Seasonal Credit Program.

The Temporary Seasonal Credit Program is designed to assure that smaller banks without access to national money markets can obtain the necessary funds to finance the seasonal needs of their regular small business and agricultural customers. Member and nonmember banks with less than \$100 million in deposits that have a loan-deposit ratio of 65 percent or more are generally eligible for the program. For these banks, the Federal Reserve is prepared to establish a credit line equal to 5 percent of the bank's total loans outstanding at the time of application. A bank may draw upon its lines to finance 70 percent of the increase in loans above the level prevailing at the time of application. Borrowing banks are expected to repay a proportionate share of their borrowings if their loan level then declines or if deposits grow in excess of loans. Federal Reserve credit is expected to be fully repaid when the loan-deposit ratio returns to the starting figure. All borrowings must normally be repaid within six months, but credit may be extended for another three months in special circumstances.

My staff informs me that several of the Idaho banks would appear to qualify for the Temporary Seasonal Credit Program. The Reserve Bank discount officers report, however, that although the announcement of the new program was mailed to the chief executive officer of every commercial bank, no inquiries or applications have been received from any Idaho

The Honorable Frank Church
Page Two

banks. Interested banks should contact the Reserve Bank branch serving their area (Portland for the northern half of Idaho, Salt Lake City for the southern half). If your staff desires additional information on the program, they may contact Mr. John Spitzer here at the Board on 452-2507.

Sincerely,

S/Paul A. Volcker

JS:DEL:PMK:CO:ved (#V-185)

cc: Messrs. Spitzer, Lindsey, Keir
Mrs. Mallardi (2)

Action assigned Mr. Keiser

HENRY M. JACKSON, WASH., CHAIRMAN	
FRANK CHURCH, IDAHO	MARK O. HATFIELD, OREG.
J. BENNETT JOHNSTON, LA.	JAMES A. MC CLURE, IDAHO
DALE BUMPERS, ARK.	LOWELL P. WEICKER, JR., CONN.
WENDELL H. FORD, KY.	PETE V. DOMENICI, N. MEX.
JOHN A. DURKIN, N.H.	TED STEVENS, ALASKA
HOWARD M. METZENBAUM, OHIO	HENRY BELLMON, OKLA.
SPARK M. MATSUNAGA, HAWAII	MALCOLM WALLOP, WYO.
JOHN MELCHER, MONT.	
PAUL E. TSONGAS, MASS.	
BILL BRADLEY, N.J.	

United States Senate

COMMITTEE ON ENERGY AND NATURAL RESOURCES

WASHINGTON, D.C. 20510
April 28, 1980

#185

DANIEL A. DREYFUS, STAFF DIRECTOR
D. MICHAEL HARVEY, CHIEF COUNSEL
STEVEN G. HICKOK, STAFF DIRECTOR FOR THE MINORITY

Mr. Paul A. Volker, Chairman
Federal Reserve Board
Room B-2046
Constitution Avenue between 20th & 21st, N.W.
Washington, D.C. 20551

Dear Paul:

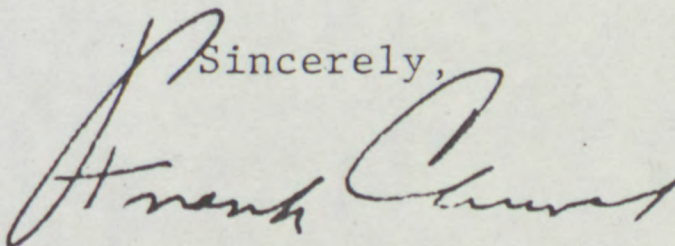
I applaud the intent of the recent announcement that the Federal Reserve Board will offer money at the current discount rate of 13 percent to banks that will lend money to farmers.

While I am supportive of this step, I am compelled to raise several questions about this step on behalf of Idaho farmers who advise me that the conditions attached to this offer mean that Idaho will not receive much of this loan money. I have had several complaints that only one bank in Eastern Idaho, a major farming area, will be eligible to offer lower interest rate loans under this decision.

I would deeply appreciate it if you could advise me of the details of the eligibility criteria and your assessment of what this will mean for the Idaho farm community.

With best wishes,

Sincerely,



Frank Church

1000 APR 29 PM 54

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May 9, 1980

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

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

Dear Senators Metzenbaum and Culver:

Thank you for your letter of April 25 inviting me to participate in the Congressional conference entitled "High Noon for the Economy: Proposed Remedies -- Are Wage and Price Controls Necessary?"

Although I will be testifying before a Subcommittee of the House Banking Committee on the morning of May 15, I will make every effort to stop by sometime during the afternoon session of your conference.

I look forward to seeing you.

Sincerely,

S/Paul A. Volcker

CO:ved (#V-180)

bcc: Mrs. Mallardi (2)

JOHN C. CULVER
IOWA

ARMED SERVICES
ENVIRONMENT AND PUBLIC WORKS
JUDICIARY
SELECT COMMITTEE ON SMALL BUSINESS

United States Senate

WASHINGTON, D.C. 20510

April 25, 1980

#180

Mr. Paul Volcker, Chairman
Board of Governors of the Federal
Reserve System
Constitution Avenue between 20th & 21st
Washington, D.C. 20551

Dear Mr. Volcker:

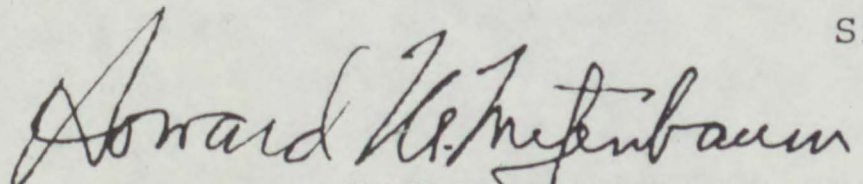
We cordially invite you to participate in a congressional conference entitled "High Noon for the Economy: Proposed Remedies -- Are Wage and Price Controls Necessary?" This one-day forum is the first in an economic summit series initiated to explore comprehensive strategies to curb inflation, reduce unemployment and encourage real growth in the economy. It will be held on Thursday, May 15, 1980, in the Dirksen Senate Office Building (Room 6226) from 9 a.m. to 12:30 p.m. and from 2 p.m. to 3:30 p.m.

The conference will bring members of Congress and the Administration into a round-table, spontaneous dialogue with leaders of industry, labor, agriculture, small business, state government, representatives of the investment community and nationally known economists. The purpose is purely informational -- to get the best in contrasting viewpoints on further steps that can be taken to deal with the nation's economic problems.

The economic summit series is being planned by members of Congress in cooperation with the Fund for New Priorities in America, which has assisted in the organization of more than 35 major congressional conferences over the past 11 years.

We hope you will join us in this important and timely forum on May 15. Please call David Thompson or Barbara Schmitz in Senator Culver's office for any additional information -- (202) 224-3744.

Sincerely,


HOWARD W. METZENBAUM


JOHN C. CULVER

May 9, 1980

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

Dear Bill:

Thanks so much for sending me a copy of your letter to Secretary Miller and your staff's paper on the Chrysler financing plan. I have read that analysis carefully, and I do appreciate having that material available to me.

Sincerely,

S/ Paul

EGC:pjt (#V-175)
bcc: Mrs. Mallardi (2)

Action assigned Mr. Corrigan

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

United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, D.C. 20510

KENNETH A. MC LEAN, STAFF DIRECTOR
M. DANNY WALL, MINORITY STAFF DIRECTOR
MARY FRANCES DE LA PAVA, CHIEF CLERK

April 25, 1980

1175

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


Dear Paul:

I am sending you a copy of a letter I have sent to Secretary Miller, as Chairman of the Chrysler Corporation Loan Guarantee Board, requesting that the Committee on Banking, Housing and Urban Affairs be kept fully informed of the status of negotiations with the Chrysler Corporation and the various other parties involved regarding the company's ability to qualify for the \$1.5 billion in Federal loan guarantees authorized under P. L. 96-185. In addition, I am enclosing a copy of a memorandum prepared by Committee staff detailing certain concerns with respect to the financing plan submitted by the Chrysler Corporation on April 17, 1980, and whether or not it complies with the law.

I feel certain that the Board is addressing some of these concerns in the course of its consideration of the Chrysler submissions. Nonetheless, I do feel that the Committee needs to be kept fully informed, in view of its responsibility for overseeing the implementation of the Act.

Best regards.

Sincerely,


William Proxmire
Chairman

Enclosure

WP:eb1

WILLIAM PROXMIRE, WIS., CHAIRMAN

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

KENNETH A. MC LEAN, STAFF DIRECTOR
M. DANNY WALL, MINORITY STAFF DIRECTOR
MARY FRANCES DE LA PAVA, CHIEF CLERK

United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, D.C. 20510

April 25, 1980

The Honorable G. William Miller
Chairman, Chrysler Corporation
Loan Guarantee Board
U. S. Department of the Treasury
Washington, D.C. 20220

Dear Mr. Chairman:

I understand that the Chrysler Corporation Loan Guarantee Board may reach a decision very soon on Chrysler's request for the \$1.5 billion in Federal loan guarantees authorized under P. L. 96-185.

The purpose of this letter is to request that the Committee on Banking, Housing and Urban Affairs be kept fully informed on a continuing basis of the status of discussions between the Board, and its representatives and staff, and the various parties involved in negotiating the financing and operating plans and other materials required for Chrysler to qualify for the Federal loan guarantees. Given the Committee's responsibility to oversee the implementation of the Loan Guarantee Act and to ensure that all of the conditions of the Act are met, I believe it is essential that we be kept apprised of all developments on an ongoing basis.

As you know, the Act provides that the Loan Guarantee Board must make a number of determinations before entering into commitments to guarantee loans to the Chrysler Corporation and that a written report setting forth each such determination and the reasons therefor must be transmitted to the appropriate committees of the Congress not less than 15 days prior to the issuance of any guarantee. This report should give a full and detailed justification of the Board's decision with respect to providing the Federal loan guarantees, whether positive or negative, along with an explanation of the reasons for making each of the required determinations.

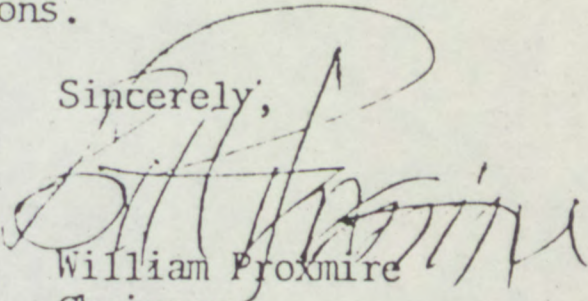
I expect that the Committees involved will scrutinize this report and all supporting materials carefully, in order to assess whether all of the requirements of the Act have been met. It appears to me that the financing and operating plans submitted to the Board

The Honorable G. William Miller
April 25, 1980
Page Two

by the Chrysler Corporation on April 17, 1980, fail to meet these requirements in a number of respects. The attached memorandum prepared by Senate Banking Committee staff details the major concerns raised by the April 17 plans. I trust that these concerns are being addressed in the course of the Board's deliberations.

I feel certain that you and the other members of the Loan Guarantee Board take very seriously the determinations you must make with respect to reasonable assurance of repayment of the guaranteed loans and the ability of Chrysler to continue as a going concern and remain viable after 1983 without any further Federal financial assistance. It is apparent to me that ensuring strict compliance with the rest of the requirements of the Act is a threshold condition for making such determinations.

Sincerely,



William Proxmire
Chairman

Enclosure

JP:eb1

MEMORANDUM TO THE CHAIRMAN

FROM: Banking Committee staff

SUBJECT: Chrysler Corporation's April 17, 1980 Financing Plan

Questions have been raised regarding the flexibility of certain provisions of the Chrysler Corporation Loan Guarantee Act, particularly those delineating the requirements for non-Federally guaranteed financial assistance from persons with an existing economic stake in the health of the Corporation, such as financial institutions, suppliers, dealers, and State and local governments. These questions provoke serious concerns as to whether the financing plan submitted by Chrysler in support of its request for the Federal guarantees complies with either the letter or the intent of the law.

Since subsections 4(b) and 4(c) of the Act, which detail the means of computing and allocating the required \$1.43 billion in non-Federally guaranteed assistance, are taken virtually without amendment from the legislation reported out of the Banking Committee and passed by the Senate, the legislative history in the Senate would govern in interpreting and implementing the law. The language of the statute is quite explicit as to where flexibility does and does not lie. Subsection 4(c), setting out the list of the amounts of non-Federally guaranteed assistance to be expected from the various interested parties and from other sources, authorizes the Board to "modify the amounts of assistance required to be provided by any of

the categories referred to in this subsection" so long as the total of at least \$1.43 billion in non-Federally guaranteed assistance remains the same (emphasis added). It does not authorize the Board to waive any of the specific requirements of the subsection, or to eliminate any of the categories. In other words, the dollar figures may be shifted around among the categories listed, but the specific intent of the Act may not be altered or disregarded.

The Chrysler financing plan submitted on April 17, 1980, proposes that the Board waive some of the requirements of Section 4 and abolish certain categories of assistance altogether. This would appear to violate both the letter and intent of the law. The following paragraphs describe in more detail the concerns raised by specific elements of the April 17 Chrysler financing plan.

The language of Section 4 makes it abundantly clear in several places that the \$1.43 billion in non-Federally guaranteed assistance is to be in excess of commitments or concessions outstanding as of October 17, 1979; and it provides specifically that the contributions by the U. S. and foreign banks, financial institutions, and other creditors must be "in addition to the extension of the full principle amount of any loans committed to be made but not outstanding as of October 17, 1979." The Senate Banking Committee report on the legislation further states that this provision "is intended to make it clear that the Committee expects there to be made available the full amount of the \$567 million revolving credit committed to the Chrysler parent corporation prior to October 17, of which only \$403 million has been drawn down to date!" Similar wording is included

in the section of the report dealing with the commitments of foreign creditors as of October 17. The purpose of this requirement was, of course, to make certain that all of the company's existing financing arrangements remained in place, so that the effect of the \$1.43 billion in additional non-guaranteed financial assistance would not be diminished by the withdrawal of amounts previously committed.

The April-17 Chrysler financing plan does not provide for the fulfillment of such prior lending commitments. According to the Loan Guarantee Board's Report to Congress for the period through March 31, 1980, failure to fulfill these commitments would reduce the amounts of financing actually available to the Corporation by a total of \$245 million, which is a serious shortfall. Apparently, the U. S. banks have argued that the requirement that they make available the \$159 million remaining under the revolving credit agreement does not have to be met because Chrysler was in default of certain covenants of that agreement on October 17. This argument has little merit. It was evident at the time the Act was passed that Chrysler was in default of certain prior credit commitments, and for that reason, section 4(a) includes a requirement that existing creditors certify that they will waive their rights with respect to such prior commitments, as a condition for the issuance of Federal guarantees. Clearly the other provisions of section 4 assumed such a waiver would be forthcoming. To say that prior credit commitments do not have to be fulfilled because Chrysler was in default of them on October 17 is tantamount to asserting that Congress added that requirement while knowing that it was meaningless. This assertion is implausible.

In sum, there is no reasonable way to construe the statute as not requiring those prior credit commitments to be fulfilled in some explicit and satisfactory manner.

Section 4(c) states that at least \$500 million shall be provided from U. S. banks, financial institutions, and other creditors, of which \$400 million shall be new loans or credits, and \$100 million shall be concessions with respect to outstanding debt of the Corporation. Along similar lines, it states that at least \$150 million shall be provided by foreign banks, financial institutions, and other creditors. The Committee Report further states that concessions with respect to outstanding debt of the Corporation may "take the form of, but shall not be limited to, reductions in interest rates, lengthening of maturities, deferral of payments of principle and interest, or conversion of outstanding debt to equity." It is evident from the language of the statute that the amounts in these categories, i.e. new loans and concessions, can be modified by the Board. However, there is no authority provided to the Board to eliminate either of these categories. The financing plan proposed by Chrysler does not include any new loans from any of the financial institutions involved. This is a clear violation of the letter and the intent of the Act. The purpose of the requirement for new loans was twofold: to ensure the commitment of additional financing to the Corporation, and to elicit a separate and independent judgment by the private sector regarding the future financial prospects of the Company. The fact that Chrysler's private lenders have refused to

commit to make any new loans to the Company, even as part of a total financing package involving Federal guarantees, has strong implications for the determination the Board must make as to whether the Company can continue as a going concern and remain viable after 1983 without additional Federal financial assistance.

Subsection 4(c) contains requirements designed to inject additional equity or other capital into the company. First, it provides that \$50 million be raised from the sale of additional equity securities. Second, it states that at least \$50 million of the \$180 million required to be provided by Chrysler dealers and suppliers must be in the form of "capital," which is defined to mean "sales of equity securities, any other transactions involving non-interest-bearing investments in the Corporation, or subordinated loans on which payment of principal and interest is deferred until after all guaranteed loans are repaid." Efforts were made both on the Senate floor and in conference to modify this latter requirement, by permitting payment of dividend on preferred stock issued to dealers and suppliers, but in each case such proposals were rejected. Thus it was clearly the intent of Congress to require that at least \$100 million in additional equity or other capital be made part of any Chrysler financing plan.

The April 17 Chrysler financing plan proposes that the Board waive the \$100 million equity requirement altogether, while reducing the contribution of Chrysler's dealers and suppliers to purchases of \$100 million in subordinated debentures at 12 percent interest. The justification given is that a public sale of stock is not practical at the present time and that it is difficult to obtain financial

assistance from dealers and suppliers because of the current condition of the automobile industry. The Committee report on the bill recognized that public sales of equity securities might well be difficult and allowed specific latitude to satisfy this requirement through private placements to constituent groups or by other means. It did not, however, broach the possibility that either the \$50 million equity sale requirement or the \$50 million capital requirement for dealers and suppliers be eliminated altogether, and to do this without obtaining an equity contribution of at least the same magnitude from other sources would be a clear violation of the law. Sale of additional assets would not be an acceptable substitute for the equity requirement. This would not increase the net worth of the company and would reduce the amount of assets available as security for the guaranteed loans, while obtaining additional equity would have the opposite effect.

There are also serious questions as to whether the April 17 Chrysler financing plan complies with the standards for computing the amount of assistance to be provided established under subsection 4(b). The intent of the latter subsection is that only real money -- contributions, concessions or other elements which "actually and substantively contribute to meeting the Corporation's financing needs" -- be counted as part of the \$1.43 billion in non-federally guaranteed assistance. Moreover, in the case of persons with an existing economic stake in the health of the Corporation, there should be a real and direct contribution or concession involved, not one in which the burden is in fact borne elsewhere.

It is doubtful that all of the concessions by Chrysler's lenders presented in the financing plan meet the standards of section 4(b). The list includes not only actual non-recoverable interest concessions but also "deemed interest savings on those concessions," -- a phantom figure, to say the least. The bulk of the lenders' concessions comes in the form of notes to finance deferred interest and deferred interest on those notes. In addition to being a rather indirect type of assistance, this heavy reliance on postponing present obligations raises serious questions about the potential viability of the company without additional Federal assistance after 1983, when the notes and the term loans start to come due.

Another category open to question is asset sales, where the amount included in the April 17 plan -- while well in excess of the statutory requirement -- appears to inflate the value of some of the assets listed. Subsection 4(b) explicitly states that the amount of "cash to be obtained from the disposition of assets of the Corporation" shall be "based on a conservative estimate of the minimum value realizable in a sale, with reference to the potential circumstances surrounding such a sale." This provision was included because it was recognized that Chrysler could well be facing a "distress sale" with respect to some of its assets and that therefore the actual amounts realized could be well below book value or appraisal value. Nonetheless, these are the figures used in the proposed Chrysler plan. The inclusion of \$320 million for the sale of 51 percent equity of Chrysler Financial is particularly questionable, since the company has failed thus far to accomplish this sale for \$320

million or any other stated figure. Given that the company has had the statute before it since December 21, 1979, it could reasonably be expected that there would be a more detailed list of potential asset sales made available, with a computation of cash to be obtained from each such sale which more nearly meets the requirements of the Act.

Finally, an item which raises some astonishment by its inclusion in the April 17 plan is \$428 million attributed to "pension fund contribution deferral." Testimony at the Committee's hearings on the loan guarantee bill made it clear that this represents an additional risk incurred by the Federal government, through the Pension Benefit Guaranty Corporation, and not a contribution or concession by any of the interested parties. Thus it should be questioned why this amount was included in that portion of the financing plan which addresses the required \$1.43 billion in non-Federally guaranteed assistance.

May 9, 1980

The Honorable Trent Lott
House of Representatives
Washington, D. C. 20515

Dear Mr. Lott:

I am pleased to provide you with information requested by your constituent, Mr. Gary Gatlin, concerning recent monetary policy actions to increase the availability of bank loans for small businesses and farmers.

The severity of the problems facing small borrowers in the current environment of tight credit conditions is of great concern to the Federal Reserve. As part of the Special Credit Restraint Program announced in mid-March, banks were urged to maintain lending to established customers for legitimate business needs. Where appropriate and feasible, banks were encouraged to take account of the special needs of their borrowers--especially small businesses, farmers, and other small borrowers with limited access to alternative sources of funds--when setting the terms and conditions of their loans. At the same time, certain types of loans are to be discouraged, in particular, loans to finance speculative activity, takeovers, or other reasonably postponable activities.

In addition, the Federal Reserve instituted a temporary seasonal credit program in mid-April designed to help small banks under liquidity pressures meet the credit needs of their communities--particularly those in rural and agricultural areas. Under this program, member and nonmember banks may be granted credit through Federal Reserve discount windows if that credit is to finance the operating needs of small businesses or farmers. Such loans are intended generally for banks with less than \$100 million in deposits, that likely have limited access to central money markets. I am enclosing for your convenience a press release in which the specifics of the seasonal credit program are described.

The Federal Reserve, of course, does not lend directly to businesses. The credit made available through the seasonal

The Honorable Trent Lott
Page Two

credit program will be channeled to the communities through commercial banks. The Board believes, moreover, that decisions concerning the distribution of credit and specific loan terms can be made only by the local lending institutions that are familiar with the specific needs and qualifications of their customers.

As the owner of a small business, Mr. Gatlin may fall within the guidelines of the Board's credit restraint program for priority lending by commercial banks. Numerous other factors would also have to be taken into account, however, including the purpose and the amount of the loan as well as the financial position of Mr. Gatlin's firm.

I hope this information will be useful to you.

Sincerely,

S/Paul A. Volcker

Enclosure_ 4/17/80 press release

MS:DK:LM:JLK:vcd (#V-172)

cc: Mr. Richline
Mr. Kohn
Ms. Scanlon
Mrs. Mallardi (2)

Action assigned Mr. Kichline

TRENT LOTT
5TH DISTRICT, MISSISSIPPI

COMMITTEES
RULES
CHAIRMAN, REPUBLICAN
RESEARCH COMMITTEE

ADMINISTRATIVE ASSISTANT
TOM H. ANDERSON, JR.

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

2400 RAYBURN BUILDING
WASHINGTON, D.C. 20515
202-225-5772

DISTRICT OFFICES:
GULFPORT, MISSISSIPPI 39501
601-864-7870
HATTIESBURG, MISSISSIPPI 39401
601-582-3246
LAUREL, MISSISSIPPI 39440
601-649-1231

April 23, 1980

Mr. Paul A. Volcker
Chairman
Federal Reserve System
Federal Reserve Building
Washington, DC 20551

Dear Mr. Chairman:

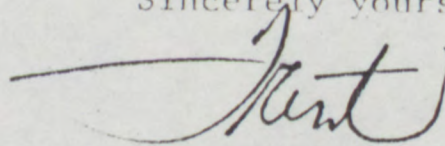
I have recently received correspondence from Mr. J. G. Gatlin, who contacted me regarding your recent proposal to make money available to small business and farmers.

Enclosed for your information is a copy of this correspondence, which details the nature of the problem. I would appreciate very much your providing information which would be of assistance in responding to this inquiry.

Thank you for your assistance in this matter.

With best regards, I am

Sincerely yours,



Trent Lott

TL/ta
Enclosure

J. G. GATLIN DRILLING COMPANY

Route One, Box 245
Shubuta, Mississippi 39360
(601) 687-6271

April 17, 1980

Congressman Trent Lott
2400 Rayburn Building
Washington, D. C. 20515

Dear Mr. Lott,

This is with reference to our previous correspondence regarding my need to secure a loan from SBA.

The banks in my area have advised me that at this time they are not in a position to help with a SBA guaranty loan. Also, with the present restrictions that have been placed on loans, it is impossible for the banks to help with even a direct loan.

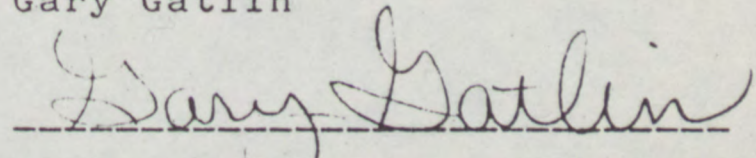
As I stated in my previous letter time is important. The seismic exploration for fossil fuels in Mississippi has greatly expanded in the past year and in order to keep this revenue in Mississippi, we will have to meet the needs with equipment and personnel. If we cannot meet this demand these companies will look to adjoining states for their needs. I want to see our people employed and for Mississippi to play an important part in gaining independence from foreign energy sources.

I have learned from news telecasts that money for loans will be made available to farmers and small businesses through a federal program. As all other routes seem to be closed to me at this time, this could be the help I need.

Again, time is important. Any information you can give me on this program will be greatly appreciated.

Your fellow Mississippian,

Gary Gatlin



J. G. GATLIN DRILLING COMPANY

JGG/cwg

May 9, 1980

The Honorable Henry Bellmon
United States Senate
Washington, D.C. 20510

Dear Senator Bellmon:

I have carefully read your letter concerning the Chrysler situation and I fully appreciate the thrust of your remarks. I, and my staff are looking at all aspects of the situation as it has evolved, including the manner in which the \$1.43 billion in non-federally guaranteed financing may be satisfied. In that connection, I appreciate having the benefit of your thoughts.

Sincerely,

S/Paul A. Volcker

ECC:pjt (#V-184)
bcc: Mrs. Mallardi (2)

EDMUND S. MUSKIE, MAINE, CHAIRMAN

WARREN G. MAGNUSON, WASH. HENRY BELLMON, OKLA.
ERNEST F. HOLLINGS, S.C. PETE V. DOMENICI, N. MEX.
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JOSEPH R. BIDEN, JR., DEL. WILLIAM L. ARMSTRONG, COLO.
J. BENNETT JOHNSTON, LA. NANCY L. KASSEBAUM, KANS.
JIM SASSER, TENN. RUDY BOSCHWITZ, MINN.
GARY HART, COLO. ORRIN G. HATCH, UTAH
HOWARD M. METZENBAUM, OHIO LARRY PRESSLER, S. DAK.
DONALD W. RIEGLE, JR., MICH.
DANIEL PATRICK MOYNIHAN, N.Y.
J. JAMES EXON, NEBR.

United States Senate

COMMITTEE ON THE BUDGET
WASHINGTON, D.C. 20510

184

JOHN T. MC EVOY, STAFF DIRECTOR
ROBERT S. BOYD, MINORITY STAFF DIRECTOR

April 30, 1980

The Honorable Paul A. Volcker
Member - Chrysler Loan Guarantee
Board
Federal Reserve System
20th Street and Constitution Ave., NW
Washington, D.C. 20051

Dear Mr. Chairman:

In view of the Chrysler Loan Guarantee Board meetings this week, I would like to express to you my concern that the Chrysler "financial plan" may not adhere both to the statutory requirements and the spirit and intent of the Chrysler Loan Guarantee Act of 1979. The provisions of the Act, particularly Section 4, were carefully designed to assure both that the Chrysler Corporation had sufficient financial resources to return to solvency and that those groups which already have an economic interest in Chrysler's future share the Federal government's financial risk.

Reports concerning the reluctance of these groups, particularly the commercial banks, to increase their financial investment in Chrysler are not very encouraging. In my view, the Act is very explicit in requiring that Chrysler must secure (a) new loans from U.S. and foreign banks, financial institutions, and other creditors; and (b) an extension of the full principal amount of any loans committed to be made to Chrysler but not outstanding as of October 17, 1979. The Act further states that Chrysler must have reasonable prospect of remaining a viable corporation after 1983.

I realize that the deliberations surrounding the Chrysler guarantees are exceedingly complex and that the economic environment has served only to make the final decision of the Board more difficult. I also recognize that the Board can exercise some flexibility regarding the amounts of financial support due from the various identified sources. However, if loan guarantees are extended based on a financial plan that clearly does not meet the conditions and

Letter to Paul A. Volcker
Page Two
April 30, 1980

intent of the Act, it will be difficult to get Congress to approve funds for payment of principal and interest on loans guaranteed pursuant to that Act.

Sincerely,

Henry Bellmon

Henry Bellmon

HB:jb

May 9, 1980

The Honorable Howard Wolpe
House of Representatives
Washington, D. C. 20515

Dear Mr. Wolpe:

Thank you for giving me the opportunity to comment on the Board's consumer credit restraint regulation. You suggested that the Federal Reserve consider the appropriateness of restraints on unsecured home improvement loans, in view of national policy to encourage residential energy conservation.

The consumer credit regulation represents an effort by the Federal Reserve to help achieve the broad goals of the President's anti-inflation program. Before adopting the regulation, the Board carefully weighed the potential impact of the program on various segments of the economy, and relative to other national priorities. The Board recognized that a regulation of this nature might appear unduly burdensome to certain people, and could seem to run counter to other policy objectives. In the course of identifying which types of credit would be subject to regulation, the Board determined that unsecured home improvement loans, and home improvement loans secured by collateral other than the home or a savings deposit, would be treated as covered credit no matter how the proceeds were used.

The regulation is a temporary measure, designed to help relieve current inflationary pressures. I can assure you that the Board will not extend it beyond the time necessary to achieve that result. In addition, should the evidence gathered in the period ahead indicate that the burdens imposed on consumers and creditors are disproportionate to any beneficial effect on the economy, the Board certainly would consider making appropriate changes in the program. At present, however, further adjustments in the regulation do not appear advisable.

Sincerely,

RMF:JLK:vcd (#V-176)
bcc: Mr. Fisher
Mr. Kichline
Mrs. Mallardi (2)

S/Paul A. Volcker

HOWARD WOLPE
MICHIGAN
3RD DISTRICT

COMMITTEE ON
FOREIGN AFFAIRS

SUBCOMMITTEES:
INTERNATIONAL ECONOMIC POLICY
AND TRADE
AFRICA

COMMITTEE ON
SCIENCE AND TECHNOLOGY

SUBCOMMITTEES:
ENERGY DEVELOPMENT AND
APPLICATIONS

ENERGY RESEARCH AND
PRODUCTION

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

April 24, 1980

#176

- PLEASE REPLY TO:
- 416 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-5011
 - 142 N. KALAMAZOO MALL
KALAMAZOO, MICHIGAN 49007
(616) 385-0039
 - 33 CAPITAL AVENUE N.E.
BATTLE CREEK, MICHIGAN 49014
(616) 962-6511 EXT. 6212
NIGHT 962-3401
 - TRAVELING MOBILE OFFICE

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

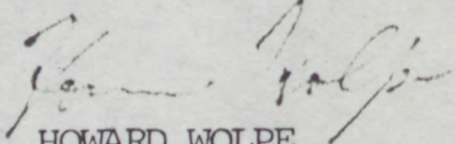
Dear Chairman Volcker:

My attention was recently drawn to one aspect of the recently promulgated credit controls that appear to run directly contrary to our stated national policy objective of encouraging residential energy conservation. I am referring, specifically, to the inclusion within the new credit control program of uncovered home improvement loans that are not made under FHA Title I. In many financial institutions within my district, this has meant virtually the total cessation of home improvement loans.

The purpose of this letter is to request the reconsideration of this element of the new credit controls. Between inflation and high energy costs, most new housing construction is at a standstill. Yet, much of the nation's housing stock is energy obsolescent and in need of improvement. There is substantial evidence that a national residential insulation effort would significantly reduce our petroleum consumption. Credit policies should be directed at encouraging, rather than hindering, this effort.

Thank you for your consideration of this request. I look forward to your response.

Sincerely,


HOWARD WOLPE
Member of Congress

HW/mwm

May 12, 1980

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

Dear Mr. Stanton:

In view of your December 11 letter on the subject of "give away" items in connection with bank deposits, Chairman Volcker has asked that I let you know that the Depository Institutions Deregulation Committee has issued for comment by June 9 a proposal to prohibit any premiums or gifts given by an institution upon the opening of a new account or an addition to an existing account. Enclosed, for your information, is a copy of the Committee's press release.

I can assure you that the Committee would be interested in any comments you or your constituents may wish to make on this proposal. 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

CO:DJW:vcd (#V-145 (1979))

cc: Normand Bernard (w/copy of incoming)
Mrs. Mallardi ✓



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

Catherine
(See V-1168 &
V-1163)

PAUL A. VOLCKER
CHAIRMAN

May 12, 1980

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

Dear Chairman Proxmire:

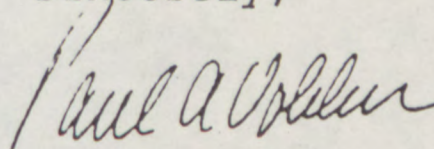
My letter to you of May 2 expressed certain reservations regarding S. 2379. Those reservations stem not from lack of sympathy with the purpose of this legislation in making export related services available to more firms in the U.S. Rather, we in the Federal Reserve have substantial questions about the degree to which banking organizations should be permitted to participate directly in, or even control, export trading companies. In that connection, we feel strongly that the tradition of separation of banking and commerce has served the country well. To assure that separation is maintained, while permitting a degree of banking participation in support of export trading companies, I would suggest certain amendments to the proposed bill establishing substantive and procedural standards that are necessary with regard to bank involvement in such companies.

Those recommendations, which I endorse, include the following elements: first, no banking organization would be permitted to acquire more than 20 per cent of the voting stock of an export trading company or to control the company in any other manner; second, not more than 50 per cent of an export trading company's voting stock could be owned by any group of banking organizations; third, the aggregate investment by any banking organization would be limited to 5 per cent of its aggregate capital and surplus (25 per cent in the case of Edge and Agreement Corporations) in one or more export trading companies nor could a banking organization lend to an export trading company in an amount which, when combined with its investment, would exceed 10 per cent of the banking organization's capital and surplus; an export trading company would not be permitted to take positions in securities or commodities for speculative purposes; an arms length relationship would be maintained in any lending activity; and the name of the bank could not be used in the name of the export trading company.

Furthermore, we propose that any major commitment to investment in an export trading company--in excess, say, of \$10 to \$15 million--be specifically approved by the Board of Governors in advance. As this suggests, we believe that because of the risks that may attend export trading company activities and the lack of experience of U.S. banks and their regulators in dealing with such companies, it would not be prudent to permit banking organizations to exercise control over export trading companies at this time. For that reason, the Board of Governors cannot support the current version of S. 2379.

The amendments that I am enclosing for the Committee's consideration have been discussed with your staff. We, of course, would be pleased to provide any further assistance.

Sincerely,



Enclosure

MB:PAV:pjt (See V-168 & V-163 (to Stevenson))
bcc: Mike Bleier
Mrs. Mallardi (2)

Identical letter to Sen. Stevenson

United States Senate

WASHINGTON, D.C. 20510

April 22, 1980

163
#162

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

Dear Paul:

You have recognized the need for structural measures to improve the competitive position of the United States in world trade. This is a subject that has occupied me for several years and produced a number of suggestions, including a recent proposal for U.S. trading companies. Trading companies, as a means of actively involving small, as well as large, businesses in world trade, are generating a good deal of interest. My legislation to encourage their creation (S.2379) has won the support of the Administration and shows signs of moving in this Congress.

The principal difficulties with this legislation have involved antitrust and tax questions which are being worked out and the participation of banks in the ownership of trading companies.

As you know, the trading companies of most foreign countries have bank participation. I think the participation of banks in U.S. trading companies is critical, but I have not been able to win a positive response from the Federal Reserve Board. I, therefore, enclose copies of a letter to Henry Wallich and a more recent letter to Phil Klutznick. The former raises a number of more or less philosophical questions about bank participation in trading companies, and the latter suggests a way of compromising some differences over the participation of banks. Basically, the proposal gives banks an opportunity to invest no more than 5% of their capital and surplus in 5% of the equity in a trading company without regulatory approval, an authority similar to the level of investment authority under the Bank Holding Company Act. Beyond that, bank participation would be subject to the approval of the regulatory agencies.

Stu Eizenstat and Phil Klutznick may talk to you about this. They are as interested as I am in getting favorable action on this legislation. I would be most grateful if

The Honorable Paul Volcker
Chairman, Board of Governors of the
Federal Reserve System
April 22, 1980

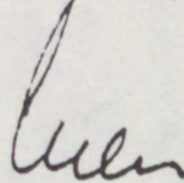
- 2 -

you could give the matter your personal attention.
When you have had a chance to do so, perhaps you could
give me a ring and we could discuss it.

The Administration and I are eager to work out
this question in a way that involves the cooperation and
support of the Federal Reserve Board.

Many thanks for any attention you can give the
matter.

Sincerely,



Enclosure

United States Senate

WASHINGTON, D.C. 20510

April 10, 1980

COMMITTEE ON BANKING, HOLDING
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

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

Dear Mr. Wallich:

Thank you for submitting the statement for the record of the hearing on export trading companies (S. 2379) held by the International Finance Subcommittee on April 3, 1980.

In order to assist further the Congress in its action on S. 2379, I would appreciate your response as soon as possible to the attached list of questions.

With best wishes,

Sincerely,

Adlai Stevenson

Enclosures

QUESTIONS FOR THE RECORD
For Henry Wallich, Board of Governors,
The Federal Reserve System
Subcommittee on International Finance,
Senate Banking Committee
Hearing on Export Trading Companies
April 3, 1980

1. In your prepared statement, you indicate that U.S. banks can now provide, either directly or indirectly through their Edge Corporations or affiliates, a wide variety of services relating to exports. You specifically indicate that "Edge Corporations have wide latitude under the law to provide advisory services related to exporting."
 - A. Please provide for the record specific references to provisions of the Board's Regulation K which authorize the provision of such services in the United States. Would the Board permit an Edge Corporation to organize a subsidiary in the U.S. to engage solely in providing advisory and other services ancillary to exporting? Could you provide for the record a complete list, since 1970, of all Board or staff actions on applications by Edge Corporations to engage in export services in the United States, including export management activities, export advisory activities, freight forwarding activities and other activities falling within the definition of export trade services in Section 5(a)(4) of S. 2579? Please include any applications that may have been withdrawn, even if not formally acted upon by the Board, and the stated reasons for any withdrawal.

2. In your prepared statement, you indicate that the "[E]xtension of the investment powers of banking institutions to include companies that buy and sell goods and services for their own account would go far beyond these existing financial facilities [for Edge Corporations]."
 - A. In an Appendix to the statement of James B. Sommers, President of The Bankers' Association for Foreign Trade, a Federal Reserve ruling was cited in which the Board permitted an Edge Corporation to take a non-controlling interest in a combination export manager that bought goods as principal for resale against firm offsetting export orders. Apparently, the Board felt it had authority to

adopt this ruling without any change in its statutory authority. Does your statement mean that the Board exceeded its authority or its traditional policies under the Edge Act in adopting this 1967 ruling? Has the Board ever repealed this 1967 ruling? Does the Board believe that it now has the authority to permit an Edge Corporation to acquire an equity interest in an export trading company that takes title to goods against firm export orders from abroad?

- B. Banks now take title to large items of personal property in major leasing transactions. Banks also often acquire ownership rights as collateral security in acceptance and other international trade financing transactions. Therefore, taking title, in and of itself, is not the crucial inquiry on risk. In fact, title is the most valuable form of collateral security that a lender -- or middleman in an export transaction -- can have. In this regard, who is better protected in the case of a default, assuming a uniform judgment on creditworthiness in each case -- a bank granting an unsecured standby line of credit overseas, or an EIC taking title to goods for purposes of resale abroad?
- C. As indicated in the Appendix to Mr. Sommers' statement, Congress specifically contemplated in 1919 that Edge Corporations would have the ability to invest in foreign trading companies. Has the Board ever approved any investments by Edge Corporations in foreign trading companies, or in any foreign companies engaged in buying and selling goods? If so, what, if any, differences in risk are there between buying and selling goods abroad and buying and selling goods in the United States? Do not in fact the bank regulatory authorities have better supervisory control when goods are bought and sold here in the United States?
3. In your statement you suggest that permitting U.S. banking organizations to invest in companies that buy and sell goods raises concerns under the long standing separation of banking from commerce in the United States. Isn't it a fact, however, that the Board has permitted large Japanese and other banks affiliated with trading companies that export to and import from the United States to acquire U.S. banks, including specifically the acquisition of Marine Midland Bank by the Hong Kong and Shanghai Banking Corporation? In this regard, could you provide a list of all foreign bank holding companies with interests of greater than 5%

in a trading company or other commercial or business enterprise that maintains facilities in the U.S. for the purpose of importing to or exporting from the United States? Can you list all Japanese bank holding companies affiliated through Keiretsu with trading companies?

- A. Is the Board taking the position that it is acceptable for U.S. banks to be affiliated with trading companies that export to but do not export from the United States? On what public policy grounds does the Board justify such a distinction? If trading company activities are as fraught with as many problems as you suggest, then on what basis did the Board approve the takeover of Marine Midland by Hong Kong and Shanghai which has an extensive interest in Hutchinson Wharpoa, Ltd.?
- B. Isn't the Board better able to supervise the activities of a U.S. trading company affiliate of a U.S. banking organization than a foreign trading company affiliate of a foreign bank holding company? If so, then wouldn't the Board have more authority over a bank-owned export trading company under this bill than it now has over the activities of Japanese and other trading companies affiliated with U.S. banks through common ownership by foreign bank holding companies?
- C. Isn't it true that U.S. banking organizations have always been permitted a broader range of authorities in their international operations, including in the United States, in order to compete abroad and these greater powers have never been deemed in contravention of other "longstanding" principles? For example, credit life Corporations free from the statutory restrictions of the McFadden Act? Hasn't the Board permitted U.S. banking organizations to engage in securities activities abroad that would be prohibited under the Glass-Steagall Act? And didn't Congress specifically contemplate in §4(c)(13) of the Bank Holding Company Act that the "longstanding" principles of section 4 of the Bank Holding Company Act would not apply to international activities?
4. Despite your reservations about some aspects of S. 2579, I appreciate the Board's willingness to work with my staff in formulating standards that would meet the objectives of the bill while retaining appropriate safeguards. In this regard, I am enclosing an additional set of questions on bank participation which I am asking of the Administration and on which I would greatly appreciate the Board's views.

5. In reading your list of Board "concerns," I was surprised by the omission of the consideration of the many protections included in S. 2379. I believe section 5(e)(1) of S. 2379 protects precisely against the types of preferential lending you discuss in paragraphs (a) and (c) on pages 3 and 4 of your statement. The language in section 5(e)(1) is, in part, virtually identical to language which the Board proposed in section 8(e) of the International Banking Act of 1978.

With respect to "risk" concerns mentioned in paragraph (b) on page 3 of your statement, S. 2379 does not set up a "mandatory" model of Japanese trading companies. Section 5(e)(2) of S. 2379 specifically prevents a U.S. banking organization from investing more than 10% of its capital and surplus in any ETC, and section (f) gives the Board and other agencies broad supervisory and reporting authority. In addition, the banking agencies already have broad supervisory authority under other banking laws to ensure against undue commercial risks. For example, the agencies have broad cease and desist authority to prevent unsound banking practices.

With respect to your stated concerns about capital adequacy, as mentioned above, section 5(e)(2) prevents a banking organization from investing more than 10% of its capital and surplus in one or more export trading companies. The present capital condition of banks is largely a result of archaic laws and regulation which have limited the growth of U.S. banks, have prevented them from expanding across State lines, and have impaired their ability to compete with the growing number of nonbank financial organizations and foreign banks that operate with far fewer restrictions. The net result is that U.S. banks have not been able to grow at satisfactory rates, they are losing market share at home and abroad, and their shares are selling well below book in many cases. They thus become tempting candidates for takeovers by large foreign banks with extensive nonbank operations overseas, and the Board ends up approving the acquisitions because they provide "capital strength" to the U.S. bank. By improving competitiveness, S. 2379 will, in the long run, be a benefit to the financial condition of U.S. banks.

Finally, I would note a misconception in the last paragraph of your statement. S. 2379 does not propose that banks, Edge Corporations, or bank holding companies be permitted to engage directly in commercial export activities -- S. 2379 only authorizes U.S. banking organizations to invest in companies that function

as export trading companies or which engage in export trade services. Maintaining a corporate veil in the case of such activities makes protection and administration much more effective.

I welcome your comments on these observations.

United States Senate

WASHINGTON, D.C. 20510

April 17, 1980

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

The Honorable Philip M. Klutznick
Secretary of Commerce
Washington, D.C. 20230

Dear Mr. Klutznick:

I appreciate your statement of April 3, 1980 on S. 2379, the Export Trading Company Act of 1980 which expressed the Administration's general support of this legislation. Your thoughtful testimony, as well as that of Governor Wallich, has been valuable in a further consideration of the bill.

In response to your suggestions to provide broad oversight authority over bank participation in export trading companies to the regulatory authorities, I enclose a revision of Section 5 which I believe strikes an appropriate balance between the need for effective bank participation and the need for appropriate regulatory control of possible risks to investing banking organizations.

In addition to the proposed statutory language, I would like to explain briefly the principal elements of the revised section.

I. Procedures for Bank Investment and
Expansion of Export Trading Company
Activities

In your statement, you recommended that all initial investments by banking organizations in any export trading company (ETC) should be subject to prior notification and approval of the banking agencies, and that significant new lines of activity or a substantial increase in investment by the parent bank organization should require further agency approval.

Under the revised section 5, banking organizations are only permitted to make small investments in ETCs without prior approval. National and state banks are given a

The Honorable Philip M. Klutznick
Secretary of Commerce
April 17, 1980

- 2 -

limit of no more than 5% of their capital and surplus in no more than 5% of the voting stock of an ETC. Banking organizations which do not accept deposits from the general public are given somewhat greater leeway -- they can invest no more than 5% of their capital and surplus in less than 25% of the voting stock of an ETC without prior approval. All other banking organization investments must receive the prior specific approval of the appropriate bank regulatory agency. And even those minimal investments which can be made without prior approval must nevertheless be promptly reported to the appropriate agency.

This is, of course, a significant expansion of agency approval authority from the earliest section 5, which permitted investments in up to 50% of the equity of an ETC without prior approval. I do not think it would be productive to go below the limits suggested in this revision, because I believe permitting very small investments under simplified procedures will help attract many smaller banks into forming links with ETCs to benefit their local customers. The "no approval" limits suggested are, moreover, very similar to those now in other banking legislation and regulations.

Concerning prior approval of additional investments and new activities, the revised section 5 requires a banking organization to provide its regulator with sixty days prior notice before it makes an additional investment or before the ETC engages in a new line of activity, including the taking of title to goods. During the 60-day period, the agency may either disapprove or impose conditions on the new investment or activity. It seems to me that this notification procedure reduces administrative burdens, yet gives the regulators ample opportunity to block any unwise expansion of a bank's involvement with a particular ETC.

II. Standards and Conditions for Approval

Section 5 has been redrafted to parallel more closely the standards for approval of bank acquisitions and investments that now apply under the Bank Merger and Bank Holding Company Acts. Similarly, a ninety-day period for decision on applications has also been provided to ensure against undue delays and disapproval by inaction.

The Honorable Philip M. Klutznick
Secretary of Commerce
April 17, 1980

- 3 -

The standards do include recognition of the export and other benefits to be derived from bank participation in ETCs, and it is made clear that applications should be approved unless adverse banking factors outweigh such benefits. This ensures the purpose of bank participation is encouraged, but not at any expense to the integrity of our banking system.

In response to your specific suggestions for giving the banking agencies broad discretion to limit a bank's financial exposure to an ETC, and to regulate the taking of title of goods and other activities, the revised section permits the agencies to impose conditions on investments or activities on a case-by-case basis in order to limit a bank's financial exposure in an ETC or to prevent conflicts of interest or unsafe or unsound banking practices. It seems to me this authority is sufficiently broad to protect against any abuses that might arise, including those connected with the taking of title. At the same time, to ensure such authority is used reasonably, the revised bill requires the agencies, in imposing any conditions, to consider the scope of bank involvement in an ETC, and the need for an ETC to be competitive in world markets. For example, conditions appropriate to a bank-controlled ETC, such as no ownership of manufacturing facilities or commercial concerns, may be inappropriate if applied to an ETC with only a minor (e.g. 10 percent) bank shareholder. The regulators thus have clear authority to prevent unacceptable risks; they cannot, however, be so restrictive as to frustrate totally bank participation. I would note, further, that the revised section makes clear that the agencies have full supervisory powers under the Financial Institutions Supervisory Act to ensure compliance with any conditions imposed.

In conclusion, I believe the revised section 5 significantly expands the bank regulators' authority without discouraging bank participation. I would greatly appreciate it if I could obtain the views of the Administration and the Federal Reserve on this key provision of S.2379 as soon as possible.

With best wishes,

Sincerely,

AMENDED SECTION 5 OF S. 2379

ON BANK PARTICIPATION IN
EXPORT TRADING COMPANIES

Strike sections 5(c)-(f) of S. 2379 beginning on line 23 page 8 and ending on line 9 page 12, and insert in lieu thereof the following:

- (c)(1) Any national or state bank may invest up to 5 per centum of its capital and surplus in not more than 5 per centum of the voting stock or other evidences of ownership of any export trading company without obtaining the prior approval of the appropriate Federal banking agency. Any bank holding company, bankers' bank, Edge Act or Agreement Corporation may invest up to 5 per centum of its capital and surplus in less than 25 per centum of the voting stock or other evidences of ownership of any export trading company without obtaining the prior approval of the appropriate Federal banking agency, except that an Edge Act Corporation not engaged in banking, as defined by the Board of Governors of the Federal Reserve System, may, under authority of this paragraph, invest up to 25 per centum of its capital and surplus in any export trading company without obtaining the prior approval of the Board. Any banking

organization which makes an investment under authority of this paragraph shall promptly notify the appropriate Federal banking agency of such investment and shall file such reports on such investment as such agency may require.

(2) Any investment by a banking organization in the voting stock or other evidences of ownership of any export trading company, which investment does not qualify under the preceding paragraph (1), shall only be made with the prior specific approval of the appropriate Federal banking agency.

(3) If a banking organization proposes to make any investment or engage in any activity included within the following two subparagraphs, it must give the appropriate Federal banking agency sixty days prior written notice before it makes such investment or engages in such activity:

(A) any additional investment in an export trading company, the voting stock or other evidences of ownership of which were acquired with approval under the preceding paragraph (2); or

(B) the engagement by an export trading company, the voting stock or other evidences of ownership of which were

acquired with approval under the preceding paragraph (2), in any line of activity, including specifically the taking of title to goods, wares, merchandise or commodities, if such activity was not disclosed in any prior application for approval.

During the notification period provided under this paragraph, the appropriate Federal banking agency may, by written notice, disapprove the proposed investment or activity under authority of subsection (d) (1), or impose conditions on such investment or activity under authority of subsection (d) (2). An additional investment or activity covered by this paragraph may be made or engaged in, as the case may be, prior to the expiration of the notification period if the appropriate Federal banking agency issues written notice of its intent not to disapprove.

(4) In the case of any notification or application filed pursuant to the preceding paragraphs (2) or (3) of this subsection, the appropriate Federal banking agency shall transmit a copy thereof to the Secretary of Commerce and afford the Secretary a reasonable

time, not to exceed thirty days, to present the views of the Department of Commerce on the application or notification. In the event of the failure of the appropriate Federal banking agency to act on any application for approval under paragraph (2) of this subsection within the ninety-day period which begins on the date the application has been accepted for processing by the appropriate Federal banking agency, the application shall be deemed to have been granted. In the event of the failure of the appropriate Federal banking agency either to disapprove or to impose conditions on any investment or activity subject to the prior notification requirements of paragraph (3) of this subsection within the sixty-day period provided therein, such period beginning on the date the notification has been received by the appropriate Federal banking agency, such investment or activity may be made or engaged in, as the case may be, any time after the expiration of such period.

- (d) (1) In the case of every application or notification under subsections (c) (2) or (3) of this section, the appropriate Federal

banking agency shall take into consideration the financial and managerial resources, competitive situation, and future prospects of the banking organization and export trading company concerned, and the benefits of the proposal to United States exports, to small and medium-sized United States business, industrial and agricultural concerns, and to improving United States competitiveness in world markets. The appropriate Federal banking agency may disapprove any investment or activity for which an application or notification has been filed under subsections (c)(2) or (c)(3) if it finds that the export and other benefits of the proposal are clearly outweighed in the public interest by adverse financial, managerial or other banking factors associated with the particular investment or activity. In weighing the export and other benefits of a particular proposal, the appropriate Federal banking agency shall give due consideration to the views of the Department of Commerce furnished pursuant to subsection (c)(4). Any disapproval order issued under this section must contain a statement of the reasons for disapproval.

(2) In approving any application submitted under subsection (c)(2) or in determining not

to disapprove any investment or activity of which the appropriate Federal banking agency was notified under subsection (c) (3), the appropriate Federal banking agency may impose such conditions which, under the circumstances of such case, are reasonably and appropriately necessary (A) to limit a banking organization's financial exposure to an export trading company, or (B) to prevent possible conflicts of interest or unsafe or unsound banking practices.

(3) In determining whether to impose any condition under the preceding paragraph (2), or in imposing any such condition, the appropriate Federal banking agency must consider the size of the banking organization and export trading company involved, the degree of investment and other support to be provided by the banking organization to the export trading company, and the identity and financial strength of any other investors in the export trading company. The appropriate Federal banking agency shall not impose any condition under this paragraph which unnecessarily disadvantages, restricts or limits an export trading company in competing in

- 7 -

world markets or, in achieving the purposes of section 2 of this Act.

(e) (1) No banking organization holding voting stock or other evidences of ownership of any export trading company may extend credit or cause any affiliate to extend credit to any export trading company or to customers of such company on terms more favorable than those afforded similar borrowers in similar circumstances.

(2) Except as provided in subsection (c) (1) for Edge Act Corporations not engaged in banking, no banking organization may, in the aggregate, invest in excess of 10 per centum of its capital and surplus in the stock or other evidences of ownership of one or more export trading companies.

(f) (1) Any party aggrieved by an order of an appropriate Federal banking agency under this section may obtain a review of such order in the United States Court of Appeals within any circuit wherein such organization has its principal place of business, or in the Court of Appeals for the District of Columbia Circuit, by filing a notice of appeal in such court within thirty days from the date of such order,

and simultaneously sending a copy of such notice by registered or certified mail to the appropriate Federal banking agency. The appropriate Federal banking agency shall promptly certify and file in such court the record upon which the disapproval was based. The court shall set aside any order found to be (A) arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law; (B) contrary to constitutional right, power, privilege or immunity; (C) in excess of statutory jurisdiction, authority, or limitations, or short of statutory right; or (D) not in accordance with the procedures required by this section.

- (g) (1) The appropriate Federal banking agencies are authorized and empowered to issue such rules, regulations and orders, to require such reports, and to delegate such functions, as each of them may deem necessary in order to perform their respective duties and functions under this section and to administer and carry out the provisions and purposes of this section and prevent evasions thereof.

(2) In addition to any powers, remedies, or sanctions otherwise provided by law, compliance with the requirements imposed under this section may be enforced under section 8 of the Federal Deposit Insurance Act by any appropriate Federal banking agency defined in that Act.

**EXECUTIVE COMMITTEE
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Elizabeth Holtzman

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OUTREACH TASK FORCE

Mrs. Hale (Lindy) Boggs

Ann Charnley Smith
Executive Director

Tel. (202) 225-8790

Congresswomen's Caucus



Congress of the United States
2471 Rayburn Building
House of Representatives
Washington, D.C. 20515

May 12, 1980

**CAUCUS MEMBERS
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RECEIVED
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MAY 13 AM 11:02
FEDERAL RESERVE SYSTEM
FEDERAL GOVERNORS

Mr. Paul Volcker
Chairman
Federal Reserve Board
20th and Constitution Avenues, N.W.
Washington, D.C. 20551

Dear Mr. Volcker:

The members of the Congresswomen's Caucus have asked us to express their sincere appreciation for your observations on the effect of the new credit controls on women.

Your comments helped us to better understand the role of the Federal Reserve in implementing credit control. We look forward to consulting with you further on the concerns of women seeking credit. Your suggestion for a study on the impact of the credit crunch on small businesses seems a timely idea in the light of the problems of women-owned businesses.

We are most grateful to you for giving us your time and advice.

Sincerely,

Elizabeth Holtzman

Margaret M. Heckler

Co-Chairs
Congresswomen's Caucus



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

PAUL A. VOLCKER
CHAIRMAN

May 12, 1980

The Honorable Jack Brooks
Chairman
Committee on Government Operations
House of Representatives
Washington, D. C. 20515

Re: Report by the General Accounting Office entitled "The Federal Reserve Should Assure Compliance With The 1970 Bank Holding Company Act Amendments" (GGD-80-21)

Dear Chairman Brooks:

On December 13, 1979, the Federal Reserve responded to the draft report of the General Accounting Office ("GAO") on the effectiveness of the Federal Reserve's administration of the 10-year grandfather provisions of the 1970 Amendments to the Bank Holding Company Act ("BHCA"). The Federal Reserve's response is basically applicable to the points made in the GAO's final report. The Federal Reserve, however, wishes to supplement its previous analysis with a report on developments that have occurred since the issuance of GAO's draft report.

As a result of its voluntary program, the Federal Reserve has now received responses from all affected companies concerning their plans for compliance with the 1980 requirements. (Please see attached table). Moreover, since September 30, 1979, the date used by the GAO in its report, an additional 60 affected companies are now in full compliance. Of the 253 remaining companies with 1980 obligations, only 33 are large publicly-held companies (assets over \$300 million). Generally, these companies originally had several nonbanking concerns subject to the 1980 requirements, and they have been making steady progress toward compliance by divesting or seeking the Board's approval to retain their nonbanking subsidiaries and activities. The bulk of the 253 remaining companies with 1980 obligations are small closely-held companies (assets under \$300 million). These companies typically have only one nonbank activity, and their compliance is not likely to involve any lengthy divestiture or retention procedures.

Finally, it should be noted that section 701(b) of the Monetary Control Act of 1980 (P.L. 96-221), recently enacted by Congress, amends section 4(a)(2) of the BHCA to provide that the Board may extend the 1980 divestiture date to December 31, 1982, for the divestiture by a bank holding company of interests in real estate. From the plans

Ms. Mallardi

submitted, it appears that many of the most difficult and complicated divestitures that remain involve real estate. Accordingly, the Federal Reserve has approved a policy statement that institutes procedures requiring affected bank holding companies to apply for this extension no later than July 1, 1980.

Based on its assumption that the Federal Reserve's actions to date have been inadequate and its expectation that violations of the 1980 provisions may occur, in its final report the GAO recommends that the Federal Reserve take the following actions:

- Require bank holding companies to declare the method by which they will comply, that is, divestiture, retention, reorganization, or claim of exemption.
- Establish a mandatory filing date for retention applications and divestiture plans, to insure that full compliance is achieved by the deadline.
- Require companies filing a divestiture plan to adhere to the reporting requirements in the February 1977 Board policy statement on divestitures.

With respect to the first recommended action, as noted the Federal Reserve has, through its voluntary program, obtained such declarations from all affected companies. In addition, in its recently-adopted policy statement the Federal Reserve requires affected companies with 1980 obligations to file monthly progress reports on the actions they are taking to meet such obligations.

With respect to the second recommended action, as noted above, compliance plans have been obtained from the vast majority of affected companies. Similarly, of those companies indicating plans to file retention applications, over one-third currently have applications in various stages of processing. In its December 13 response the Federal Reserve stated its belief that it lacks authority to shorten the Congressionally-mandated ten-year grandfather period. While section 5(b) of the BHCA authorizes the Federal Reserve to issue orders to prevent evasions of the BHCA, it is the Federal Reserve's judgment that it is still too early to ascertain whether such evasions will occur in particular instances. Notwithstanding procedural difficulties in enforcing such early compliance, the Federal Reserve is cognizant that time is running short, and in its policy statement the Federal Reserve established a program for the affected companies to ensure that they take action to comply promptly and to enable the Federal Reserve to monitor their progress.

The Honorable Jack Brooks

-3-

Finally, with respect to the third recommended action, as the Federal Reserve indicated in note 4 of its December 13 response, the quarterly reporting provisions of the Board's February 1977 policy statement on divestitures refer to divestitures mandated by Federal Reserve Order or a commitment, rather than 1980 obligations. In any event, the Federal Reserve has imposed even more stringent reporting provisions that are specifically applicable to companies with 1980 divestitures.

Accordingly, the Federal Reserve continues to believe that its administration of the 10-year grandfather provision has been reasonable, fair and effective.

Sincerely,

S/Paul A. Volcker

Attachment

cc: Chairman Reuss

BMMason:vab
5/9/80





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

Ms. Mallardi

PAUL A. VOLCKER
CHAIRMAN

May 12, 1980

The Honorable Abraham A. Ribicoff
Chairman
Committee on Governmental Affairs
United States Senate
Washington, D. C. 20510

Re: Report by the General Accounting Office entitled "The Federal Reserve Should Assure Compliance With The 1970 Bank Holding Company Act Amendments" (GGD-80-21)

Dear Chairman Ribicoff:

On December 13, 1979, the Federal Reserve responded to the draft report of the General Accounting Office ("GAO") on the effectiveness of the Federal Reserve's administration of the 10-year grandfather provisions of the 1970 Amendments to the Bank Holding Company Act ("BHCA"). The Federal Reserve's response is basically applicable to the points made in the GAO's final report. The Federal Reserve, however, wishes to supplement its previous analysis with a report on developments that have occurred since the issuance of GAO's draft report.

As a result of its voluntary program, the Federal Reserve has now received responses from all affected companies concerning their plans for compliance with the 1980 requirements. (Please see attached table). Moreover, since September 30, 1979, the date used by the GAO in its report, an additional 60 affected companies are now in full compliance. Of the 253 remaining companies with 1980 obligations, only 33 are large publicly-held companies (assets over \$300 million). Generally, these companies originally had several nonbanking concerns subject to the 1980 requirements, and they have been making steady progress toward compliance by divesting or seeking the Board's approval to retain their nonbanking subsidiaries and activities. The bulk of the 253 remaining companies with 1980 obligations are small closely-held companies (assets under \$300 million). These companies typically have only one nonbank activity, and their compliance is not likely to involve any lengthy divestiture or retention procedures.

Finally, it should be noted that section 701(b) of the Monetary Control Act of 1980 (P.L. 96-221), recently enacted by Congress, amends section 4(a)(2) of the BHCA to provide that the Board may extend the 1980 divestiture date to December 31, 1982, for the divestiture by a bank holding company of interests in real estate. From the plans

submitted, it appears that many of the most difficult and complicated divestitures that remain involve real estate. Accordingly, the Federal Reserve has approved a policy statement that institutes procedures requiring affected bank holding companies to apply for this extension no later than July 1, 1980.

Based on its assumption that the Federal Reserve's actions to date have been inadequate and its expectation that violations of the 1980 provisions may occur, in its final report the GAO recommends that the Federal Reserve take the following actions:

- Require bank holding companies to declare the method by which they will comply, that is, divestiture, retention, reorganization, or claim of exemption.
- Establish a mandatory filing date for retention applications and divestiture plans, to insure that full compliance is achieved by the deadline.
- Require companies filing a divestiture plan to adhere to the reporting requirements in the February 1977 Board policy statement on divestitures.

With respect to the first recommended action, as noted the Federal Reserve has, through its voluntary program, obtained such declarations from all affected companies. In addition, in its recently-adopted policy statement the Federal Reserve requires affected companies with 1980 obligations to file monthly progress reports on the actions they are taking to meet such obligations.

With respect to the second recommended action, as noted above, compliance plans have been obtained from the vast majority of affected companies. Similarly, of those companies indicating plans to file retention applications, over one-third currently have applications in various stages of processing. In its December 13 response the Federal Reserve stated its belief that it lacks authority to shorten the Congressionally-mandated ten-year grandfather period. While section 5(b) of the BHCA authorizes the Federal Reserve to issue orders to prevent evasions of the BHCA, it is the Federal Reserve's judgment that it is still too early to ascertain whether such evasions will occur in particular instances. Notwithstanding procedural difficulties in enforcing such early compliance, the Federal Reserve is cognizant that time is running short, and in its policy statement the Federal Reserve established a program for the affected companies to ensure that they take action to comply promptly and to enable the Federal Reserve to monitor their progress.

The Honorable Abraham A. Ribicoff

3

Finally, with respect to the third recommended action, as the Federal Reserve indicated in note 4 of its December 13 response, the quarterly reporting provisions of the Board's February 1977 policy statement on divestitures refer to divestitures mandated by Federal Reserve Order or a commitment, rather than 1980 obligations. In any event, the Federal Reserve has imposed even more stringent reporting provisions that are specifically applicable to companies with 1980 divestitures.

Accordingly, the Federal Reserve continues to believe that its administration of the 10-year grandfather provision has been reasonable, fair and effective.

Sincerely,

S/Paul A. Volcker

Attachment
cc: Chairman Proxmire

BMMason:vab
5/9/80

Catherine

May 13, 1980

The Honorable Fernand J. St Germain
Chairman
Financial Institutions Supervision,
Regulation and Insurance Subcommittee
Committee on Banking, Finance and Urban
Affairs
House of Representatives
Washington, D. C. 20515

Dear Chairman St Germain:

I am pleased to acknowledge on behalf of the Depository Institutions Deregulation Committee your letter of May 6, 1980, in which you and Congressman Patterson expressed your concerns about the ability of depository institutions to compete with money market mutual funds and suggested a study of two alternatives that would work toward competitive parity. I have asked the staff to undertake such a study. It will not be feasible for them to complete it in time for our June 2 meeting, but they will have it ready for consideration at the Committee's subsequent meeting in July.

Sincerely,

S/Paul A. Volcker

Paul A. Volcker
Chairman

NB:cak

cc: Mrs. Mallardi (2)

V-196



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

PAUL A. VOLCKER
CHAIRMAN

May 13, 1980

The Honorable Matthew J. Rinaldo
House of Representatives
Washington, D. C. 20515

Dear Mr. Rinaldo:

Thank you for your letter of May 5 transmitting correspondence which you received from Mr. Edmond V. Lawlor, Jr., regarding financial institutions offering "premiums or giveaways" to attract savers.

At the first meeting of the Depository Institutions Deregulation Committee, comment was requested by June 9 on a proposal to prohibit any premiums or gifts given by an institution upon the opening of a new account or an addition to an existing account. Enclosed is a copy of the press release issued by the Committee.

The Committee appreciates receiving Mr. Lawlor's views, and they have been made a part of the public record on this proposal.

Sincerely,

Paul Volcker

Enclosure

P.S. I should also note that interest rates paid by S & L's on money market certificates have dropped to the current level in a year or so.
PdV

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

Congressional Liaison Office will draft response

COMMITTEES:
INTERSTATE AND FOREIGN
COMMERCE

SUBCOMMITTEES:
OVERSIGHT AND INVESTIGATIONS
CONSUMER PROTECTION AND FINANCE

SELECT COMMITTEE
ON AGING

SUBCOMMITTEE:
HUMAN SERVICES

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

May 5, 1980

#196

1980 MAY -8 PM 9:28

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

Dear Chairman Volcker:

I am enclosing a copy of a letter I recently received from
a constituent of mine, Mr. Edmond V. Lawlor, Jr.

I would greatly appreciate it if you would look into the
matter discussed in Mr. Lawlor's correspondence and respond
to his concerns. Receiving your thoughts will assist me in
answering my constituent's letter.

Thank you for your time and effort in this matter. I look
forward to hearing from you in the near future.

Sincerely yours,

Matthew J. Rinaldo

MATTHEW J. RINALDO
Member of Congress

MJR:bwl
Enclosure



BL

MAY 01 1980

50 Park Place • Newark, New Jersey 07102 • (201)622-1888

April 29, 1980

Honorable Matthew J. Rinaldo
2338 Rayburn HOB
Washington, D. C. 20515

Dear Matt:

The administration policy of fighting inflation with high interest rates is preventing the savings and loan associations in New Jersey, and the rest of the nation, from fulfilling their role as the primary source of home financing. On behalf of all the savings and loans of the State, we urge you to continue to support every effort to reduce federal spending and support fiscal policies that will reduce the federal debt. Since this is the only long range solution to the problem of inflation, we feel that extraordinary efforts must be made to this end.

There are a number of steps that can be taken by the regulatory authorities and the Congress which will provide for some important short-term relief to the problems of the savings and loan industry which have been brought on by severe increases in interest rates. We feel that these short-term solutions will provide some relief to housing and that they will enable the savings and loans to stem the rapid rise in their cost of operations. The avoidance of additional costs and any reduction in the current cost of operations will enable our institutions to accelerate the return to a more normal level home mortgage lending activity.

One of the serious drains on savings and loan earnings has been caused by a competitive race to attract savers by means of the offering of "premiums or giveaways". The amount that can be spent on premiums to be given to customers as a means of attracting their accounts is limited by regulation for all types of supervised institutions. This includes savings and loans, savings banks and commercial banks. A copy of the regulation limiting the savings and loan premiums to \$5.00 for each \$1,000 account and \$10 for each \$10,000 account is enclosed.

Recently, a great number of institutions of all types violated these regulations in their anxiety to hold on to their savings accounts in the face of the unregulated competition of the money market funds. The giveaway programs of some institutions went far beyond the limitations of the regulations.

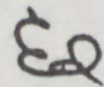
Continued.

Last month the supervisory authorities in Trenton and at the Federal Home Loan Bank of New York (the supervisory agent for the Federal Savings and Loan Insurance Corporation) issued letters warning the institutions under their jurisdiction that the regulations would be strictly enforced. The supervisory agents for the banks did the same thing. Enclosed are copies of the supervisory letters addressed to the savings and loan associations in New Jersey. However, the practice of offering giveaway items in violation of the regulation continues, as you can see from the enclosed correspondence from the head of the United States League of Savings Associations to Federal Home Loan Bank Board Chairman Jay Janis and the Comptroller of the Currency John Heimann.

The New Jersey Savings League's Board of Governors adopted a resolution at its meeting on Friday, April 11th, stating that every effort should be made to convince the supervisory authorities to take the appropriate action to either enforce the existing regulations or impose a temporary moratorium on giveaways until such time as a sensible solution to this problem can be arrived at.

We, therefore, are urging you and the other members of the New Jersey delegation to contact the members of the Deposit Institution Deregulation Committee, shown on the enclosed list, and urge them to take the appropriate action to stop the flagrant violation of the regulations and require a return to normalcy in the manner in which institutions compete for the savers funds. If allowed to continue, one can only conclude that the larger institutions such as City Bank in New York with their substantial resources will out compete the other institutions in the New Jersey-New York region and take far more than their normal share of the savings market. They are willing to do this because savings funds are a cheaper source of investment money for them than any of their traditional sources of these funds. Savings dollars diverted from savings and loan associations will be taken out of the mortgage lending stream and thereby have a devastating effect on the housing market and the myriad industries related to housing. ..

Sincerely yours,



President

Edmond V. Lawlor, Jr.

Enclosures

ma

P.S. Thanks again for the opportunity to visit with you and discuss some of the serious issues confronting the savings and loans of New Jersey. We very much appreciated your awareness of the impossible problems generated by dividends/interest withholding legislation for account holders in savings and loan associations about which we sent you a mailgram.

May 13, 1980

The Honorable Bruce F. Vento
House of Representatives
Washington, D. C. 20515

Dear Mr. Vento:

I can well understand your concern -- even sense of shock -- about the Hunt matter. I can assure you I have no more sympathy than you for their performance.

Your letter does seem to me to misconstrue entirely the role of the Federal Reserve in this matter. I am attaching some testimony that I hope helps clarify the issues.

In particular, the loan under discussion, which has been privately negotiated, contains provisions to prevent during its life further speculative ventures by the Hunts and related parties. The Hunts have not cleared themselves of their speculative debts -- the loan restructures but does not "clear" those debts. While the position of the creditors and the Hunts would presumably be stabilized -- and that is why they freely decided to negotiate the loan -- the Hunts cannot return to "business as usual" so long as the debts are outstanding, and indeed appear to have been forced to liquidate some other assets to service their silver debts. The Federal Reserve has not, and will not, "underwrite" the loans.

Our analysis suggests this new loan should not substantially affect the national supply of credit at this point, because the new loan will replace existing debts (the earlier debts, of which we were unaware as they were increased, could be construed as "speculative," although they largely appear to have been incurred to cover speculative losses or to avoid liquidation rather than to purchase silver). The practical and unfortunate situation we faced was that, as a byproduct of the Hunt speculation and the consequent exposure of other institutions with which they dealt, the stability of certain financial institutions and markets was threatened; had that threat materialized, it is innocent bystanders, including those dependent on the orderly flow of bank credit, who would have paid part of the price.

The Honorable Bruce F. Vento
Page Two

The loan, which I neither approved nor disapproved, will contain safeguards against the renewed speculation you (and I) deplore, assuming it is consummated.

More important, for the future, is what can be done to forestall another episode of this kind. We have turned our efforts in that direction.

Sincerely,

S/Paul A. Volcker

Enclosure

PAV:vcd (#V-195)

bcc: Mrs. Mallardi (2)

BRUCE F. VENTO
4TH DISTRICT, MINNESOTA

230 CANNON HOUSE OFFICE BUILDING
(202) 225-6631

DISTRICT OFFICE:
ROOM 150
MEARS PARK PLACE
405 SIBLEY STREET
SAINT PAUL, MINNESOTA 55101
(612) 725-7724

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

May 5, 1980

#195

Chairman Paul Volcker
Federal Reserve System
20th Street and Constitution Ave., N.W.
Washington, D.C. 20551

Dear Chairman Volcker:

I was shocked to learn of your approval of an estimated \$1.1 billion loan to the Hunt brothers, Nelson and W. Herbert. The recent series of Congressional hearings in the Senate and the House leave no doubt about the central role of the Federal Reserve Board and you as chairman in accommodating, in fact assuring, this credit transaction.

The country is now entering what appears to be a pronounced recession. As a result of the Fed's tight money policies and high interest rates, many sectors of the economy are suffering badly, most notably housing, agriculture and small business. Given this situation, I find it absolutely incredulous that the Federal Reserve could approve a loan in excess of \$1 billion solely to cover the speculative misdealings of two of the richest men in America. This loan is clearly contradictory to the Federal Reserve Board's policy of curbing speculative borrowing. It also diminishes the supply of capital that banks might otherwise make available to productive concerns. The Credit Control Act calls for the Fed to target credit relief to the depressed sectors of the economy. In my mind, the Fed could certainly find more appropriate "depressed sectors" than the Hunt brothers. It's one thing when the Hunts play the market but another when the Federal Reserve Board does.

It is incredible that the Chairman of the Federal Reserve Board would take action to reinforce the Hunt speculation which represents private controls over the market, for private gain. I would think that the public interest could have been better served by other than this extraordinary action.

As I understand the Hunt brothers' current situation, they have already cleared themselves of most of their silver speculating debts. Am I then to believe that the Federal Reserve Board is approving this loan so that the Hunt brothers can return to "business as usual"? In my opinion, it is ethically wrong for the Federal Reserve Board to underwrite the Hunt brothers' damages. The Hunt brothers acted of their own volition in bringing about their failure. Now, they should be forced to finance their own debts by liquidating their assets and, if necessary, selling their vast oil and gas operations. Throughout the country, homebuilders, small businessmen and farmers are declaring bankruptcy and the Fed has taken only cosmetic action to bring on some relief. Indeed, approving a loan of this magnitude to two of the richest men in America stands as a slap in the face to those suffering under the Fed's tight money policies.

1980 MAY 7 PM 9:30

Chairman Paul Volcker

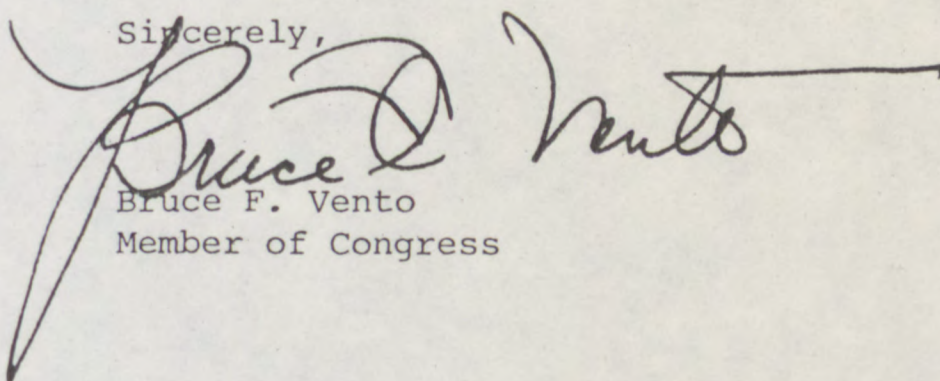
Page two

May 5, 1980

Mr. Chairman, I strongly urge you to rescind your approval of the loan to the Hunt brothers. The United States should not be a country in which the rich are granted special privileges by the power of their purse. I have little sympathy for men who can bring the markets to the brink of disaster through their attempts to corner and control world silver markets.

I look forward to your prompt reply.

Sincerely,

A handwritten signature in cursive script that reads "Bruce F. Vento". The signature is written in dark ink and is positioned above the typed name and title.

Bruce F. Vento
Member of Congress

BFV/sr

May 13, 1980

The Honorable Frank Church
United States Senate
Washington, D.C. 20510

Dear Senator Church:

I can well understand your concern about the Hunt matter. I can assure you I have no more sympathy than you for their performance.

The loan under discussion, which has been privately negotiated, contains provisions to prevent during its life further speculative ventures by the Hunts and related parties. The Hunts have not cleared themselves of their speculative debts--the loan restructures but does not "clear" those debts. While the position of the creditors and the Hunts would presumably be stabilized--and that is why they freely decided to negotiate the loan--the Hunts cannot return to "business as usual" so long as the debts are outstanding, and indeed appear to have been forced to liquidate some other assets to service their silver debts.

Our analysis suggests this new loan should not substantially affect the national supply of credit at this point, because the new loan will replace existing debts (the earlier debts of which we were unaware as they were increased, could be construed as "speculative," although they largely appear to have been incurred to cover speculative losses or to avoid liquidation rather than to purchase silver). The practical and unfortunate situation we faced was that, as a byproduct of the Hunt speculation and the consequent exposure of other institutions with which they dealt, the stability of certain financial institutions and markets was threatened; had that threat materialized, it is innocent bystanders, including those dependent on the orderly flow of bank credit, who would have paid part of the price.

The loan, which I neither approved nor disapproved, will contain safeguards against the renewed speculation you (and I) deplore, assuming it is consummated.

The Honorable Frank Church
Page Two

We are in the process of completing a more thorough analysis of the financial aspects of this situation for the Senate Banking Committee. That report should be completed in a few days and I will send a copy to you for your information. In the meanwhile, I am enclosing some testimony that I hope clarifies the issues.

More important for the future, is what can be done to forestall another episode of this kind. We have turned our efforts in that direction.

Sincerely,

S/Paul A. Volcker

Enclosure (Statement d&d. 5/1/80.)

EGC:pjt (#V-187)
bcc: Mrs. Mallardi(2)

Action assigned Mr. Corrigan

HENRY M. JACKSON, WASH., CHAIRMAN	MARK O. HATFIELD,
FRANK CHURCH, IDAHO	JAMES A. MC CLURE,
J. BENNETT JOHNSTON, LA.	LOWELL P. WEICKER, JR., CONN.
DALE BUMPERS, ARK.	PETE V. DOMENICI, N. MEX.
WENDELL H. FORD, KY.	TED STEVENS, ALASKA
JOHN A. DURKIN, N.H.	HENRY BELLMON, OKLA.
HOWARD M. METZENBAUM, OHIO	MALCOLM WALLOP, WYO.
SPARK M. MATSUNAGA, HAWAII	
JOHN MELCHER, MONT.	
PAUL E. TSONGAS, MASS.	
BILL BRADLEY, N.J.	

United States Senate #187

COMMITTEE ON ENERGY AND NATURAL RESOURCES

WASHINGTON, D.C. 20510

DANIEL A. DREYFUS, STAFF DIRECTOR
D. MICHAEL HARVEY, CHIEF COUNSEL
STEVEN G. HICKOK, STAFF DIRECTOR FOR THE MINORITY

May 2, 1980

1980 MAY -2 11:10:57

Mr. Paul A. Volcker, Chairman
Federal Reserve Board
Room B-2046
Constitution Avenue between
20th & 21st, N.W.
Washington, D.C. 20551

Dear Paul:

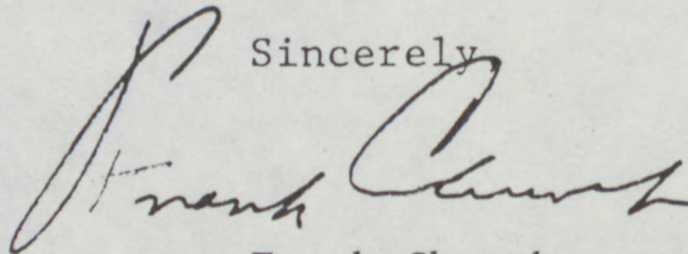
I am deeply troubled by the reports concerning the massive line of credit, exceeding \$1 billion dollars, being made available to the Hunt brothers.

I am at a loss to understand why the restriction that credit not be extended for speculative purposes is being waived in this case. The Hunts are reported to hold billions of dollars worth of assets. If the Hunts have debts to pay, why cannot they satisfy those obligations out of their enormous wealth? They gambled and lost. At a time when farmers, small businessmen and potential homebuyers are denied credit, it strikes me as terribly unfair to allow this massive extension of credit to cover the speculation of the richest brothers in America.

As the Board continues to monitor the Hunt credit negotiations, I respectfully request that the Board apply the same restrictions that the average American faces when seeking credit to cover speculative losses. To do other wise would be a travesty.

The citizens of my state are suffering severe economic distress. On their behalf, I protest special credit arrangements for billionaire gamblers.

Sincerely



Frank Church

May 13, 1980

The Honorable Norman E. D'Amours
House of Representatives
Washington, D. C. 20515

Dear Mr. D'Amours:

I can well understand your concern about the Hunt matter. I can assure you I have no more sympathy than you for their performance.

Your letter does seem to me to misconstrue the role of the Federal Reserve in this matter. I am attaching some testimony that I hope helps clarify the issues.

In particular, the loan under discussion, which has been privately negotiated, contains provisions to prevent during its life further speculative ventures by the Hunts and related parties. The Hunts have not cleared themselves of their speculative debts -- the loan restructures but does not "clear" those debts. While the position of the creditors and the Hunts would presumably be stabilized -- and that is why they freely decided to negotiate the loan -- the Hunts cannot return to "business as usual" so long as the debts are outstanding, and indeed appear to have been forced to liquidate some other assets to service their silver debts.

Our analysis suggests this new loan should not substantially affect the national supply of credit at this point, because the new loan will replace existing debts (the earlier debts, of which we were unaware as they were increased, could be construed as "speculative," although they largely appear to have been incurred to cover speculative losses or to avoid liquidation rather than to purchase silver). Looked at in this light, I can't believe that the situation has or will undermine our credit restraint program. Indeed, were it not for the fact of that program, we probably would not have been in a position to insist on the prohibitions on speculation that will be part of the loan agreement.

The Honorable Norman E. D'Amours
Page Two

The practical and unfortunate situation we faced was that, as a byproduct of the Hunt speculation and the consequent exposure of other institutions with which they dealt, the stability of certain financial institutions and markets was threatened; had that threat materialized, it is innocent bystanders, including those dependent on the orderly flow of bank credit, who would have paid part of the price.

The loan, which I neither approved nor disapproved, will, as noted above, contain safeguards against the renewed speculation you (and I) deplore, assuming it is consummated.

More important, for the future, is what can be done to forestall another episode of this kind. We have turned our efforts in that direction.

Sincerely,

S/Paul A. Volcker

Enclosure

PAV:vcd (#V-190)

bcc: Mrs. Mallardi (2)

NORM D AMOURS
1st DISTRICT, NEW HAMPSHIRE

STANDING COMMITTEES:
BANKING, FINANCE
AND URBAN AFFAIRS
MERCHANT MARINE AND
FISHERIES
MEMBER-STEERING
AND POLICY
COMMITTEE

Action assigned Mr. Conigan--info copy to Jack Ryan

WASHINGTON OFFICE
1503 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-5456

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

April 28, 1980

DISTRICT OFFICES:
MANCHESTER, NEW HAMPSHIRE 03105
720 NORRIS COTTON FEDERAL BUILDING
275 CHESTNUT STREET
(603) 668-6800
669-7011, EXT. 526
PORTSMOUTH, NEW HAMPSHIRE 03801
425 AND 426 FEDERAL BUILDING
80 DANIEL STREET
(603) 436-7720, EXT. 707
LACONIA, NEW HAMPSHIRE 03246
200 AND 223 FEDERAL BUILDING
719 MAIN STREET
(603) 524-7185

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

Dear Chairman Volcker:

I have been deeply distressed by recent reports that the Fed has given its approval to \$800 million in loans by major banks to Nelson and W. Herbert Hunt to finance their losses in the silver market.

At a time when millions of small businessmen, realtors and homebuilders are in desperate straights because of the tight money supply and high interest rates, it is unconscionable to approve this kind of unproductive lending activity.

Worst of all, this incident will seriously undermine the Fed's credit control program, and in turn the Administration's anti-inflation initiatives. It sends the worst possible signals to the American people: speculation is ok, and rich speculators receive preferential treatment over hard-working, productive businessmen.

I sincerely hope that the Fed will reconsider its position and issue a strong statement disapproving all lending for commodity speculation.

Sincerely,

Norm D'Amours

Norman E. D'Amours
Member of Congress

NED/mr

May 14, 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:

Thank you for your May 1 letter in which you urge the Board to reject a proposed amendment to the consumer credit restraint regulation.

As you indicate, the Board has received a petition to revise Subpart A of the credit restraint regulation, implemented by the Board on March 14. The petition seeks to amend § 229.6, dealing with change in terms, by permitting creditors to request that customers notify them of refusal to accept the new terms. You are concerned about the effect of such a procedure on consumers who may be potentially subject to these changes.

The issue which the petition addresses has been the subject of widespread concern on the part of creditors and consumers. In order to resolve the many questions regarding implementation of § 229.6, the Board will consider this petition at a meeting scheduled for May 21. Of course, the Board's decision to consider this petition formally does not mean the Board will necessarily adopt the proposal. However, we believe that further clarification of this matter is essential in order to carry out the goals of the credit restraint program with minimum dislocation to creditors and consumers.

We understand your concerns regarding the impact on consumers of any further changes in this area. Your views on this matter will be fully considered before any final decision is reached. I appreciate your taking the time to share them with us.

MAS:JPB:pjt (#V-191)
bcc: Ms. Stewart
Mrs. Mallardi (2)

Sincerely,

S/Paul A. Volcker

FRANK ANNUNZIO, ILL., CHAIRMAN

GLADYS NOON SPELLMAN, MD.
BRUCE F. VENTO, MINN.
WALTER E. FAUNTROY, D.C.
PARRON 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

May 1, 1980

1191

1980 MAY -5 PM 9:25

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

Dear Mr. Chairman:

I was shocked to read in the April 25 edition of the American Banker that the Federal Reserve Board staff was actively considering the proposal by the American Bankers Association to change the Board's regulation governing retroactive application of changes in open end credit terms. The ABA proposal would completely subvert a primary purpose of the Board's regulation: providing consumers a meaningful opportunity to reject application of new credit terms to their previous purchases.

Under the current Board regulation a consumer has the option of preventing retroactive application of new credit terms to his old balance by discontinuing use of his credit card until the old balance is paid off or accepting the new terms by continuing to use his credit account. In contrast, the ABA proposal would require a consumer within 30 days of notice of a change in credit terms, to provide the creditor with a formal notice that the consumer rejects the retroactive application of new credit terms to his old balance.

This proposal would force on a consumer retroactive application of new credit terms even if he cut up his card and never used it again. Also, if a creditor did not send the notice and then applied the new credit terms retroactively, it would be hard, if not impossible, for the consumer to prove that the notice had never been sent.

The ABA proposal would place a tremendous burden on consumers. Not only would a consumer have to affirmatively notify his creditor, but do so in a manner that met all of the criteria of the "formal notice" required in the ABA proposal. Consequently, some creditors might invalidate consumer notices on technical grounds.

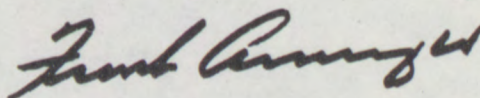
In its testimony before the House Banking Subcommittee on Consumer Affairs on April 23, the ABA made a representation that some creditors and processors would have "great difficulty" in complying with the Board's regulations. I believe that this representation is so self-serving that it should not be accepted at face value by the Board or its staff.

Honorable Paul A. Volcker
May 1, 1980
Page Two

I believe the ABA proposal would force virtually all consumers to accept the clearly unconscionable retroactive application of new credit terms to previous purchases. Consequently, I urge the Board most strongly to reject the ABA proposal.

With every best wish,

Sincerely,



Frank Annunzio
Chairman

May 16, 1960

The Honorable Trent Lott
House of Representatives
Washington, D.C. 20515

Dear Mr. Lott:

I am pleased to respond to your April 22 letter regarding a query from one of your constituents, Mr. W. Harvey Hurt, Jr.

Mr. Hurt is correct that the Federal Reserve Board obtains an estimate of new currency needs from each Federal Reserve Bank each spring. Most Reserve Banks use a three year average, but they adjust the average based upon events they believe will affect the actual needs for new currency in the future. For instance, if banks are installing many new automatic tellers, the Reserve Bank servicing the area might order more new currency than usual. The Board, upon receiving the Reserve Banks' projections, reviews and analyzes the number, discusses the numbers with the Treasury, and then develops a Federal Reserve Printing Order which is submitted to the Treasury for the upcoming year.

New currency is sent to the Reserve Banks from the Treasury, but the currency is used to meet the needs of all banks, not just Federal Reserve member banks. Federal Reserve Banks send currency to non-members and members alike, although many non-member institutions prefer to get their cash through a correspondent member bank. Banks do not borrow currency from the Reserve Banks; rather, they pay for it through charges to their reserve accounts held at the Federal Reserve Bank. As an example, suppose a bank which we will call First National Bank has a ten million dollar reserve account at the New Orleans Federal Reserve office. First National wants some extra currency because some of the companies banking at First National are going to have large cash payrolls to meet in the next few days and First National doesn't have enough currency in its vault. First National contacts the New Orleans office and orders three million dollars in currency. The Federal Reserve Bank debits First National's reserve account by three million dollars and sends the currency to First National as requested. No borrowing is involved.

The Honorable Trent Lott
Page Two

In 1979, \$12 billion in new notes were distributed to the public as an increment to the currency supply. Additional new notes printed by the Treasury were used to replace old, worn out currency and to meet inventory needs. The amounts of new notes added in the other nine years of the decade were as follows: 1970-\$3.7 billion, 1971-\$4.0 billion, 1972-\$5.5 billion, 1973-\$5.9 billion, 1974-\$7.8 billion, 1975-\$7.3 billion, 1976-\$7.4 billion, 1977-\$9.3 billion, and 1978-\$11.3 billion. These notes were used to meet the demands of the public for money they wished to hold in the form of cash. The money supply, in its most simple formulation, consists of demand deposits and currency in circulation, and the proportion of money the public holds in checking accounts as compared to currency shifts over time. For instance, in 1960, there was one dollar of circulating currency for every \$4 of checking account dollars. In 1979, there was one dollar of currency for every \$2.63 in checking accounts. People in 1979 preferred to hold more money in the form of currency and therefore the Federal Reserve had to have more notes printed.

In view of Mr. Hunt's interest in currency, I am enclosing a booklet entitled U.S. Currency which provides a complete description of our currency system.

Sincerely yours,

(Signed) Donald J. Winn

Donald J. Winn
Special Assistant to the Board

Enclosure

BBK:CO:pjt (4V-165)
bcc: Mr. Kaiman
Mrs. Mallardi
Mr. Wallace

TRENT LOTT
5TH DISTRICT, MISSISSIPPI

COMMITTEES
RULES

CHAIRMAN, REPUBLICAN
RESEARCH COMMITTEE

ADMINISTRATIVE ASSISTANT
TOM H. ANDERSON, JR.

Action assigned Bill Wallace

2400 RAYBURN BUILDING
WASHINGTON, D.C. 20515
202-225-5772

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

DISTRICT OFFICES:
GULFPORT, MISSISSIPPI 39501
601-864-7670
HATTIESBURG, MISSISSIPPI 39401
601-582-3246
LAUREL, MISSISSIPPI 39440
601-649-1231

April 22, 1980

Mr. Paul A. Volcker
Chairman
Federal Reserve System
Federal Reserve Building
Washington, DC 20551

#165

Dear Mr. Chairman:

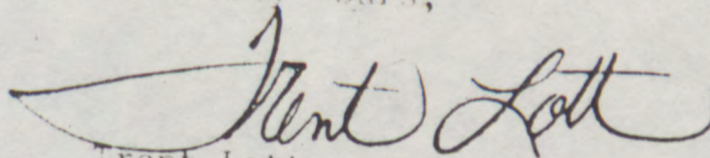
I have recently received correspondence from Mr. V. Harvey Hurt, Jr., who contacted me regarding questions on how the Federal Reserve System functions.

Enclosed for your information is a copy of this correspondence, which details the nature of the problem. I would appreciate very much your providing information which would be of assistance in responding to this inquiry.

Thank you for your assistance in this matter.

With best regards, I am

Sincerely yours,


Trent Lott

TL/bb
Enclosure

1980 APR 24 PM 2:21

W. HARVEY HURT, JR.

April 16, 1980

Congressman Trent Lott
Washington, D. C.

Dear Trent:

Re: Tel call to Buddy Bynum

As we understand it, the Federal Reserve Board asks each of the regional Federal Reserve Banks how much money they need each spring, using a 3-year average. Based on this information the Treasury has this much currency printed up and sent to these banks for them to use for the needs of banks that are members of the Federal Reserve System.

These banks borrow this money from the Federal Reserve, paying interest as demanded by the Board. This same money can be used to furnish money needed by the government, secured by various forms of government securities such as Treasury Bills, etc., and drawing interest at a rate higher than is required by the government of the banks (member).

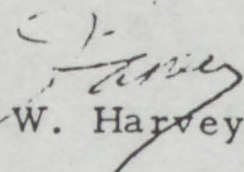
We would like to know if the above is correct.

We also would like to know how much money was printed up during the last fiscal year and handled this way, and how much was printed in this manner over say the last 10 years.

We are not interested in receiving voluminous dissertations on how the Fed was formed, amendments, additions, as might be found in editions of the Congressional Record or other detailed and complex publications. Hence, a simplification would be appreciated.

Thanking you for the trouble we are putting you to, and with best wishes

I am yours sincerely,


W. Harvey Hurt, Jr.

May 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 Chairman Rosenthal:

I am replying to your letter of April 22 in which you invite comment on a report prepared by the Congressional Research Service concerning the legislative history of the nonbanking prohibitions of the Bank Holding Company Act. Your letter also requests that the Board provide background information on the legislative history of the exemptions from the nonbanking prohibitions afforded foreign corporations.

In response to your request, I am enclosing a brief staff memorandum that reviews the CRS report and provides further detail on the deliberations that led to the inclusion of these exemptions in the Act. In view of the time constraints involved, the memorandum is not presented as a comprehensive treatment of the legislative history of the exemptions. We remain willing, of course, to assist the Subcommittee with any other questions it may have concerning this topic.

Sincerely,

S/ Paul A. Volcker

Enclosure

KO:JM:pjt (#V-161)

bcc: Kathleen O'Day

Jim McAfee

Mrs. Mallardi (2) ✓

STAFF MEMORANDUM ON QUESTIONS BY
HON. BENJAMIN S. ROSENTHAL RELATING TO THE
LEGISLATIVE HISTORY OF SECTIONS 2(h) AND 4(c) (9)
OF THE BANK HOLDING COMPANY ACT

In connection with hearings to be held by the Commerce, Consumer, and Monetary Affairs Subcommittee of the House Committee on Government Operations, Chairman Benjamin S. Rosenthal has asked the Board to review a report of the Congressional Research Service entitled "Legislative History of the Nonbanking Prohibitions of the Bank Holding Company Act," to respond to particular questions relating to the background of exemptions provided to foreign corporations in sections 2(h) and 4(c) (9) of that Act, and to supply further background information regarding these exemptions.

A major thrust of Chairman Rosenthal's inquiry is that exemptions under section 4(c) (9) of the Act were intended to be limited to investments only by bank holding companies "principally engaged in the banking business outside the United States." The staff believes that suggestion reflects a misreading of the legislative history; we have found no proposal in the legislative history that the provision be so restricted and the Board did not recommend such a limitation.

After preliminary review in the limited time available, the Board's staff is satisfied that the focus and direction of the report Chairman Rosenthal has submitted are generally accurate, but the report omits some illuminating detail and, because it is only a brief overview of the development of selected exemptions, the report draws some conclusions that could be misleading. In reviewing materials bearing on the questions raised, staff notes that there is available a more comprehensive study of the legislative history of the Act's coverage of foreign corporations. Lichtenstein, "Foreign Participation in United

States Banking: Regulatory Myths and Realities," 15 B.C. Indus. & Com. L. Rev. 879 (1974). While the article expresses some personal opinion and indulges in conjecture with which the Board or others involved in the development of these exemptions may disagree, it addresses the areas of Chairman Rosenthal's interest and inquiry in particular detail, and a copy is attached for his information.

The article addresses Chairman Rosenthal's first and third questions, regarding the origin of section 2(h) in 1966 and the meaning of "principally engaged in the banking business outside the United States," beginning on page 917. It confirms the Congressional Research Service's conclusion that there is little legislative history clarifying these questions, and at this time the staff has not found other sources contradicting that conclusion. The article suggests, however, that the limitation of the exemption to bank holding companies "principally engaged in the banking business outside the United States" may have been inserted only to prevent domestic banks from evading all restriction on their purely overseas investments rather than intentionally to distinguish between foreign banks and other foreign corporations.

Chairman Rosenthal's second question, the staff believes, arises from a misinterpretation in the report of section 4(c)(9) and of Chairman Burns' testimony in 1970. The report states on page 14 that "the exemption was amended to permit ownership of foreign companies 'the greater part of whose business is conducted outside the United States,'" and the analysis that follows treats section 4(c)(9) as if it were an exemption for the ownership by bank holding companies, wherever

located, of foreign companies. This is incorrect. Section 4(c) (9) is clearly an exemption for the ownership, within limits to be prescribed by the Board, by foreign bank holding companies of companies and activities of any description, wherever located.

In that light, section 4(c) (9), as enacted, is not similar to section 4(c) (9) of S.1664. The latter provision, relating to acquisitions of foreign banks rather than acquisitions by foreign bank holding companies, would not have conferred a new exemption, but was intended to curtail overly broad exemptions found in the original act. Section 25 of the Federal Reserve Act requires member banks to secure the Board's approval to invest in foreign banks and prescribes capital investment limitations. The first paragraph of Chairman Burns' testimony quoted on page 16 of the report relates to this narrow question, the possibility that existing exemptions might allow domestic banks to evade the restrictions of section 25 of the Federal Reserve Act by use of separate affiliated corporations; it does not concern the legislative proposal that culminated in section 4(c) (9) of the Act.

In the balance of the quoted testimony Chairman Burns endorsed "provisions of the House-passed bill [H.R. 6778] authorizing the Board to grant exemptions." That bill included not only the provision that (with a minor change) became section 4(c) (9), permitting the Board upon proper findings to exempt any investment or activity of foreign bank holding companies, but also provisions permitting the Board to exempt from the act's coverage altogether companies whose only banking subsidiaries were foreign and conducted most of their business abroad or were domestic but chiefly engaged in activities related to foreign commerce. None of these provisions of the House bill purported to restrict

the availability of the exemptions to companies principally engaged in banking outside the United States.^{1/}

From that background, it is reasonably clear that in offering the Board's views on the provisions of the House bill, Chairman Burns was not arguing that those provisions were too broad nor was he recommending a restriction not suggested by the provisions he endorsed. Instead, he was giving the clearest examples of situations in which an inflexible application of the existing law, which did make special provision for bank holding companies "principally engaged in the banking business outside the United States," could lead to an unnecessary interference with foreign business and invite retaliation against domestic banks, situations in which the Board could most reasonably be expected to exercise at once authority under those provisions if it were granted.

The staff notes that it has recently received a separate report prepared by the Congressional Research Service that discusses in greater depth the procedural requirements of section 4(c)(9) of the Act, and the staff expects to complete to forward to you its analysis of that report in the near future.

Attachment

^{1/} Neither were the exemptions proposed in S.1664 restricted to bank holding companies principally engaged in banking outside the United States. So far as the staff has been able to determine from a review of available materials to date, no one was suggesting such a restriction.

May 16, 1980

The Honorable Charles H. Percy
United States Senate
Washington, D.C. 20510

Dear Senator Percy:

Thank you for your letter of April 16 regarding the homebuilding industry. While many of the fiscal and regulatory remedial proposals made by the Illinois home builders transcend the authority of the Federal Reserve, the overall package underscores the extent to which mortgage and housing markets have been under pressure.

The Federal Reserve shares the concerns about the problems encountered by mortgage lenders, home buyers, builders, and others with limited financing alternatives. In designing the Special Credit Restraint Program announced on March 14, the Board asked commercial banks to give priority to maintaining a reasonable availability of funds to small businesses, such as local builders, and to serving the liquidity needs of thrift institutions. The special deposit requirements applying to increases in consumer credit specifically excluded mortgage credit for the purchase or improvement of homes. In addition, the special deposit requirements imposed on any further expansion in the assets of money market mutual funds should help curb the shift of savings, leaving more funds available in local markets to help meet local credit demands, including those associated with housing. Furthermore, the Federal Reserve has long supported regulatory changes that will make credit more readily available for housing during periods of high interest rates. Measures enhancing the ability of thrift institutions to compete for funds, such as the recently enacted legislation which provides for deregulation of depository institutions, are important contributions in this regard.

During recent weeks, several other types of relief for home builders have emerged, although they will obviously take some time to be reflected fully in mortgage market conditions and in homebuilding activity. Costs of construction credit have declined in many localities as short-term interest rates have

dropped noticeably; costs of long-term residential mortgage credit also appear to have reversed their earlier upward trend. Effective April 18, the Department of Housing and Urban Development amended its policy to allow builders to obtain FHA-insured permanent mortgage financing upon completion of a house, thus easing the burden of carrying unsold inventory with higher-cost construction financing. In the realm of legislative action, on April 22 the Senate passed a bill (S. 2177) that would revise and broaden the types of emergency financial assistance available to home buyers.

Measures designed to aid the mortgage and housing markets, however, do not go to the core of the problem facing these and other sectors of the economy. The inflationary process itself must be halted. To do so within the limits of our economic and financial resources requires a coordinated approach by business, government, and consumers alike. The anti-inflation measures announced recently by President Carter, including fiscal restraint and tax changes that increase productivity, comprise a major step in that regard.

The proposals by the Illinois home builders also alluded to the supervisory treatment of loans to borrowers experiencing financial problems as a result of current conditions in the home building industry. Pursuant to the Federal Reserve's supervisory responsibilities, standard examination procedures require full consideration of all relevant factors when reviewing loan portfolios. Chief among these considerations are the underlying value of collateral, the ability of borrowers to resolve their difficulties, and the effects of general economic and financial conditions. These procedures enable the Federal Reserve to make an accurate assessment of the financial condition of individual banks while remaining sensitive to the difficulties of particular borrowers and economic sectors. Within the bounds of prudent banking practice, the supervisory oversight process does not preclude the management of a financial institution from devising appropriate strategies, such as renegotiating terms of certain loans or granting interest rate concessions, that will enable borrowers to work out their problems in a manner consistent with the interests of the lending institutions.

The concerns raised by the Illinois home builders are similar to those presented in a recent meeting with representatives of the National Association of Home Builders. The NAHB

The Honorable Charles H. Percy
Page Three

requested that the bank regulatory agencies take steps to ensure that examiners are aware of the current conditions facing the home building industry. This matter has been referred to the Federal Financial Institutions Council since it relates to the supervision of thrift institutions as well as commercial banks. I should point out that any action taken with respect to this matter would have to maintain the integrity of the examination process and ensure the agencies' ability to promote the safety and soundness of the financial institutions industry.

Sincerely,

S/Paul A. Volcher

RF:RC:RS:pjt (#V-158)
cc: Mr. Fisher
Mr. Corwin
Mr. Spillenkothan
Mrs. Mallardi (2) ✓

CHARLES H. PERCY
ILLINOIS

United States Senate

WASHINGTON, D.C. 20510

158

April 16, 1980

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

Dear Paul:

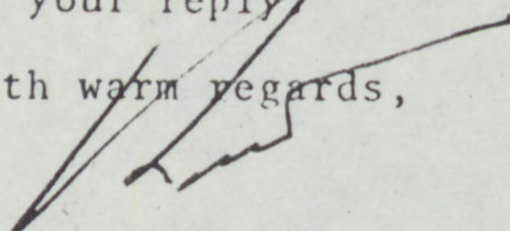
On March 26, I met with a concerned group of Illinois homebuilders who very effectively brought to my attention the critical state of their businesses. At that time, we discussed several options for relief, primarily legislative in nature.

The need to maintain strict budgetary restraints makes the passage of legislative remedies uncertain at this time. Because the Illinois homebuilders consider current economic conditions an imminent danger to the viability and even survival of their industry, I asked them to consider and suggest alternatives to legislation that could be implemented quickly and without significant budgetary impact.

Subsequent to that March 26 meeting, representatives of the homebuilders met with my staff and presented a package of tax and regulatory proposals they feel can bring some immediate relief. A copy of these proposals is enclosed and I urge you to give them careful consideration. While not all of the proposals pertain to the regulatory authority of the Federal Reserve, I felt it would be helpful to you to view them within the context of the homebuilders' overall plan.

I would appreciate anything you can do to help and I look forward to your reply.

With warm regards,


Charles H. Percy
United States Senator

CHP:bh

enclosures

March 27, 1980

HOUSING AND HOME OWNERSHIP
EMERGENCY CREDIT ACT
OF 1980

WHEREAS, the nation's housing industry, homeowners, realtors, and housing-oriented financial institutions by mid-March 1980 faced a National Housing Emergency with new and existing home sales already off more than 30 percent in many areas and national starts already far below 1.6 million, plummeting further to start rates lower than any post-World War II year; and

WHEREAS, this National Housing Emergency is caused by federal monetary policies directed against inflation but resulting in both short-term (development and construction loans) and long-term (mortgage) credit costs which so far exceed previous record levels as to create a major credit disaster for housing, the only national industry which is directly dependent upon both short term and long term credit; and

WHEREAS, this housing credit disaster has already made it impossible for millions of Americans to buy and sell their most important single asset, their home, and threatens to freeze housing sales for many months causing untold individual hardship to millions of American homeowners; and

WHEREAS, not only Savings and Loans and Mutual Savings Banks but also many commercial banks heavily engaged in land development and construction lending are threatened by the National Housing Emergency with broad-spread and potentially crippling losses; and

WHEREAS, the combination of short-term rates more than 50 percent above historical records plus the collapse of mortgage financing at affordable rates threatens to bankrupt a major number of the efficient small housing firms which produce the majority of American housing, cost over \$100 billion in lost economic activity, eliminate 1 1/2 million man years of employment, cut federal and state government revenues by nearly \$6.8 billion, and so cripple the entire industry as to guarantee high additional inflationary costs connected with its post-crisis reorganization; and

WHEREAS, governmental economic statistics have been so delayed and distorted that they have failed to predict the National Housing Emergency, to detect that it has already been in effect for many months, and to report that major areas of the country are already housing disaster areas where sales activity has been down over 40 percent from the 1977, 1978, and 1979 activity levels for as long as 12 months

with concomitant immediate hardships for homeowners, homebuilders, realtors and housing oriented financial institutions.

NOW, THEREFORE, IN ORDER TO ensure that housing and homeowners do not bear the full brunt of the monetary policies designed to fight inflations but currently causing a National Housing Emergency; and

IN ORDER TO prevent the virtual destruction of the most productive housing industry in the world by forcing it to absorb not just a normal cyclical downturn of 15 percent to 25 percent but a loss of over 30 percent and in some areas up to 70 percent of its markets while at the same time paying unpredictably high short term rates to finance frozen land development and house inventories at rates allowing only one outcome for many highly qualified small businessmen: bankruptcy, and

IN ORDER TO avoid the high costs to the nation's financial institutions and heavy new burdens on the Federal Savings and Loan Insurance Company and Federal Deposit Insurance Company systems, and

IN ORDER TO cushion homeowners against a total freeze of their major single asset--their home--while the nation continues the critical battle against inflation; and

IN ORDER TO guard against an artificial devaluation in residential real estate with its concomitant threat of major economic dislocation in any major area of the nation; and

FINALLY, IN ORDER TO enable the housing industry to meet this National Housing Emergency without incurring major new federal governmental expenditures through (A) adjusting regulatory constraints on housing oriented financial institutions, (B) focusing federal efforts on the critical housing disaster areas, and (C) encouraging the immediate development of promising new inflation sensitive mortgage instruments;

NOW THEREFORE BE IT ENACTED, 1) that Congress hereby declares that there is currently a National Housing Emergency, which is herein defined as that period when national housing starts on a four-month moving average basis drop below 1.6 million units on an annualized basis.

The Secretary of Housing and Urban Development (the Secretary) shall hereafter make a timely finding of when the National Housing Emergency shall terminate, namely when the four-month moving average of starts drops below 1.6 million units on an annualized basis, and shall further make a timely finding of when a National Housing Emergency may once again recommence, such designation and proclamation to be made on a timely basis to avoid the unnecessary dislocation presently occurring because of statistical reports which due to their nature have not provided early warning of significant dislocation already occurring in the housing and home ownership areas.

2) "Housing Related Loans" are defined for the purposes herein as loans secured directly or indirectly by real estate and made for the purpose of acquiring, holding, developing or constructing improvements on real estate zoned or approved for residential housing.

3) "Home Ownership Loans" are defined for the purposes herein as first mortgage loans secured by owner-occupied residential real estate obtained for the purpose of purchasing said real estate.

4) During the National Housing Emergency, housing-oriented financial institutions, including all commercial banks, savings and loan associations, and mutual savings banks, shall be allowed to defer federal income taxation on all income including amortized origination fees derived from Housing Related Loans for 3 years from the date of accrual provided such Housing Related Loans are renegotiated to bear interest rates including amortized loan fees not in excess of 2 percent over the base period prime rate, being that prime rate in effect during the 3 years 1977, 1978 and 1979 at the five largest American commercial banks, and further provided such renegotiated loans provide for deferral of all interest payments until conventional mortgage rates, being those rates established on 80 percent first mortgage loans

on a four-week moving average at the FHLMC auctions, decline below 13 percent or 2 years, whichever shall first occur.

5) That all housing oriented financial institutions be allowed to amortize loan origination fees on newly originated Home Ownership Loans during the National Housing Emergency on a four year holding basis in recognition of the generally shorter holding periods such high interest Home Ownership Loans are statistically expected to remain outstanding.

6) That the Federal Home Loan Bank Board, the Federal Reserve Board, the Controller of the Currency, and other Federal agencies be commended on the steps which they have already taken to create new regulatory flexibility for housing oriented financial institutions allowing them to accomodate to the National Housing Emergency and are hereby urged to continue their progress towards updating their regulatory framework to meet the changed economic conditions which have produced the National Housing Emergency.

7) The Secretary of Housing and Urban Development is hereby requested to report quarterly to the Congress on the impact of the National Housing Emergency on housing starts, construction industry

employment, and housing industry business failures; provide a

quarterly recommendation on the need to reactivate the Emergency Home

~~Purchase Assistance Act; and finally, report whether a 10 percent or greater~~

decline in housing values in any significant housing market within the

~~United States has occurred.~~

8) That the Secretary of Housing and Urban Development be requested

~~to prepare recommendations for further legislation and regulatory actions~~

that could be taken to ameliorate the National Housing Emergency

~~and report thereon to Congress within three months of the date hereof.~~

9) The Secretary of Housing and Urban Development (the Secretary)

is directed to immediately designate as Housing Disaster Areas those

Standard Metropolitan Statistical Areas (SMSAs) or states or portions

of states not within SMSAs where any such area has experienced new

home starts for a period of 4 months at an annualized rate of less than

60 percent of the 1977, 1978, and 1979 "base period," using such

available data to make the designation as construction permits issued

and such other data as the Secretary determines relevant to a speedy

designation of appropriate areas, and to designate additional such areas

as they develop and meet the above designatory criteria on a timely basis.

10) The FHLBB and the FHLMC be requested to develop immediately a program of low interest loan guarantees whereby Housing Related loans and interest accrued thereon in Housing Disaster Areas are guaranteed for so long as the National Housing Emergency continues so long as the Housing Lender fixes the interest rate at the base period prime, and agrees to defer interest payments until mortgage rates decline below 13 percent or 2 years, whichever shall first occur.

11) The FHLMC is authorized to make directly Housing Related Loans not to exceed \$500,000 to any one borrower in Housing Disaster Areas where there is a showing that such loans can not be obtained from conventional sources due to the National Housing Emergency, such loans to bear interest at the base period prime rate and provide for interest deferral until mortgage rates decline below 13 percent or 2 years, whichever shall first occur, and be solely for the purpose of repaying outstanding Housing Related Loans and interest accrued thereon.

12) In the event that Brooke-Cranston funds are released to cope with the National Housing Emergency, the Secretary of Housing and Urban Development shall develop allocation formulas producing the result that Housing Disaster Areas shall receive allocations equivalent to three

times the allocations they would have received had they not been severely enough depressed so as to qualify for Housing Disaster Area designation.

13) The FHLBB is commended on its foresight and urged to complete the development of the recently proposed Renegotiated Rate Mortgage and introduce it as soon as possible with appropriate safeguards to allow consumers to choose between this promising new mortgage, conventional fixed payment mortgages, and the equally promising conventional graduated payment mortgages.

14) The FHLBB also is hereby requested to perfect both the conventional graduated payment mortgage and the recently proposed Renegotiated Rate plus GPM or Combination Mortgage and rapidly introduce these mortgages, which are designed to allow American families to avoid an inflationary lock-out, as alternative choices.

15) The FHLBB, together with FHLMC and GNMA, be directed to develop secondary markets in the RRM, GPM, and Combination Mortgages to provide maximum meaningful acceptance of these alternative mortgages and so provide homebuyers during the National Housing Emergency with the maximum range of choice necessary for them to cope with the Emergency.

16) In order to stimulate housing inventory demand, a purchaser of a new principal residence shall qualify for a tax credit of 5% of the purchase price of such residence, up to a maximum deduction of \$4,000 on a joint return provided that the original use of the new principal residence commences with the taxpayer; the new principal residence is a single family detached, single family attached, or condominium upon which construction began before April 1, 1980; acquired and occupied by the taxpayer after April 1, 1980 but before January 1, 1982 which, if not built by the taxpayer, was acquired under a firm contract to purchase entered into by the taxpayer before January 1, 1981. In areas designated Housing Disaster Areas, in order to further stimulate housing demand through the resale of existing homes, the foregoing tax credit up to a maximum deduction of \$2,000 on a joint return shall be allowed where the new principal residence, while not meeting the above criteria, is located in a Housing Disaster Area and there is adequate certification that the seller of the new principal residence to the taxpayer purchases within 6 months a new primary residence meeting the above criteria.

DRAFT TALKING PAPER FOR
DISCUSSIONS WITH CHAIRMAN AND STAFF OF
FHLBB

- 1) The extremely sharp decline in national starts rates being caused by current monetary conditions can best be characterized as a National Housing Emergency. NAHB now projects annual housing starts on a quarterly basis to drop as low as 875,000 units, or 58 percent below the 1978 fourth quarter peak. Single family starts are projected to decline even more dramatically to about 500,000 or 67 percent below the approximately 1.5 million starts experienced in 1977/78.
 - 2) This Emergency is believed to require major new efforts to allow housing oriented financial institutions and home builders to carry housing land and inventory through the emergency period.
 - 3) NAHB is approaching FRB officials, the Comptroller of the Currency, as well as you at FHLBB to share some ideas and solicit your assistance in developing new regulatory policy for this new emergency situation.
- NAHB is also attempting to develop a "Housing and Home Ownership Emergency Credit Act of 1980" which would serve as a vehicle for providing appropriate

agencies with needed legislative authority to accomplish the emergency regulatory changes.

4) Our efforts are in the preliminary stage, but several areas of potential relief suggest themselves and possibly will lead to or augment similar efforts being undertaken by your staff.

5) The first is a suggestion that a new classification system be developed allowing your institutions to avoid the onerous consequences of current troubled loan scheduling. Basically, many residential land development and construction and inventory financing loans do not fall into current categories because they are not "troubled" in the conventional sense but rather represent valid projects properly undertaken but frozen almost completely because of the current monetary climate associated with the national inflation fight.

6) You are probably already reviewing this problem, but our suggestion would be that we assist you in developing criteria defining housing related loans which are not "troubled" but merely in a holding pattern.

7) Once properly and restrictively defined, our suggestion would be that institutions by regulation be given special flexibility to re-negotiate, defer, or even abate interest for the duration of the National Housing Emergency to allow normal workouts to be facilitated.

8) A particularly desirable flexibility would be to allow your institutions to issue loans or renegotiate loans whereby interest is paid only at the end of the 12 month or longer term. Currently, our impression is that interest deferrals over 6 months are not allowed.

9) A second major proposal would be the definition of a new asset classification of "inventory construction loans." We have recommended that the FRB consider allowing banks to provide transition financing to home builders during the National Housing Emergency at permanent financing rates on loans secured by completed inventory housing. This would allow home builders to rent the unsold homes, possibly with options to buy clauses, until the housing market improves at which point conventional mortgages would be obtained and sales finalized.

10) Another broad area of possible relief could be to allow your institutions to take loan origination points to income on conventional mortgages made at the current Emergency high mortgage rates more quickly on the theory that, statistically speaking, such mortgages should have appreciably shorter holding periods than the 8 to 10 year

sharply enhance mortgage yields allowing lower nominal rates and hence lower monthly payments. Home builders normally pay the majority of origination points, so home buyers would be significantly assisted in purchasing despite the housing emergency conditions.

11) NAHB has furnished you its comments on the RRM proposal.

We continue to believe that the conventional GPM as well

as the combination mortgage (the RRM/GPM)

are additional important alternative mortgage formats which in today's emergency climate should receive rapid development and promulgation.

Of course, we stand by to assist you in whatever way possible in educating secondary market participants in these new mortgage formats.

12) In connection with the RRM, it occurs to us that it in effect is appreciably more liquid than a conventional mortgage. Would it be possible for such new mortgages to be weighted in some fashion, perhaps at 50 percent, and included towards a S&Ls liquidity reserve requirement?

13) We of course welcome the recent reductions in liquidity reserve requirements. Of course, NAHB joins you in realizing that this will not produce directly any new funds for conventional end loans.

The central question is whether there is some additional modification of liquidity reserve requirements, equity requirements, or other similar constraints which might entice your institutions' back into the conventional mortgage markets at somewhat lower than current, illusory market rates.

14) Obviously the above new approaches are all mandated by the underlying reality that existing credit relationships have been shattered by simultaneous and unforeseen short term and long term credit cost peaks. Home builders face such financial losses that they can no longer absorb them alone. NAHB recognizes your institutions face similar problems. We are ready to support modifications of the foregoing or any additional ideas which can facilitate the workable borrower/lender compromises which must be quickly found if our mutual losses are not to be further compounded.

Thank you for your consideration.

March 27, 1980

DRAFT TALKING PAPER FOR

DISCUSSIONS WITH FEDERAL RESERVE BOARD OFFICIALS

1) To expand and augment upon March 24, 1980 letter to Chairman Volcker, herewith are some additional suggestions for regulatory amendments which offer some hope of ameliorating the current, severe national housing emergency.

2) NAHB hopes that the following ideas can be added to the on-going FRB review to assist in developing the short term administrative modifications immediately necessary if a viable housing industry is to continue while longer term solutions are developed. NAHB is currently attempting to develop a "Housing and Home Ownership Emergency Credit Act of 1980" to provide legislative authority as required to augment short term steps and facilitate further regulatory change.

3) Housing related loans by commercial banks are those secured directly or indirectly by real estate collateral and made for the purpose of developing or constructing improvements upon residential zoned or approved real estate. In the national housing emergency, we believe it would be appropriate for such housing related loans to be

exempted from many if not all of the restrictive reserve requirements currently being implemented as anti-inflation measures. Such treatment would obviously allow commercial banks greater rate and renegotiation freedom to restructure housing related loans to allow basically good loans to weather the current incredible interest peaks. "

4) Home ownership loans, defined as first mortgages to owners of owner-occupied residences, might also be exempted from some or all of the existing or new reserve requirements. While the FHLBB is attempting to develop alternative mortgage instruments, the immediate national housing emergency essentially will have to be weathered with conventional fixed-payment 25 to 30 year loans. Such loans are no longer affordable and hence current home owners are in effect locked into their existing homes. While this may be desirable to some extent in the current credit policy climate, the almost total national lock-in that currently exists is clearly an undesirable extreme condition. Hence the advisability through reserve requirement modifications of allowing somewhat more realistic albeit still historically high, mortgage rates to develop.

5) We have already mentioned the approach of modifying loan classifications to permit greater workout leeway to your regulated institutions. One specific area of highly desirable flexibility would be allowing interest payments to accrue for periods long enough to allow developers to wait out the temporarily frozen housing market and then sell and deliver sufficient units to meet continuing accruals. A 24 month period suggests itself as an appropriate interest payment deferral period which banks should be allowed the freedom to adopt.

6) One provision of our proposed Housing and Home Ownership Emergency Credit Act of 1980 would allow housing related financial institutions to defer federal income taxation of interest upon renegotiated housing related loans for three years so long as such loans provide caps on interest rates plus interest payment deferral for 2 years or the return of 13 percent conventional mortgages, whichever should first occur. We would like your comments on this provision.

7) Obviously, we are very eager to assist you in the development of parallel thoughts should you believe this desirable. Joint efforts appear mandated by the severity of the current situation.

Thank you for your consideration.

May 16, 1980

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

Dear Chairman Proxmire:

Thank you for your letter of May 13 regarding
your Committee's oversight hearing on the Chrysler
Corporation Loan Guarantee Act.

I am looking forward to appearing before your
Committee on May 20 at 2:30 p.m.

Sincerely,

S/Paul A. Volcker

CO:vcđ (V-214)
bcc: Mr. Corrigan
Mrs. Mallardi (2) ✓

WILLIAM PROXMIRE, WIS., CHAIRMAN
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United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, D.C. 20510

May 13, 1980

#214

1980 MAY 13 PM 6 33

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

Dear Mr. Chairman:

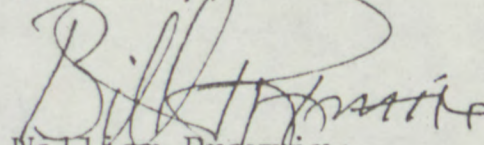
The Committee on Banking, Housing and Urban Affairs will hold an oversight hearing on the Chrysler Corporation Loan Guarantee Act. You are invited to appear and testify on Tuesday, May 20, 1980. The hearing will begin at 10:00 A.M. in Room 5302 of the Dirksen Senate Office Building.

The purpose of the hearing is to examine the report transmitted to the Committee by the Chrysler Corporation Loan Guarantee Board in connection with its approval of a commitment to provide up to \$1.5 billion in Federal guarantees to Chrysler and to determine whether all of the requirements of the Act have been met.

A copy of the Guidelines for Witnesses is enclosed. Please note that 25 copies of your statement should be forwarded to the Committee at least 48 hours prior to your appearance, and 75 additional copies should be available on the day of the hearing. If you have any further questions or comments, please contact Elinor Bachrach of the Committee staff at 202-224-7391.

Best regards.

Sincerely,


William Proxmire
Chairman

Enclosure

WP:eb1

WILLIAM PROXMIRE, WIS., CHAIRMAN
 HARRISON A. WILLIAMS, JR., N.J. JAKE GARN, UTAH
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 PAUL E. TSONGAS, MASS.

United States Senate

COMMITTEE ON BANKING, HOUSING, AND
 URBAN AFFAIRS

WASHINGTON, D.C. 20510

KENNETH A. MC LEAN, STAFF DIRECTOR
 M. DANNY WALL, MINORITY STAFF DIRECTOR
 MARY FRANCES DE LA PAVA, CHIEF CLERK

GUIDELINES FOR WITNESSES

1. These guidelines apply to all hearings of the Senate Committee on Banking, Housing and Urban Affairs, unless otherwise indicated.
2. All hearings will begin at 10 a.m. in Room 5302, Dirksen Senate Office Building, unless otherwise indicated.
3. Committee rules require that all witnesses submit at least 100 copies of their written statements 48 hours prior to their appearance. Sundays and holidays are not to be included in determining this 48-hour period. Statements should be delivered to Room 5300, Dirksen Senate Office Building, Washington, D.C. 20510. Strict adherence to this rule is essential in order that Committee members may review the statements before the hearing, thus enabling the participants to more thoroughly discuss the issues involved. Statements will not be released to the news media prior to the day of your testimony.
4. Oral presentations must be limited to a brief summary not to exceed 10 minutes. Your complete statement will be printed in the hearing record.
5. Please complete the attached card and bring it to Room 5300 prior to the hearing. You will be given copies of statements of those testifying with you at

Please supply the address to which you prefer the reporter's transcript delivered for your correction.
 Kindly turn this card in at Room 5300 Dirksen Office Building prior to giving your testimony.

ion is appreciated.

 (Name)

 (Organization)

 (Business address) (Phone)

 (City and State) (ZIP Code)

SENATE BANKING, HOUSING AND URBAN AFFAIRS COMMITTEE

36-545-h GPO

May 16, 1980

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

Dear Chairman Proxmire:

I am sending you, in response to your earlier letters, an "Interim Report on the Financial Aspects of the Silver Market Situation in Early 1980." I think that interim Report fully and fairly reflects the information available to us at this time. However, we, in cooperation with other agencies, are continuing to look at a number of other aspects of the situation including the fundamental question of what can be done to prevent the occurrence of this unhappy kind of event in the future.

One of the major conclusions of our investigation to date is that we can find no evidence to suggest that bank credit was used in a significant way by the Hunt interests to finance the acquisition and maintenance of their massive silver position during the period in which silver prices were rising. However, it is very clear that when the price of silver broke sharply lower in late January and then again in March, the Hunts incurred obligations well in excess of \$1.5 billion, a substantial fraction of which were financed, either directly or indirectly, by domestic bank credit. About \$900 million of such obligations are still outstanding today despite the fact that the Hunts apparently have had to liquidate or dispose of a considerable amount of silver and certain other assets to meet obligations.

Those obligations that are still outstanding are the debts scheduled to be restructured by virtue of the highly publicized credit line of \$1.1 billion which is still being negotiated by a group of domestic and foreign banks and the Hunt interests. In that regard, the Interim Report also makes it clear that this credit facility was freely initiated and negotiated by the Hunt interests and the banks--presumably because each of the parties

The Honorable William Proxmire
Page Two

felt that the prospective arrangement would strengthen their respective positions. The business judgments and the credit judgments are theirs and theirs alone. My role and the role of the Federal Reserve was limited to discussion aimed at insuring that the loan would not in any way be used in a way that would permit more speculation. At this point, I am satisfied that adequate safeguards to that effect, which are referred to in a general way in the Interim Report, will be a part of any final loan agreement. And, if and when the credit facility is consummated, I will provide you with more detailed information in that regard.

We will keep you informed as to the status of our further review and analysis of this situation.

Sincerely,

S/Paul A. Volcker

Enclosure

EGC:pjt
bcc: Mrs. Mallardi (2)

WILLIAM PROXMIRE, WIS., CHAIRMAN
HARRISON A. WILLIAMS, JR., N.J. JAKE GARN, UTAH
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PAUL E. TSONGAS, MASS.

KENNETH A. MC LEAN, STAFF DIRECTOR
M. DANNY WALL, MINORITY STAFF DIRECTOR
MARY FRANCES DE LA PAVA, CHIEF CLERK

Action assigned to Mr. Corrigan and Jack Ryan

United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, D.C. 20510

April 25, 1980

Handwritten initials

1980 APR 28 11:07

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

Dear Mr. Chairman:

This letter is a follow-up to my letter of April 17, 1980 to you and the other bank regulators in which I requested information relating to loans made by banks to Nelson Bunker Hunt, his associates, or brokerage houses involved with the Hunts, for the purchase of silver or silver futures contracts or in support of such purchases. This letter is prompted by the reports of a new line of bank credit of \$800 million or more that major banks are establishing for the Hunts.

My previous letter requested a list of the banks making the loans to the Hunts or the brokerage houses and the amount of the loans outstanding during March 1980. It now appears to me that more detailed information would be desirable both because of the complexity of the situation and the additional public interest in the events that transpired. Therefore, I would appreciate your assistance in getting the following information and any other information that you think is relevant to the recent events in the silver markets and the aftermath thereto:

- (1) The names of the banks making loans, directly or indirectly, for the purchase of silver or silver futures contracts or to support such purchases to Nelson Bunker Hunt, his family or associates, the amount of the loans outstanding, the rate of interest being charged, the collateral placed in support of the loans, and the amount of loans made to each of the banks by any Federal Reserve bank discount window, and the discount rate charged. This information should be supplied on a weekly average basis for each week beginning with the week of January 14, 1980;

The Honorable Paul A. Volcker
April 25, 1980
Page Two

- (2) The names of the banks making loans to the Bache Group, Paine Webber Jackson & Curtis, S. G. Edwards & Sons, and any other brokerage house that you may know had outstanding loans to the Hunts for the purchase of silver or silver futures contracts or in support of such purchases, the total amount of loans outstanding to those brokerage houses, the amount of those loans that supported silver purchases, the rates of interest being charged on those loans, & the collateral placed in support of the loans. This information should be supplied on a weekly average basis for each week, beginning with the week of January 14, 1980. In addition, for those banks that are not included in (1) above, the amount of loans made to the banks in this list made by any Federal Reserve bank discount window and the rate charged for the loan;
- (3) The names of the banks that are participating in the new line of credit to the Hunts which was reported to be \$800 million in total, the share of each bank in that line of credit, the collateral to support the loans when and if made, the amount of the commitment fee, and the interest rate to be applied to any loans. This information should be applied as soon as possible. Further, over the life of the credit line periodic reports should be supplied to the committee showing the used and unused portion, the rate of interest being paid on the used portion, the use of the discount window by the banks extending the credit and the discount rate being paid by those banks.

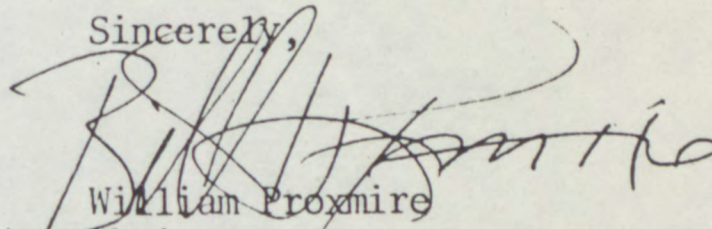
As you are no doubt aware there is also concern among the Committee members about the implementation of the Voluntary Special Credit Restraint Program and how these loans to the Hunts fit into that program. The loans being made to support the silver purchases, and to support an orderly transition during the aftermath of problems in that market would appear to be at odds with the Federal Reserve's credit restraint program. Moreover, funds diverted for those loans are unavailable for lending to small businesses, farmers, and the housing industry. It is incumbent upon the banks and the Federal Reserve to make sure that every effort is made to maintain the availability of funds to those groups without access to other forms of financing. The banks in question here should be monitored very

The Honorable Paul A. Volcker
April 25, 1980
Page Three

closely to assure compliance with that objective. I expect the committee to be kept informed of the compliance with the credit restraint program by each of the banks in question.

Your help in getting this information to the committee as quickly as possible is greatly appreciated. We plan to have hearings in May on this issue, but the availability of the information within a week or so would provide members of the committee with answers to questions they may have about this unfortunate series of events. By copy of this letter I am making a similar request for information to the Comptroller of the Currency and the Chairman of the Federal Deposit Insurance Corporation. I think it would be best if the coordination of this effort be handled by the Federal Reserve Board.

Sincerely,



William Proxmire
Chairman

WP:srl

cc: The Honorable John G. Heimann
Comptroller of the Currency

The Honorable Irvine H. Sprague
Chairman, Federal Deposit Insurance Corp.

May 16, 1980

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

Dear Chairman Proxmire:

I am sending you, in response to your earlier letters, an "Interim Report on the Financial Aspects of the Silver Market Situation in Early 1980." I think that Interim Report fully and fairly reflects the information available to us at this time. However, we, in cooperation with other agencies, are continuing to look at a number of other aspects of the situation including the fundamental question of what can be done to prevent the occurrence of this unhappy kind of event in the future.

One of the major conclusions of our investigation to date is that we can find no evidence to suggest that bank credit was used in a significant way by the Hunt interests to finance the acquisition and maintenance of their massive silver position during the period in which silver prices were rising. However, it is very clear that when the price of silver broke sharply lower in late January and then again in March, the Hunts incurred obligations well in excess of \$1.5 billion, a substantial fraction of which were financed, either directly or indirectly, by domestic bank credit. About \$900 million of such obligations are still outstanding today despite the fact that the Hunts apparently have had to liquidate or dispose of a considerable amount of silver and certain other assets to meet obligations.

Those obligations that are still outstanding are the debts scheduled to be restructured by virtue of the highly publicized credit line of \$1.1 billion which is still being negotiated by a group of domestic and foreign banks and the Hunt interests. In that regard, the Interim Report also makes it clear that this credit facility was freely initiated and negotiated by the Hunt interests and the banks--presumably because each of the parties

The Honorable William Proxmire
Page Two

felt that the prospective arrangement would strengthen their respective positions. The business judgments and the credit judgments are theirs and theirs alone. My role and the role of the Federal Reserve was limited to discussion aimed at insuring that the loan would not in any way be used in a way that would permit more speculation. At this point, I am satisfied that adequate safeguards to that effect, which are referred to in a general way in the Interim Report, will be a part of any final loan agreement. And, if and when the credit facility is consummated, I will provide you with more detailed information in that regard.

We will keep you informed as to the status of our further review and analysis of this situation.

Sincerely,

S/Paul A. Volcker

Enclosure

EGC:pjt

bcc: Mrs. Mallardi (2) ✓

Action assigned to Ja Ryan

WILLIAM PROXMIRE, WIS., CHAIRMAN
HARRISON A. WILLIAMS, JR., N.J. JAKE GARN, UTAH
ALAN CRANSTON, CALIF. JOHN TOWER, TEX.
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United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, D.C. 20510

KENNETH A. MC LEAN, STAFF DIRECTOR
M. DANNY WALL, MINORITY STAFF DIRECTOR
MARY FRANCES DE LA PAVA, CHIEF CLERK

April 17, 1980

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

#157

Dear Mr. Chairman:

The Banking Committee is reviewing the adequacy of regulations dealing with the commodity futures trading and the possible need to restrict credit that is used for commodity speculation. This review is partially motivated by the recent wide fluctuation in commodity prices, especially in silver, and the possibility that such fluctuation could spill over into the financial markets. We are also concerned with the proliferation of futures contracts in financial assets, especially Treasury obligations.

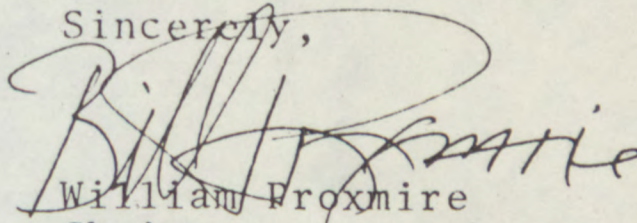
In our review of the fluctuations in silver prices, in both cash and futures markets, it appears that a substantial amount of bank credit was being utilized to finance positions in silver. It appears that some of these loans were made directly to parties holding positions in silver and some loans were made to securities firms that in turn made loans to their customers.

I would appreciate your assistance in getting information about the banks involved in these transactions. In particular I would like to have a list of the state member banks that made loans, directly or indirectly, for the purchase of silver or silver futures contracts to Nelson Bunker Hunt, his family or associates, and the amount of such loans outstanding during March 1980. I would also like to have the names of the state member banks with loans outstanding to the Bache Group, Paine Webber Jackson & Curtis, A. G. Edwards & Sons, and any other brokerage house that you may know had extended credit to the Hunt's for the purchase of silver or silver futures, and the total amount of loans made to those houses during March 1980 and whether or not the loans were made to support silver contracts.

April 17, 1980
Page Two

The Committee is planning to hold hearings on this issue in May. Therefore, I would appreciate your reply to this request. I have made a similar request of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

Sincerely,



William F. Proxmire
Chairman

WP:srl

May 19~~1~~ 1980

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

Dear Chairman Reuss:

As I promised you, I am enclosing our "Interim Report" on the financial aspects of the recent Hunt-silver market situation.

This entire matter was an unhappy one in which some major financial institutions and the financial markets generally were tested. It appears that the storm has been weathered without any permanent damage to those markets or institutions. But, I think it is clear that we must turn our attention to an analysis of what can and should be done, in law or regulation, to prevent a similar occurrence in the future. That is precisely what we, in cooperation with other agencies, are doing and I will keep you informed as to the status of those efforts.

Sincerely,

S/Paul A. Volcker

Enclosure

ECC:pjt (#V-166)
bcc: Mrs. Mallardi (2) ✓

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U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

NINETY-SIXTH CONGRESS
2129 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515

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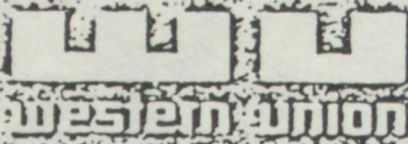
#166

NEWS RELEASE

FOR IMMEDIATE RELEASE
THURSDAY, APRIL 24, 1980

REUSS CHALLENGES FEDERAL RESERVE ALLOCATION
OF BANK CREDIT TO BAIL OUT SILVER SPECULATORS

Chairman Henry S. Reuss of the House Committee on Banking, Finance and Urban Affairs today sent the attached telegram to the Federal Reserve Board:



Telegram

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CITY, STATE, ZIP OR COUNTRY Washington, D. C.											(EOA) ⊲	

1. According to press accounts, the Federal Reserve at a meeting with America's major banks and Nelson Bunker Hunt at Boca Raton, Florida on Saturday, March 29, approved bank loans by major banks of \$800 million to the Hunt Brothers to repay brokers' loans made to the Hunts in order to enable them to corner the silver market.
2. The \$800 million bank loans appear to be in clear violation of the Federal Reserve's directive of September, 1979, repeated as part of the President's credit control measure of March 19, 1980, against bank lending for commodity speculation.
3. On March 20, 1980, I formally requested that the Federal Reserve keep the Congressional Banking Committees currently informed on activities by each of the nation's major banks in financing commodity speculation. The Federal Reserve has so far refused to supply this information.
4. Now the Congressional Banking Committees are informed of what went on at the secret meeting in Boca Raton on March 29, but by enterprising reporters rather than by the monetary authorities of whom the information was requested.
5. I vigorously disapprove of the Federal Reserve's March 29 action in allocating credit to bail out the brokers who participated in the silver speculation scheme. The evidence indicates that major banks had earlier aided the Hunts' attempt to corner silver through loans laundered by the Bache Brokerage. Then after the silver bubble burst on March 27, comes this additional \$800 million credit allocation.
6. Such credit allocations -- in favor of speculation -- are particularly unfair at a time when the nation's homebuilding industry is in a crisis. (SP) (SP)

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Page 2

situation through lack of credit. Within the last few days the Administration has given the housing industry a \$135 million crumb in the form of unexpended Section 235 appropriations. This compares poorly with the \$800 million credit allocation just made to the brokers participating in the Hunt scheme.

7. Those who participated in the Boca Raton meeting are quoted as defending their action on the ground that without the \$800 million bank credit, brokerages might have failed. I would like to see the evidence of this. More, wouldn't it be a salutary thing if a broker or two who was involved in betraying the country's anti-inflation program were allowed to fail, as an example to others?

8. The March 14 credit control program has been seriously compromised by the March 29 action. How can a small bank in good conscience be asked to hold its loans within the guidelines on bank lending, and to avoid speculative loans, when the monetary authorities collaborate with the big banks in this kind of proscribed conduct?

9. The House Banking Committee intends to explore at in depth hearings the Federal Reserve's participation in the March 29 meeting. Until then, I request that the Federal Reserve not engage in further Boca Raton-type operations without prior consultation on a bi-partisan basis, with the Congressional Banking Committees.

Henry S. Reuss
Chairman

House Committee on Banking, Finance and Urban Affairs

SIGNATURE ⏪ COL ⏪												
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May 19, 1980

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

Dear Senator Culver:

I can fully appreciate and understand your concerns about the recent chain of events growing out of the affairs of the Hunts related to the silver market and I can assure you that I have no more sympathy for their situation than you have. I think you are also aware, through our respective staffs, that we have been working on an "Interim Report" on the financial aspects of the episode which I am pleased to enclose for your information.

I believe that the "Interim Report" makes it very clear that the loan in question was negotiated entirely by private parties in a framework in which both the creditors and the debtors perceived that the prospective credit facility would strengthen their respective positions. Neither I, nor anyone in the Federal Reserve or the government more generally, initiated, guided or approved the credit facility--which is still being negotiated. As indicated in the "Interim Report" my sole concern has been to ensure that the credit facility was structured in such a way as to prevent further speculation and to ensure that the Hunts' remaining silver would be liquidated in an orderly fashion. At this time, and as indicated in the "Interim Report," I am satisfied that the loan agreement will provide adequate assurances on both of these counts. And, we will be in a position to monitor events in these regards over the coming weeks and months.

I have reviewed the questions submitted with your letter and I believe most of them are answered in the materials which I am forwarding to you. The possible exceptions, as I see it, are questions 9 through 13 which, in the context of the actual chain of events, take on a somewhat different meaning than is implied in the questions themselves.

The Honorable John C. Culver
Page Two

More specifically, and as the "Interim Report" indicates, virtually all of the loans in question were made in February and March and at the time the Federal Reserve was unaware of the fact that they were being made. In the normal course of events, such loans would come to our attention only in an ex-post fashion via the bank examination process. In retrospect, the volume of loans involved is such that they may have had some marginal impact on the cost and availability of credit more generally. Even now, however, I am not in a position to quantify any such effects but the timing and magnitude of the loans leads me to the conclusion that any such effects were slight. Having said that, I am not sure that I can be equally as sanguine about the direct and indirect effects on inflation and interest rates arising from the general outburst of commodity speculation in 1979 and early 1980. Indeed, that more generalized phenomenon--including the role played in it by the Hunts--demonstrates all too vividly the kinds of distortions and excesses associated with unchecked inflation.

You have also asked if these matters were discussed with anyone in the Executive Office of the President. The direct answer on my part is "no," but the situation was discussed with Secretary Miller and Deputy Secretary Carswell of the Treasury as well as others in government. Thus, it is quite possible that officials in the Executive Office of the President were aware of the events.

I share your view that this entire matter was an unhappy one in which some major financial institutions and the financial markets generally were tested. It appears that the storm has been weathered without any permanent damage to those markets or institutions. But, I think it is clear that we must turn our attention to an analysis of what can and should be done, in law or regulation, to prevent a similar occurrence in the future. That is precisely what we, in cooperation with other agencies, are doing and I will keep you informed as to the status of those efforts.

Sincerely,

S/Paul A. Volcker

Enclosure
ECC:pjt (#V-167)
bcc: Mrs. Mallardi (2) ✓

United States Senate

WASHINGTON, D.C. 20510

April 24, 1980

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

1167

1980 APR 24 11 48

Dear Mr. Chairman:

An article on the front page of today's Washington Post indicates that the Federal Reserve Board and several of the leading banks in the country met privately in Boca Raton, Florida to make an unprecedentedly large loan to the Hunt family interests in order to cover their speculation in the silver market.

The story, if true, is particularly disturbing in that special efforts of this nature would be made to support the speculation of two billionaire brothers while small businessmen and farmers have been unable to obtain capital for productive ventures or for planting crops because of the restrictions which have been imposed on credit. These alleged actions are directly contrary to both the stated policies of the Federal Reserve and President Carter's credit control program of March 14, 1980.

While I can appreciate the concern of the Federal Reserve Board and its member banks in preventing a financial panic which could have resulted from the decline in the silver market, it would appear that the primary beneficiaries of the reported \$800 million loan are the Hunt brothers who are able to retain their holdings and have the opportunity to recoup the losses incurred as a result of their speculation.

Following my testimony in opposition to a candidate for the Federal Reserve Board, the Board last week finally demonstrated responsiveness to the agricultural credit crisis in our state by opening the discount window to small rural banks. However, the allegation that assistance being directed to two billionaire brothers

THE HONORABLE PAUL A. VOLCKER
APRIL 24, 1980
PAGE TWO

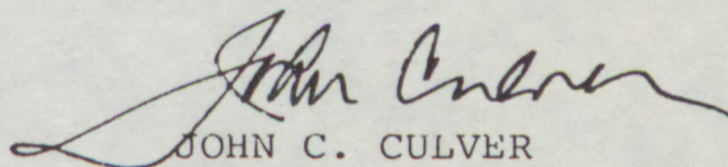
almost equalled the total commitment to all small rural banks, if true, reflects insensitivity to the backbone of America's economy, its small businesses and farms.

The reports of the actions by the Fed and its member banks raise numerous questions about the nature of the transaction and the restrictions, if any, which may have been placed on the Hunts regarding future speculative actions. I believe it is essential that the Congress and the public have the benefit of your thinking on the effect of granting this line of credit, as well as the potential effect of not granting it.

I have included with my letter several questions regarding the nature of the Hunt loan to which I would appreciate an early response.

It is particularly disturbing that this incident occurred at a time when small businessmen, homebuilders and farmers were unable to obtain necessary assistance to avoid going under, in part as a result of the Federal Reserve Board's tight money policy. The approval of a loan to finance the speculation of billionaire special interests, if true, only underscores the need for greater diversity in the representation of geographical and agricultural interests. The Boca Raton meeting and the resulting loans carry all of the characteristics of a policy which favors rich special interests at the expense of the great majority of other Americans.

Sincerely,



JOHN C. CULVER

JCC:jhd
Enclosure

1. Did you or any member of the Board of Governors of the Federal Reserve System participate in a meeting or meetings with representatives of the banking industry to discuss bank loans to the financially troubled Hunt family or to businesses or corporations owned by the Hunt family?
2. Did such discussions occur at a meeting of the Reserve Bankers Association?
3. Did any staff of the Federal Reserve Board participate in any such meetings?
4. Where and when did these meetings occur?
5. At whose suggestions did these meetings take place, Federal Reserve staff, brokerage houses, bankers, or the Hunt family?
6. Please provide the names of people attending the meetings and the interest they represented.
7. Were the loans discussed at these meetings considered to be speculative in nature?
8. Was the money used for these loans borrowed from the Federal Reserve's discount window?
9. At the time of the meeting, was it your judgment that such massive loans would have an effect on national interest rates?
10. Is it your judgment that they have had any such effect?
11. At the time of the meeting, was it your judgment that such massive loans would have an effect on the availability of credit to other borrowers?
12. In your judgment, has it had such an effect?
13. Did any commitments made at these meetings delay the Fed's decision to discount the loan rate to small banks so that the small banks could reloan the money to small businesses and farmers?
14. Were appropriate interest rates for the speculative loans discussed at the meetings? What interest rates were discussed? What were the actual interest rates of the loan commitments?
15. Were any conditions to be placed on the loans discussed at the meetings? What conditions were discussed? What conditions were placed on the loans?
16. Were any conditions to be placed on the loans which would inhibit future silver speculation discussed at the meeting?

17. Did you discuss this issue or these loans with anyone in the Executive Office of the President?
18. On March 14th and 15th when you announced the Federal Reserve's program to make credit available to small business and farmers, did you anticipate the need to divert such a huge amount of capital to the speculative market?
19. Did the Hunt family have sufficient collateral to back up their speculative purchases without the bank loans discussed at the meetings? Why wasn't any collateral available used up before any speculative loans were secured?
20. Please provide a list of the banks involved in making the loan commitments and the amount each bank contributed.
21. Were the loan commitments extended to the Hunt family directly, or to one of their corporate holdings? To whom were the commitments made? Did the Placid Oil Company receive any of these loan commitments?
22. Of the \$800 million line of credit reportedly extended to the Hunts, how much has been obligated? To whom have these payments been made? Will the entire \$800 million be necessary to meet the obligations to the various parties involved? What assurance has the Board received that this line of credit will not be used for any other personal or corporate Hunt interests?
23. How many banks were involved in the loan commitments to the Hunt family?
24. Did any meetings which did occur comply with the conditions of the Sunshine Act, P.L. 94-409?

May 19, 1980

The Honorable Donald W. Stewart
Chairman
Subcommittee on Agricultural Research
and General Legislation
Committee on Agriculture, Nutrition
and Forestry
United States Senate
Washington, D.C. 20510

Dear Chairman Stewart:

In light of your Subcommittee's recent hearing on the Hunt-silver situation, I thought you would be interested in having the enclosed "Interim Report" on the financial aspects of that situation. I think the report will help to clarify some of the factual issues that arose in your hearings.

As the "Interim Report" indicates, we have now turned much of our attention to the more basic questions as to how the whole situation arose in the first instance and what might be done to prevent a similar problem in the future. We will keep you informed.

Sincerely,

S/Paul A. Volcker

Enclosure

EGC:pjt

bcc: Mrs. Mallardi (2) ✓

May 19, 1980

The Honorable Jim Sasser
Chairman
Subcommittee on Intergovernmental
Relations
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510

Dear Chairman Sasser:

I can fully appreciate and understand your concerns about the recent chain of events growing out of the affairs of the Hunts related to the silver market and I can assure you that I have no more sympathy for their situation than you have. I think you also know, through our respective staffs, that we have been working on an "Interim Report" on the financial aspects of the episode which I am pleased to enclose for your information.

I believe that the "Interim Report" makes it very clear that the loan in question was negotiated entirely by private parties in a framework in which both the creditors and the debtors perceived that the prospective credit facility would strengthen their respective positions. Neither I, nor anyone in the Federal Reserve or the government more generally, initiated, guided or approved the credit facility--which is still being negotiated. As indicated in the "Interim Report" my sole concern has been to ensure that the credit facility was structured in such a way as to prevent further speculation and to ensure that the Hunts' remaining silver would be liquidated in an orderly fashion. At this time, and as indicated in the "Interim Report," I am satisfied that the loan agreement will provide adequate assurances on both of these counts. And, we will be in a position to monitor events in these regards over the coming weeks and months.

I share your view that this entire matter was an unhappy one in which some major financial institutions and the financial markets generally were tested. It appears that the storm has been weathered without any permanent damage to

The Honorable Jim Sasser
Page Two

those markets or institutions. But, I think it is clear that we must turn our attention to an analysis of what can and should be done, in law or regulations to prevent a similar occurrence in the future. That is precisely what we, in cooperation with other agencies, are doing and I will keep you informed as to the status of those efforts.

Sincerely,

S/Paul A. Volcker

Enclosure

EGC:pjt (#V-173)
bec: Mrs. Mallardi ✓

Action assigned Mr. Corri~~on~~ with info copy to Mr. Ryan

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STAFF DIRECTOR

United States Senate

COMMITTEE ON
 GOVERNMENTAL AFFAIRS
 SUBCOMMITTEE ON
 INTERGOVERNMENTAL RELATIONS

(202) 224-4718

WASHINGTON, D.C. 20510

April 24, 1980

173

1980 APR 24 PM 5-07

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

Dear Chairman Volcker:

It has recently been reported that with your personal concurrence, loans totalling over \$800 million have and will be made to the Hunt family to allow them to cushion their financial losses in their recent speculative effort to corner the silver market.

I am most disturbed by the fact that the nation's financial community has seen fit to extend the Hunt family this staggering amount of credit while daily farmers, homebuilders, and small businessmen are going out of business because of high interest rates.

I would appreciate a full and complete report on the events that led up to your approval of this extension of credit to the Hunt family together with an explanation of the authority on which you relied to approve these loan commitments to the Hunt family.

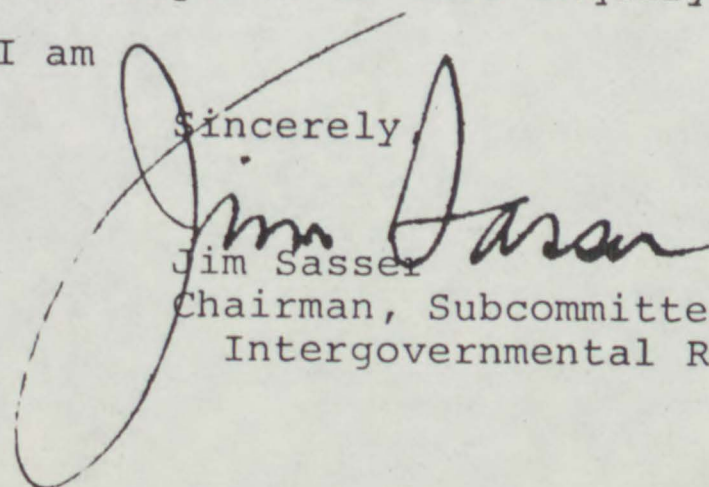
Finally, I would appreciate your explanation of why this commitment occurred in light of the Federal Reserve Board admonition of March 14 to member banks to stop making loans to speculative business ventures.

This nation is in an unparalleled credit squeeze, and I think that all those that are being denied credit deserve a full explanation of this most unusual action in approving this massive loan to the Hunt family.

I await your immediate response to this inquiry.

With best regards, I am

Sincerely,



Jim Sasser
 Chairman, Subcommittee on
 Intergovernmental Relations

May 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:

Thank you for your letter of April 28 inviting the Board to participate in your Subcommittee's hearings on "Meeting the Credit Needs of Inner-City Minority Communities."

Governor Nancy H. Testers will appear on behalf of the Board on Thursday, May 29, at 10:00 a.m.

Sincerely,

S/Paul A. Volcker

CO:pjt (#V-182)
bcc: Gov. Testers
Mr. Keir
Mrs. Mallardi (2) ✓

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

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

April 28, 1980

4/28/80

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

Dear Mr. Chairman:

On April 17, the Federal Reserve Board announced "a temporary seasonal credit program that is designed to help small banks under liquidity pressures meet the credit needs of their communities." Under this program, which implements provisions of the "Monetary Control Act of 1980," the discount facilities of the Federal Reserve Banks will be made available to "small" banks -- member and non-member -- to enable and encourage them "to meet the ordinary continuing or seasonal needs of their established local customers, taking account of the special needs of small business, farmers and others." However, access to the System's discount facilities would be "generally limited to banks with deposits of less than \$100 million." Further, to qualify for assistance, a bank would have to have a loan-gross deposit ratio of 68 percent.

Unfortunately, the announced limitations make it virtually certain that inner-city minority communities will not be helped by the program. In particular, inner-city minority communities generally are serviced by branches of banks with deposits far in excess of \$100 million. And small banks that service inner-city minority communities, including minority owned banks, generally have loan-gross deposit ratios far below 68 percent.

I am sure that you will agree that ways must be found to assure that the continuing and seasonal credit needs of minority communities are met. The "ways" need not, and in my opinion should not be limited to Federal Reserve actions. However, the Federal Reserve definitely has a role to play. Moreover, the Federal Reserve can provide constructive advice on what might be done by other government agencies and the private sector. To bring the issue into view and to explore ways of getting the job done, the Subcommittee on Domestic Monetary Policy will hold hearings on "Meeting the Credit Needs of Inner-City Minority Communities" beginning next month. The first day of these hearings is scheduled for May 20. We would greatly appreciate receiving the Board's views on the matter on that day either from you, or if your schedule does not permit, from Vice-Chairman Schultz or any other Governor you may wish to delegate to present the Board's views. I am especially anxious to hear how the Board's "more permanent guidelines" for operating the System's discount facilities, which are to be put in place by July 1, will amend the temporary program announced on April 17 so that inner-city minority communities can

The Honorable Paul A. Volcker

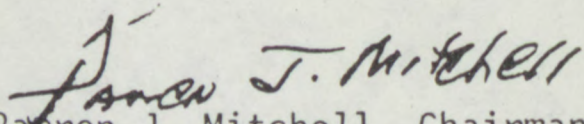
Page Two

April 28, 1980

benefit fully from the "Monetary Control Act of 1980."

The hearings will begin at 9:30 A.M. and will be held in Room 2128 Rayburn House Office Building. I would appreciate your early consideration of this request and look forward to receiving the Board's views.

Sincerely,



Parren J. Mitchell, Chairman
Subcommittee on Domestic Monetary Policy

PJM/rw:jb

May 20, 1980

The Honorable Joseph C. Minish
House of Representatives
Washington, D.C. 20515

Dear Mr. Minish:

Thank you for your letter of April 21, forwarding a letter from Levenstein, Sandler, Brochin, Kohl, Fisher and Boylan, attorneys on behalf of a bank located in your District. Their letter requested that the Board construe the Monetary Control Act of 1980 to mean that any bank that filed its withdrawal application before July 1, 1979, will be deemed a non-member bank for purposes of the transition provisions of the Act.

On April 23, 1980, the Board adopted a regulation interpreting the transition provisions of the Monetary Control Act. The interpretation provides that a State member bank will be treated as a nonmember bank if its Federal Reserve Bank received notice of the decision of the bank's board of directors to withdraw from membership prior to July 1, 1979. The Federal Reserve Bank of New York reports that the application to withdraw by the Trust Company of New Jersey was received on March 30, 1979. Therefore, that bank will be treated as a non-member for purposes of the transition provisions of the Monetary Control Act.

Sincerely,

S/ Paul

JMB::CO:pjt (#V-162)
bcc: Jim Brundy
Mrs. Mallardi (2)

JOSEPH G. MINISH, N.J., CHAIRMAN

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WALTER E. FAUNTROY, D.C.

BOB LOFTUS, STAFF DIRECTOR

TELEPHONE 225-2828

Action assigned Mr. Axilrod

S. WILLIAM GREEN, N.Y.
RON PAUL, TEX.
CARROLL A. CAMPBELL, JR., S.C.
JON HINSON, MISS.

U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON GENERAL OVERSIGHT
AND RENEGOTIATION

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

NINETY-SIXTH CONGRESS

WASHINGTON, D.C. 20515

April 21, 1980

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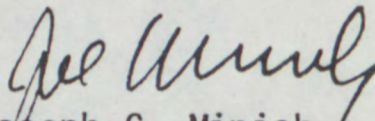
Honorable Paul Volcker
Chairman, Board of Governors
Federal Reserve System
20th Street and Constitution Ave N W
Washington, D. C. 20551

Dear Mr. Chairman:

I would appreciate your comments and advice
with regard to the attached letter I have received
from a constituent.

With kindest personal regards, I am

Sincerely,



Joseph G. Minish
Chairman

LOWENSTEIN, SANDLER, BROCHIN, KOHL, FISHER & BOYLAN

A PROFESSIONAL CORPORATION

744 BROAD STREET

NEWARK, N. J. 07102

TELEPHONE 201 624-4600

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MARY K. SANDERSON
FREDA L. WOLFSON

REFER TO FILE NO.

April 10, 1980

The Honorable Joseph G. Minish
2162 Rayburn Building
Washington, D. C. 20515

Dear Congressman Minish:

We represent The Trust Company of New Jersey which is seriously affected by the impact of the Depository Institutions Deregulation and Monetary Control Act of 1980 in regard to the reserve requirements specified in Title I which is designated the Monetary Control Act of 1980.

The Trust Company is a New Jersey bank which filed its application to withdraw from the Federal Reserve System on March 30, 1979, but the withdrawal did not become effective until January 21, 1980. Non-member banks of the Federal Reserve System, as you know, are required to maintain reserves on an increasingly graduated basis over eight years, but subparagraph (D)(i) of the definitions provisions relating to reserve requirements states that

"Any bank which was a member bank on July 1, 1979, and which withdraws from membership in the Federal Reserve System during the period beginning on July 1, 1979, and ending on the day before the date of the enactment" of the new law "shall maintain reserves beginning on such date of enactment in an amount equal to the amount of reserves it would have been required to maintain if it had been a member bank on such date of enactment."

There are approximately forty-five banks in the United States, of which perhaps thirty are quite small, which withdrew from the Federal Reserve System after July 1, 1979. They feel strongly prejudiced by the fact that they do not have the benefit of a graduated requirement for increasing

The Honorable Joseph G. Minish

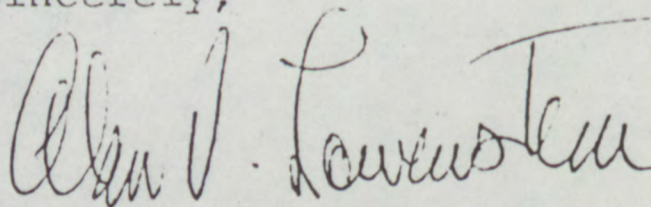
April 10, 1980
Page 2

their reserves in the same fashion as do banks which previously withdrew from the Federal Reserve System or which were never part of the Federal Reserve System prior to July 1, 1979. In the case of The Trust Company of New Jersey, it is extremely important that it have the benefit of the graduated reserve requirement in order that its capital structure can be strengthened in the period immediately ahead.

I believe that the Board of Governors of the Federal Reserve System is preparing regulations to implement the Monetary Control Act of 1980 in regard to reserve requirements and is concerned that there be no attack in the courts on the statutory provision which singles out for special unfavorable treatment banks which withdrew from Federal Reserve System membership during a matter of months before the enactment of the new law. Such regulations could construe the statute to mean that any bank which filed its withdrawal application before July 1, 1979 shall not be deemed under the provisions of subparagraph (D) (i) of the new act. This is certainly an appropriate construction in view of the fact that there must be a six-month waiting period following the filing of an application for withdrawal from Federal Reserve membership before such withdrawal can become effective. Furthermore, the statutory language with reference to "any bank . . . which withdraws from membership" probably could be construed to mean any bank which files its application for withdrawal from membership. We understand that there is a probability that the Federal Reserve Board will so construe the statute in its new regulations.

The Trust Company of New Jersey would greatly appreciate your communicating directly with Chairman Paul A. Volcker to urge that the new regulations so construe the statute and thereby avoid arbitrary and adverse discrimination against forty-five banks. To do so would have no measurable impact upon the Federal Reserve's ability to control the monetary supply.

Sincerely,



AVL:ldl

May 19, 1980

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

Dear Mr. Gephardt:

Thank you for giving me the opportunity to provide comments on a proposal by one of your constituents that banks be allowed to use one-half of their required reserves for the purpose of making production loans to farmers in 1980. In effect, this proposal would reduce reserve requirements for banks engaged in lending to agricultural enterprises. For each bank the amount of the reduction apparently would depend on the concentration of its assets in farm loans and on its opportunities to increase such loans.

While the Federal Reserve Board is sympathetic with the basic objective of this proposal, we believe that efforts to direct the flow of credit to particular sectors should generally be avoided, and that such encouragements that are deemed necessary should be structured to rely to the greatest extent possible on the market mechanism. In keeping with these principles, the Board established in 1973 a seasonal discount borrowing privilege through which small rural banks can obtain funds in recognition of their limited access to national money markets. The basic seasonal borrowing facility was supplemented last month by a temporary seasonal credit program as a response both to the severe liquidity pressures being experienced by many rural banks and to recent legislation broadening access to the Federal Reserve discount window. The details of this new program are contained in the enclosed press release of April 17. Through these programs, small banks can obtain additional financing in order to satisfy the legitimate credit needs of farmers.

The plan suggested by your constituent also presents problems for monetary control. Within the boundaries specified in legislation, the Board has set reserve requirements for various kinds of deposits and classes of banks at levels that

The Honorable Richard A. Gephardt
Page Two

take into account the need to exercise control over growth of the monetary aggregates. The implementation of monetary policy is greatly aided in the short run by constancy in these requirements. Your constituent's proposal would introduce fluctuations in required reserves that would aggravate the already difficult task of achieving the monetary growth rates desired by the Federal Open Market Committee.

I hope these comments will prove useful to you. I am also enclosing a recent staff analysis of conditions at rural banks, which you may find of interest.

Sincerely,

S/Paul A. Volcker

Enclosures (Rural Banking Conditions and Farm Financial Trends
by Emanuel Melichar dtd. 3/27/80.)

EM:EFMcK:LW:JLK:pjt (#V-171)
cc: Mr. Kichline
Mr. McKelvey
Mr. Melichar
Mrs. Mallardi (2)

Action assigned Mr. Kichline

RICHARD A. GEPHARDT
3D DISTRICT, MISSOURI

WAYS AND MEANS COMMITTEE
BUDGET COMMITTEE

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

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

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

April 24, 1980

Hon. Paul Volcker
Chairman, Board of Governors
Federal Reserve System
Federal Reserve Building
Constitution Ave. between 20th & 21st Sts.
Washington, D. C. 20551

Dear Mr. Chairman:

I am writing to request your views on a plan submitted to me by a constituent that proposes making loans available to farmers at realistic and affordable rates.

Specifically, this plan proposes that each bank use 50% of its reserve base as loanable funds to farmers for 1980 operating expenses incurred by planting row crops or by purchasing livestock and fattening them for sale in the Fall of 1980. The farmer would ensure, by affidavit, that the money loaned to him will be used strictly for 1980 operating capital either for row crops or livestock. The interest rate charged on these loans would range between 10% and 11-1/2%.

Subsequently, the banks would then be obligated to bring their reserve back to its normal level by or before January 15, 1981 (provided that loanable funds were made available by May 1, 1980). The reason for delaying the reserve requirement for the banks is to allow the farmer sufficient time to sell his products, and also to permit those farmers wishing to hold their grain and take their profits in another year to do so.

Any comments that you could provide me regarding the viability of this proposal would be most appreciated. I look forward to hearing from you in the near future.

Yours very truly,

Richard A. Gephardt
Richard A. Gephardt

RAG:wof

May 19, 1980

The Honorable Ed Jones
Chairman
Subcommittee on Conservation
and Credit
Committee on Agriculture
House of Representatives
Washington, D.C. 20515

Dear Chairman Jones:

Thank you for your letter of May 8 inviting the Board to testify before your Subcommittee on the adequacy of existing authority to regulate commodity futures trading.

I am looking forward to appearing on May 21 at 10:00 a.m.

Sincerely,

S/Paul A. Volcker

CO:DJW:pjt (4V-201)
bcc: Mr. Corrigan
Mrs. Mallardi (2)

ED JONES, TENN.,
CHAIRMAN

TOM HARKIN, IOWA
JERRY HUCKABY, LA.
DAN GLICKMAN, KANS.
KENT HANCE, TEX.
GEORGE E. BROWN, JR., CALIF.
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ALVIN BALDUS, WIS.
BERKLEY BEDELL, IOWA
GLENN ENGLISH, OKLA.
LEON E. PANETTA, CALIF.
TOM DASCHLE, S. DAK.

THOMAS S. FOLEY, WASH.,
EX OFFICIO MEMBER

ROBERT A. CASHDOLLAR,
STAFF CONSULTANT

Don Winn will be discussing with Chairman Volcker
and Mr. Corrigan

U.S. House of Representatives
Committee on Agriculture
Subcommittee on Conservation and Credit
Room 1301, Longworth House Office Building
Washington, D.C. 20515

EDWARD R. MADIGAN, ILL.,
RANKING MINORITY MEMBER
JAMES M. JEFFORDS, VT.
RICHARD KELLY, FLA.
E. THOMAS COLEMAN, MO.
RON MARLENEE, MONT.
LARRY J. HOPKINS, KY.

WILLIAM C. WAMPLER, VA.,
EX OFFICIO MEMBER

ROBERT M. BOR,
CHIEF COUNSEL

JOHN E. HOGAN,
COUNSEL

May 8, 1980

#201

1500 NOV - 9 PM 11:52

Chairman Paul A. Volcker
Board of Governors of the
Federal Reserve System
Federal Reserve Building
Constitution Avenue between 20th
and 21st Streets
Washington, D. C. 20551

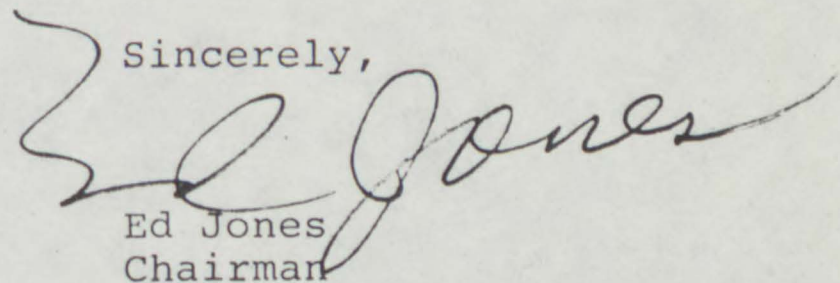
Dear Chairman Volcker:

Recent incidents in the silver market have focused attention on whether or not the Federal Government has sufficient authority to adequately regulate commodity futures trading. Since the Subcommittee on Conservation and Credit has legislative jurisdiction over the Commodity Exchange Act and the Commodity Futures Trading Commission, I have scheduled public hearings on May 21 and 22 to discuss whether or not amendments to the Act would be in order.

Due to the interest of the Federal Reserve System in futures trading, your personal involvement in the silver situation, and since the Futures Trading Act of 1978 required the Commodity Futures Trading Commission to coordinate with the Federal Reserve System on areas of mutual interest, I would appreciate you testifying before the Subcommittee on these important issues. Your comments and responses to questions will be extremely valuable to the Subcommittee Members.

Robert Cashdollar, Subcommittee Staff Consultant, will be responsible for arrangements and will answer any questions you have. Attached for your information is the announcement of the hearings.

Sincerely,


Ed Jones
Chairman

EJ:bcj
Enclosure

news release

COMMITTEE ON AGRICULTURE
U.S. HOUSE OF REPRESENTATIVES
Room 1301, Longworth House Office Building
Washington, D.C. 20515

For further information: Bernard Brenner,
Press Secretary, (202) 225-2171

FOR IMMEDIATE RELEASE FRIDAY, APRIL 25, 1980

WASHINGTON -- Rep. Ed Jones, D-Tenn., Chairman of the House Agriculture Subcommittee on Conservation and Credit, today scheduled two days of public hearings in May on whether existing law gives the Commodity Futures Trading Commission adequate authority to regulate futures trading, and on whether amendments to the Commodity Exchange Act are needed to better protect the public interest.

The hearings will be held on May 21 and 22 in Room 1302 Longworth House Office Building in Washington, D.C.

"When Congress reauthorized the CFTC in 1978, everyone felt the agency had enough authority to competently and fairly regulate futures trading. However, market problems with the March, 1979, wheat contract and more recently with the trading of silver futures indicate a need for a serious review of the situation," Jones said.

Jones announced that the subcommittee will specifically explore the question of whether the CFTC should be given standby authority to set margin requirements on futures contracts -- authority which now is held by commodity exchanges.

Testimony at the hearings will also be invited on other regulatory matters including speculative position limits, the adequacy of self-regulation by the futures industry and exchanges, possible conflicts of interest between segments of the industry and their stockholders or members, and the CFTC's responsibility to prevent market emergency situations.

"What is needed is an objective look at the powers currently provided for CFTC under the existing Commodity Exchange Act and the manner in which these powers are used," Jones said. Both government and industry witnesses will be asked to testify so the subcommittee can get a broad range of views, he added.

Jones noted that the subcommittee and the parent House Agriculture Committee have legislative jurisdiction over the Commodity Exchange Act which covers all trading in commodity futures.

Persons wishing to testify at the hearing should notify Ms. Chris Abram at 202/225-2171. In compliance with House Agriculture Committee rules, witnesses are asked to furnish 75 copies of their prepared statements two working days in advance of the hearing for review by Members and staff of the subcommittee. The statements should be mailed or delivered to the Agriculture Committee office, 1301 Longworth House Office Building, Washington, D.C. 20515 to the attention of Ms. Abram.



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

V-215

May 20, 1980

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

Dear Mr. Hughes:

Thank you for your letter of May 15 requesting comment on correspondence you received from Ms. Henrietta Rascher. Ms. Rascher is concerned about recent actions by the Federal Reserve Board imposing a special deposit liability on money market funds.

Ms. Rascher is referring to the Board's Credit Restraint Regulations, 12 C.F.R. Part 229 (Subpart B), issued on March 14, 1980, and amended on March 28. These regulations were adopted pursuant to Executive Order 12201 issued by President Carter under the authority of the Credit Control Act of 1969 (Pub. L. 91-151, 12 U.S.C. §§ 1901-09). The Executive Order authorized the Board to regulate and control short-term credit extended by financial intermediaries. The President and the Board determined that these previously unregulated financial intermediaries, generally known as money market mutual funds, have been the vehicles for a substantial increase in extensions of short-term credit. Typically, these money market mutual funds sell shares to the general public and invest the money raised in short-term instruments such as commercial paper, certificates of deposit, and repurchase agreements. The increase in the size of the mutual fund industry (approximately \$60 billion at year-end 1979) made it imperative that any effort to fight inflation through credit controls include controls on the credit extended by these funds.

The Board's regulations generally provide that a fund that is primarily engaged in the extension of short-term credit must place 15 percent of any increases in covered credit in a non-interest bearing special deposit held by the Federal Reserve System. The increase in covered credit is measured against a base of covered credit held on March 14, 1980, for the particular fund. This special deposit liability is adjusted weekly as the amount of covered credit extended by a fund goes up or down. The direct result of this requirement is to limit the amount of new credit that most funds can extend. The regulation also has had the effect of decreasing

The Honorable William J. Hughes
Page Two

the rate of return to fund investors in some circumstances, thus making some funds less attractive. It should be noted, however, that even those investors who are affected by these regulations continue to earn rates of return higher than are available in most other investments.

As you know, inflation robs every saver of a good part of the earnings on any investment or savings account. For this reason, the Board's anti-inflation actions, which are designed to bring the inflation rate down over time, will benefit savers in the long run. As the rate of inflation declines, a smaller part of the yield on investments will be eaten up by increases in the price level and it will become more attractive to save and to invest.

I hope this information is helpful 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

WILLIAM J. HUGHES
2ND DISTRICT, NEW JERSEY

COMMITTEES:
COMMITTEE ON THE JUDICIARY
COMMITTEE ON MERCHANT
MARINE AND FISHERIES
SELECT COMMITTEE ON AGING

Cong. Liaison Office will draft reply

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

WASHINGTON OFFICE:
CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
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ATLANTIC CITY, NEW JERSEY 08401
(609) 345-4844
427 LANDIS AVENUE
VINELAND, NEW JERSEY 08360
(609) 696-3269
151 NORTH BROADWAY
P.O. BOX 248
PENNSVILLE, NEW JERSEY 08070
(609) 678-3333

May 15, 1980

#215

Hon. Paul Volcker
Chairman
Federal Reserve Board
Constitution Ave. between 20th & 21st Sts.
Washington, D.C. 20551

Dear Chairman Volcker:

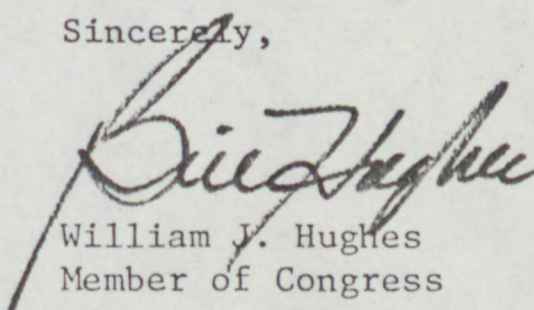
I have taken the liberty of forwarding a letter which I received from my constituent, Ms. Henrietta Rascher of Surf City, New Jersey.

Ms. Rascher is concerned about the Board's decision to impose a special deposit requirement for money market mutual funds. I would appreciate your comments on the questions which Ms. Rascher has raised in her letter, and any additional information on the decision to impose this requirement.

Thank you for your assistance in this matter.

With kind personal regards.

Sincerely,



William J. Hughes
Member of Congress

WJH:am

[REDACTED]
April 11, 1980

Governors
Federal Reserve System
Washington, D.C. 20000

Gentlemen:

Once again the middle income person has been thwarted in an effort to keep up with inflation. People investing amounts of \$10,000 and over can obtain interest rates in excess of 15% for short term investments. Anyone with less than this amount is penalized.

At last, these small investors had an opportunity in money market funds to earn a higher rate and still be liquid. Now the Board of Governors of the Federal Reserve system, on March 14, 1980, decided to end that opportunity.

It appears to me that, if I invest \$1,000, \$150 of this amount will be sent to the Federal Reserve Bank and be deposited at no interest leaving only \$850 which can be invested by the fund to earn income. This appears to me to be confiscatory. What will be done with this money? Will it be returned?

Constantly, the older Americans are reminded that they should not depend on Social Security for their retirement income but should save in anticipation of this time. I would appreciate learning how it is possible to do this when money saved loses value when the inflation rate is more than twice the interest it can earn in a bank or savings and loan. Now, when the opportunity came to earn a little better return, the Federal Reserve says no.

I strongly urge that a change be made in this regulation. It seems odd to me that nothing was said of this regulation until after it was passed and, apparantly, there is no redress to the Federal Reserve Board.

Very truly yours,

Henrietta M. Rascher
Henrietta M. Rascher

cc: Senator Bill Bradley
Senator Harrison A. Williams, Jr.
Congressman William J. Hughes

V-153



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

May 20, 1980

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

Dear Mr. Whitehurst:

Thank you for your letter of April 15 requesting comment on correspondence you received from Lieutenant Commander Andrew J. Anton. Lieutenant Commander Anton is concerned about recent actions by the Federal Reserve Board imposing a special deposit liability on money market funds.

Lieutenant Commander Anton is referring to the Board's Credit Restraint Regulations, 12 C.F.R. Part 229 (Subpart B), issued on March 14, 1980, and amended on March 28. These regulations were adopted pursuant to Executive Order 12201 issued by President Carter under the authority of the Credit Control Act of 1969 (Pub. L. 91-151, 12 U.S.C. §§ 1901-09). The Executive Order authorized the Board to regulate and control short-term credit extended by financial intermediaries. The President and the Board determined that these previously unregulated financial intermediaries, generally known as money market mutual funds, have been the vehicles for a substantial increase in extensions of short-term credit. Typically, these money market mutual funds sell shares to the general public and invest the money raised in short-term instruments such as commercial paper, certificates of deposit, and repurchase agreements. The increase in the size of the mutual fund industry (approximately \$60 billion at year-end 1979) made it imperative that any effort to fight inflation through credit controls include controls on the credit extended by these funds.

The Board's regulations generally provide that a fund that is primarily engaged in the extension of short-term credit must place 15 percent of any increases in covered credit in a non-interest bearing special deposit held by the Federal Reserve System. The increase in covered credit is measured against a base of covered credit held on March 14, 1980, for the particular fund. This special deposit liability is adjusted weekly as the amount of covered credit extended by a fund goes up or down. The direct result of this requirement is to limit the amount of new credit that most funds can extend. The regulation also has had the effect of decreasing

The Honorable G. William Whitehurst
Page Two

the rate of return to fund investors in some circumstances, thus making some funds less attractive. It should be noted, however, that even those investors who are affected by these regulations continue to earn rates of return higher than are available in most other investments.

As you know, inflation robs every saver of a good part of the earnings on any investment or savings account. For this reason, the Board's anti-inflation actions, which are designed to bring the inflation rate down over time, will benefit savers in the long run. As the rate of inflation declines, a smaller part of the yield on investments will be eaten up by increases in the price level and it will become more attractive to save and to invest.

I hope this information is helpful 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

G. WILLIAM WHITEHURST
2ND DISTRICT, VIRGINIA

Action assigned Mr. Petersen

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

#153

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CHARLES H. FITZPATRICK
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CONSTITUENT SERVICE OFFICES:
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VERENA C. WASSERMAN
OFFICE MANAGER
ROOM 501, PEMBROKE ONE
VIRGINIA BEACH, VIRGINIA 23462
(804) 490-2393
BLANCHE M. BOYLES
OFFICE MANAGER

April 15, 1980

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

Dear Mr. Chairman:

Attached is a copy of a letter which I have received from a constituent, LCDR Andrew J. Anton of Virginia Beach, Virginia, concerning a recent ruling by the Federal Reserve. I would appreciate it very much if you would provide me with your comments on this matter.

Thank you for your assistance.

Sincerely,

G. William Whitehurst

G. WILLIAM WHITEHURST

GW:RL
Attachment

1 April 1980

Lt. Col. Andrew J. Ginton

Dear Mr. Whitehurst,

The procedures elected officials employ to combat inflation never cease to amaze me. Recently the Federal Reserve, based upon President Carter's inflationary plan, passed a ruling that requires money market funds to place 15% of any assets in non-interest bearing reserve accounts. In Senate hearings held a little over a month ago, the Federal Reserve Board, the Securities and Exchange Commission, the Federal Home Loan Bank, and other regulatory agencies testified there was no need for a money fund reserves. The 15% non-interest bearing reserves will reduce the yield on these money market funds significantly. More recently President Carter signed a bill which authorizes certain banking and saving institutions to provide uncontrolled interest payments based upon what the market will bear. These two actions seem contradictory and incongruousness to me.

As a professional Naval officer, I have seen my basic pay and allowances fall 17 to 20% behind the rising inflation and the compensation awarded to my counterparts in industry. I have witnessed the

lower paygrade of the Navy resort to food stamps
and other government subsidized programs in order to
exist, not live but exist.

I consider myself fortunate in as much as my
last set of orders did not require me to move my family
and sell my home, otherwise facing financial ruin. I was
able to take the initial investment required to purchase
shares in a money fund, thus allowing me to take
advantage of the accelerating interest rates in my
continuing battle against inflation. This opportunity has
been diminished considerably by the imposition of the
money fund reserves. I consider this turnaround policy
by the Federal Reserve, a "stop in the face" for the
small investor attempting to combat his inflationary ills
through the purchase of money market funds.

I desire to know your position on the Federal
Reserve Board's action and what remedies, if any,
you propose to take.

Sincerely
Andrew J. Gordon

V-147



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

May 20, 1980

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

Dear Mr. Walker:

Thank you for your letter of April 11 requesting comment on correspondence you received from Stephen D. Lockety, III, M.D. Dr. Lockety is concerned about recent actions by the Federal Reserve Board imposing a special deposit liability on money market funds.

Dr. Lockety is referring to the Board's Credit Restraint Regulations, 12 C.F.R. Part 229 (Subpart B), issued on March 14, 1980, and amended on March 28. These regulations were adopted pursuant to Executive Order 12201 issued by President Carter under the authority of the Credit Control Act of 1969 (Pub. L. 91-151, 12 U.S.C. §§ 1901-09). The Executive Order authorized the Board to regulate and control short-term credit extended by financial intermediaries. The President and the Board determined that these previously unregulated financial intermediaries, generally known as money market mutual funds, have been the vehicles for a substantial increase in extensions of short-term credit. Typically, these money market mutual funds sell shares to the general public and invest the money raised in short-term instruments such as commercial paper, certificates of deposit, and repurchase agreements. The increase in the size of the mutual fund industry (approximately \$60 billion at year-end 1979) made it imperative that any effort to fight inflation through credit controls include controls on the credit extended by these funds.

The Board's regulations generally provide that a fund that is primarily engaged in the extension of short-term credit must place 15 percent of any increases in covered credit in a non-interest bearing special deposit held by the Federal Reserve System. The increase in covered credit is measured against a base of covered credit held on March 14, 1980, for the particular fund. This special deposit liability is adjusted weekly as the amount of covered credit extended by a fund goes up or down. The direct result of this requirement is to limit the amount of new credit that most funds can extend. The regulation also has had the effect of decreasing the rate of return

The Honorable Robert S. Walker
Page Two

to fund investors in some circumstances, thus making some funds less attractive. It should be noted, however, that even those investors who are affected by these regulations continue to earn rates of return higher than are available in most other investments.

As you know, inflation robs every saver of a good part of the earnings on any investment or savings account. For this reason, the Board's anti-inflation actions, which are designed to bring the inflation rate down over time, will benefit savers in the long run. As the rate of inflation declines, a smaller part of the yield on investments will be eaten up by increases in the price level and it will become more attractive to save and to invest.

I hope this information is helpful 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

ROBERT S. WALKER
16TH DISTRICT, PENNSYLVANIA

COMMITTEES:
GOVERNMENT OPERATIONS
SCIENCE AND TECHNOLOGY

Action assigned to Legal Division

STAFF IN CHARGE:
THOMAS R. BLANK
WASHINGTON OFFICE
GEORGE W. JACKSON
DISTRICT OFFICES

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

April 11, 1980

#147

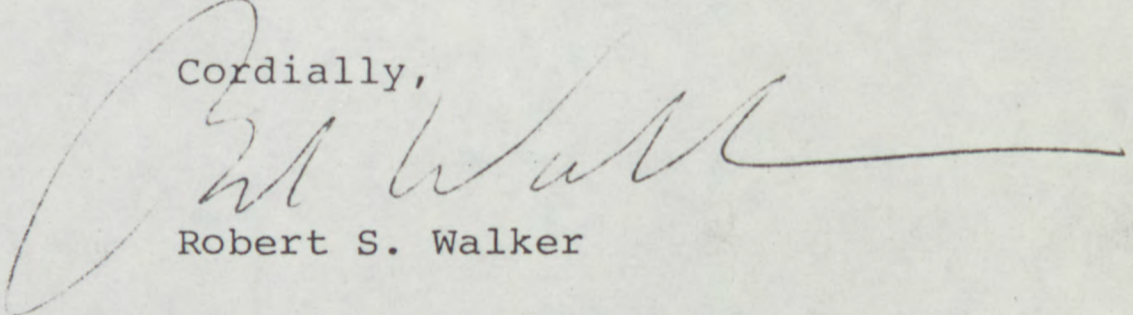
Mr. Paul Volcker
Chairman
Federal Reserve Board
21st and Constitution Avenue, N.W.
Washington, D.C. 20551

Dear Mr. Volcker:

I am enclosing a copy of a letter I have received from one of my constituents, Stephen D. Lockett, III, M.D. As you will note, Dr. Lockett raises a number of salient issues concerning recent actions taken by the Federal Reserve Board.

I would appreciate your comments and look forward to hearing from you.

Cordially,



Robert S. Walker

tj

APR 14 1980
1980 APR 14 PM 12:07

ALLERGY IMMUNOLOGY ASSOCIATES, LTD.

60 NORTH WEST END AVENUE,
LANCASTER, PA. 17603

ALLERGIST
STEPHEN D. LOCKEY, III, M.D.

TELEPHONE
717-393-1365

April 1, 1980

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


Dear Congressman Walker,

I would like to protest the recent decision by the Federal Reserve to require that money market funds apply 15% of their assets in a non-interest bearing account. Money market funds have been one of the few ways the small investor could take advantage of higher interest rates. Until the federal government decides that some attention should be paid to the small investor in regard to bank savings deposits and savings and loan deposits, I object strongly to the fact that once again the average American is being penalized.

It's quite clear that the middle class of America receives no distinct advantages from their position, although whenever any crisis occurs, it is the middle class that is requested and required to come forth with either the funds or the manpower to correct the crisis. It is time that the Congress of the United States takes an attitude to protect the diminishing middle class and to, in fact, accelerate its growth.

I, of course, have always been happy with your approach on fiscal matters, and I fully suspect that writing you concerning this matter is greeting open ears. I did, however, want to express my opinion.

Sincerely,


Stephen D. Lockey, III, M.D.

SDLIII:paf



V-212

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

May 20, 1980

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

Dear Mr. Oberstar:

Thank you for your letter of May 13 requesting comment on correspondence you received from Mr. Martin Meger. Mr. Meger is concerned about recent actions by the Federal Reserve Board imposing a special deposit liability on money market funds.

Mr. Meger is referring to the Board's Credit Restraint Regulations, 12 C.F.R. Part 229 (Subpart B), issued on March 14, 1980, and amended on March 28. These regulations were adopted pursuant to Executive Order 12201 issued by President Carter under the authority of the Credit Control Act of 1969 (Pub. L. 91-151, 12 U.S.C. §§ 1901-09). The Executive Order authorized the Board to regulate and control short-term credit extended by financial intermediaries. The President and the Board determined that these previously unregulated financial intermediaries, generally known as money market mutual funds, have been the vehicles for a substantial increase in extensions of short-term credit. Typically, these money market mutual funds sell shares to the general public and invest the money raised in short-term instruments such as commercial paper, certificates of deposit, and repurchase agreements. The increase in the size of the mutual fund industry (approximately \$60 billion at year-end 1979) made it imperative that any effort to fight inflation through credit controls include controls on the credit extended by these funds.

The Board's regulations generally provide that a fund that is primarily engaged in the extension of short-term credit must place 15 percent of any increases in covered credit in a non-interest bearing special deposit held by the Federal Reserve System. The increase in covered credit is measured against a base of covered credit held on March 14, 1980, for the particular fund. This special deposit liability is adjusted weekly as the amount of covered credit extended by a fund goes up or down. The direct result of this requirement is to limit the amount of new credit that most funds can extend. The regulation also has had the effect of decreasing

The Honorable James L. Oberstar
Page Two

the rate of return to fund investors in some circumstances, thus making some funds less attractive. It should be noted, however, that even those investors who are affected by these regulations continue to earn rates of return higher than are available in most other investments.

As you know, inflation robs every saver of a good part of the earnings on any investment or savings account. For this reason, the Board's anti-inflation actions, which are designed to bring the inflation rate down over time, will benefit savers in the long run. As the rate of inflation declines, a smaller part of the yield on investments will be eaten up by increases in the price level and it will become more attractive to save and to invest.

I hope this information is helpful 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

Response will be prepared by Congressional Liaison Office

JAMES L. OBERSTAR
8TH DISTRICT, MINNESOTA

COMMITTEES:
PUBLIC WORKS AND
TRANSPORTATION

MERCHANT MARINE AND
FISHERIES

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

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WASHINGTON, D.C. 20515
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DULUTH, MINNESOTA 55802
(218) 727-7474

203 ANOKA COUNTY COURTHOUSE
325 EAST MAIN STREET
ANOKA, MINNESOTA 55303
(612) 421-8862

May 13, 1980

~~#213~~
#212

1980 MAY 16 PM 12:46
OFFICE OF THE CLERK
U.S. HOUSE OF REPRESENTATIVES

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

Dear Chairman Volcker:

Just a brief note to accompany the enclosed correspondence from Mr. Martin Meger of Carlton, Minnesota, who expresses concern over Federal Reserve credit control policies, and particularly the 15% non-interest bearing Reserve requirement.

I would appreciate your efforts to review Mr. Meger's concerns and prepare an appropriate report to address these concerns.

With best wishes.

Sincerely,

Jim Oberstar

James L. Oberstar, M.C.

JLO/kcn
Enclosure

4-23-80

Carlton, Minn

Dear Congressman Oberstar -

On 3-14-80 the Federal Reserve Bank imposed credit controls on money market funds. The regulation requires money market funds to maintain a special deposit with the Federal Reserve equal to 15% of the investors assets. Any deposit I make, 15% of that deposit will not bear interest. What right does any branch of the government have to confiscate any part of my investments?

Those with financial resources are able to buy a \$100,000 treasury bill and are not subjected

2.
- to this 15% confiscation.
Why am I being discriminated
against because I am too
poor to buy a \$100,000 Treasury
bill individually.

What does the Federal Reserve
Board do with that 15%?

I happen to be an individual
who believes that people should
save more - to increase Capital
investments, to reduce inflation
etc. This action by the Federal
Reserve Board discourages savings.
Being of average financial means
the only action I can take is to
Cash in my saving bonds and
invest in my money market
fund - which incidentally is
guaranteed - at least I'll feel better.

Sincerely
Theresa M. [redacted]



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

V-204

May 20, 1980

The Honorable Robin Beard
House of Representatives
Washington, D. C. 20515

Dear Mr. Beard:

Thank you for your letter of May 8 requesting comment on correspondence you received from Mr. and Mrs. Doug Anderson. Mr. and Mrs. Anderson are concerned about recent actions by the Federal Reserve Board imposing a special deposit liability on money market funds.

Mr. and Mrs. Anderson are referring to the Board's Credit Restraint Regulations, 12 C.F.R. Part 229 (Subpart B), issued on March 14, 1980, and amended on March 28. These regulations were adopted pursuant to Executive Order 12201 issued by President Carter under the authority of the Credit Control Act of 1969 (Pub. L. 91-151, 12 U.S.C. §§ 1901-09). The Executive Order authorized the Board to regulate and control short-term credit extended by financial intermediaries. The President and the Board determined that these previously unregulated financial intermediaries, generally known as money market mutual funds, have been the vehicles for a substantial increase in extensions of short-term credit. Typically, these money market mutual funds sell shares to the general public and invest the money raised in short-term instruments such as commercial paper, certificates of deposit, and repurchase agreements. The increase in the size of the mutual fund industry (approximately \$60 billion at year-end 1979) made it imperative that any effort to fight inflation through credit controls include controls on the credit extended by these funds.

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The Honorable Robin Beard
Page Two

the rate of return to fund investors in some circumstances, thus making some funds less attractive. It should be noted, however, that even those investors who are affected by these regulations continue to earn rates of return higher than are available in most other investments.

As you know, inflation robs every saver of a good part of the earnings on any investment or savings account. For this reason, the Board's anti-inflation actions, which are designed to bring the inflation rate down over time, will benefit savers in the long run. As the rate of inflation declines, a smaller part of the yield on investments will be eaten up by increases in the price level and it will become more attractive to save and to invest.

I hope this information is helpful 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

ROBIN BEARD
6TH DISTRICT, TENNESSEE

WASHINGTON OFFICE:
229 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D. C. 20515
(202) 225-2611

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

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MEMPHIS, TENNESSEE 38117
(901) 767-4652

22 PUBLIC SQUARE
COLUMBIA, TENNESSEE 38401
(615) 388-2133

May 8, 1980

A 204

Mr Paul Volker
Chairman
Federal Reserve System
Federal Reserve Building
Washington, D. C. 20551

Dear Mr. Volker:

I am writing in behalf of Mr. and Mrs. Doug Anderson of Hampshire, Tennessee who have contacted me regarding their concern about the credit control regulations which are applicable to certain registered investment companies. I believe that the enclosed letter from the Andersons is self-explanatory as to their questions about these credit control regulations.

I would appreciate it if you would give these comments serious consideration and give me a full report on this action by the Federal Reserve System. Thank you for your attention in this request.

With warm regards.

Sincerely,

Robin Beard
Robin Beard, M. C.

RB/sj
Enclosure

[REDACTED]
[REDACTED]
May 6, 1980

The Honorable Robin L. Beard, Jr.
House of Representative Offices
Cannon House Building
Washington, DC 20515

Dear Congressman Beard,

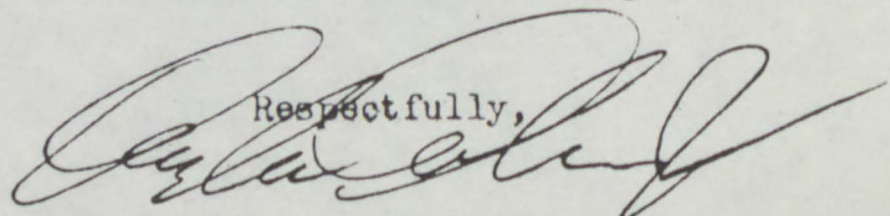
We are going increasingly concern over the encroachment of government into the areas in which the little and middle man lives. Two recent rulings have a severely detrimental impact upon the investment options of the person of modest means.

First, there have been restrictions on transactions involving gold mining stocks. As yet we have been unable to trace the source of the ruling, but it is probably the Securities and Exchange Commission. Basically it seems that the ruling sets a limitation in the form of a minimum amount that must be achieved to make a purchase of some stocks. We have heard that the minimum buy must be at least \$1000 and possibly \$5000. The purpose is, allegedly, to protect the small purchaser of stocks from speculations. Actually it prevents him from dealing in the stocks which promise to be highly profitable in the not too distant future.

Second, on March 14, 1980, the Board of Governors of the Federal Reserve System announced the adoption of "credit control regulations" applicable to certain registered investment companies, including the newly formed money market funds. You may not realize it, but these money market funds were established for the investor who lacked the \$10,000 or so to deal in Treasury Bills and other high interest money market instruments. Most of us just do not have that amount of cash available to provide us access to the higher interest rates. The Federal Reserve enacted regulations which require such investment companies to deposit about 15% of their total assets in non-interest reserve accounts in Federal Reserve Banks. One would question, first of all, the validity of a any requirement for a reserve in view of the extremely low risk of the investments of the money market funds which often include substantial investment in money market certificates and Treasury Bills. Secondly, one would question the requirement that the reserve be retained in a non-interest bearing account in a Federal Reserve Bank. It is unbelievable that rational men would require a private business, especially an investment company, to keep fund idle in a non-interest bearing account of any type. This makes no business sense at all; unless, the Federal Reserve Banks are in such dire needs of funds that they must compel private businesses to lend them money at no interest.

Congressman Beard, it would be greatly appreciated if you could trace the source of the first problem for us and that you would exert the requisite effort to have both ruling changed. It is very important that we of modest means not have our investment opportunities limited by government action, even though many may think it in our best interest. We are willing to take the risks without interference.

Respectfully,



Mr. & Mrs. Doug Anderson

ROBIN BEARD
9th DISTRICT, TENNESSEE

Response will be drafted by
Congressional Liaison Office

DISTRICT OFFICES:
5575 POPLAR
SUITE 815
MEMPHIS, TENNESSEE 38117
(901) 767-4652

WASHINGTON OFFICE:
229 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-2611

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

22 PUBLIC SQUARE
COLUMBIA, TENNESSEE 38401
(615) 388-2133

204

May 8, 1980

Mr Paul Volker
Chairman
Federal Reserve System
Federal Reserve Building
Washington, D. C. 20551

Dear Mr. Volker:

I am writing in behalf of Mr. and Mrs. Doug Anderson of Hampshire, Tennessee who have contacted me regarding their concern about the credit control regulations which are applicable to certain registered investment companies. I believe that the enclosed letter from the Andersons is self-explanatory as to their questions about these credit control regulations.

I would appreciate it if you would give these comments serious consideration and give me a full report on this action by the Federal Reserve System. Thank you for your attention in this request.

With warm regards.

Sincerely,

Robin Beard

Robin Beard, M. C.

RB/sj
Enclosure

██████████ ██████████
██████████ ██████████
May 6, 1980

The Honorable Robin L. Beard, Jr.
House of Representative Offices
Cannon House Building
Washington, DC 20515

Dear Congressman Beard,

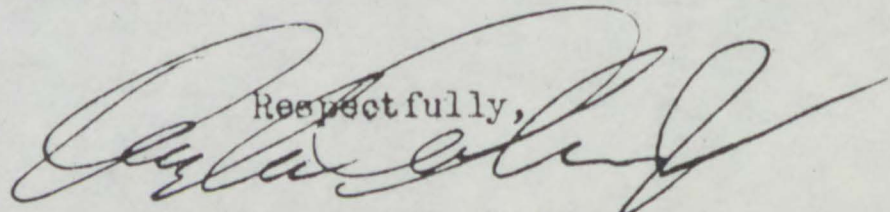
We are going increasingly concern over the encroachment of government into the areas in which the little and middle man lives. Two recent rulings have a severely detrimental impact upon the investment options of the person of modest means.

First, there have been restrictions on transactions involving gold mining stocks. As yet we have been unable to trace the source of the ruling, but it is probably the Securities and Exchange Commission. Basically it seems that the ruling sets a limitation in the form of a minimum amount that must achieved to make a purchase of some stocks. We have heard that the minimum buy must be at least \$1000 and possibly \$5000. The purpose is, allegedly, to protect the small purchaser of stocks from speculations. Actually it prevents him from dealing in the stocks which promise to be highly profitable in the not too distant future.

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Congressman Beard, it would be greatly appreciated if you could trace the source of the first problem for us and that you would exert the requisite effort to have both ruling changed. It is very important that we of modest means not have our investment opportunities limited by government action, even though many may think it in our best interest. We are willing to take the risks without interference.

Respectfully,



Mr. & Mrs. Doug Anderson

May 21, 1980

The Honorable Spark M. Matsunaga
United States Senate
Washington, D. C. 20510

Dear Senator Matsunaga:

This is in response to your letter of April 30 requesting the Board to consider a waiver of reserve requirements for the Bank of Honolulu.

As you are aware, State chartered, nonmember depository institutions that were engaged in business in Hawaii on August 1, 1978, will be exempt from Federal reserve requirements under the recently enacted Monetary Control Act of 1980 (Title I of P.L. 96-221) until January 1, 1986, at which time they will commence a phase-in of reserve requirements over an eight-year period. Member banks, regardless of location, including national banks and banks that withdraw from membership, however, will be subject to a four-year phase-down to the new levels of reserve requirements provided in the Monetary Control Act. You state that these provisions will place the Bank of Honolulu at a competitive disadvantage to nonmembers and subject such banks to severe hardship.

The Federal Reserve recognizes that the disparate treatment of member banks and nonmember depository institutions in Hawaii under the Monetary Control Act may place such member banks at a competitive disadvantage. However, the Board does not appear to have the flexibility under the legislation to grant the type of relief requested. Consequently, it appears that the requirements for member banks could only be changed through Congressional action.

Sincerely,

PP:WHW:vcd (#V-208)

bcc: Mr. Wallace
Mr. Petersen
Mr. Schwartz
Mr. Pilecki
Mrs. Mallardi (2) ✓

S/Paul A. Volcker

Action assigned Mr. Wallace

SPARK M. MATSUNAGA
HAWAII

WASHINGTON OFFICE:
352 RUSSELL BUILDING
WASHINGTON, D.C. 20510

HONOLULU OFFICE:
3104 PRINCE KUHIO BUILDING
HONOLULU, HAWAII 96850

United States Senate

WASHINGTON, D.C. 20510

April 30, 1980

CHIEF DEPUTY
MAJORITY WHIP

CHAIRMAN, SUBCOMMITTEE ON
TOURISM AND SUGAR
COMMITTEE ON FINANCE

MEMBER:

COMMITTEE ON ENERGY AND
NATURAL RESOURCES

COMMITTEE ON
VETERANS' AFFAIRS

APR 12 1980
43-6-11-21-11
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Mr. Paul Volcker
Chairman
Board of Governors
Federal Reserve System
Washington, D.C. 20551

Dear Mr. Chairman:

I have recently received a letter from a constituent, Michael N. Tanaka, Senior Vice President of the Bank of Honolulu, which until recently was a nationally chartered bank. Mr. Tanaka expressed grave concern over the ability of his bank to compete with other financial institutions, particularly savings and loan associations, in offering consumer checking accounts under the Financial Institutions Deregulation and Monetary Control Act of 1980.

The Bank of Honolulu is one of the smaller banks in the State of Hawaii. As a former nationally chartered bank, it must maintain a higher reserve requirement than larger state-chartered banks. The bank's disadvantage will be further exacerbated in competing with savings and loan associations for consumer checking accounts. As you know, the 1980 legislation imposes a three percent reserve requirement on nonmember financial institutions, whereas the Bank of Honolulu as a former member institution must maintain an 11.75 percent reserve requirement.

Consequently, Mr. Tanaka has requested the Board of Governors to accelerate the phase-down of current reserve requirements imposed on member and former member banks. In the alternative, he seeks an immediate 25 percent reduction of current reserve requirements as provided under the 1980 legislation.

The 1980 legislation intended to place all financial institutions on equal footing in competing for consumer checking accounts. The 1980 legislation also recognized the unique financial structure of the State of Hawaii and other non-continental areas. I strongly urge you to exercise the administrative authority established in the 1980 legislation

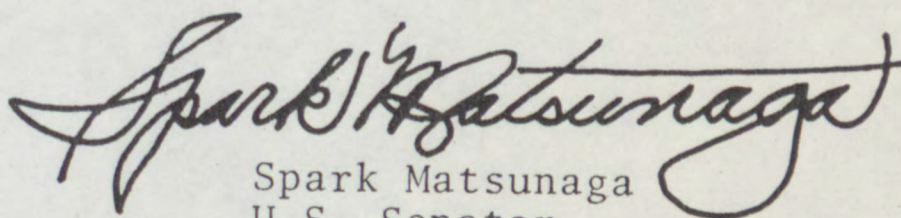
Mr. Paul Volcker
April 30, 1980
Page Two

to insure the competitive equality of all financial institutions in the State of Hawaii, as in the case of Bank of Honolulu.

I would appreciate learning your response to these concerns so that I might better answer my constituent.

Aloha and best wishes.

Sincerely,

A handwritten signature in cursive script that reads "Spark Matsunaga". The signature is fluid and extends across the width of the typed name below it.

Spark Matsunaga
U.S. Senator

May 21, 1980

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

Dear Mr. Cleveland:

Chairman Volcker has asked that I respond to your letter of May 15 regarding correspondence you received from Mr. Charles H. Burkhardt, Executive Vice President, New England Fuel Institute.

As you are aware, Mr. Burkhardt had written directly to Mr. Robert E. Mannion, the Board's Deputy General Counsel. For your information, I am pleased to enclose a copy of Mr. Mannion's response.

Sincerely yours,

(Signed) Donald J. Winn

Donald J. Winn
Special Assistant to the Board

Enclosures (Ltr. dtd 5/15/80)

CO:pjt (#V-216)
bcc: Mr. Mannion
Mrs. Mallardi ✓

JAMES C. CLEVELAND
2D DISTRICT, NEW HAMPSHIRE

COMMITTEES:
PUBLIC WORKS AND
TRANSPORTATION
HOUSE ADMINISTRATION
SELECT COMMITTEE ON
CONGRESSIONAL OPERATIONS

Cong. Liaison Office will draft reply

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

WASHINGTON OFFICE:
RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
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DISTRICT OFFICES:
316 FEDERAL BUILDING
55 PLEASANT STREET
CONCORD, NEW HAMPSHIRE 03301
TEL.: 228-0315
23 TEMPLE STREET
NASHUA, NEW HAMPSHIRE 03060
TEL.: 883-4525

May 15, 1980

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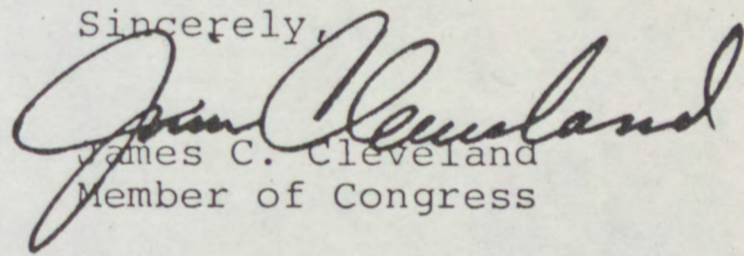
Mr. Paul A. Volcker
Chairman
Federal Reserve Board
20th Street & Constitution Avenue, N. W.
Washington, D. C. 20551

Dear Mr. Volcker: .

Enclosed is a copy of a letter from the New England Fuel Institute regarding recent credit regulations issued by the Federal Reserve Board. This letter raises some valid points regarding an adverse impact of the regulations on home energy conservation measures.

It is my opinion that this matter warrants close attention and I would appreciate your comments regarding this situation.

Sincerely,


James C. Cleveland
Member of Congress

JCC:hsh
Enclosure

New England Fuel Institute

20 SUMMER STREET • P.O. BOX 888 • WATERTOWN, MASSACHUSETTS 02172 • (617) 924-1000 • Telex: NEFI-WTN 922-401

May 6, 1980

RECEIVED

MAY 8 1980

CONG. JAMES CLEVELAND
WASH. OFFICE

Honorable James C. Cleveland
House of Representatives
Washington, D.C. 20515

Dear Jim:

Enclosed is a copy of a letter that the New England Fuel Institute recently sent to the Federal Reserve Board concerning an adverse -- and, we are certain -- unintended impact that the Board's recent credit regulations are having on home energy conservation measures.

Under a program encouraged by the National Energy Conservation Policy Act of 1978, our members have been assisting consumers in cutting heating costs by installing new, more energy-efficient oil heaters and burners in their homes. These new units provide fuel savings of 10-40%. New England banking institutions which, until now, have been financing these installations, have informed our members that conservation loans can no longer be made because of the Federal Reserve Board's new restrictions on credit.

A fair reading of the Board's regulations makes clear that loans of this type were never meant to be subject to credit restrictions. Loans for home improvements, purchases of appliances, and utility services are generally exempted from the Board's rules. However, the regulations do not specify whether energy conservation loans fall within these exemptions.

This lack of clarity in the regulations is frustrating a clear national energy policy, established by Congress, of encouraging home energy conservation measures.

May 6, 1980
Page 2

I would greatly appreciate any support that you could give to our efforts to convince the Board to rectify this matter as soon as possible.

Thank you very much.

Sincerely,

Chas. B.

Charles H. Burkhardt
Executive Vice President

Because of the size of the initial investment required, bank loans are the only means for many consumers to proceed with these energy-saving home improvements. Until now, area banks have provided such financing. But they have stopped making these loans because of the Federal Reserve Board's new credit restrictions.

2. Federal Reserve Board Regulations

There are a number of grounds under which these loans might be considered "uncovered credit", not subject to the special reserve requirement. However, the Board's regulations and explanatory materials do not provide a conclusive answer.

First, the loans are "home improvement loans", which are generally exempted from the reserve requirements. See page 1 of the Board's Press Release of March 14, 1980. However, another part of the Board's regulations suggest that only home improvement loans covered by a mortgage qualify for such an exemption. 45 Fed. Reg. 17928 (1980). Loans for energy conservation are not treated as mortgages because of the expense of recording them pursuant to local property laws.

Second, the proceeds of the conservation loans are being used "to finance the purchase of household goods such as furniture and appliances", a category of credit which is generally exempted from the new requirements. See the March 14 Press Release at p. 1. However, the regulations appear to restrict the exemption to those purchases where a security interest is taken in the goods purchased. 45 Fed. Reg. 17929 (1980). This is impractical in the case of a fixture like a boiler or burner and may, in any event, conflict with an existing mortgage.

Third, the loans are being "extended for utilities... services" and may be exempt on that basis. See the May 14 Press Release at p. 5. However, the regulations imply that the exemption applies only where the credit is extended by the utilities themselves. 45 Fed. Reg. 17929 (1980). The loans in question are extended by the bank because an individual fuel oil dealer does not have the resources or the risk-spreading capability to make loans of this size and nature.

A fair reading of the Board's regulations indicates that loans of this type were never intended to be subject to the special reserve requirement. In fact, loans which are

practically identical in character and in effect on the economy are specifically exempted from the Board's program. The Board should move to correct this situation, both for reasons of equity and for the compelling public policy reasons outlined below.

3. Public Policy Considerations

It is scarcely necessary to state that energy conservation is a matter of highest national priority. What is significant for present purposes is that residential energy conservation has, by law, been established as a cornerstone of the nation's energy policy.

In enacting the National Energy Conservation Policy Act ("NECPA"), Congress found that:

all sectors of our Nation's economy must begin immediately to significantly reduce the demand for nonrenewable energy resources such as oil and natural gas by implementing and maintaining effective conservation measures for the efficient use of these and other energy sources.

Pub.L. 95-619, §102(a)(3), 95th Cong., 2d Sess. (1978). To implement this finding, Congress required states to draw up and implement residential energy conservation plans.^{1/} Under those plans, utilities are to conduct residential energy audits, inform consumers of available conservation measures and possible savings from implementing them, and provide for installation of energy-saving equipment.^{2/} States can make home heating oil dealers, who volunteer for these programs, subject to substantially the same requirements.^{3/} Significantly, the plans have to provide a mechanism by which the utility or home heating oil dealer offers to "arrange for a lender to make a loan to such residential customers to finance the purchase and installation costs of suggested measures...."^{4/} It is precisely these types of loans which are now threatened by the Board's new regulations.

^{1/} NECPA §212, 42 U.S.C. §8213.

^{2/} NECPA §§213, 215; 42 U.S.C. §§8214, 8216.

^{3/} NECPA §§212(c)(3), 214, 217; 42 U.S.C. §§8213(c)(3), 8215, 8217.

^{4/} NECPA §§215(b)(1)(C), 217(a)(2)(D); 42 U.S.C. §§8216(b)(1)(C), 8217(a)(2)(D).

Robert E. Manion, Esq.
April 24, 1980
Page 4

The Energy Tax Act of 1978, Pub.L. No. 95-618, is also indicative of the central role Congress assigned to residential energy conservation in overall energy policy. The Act provides for a tax credit of up to \$300 for "qualified energy conservation expenditures" by homeowners. 26 U.S.C. §44C. Specifically included as qualifying expenditures deserving of this tax credit are

...furnace replacement burner[s]
designed to achieve a reduction in
the amount of fuel consumed as a
result of increased combustion
efficiency.... 26 U.S.C. §44C(c)
(4) (A) (i)

In his March 14, 1980, address pursuant to which the Board's credit restrictions were imposed, President Carter repeated his call for "unrelenting efforts for conservation", pursuant to a plan whose "aim is to involve every level of government, business, labor -- in fact, every single citizen -- in conserving American energy." It would be ironic indeed if the Board's regulations were interpreted in such a way as to work directly at cross purposes with this goal. But they are being so interpreted in at least some quarters. The Board and its staff have an affirmative obligation to correct the situation.

4. Recommendation

NEFI accordingly requests that the Board or its staff promptly issue a question-and-answer, or other interpretive ruling, that makes clear that bank loans for energy conservation purposes, under the circumstances described above, are not "covered credit" and are therefore not subject to the Board's special deposit requirement.

Sincerely,

Charles H. Burkhardt
Executive Vice President

May 22, 1980

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

Dear Senator Armstrong:

This is in response to your letter of March 6 regarding correspondence from one of your constituents, Mr. Steven K. Bosley, President of the Bank of Boulder, Boulder, Colorado.

Mr. Bosley's letter concerns a credit plan offered by his bank. The plan provides for a 25 percent interest rebate to the consumer if the consumer meets the payment terms of the loan contract. Mr. Bosley states that, according to Federal Reserve staff, the plan is prohibited by current law and must be discontinued.

There appears to be some misunderstanding of what the Federal Reserve Bank of Kansas City has said regarding the bank's loan plan. The Board's staff has discussed the matter with the Kansas City staff, and has also reviewed the correspondence between Mr. Bosley and Kansas City. Both the Reserve Bank of Kansas City and the Board's staff agree that there is no prohibition against a bank's offering consumers a rebate of interest.

It is necessary, however, for the bank to take the interest rebate into account in making its Truth in Lending disclosures. That is, the bank must make disclosures on the assumption that the consumer will in fact make timely payments and thereby qualify for the rebate. Regulation Z also would require the bank to disclose to the customer that late payment of any instalment will result in the forfeiture of the rebate to which the customer would otherwise be entitled. So long as the bank complies with these and any other related disclosure requirements, it will be in compliance with Regulation Z in making the rebate available to its customers.

I hope this information will be helpful to you. If the staff can be of assistance to Mr. Bosley, please let us know.

Sincerely,

DSS:pjt (4V-79)
bcc: Dolores Smith
Mrs. Mallardi (2)

S/Paul A. Volcker

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

March 10, 1980

79

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 hold 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. Truth in Lending:

- 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?"

March 10, 1980

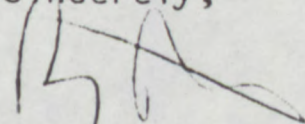
c. Might it be an unfair trade practice for a commercial or savings bank to issue a renegotiable rate mortgage having contract terms that permit the lender to set the renewal rate, at the time of renewal, at whatever rate is that individual lender's "then-current market rate of interest on similar loans"?

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

May ²² 1, 1980

The Honorable John Joseph Moakley
Chairman
Subcommittee on Rules of the House
Committee on Rules
House of Representatives
Washington, D.C. 20515

Dear Chairman Moakley:

The Board of Governors of the Federal Reserve System welcomes the opportunity to review and comment on your Subcommittee print on the "Establishment of Procedures for Congressional Review of Agency Rules" which contains an analysis of the issues raised by the legislative veto proposals and a discussion of a proposed alternative--the establishment of a Select Committee on Regulatory Affairs.

The Board shares your concerns that differing objectives of several agencies may sometimes lead to conflicts in regulations; that at other times, in some Federal regulations, provisions may duplicate and overlap each other; and that Federal regulations sometimes impose a needlessly heavy burden on both the regulated and the public in general. For these reasons we have supported the objectives of various "sunset" legislative proposals.

Your report also properly notes that the Congress must bear its share of the responsibility for proliferating Federal regulations. We believe that Congress could play an important role in dealing with the problems connected with the rule-making activities of the agencies. We have suggested that it would be desirable as a general practice for Congressional committees to review regulations issued under legislation they have sponsored to determine if the regulatory requirements and resulting burdens are, in fact, justified by the problems cured or benefits derived from the new requirements.

The draft report proposes the creation of a permanent select committee of the House to be known as the Committee on Regulatory Affairs ("Select Committee"). Each agency would be required to submit to the Select Committee the text of each newly proposed or promulgated agency rule together with a statement of the statutory or constitutional authority for it, the

The Honorable John Joseph Moakley
Page Two

schedule under which the agency proposes to act, together with any other reasonably obtainable information. The Select Committee may undertake an investigation of any such agency rule on its own initiative, at the request of any member or group of members or at the request of any standing committee having substantial jurisdiction over the subject matter. The Select Committee may then report to the House and, if appropriate, recommend a joint resolution that would repeal or prevent the promulgation of the rule; prevent such rule from taking effect; or postpone, suspend or terminate such rule's effectiveness.

Although the Board recognizes the seriousness of the problems addressed, we have serious reservations about the practicality of such a Congressional review procedure. It is noted from your report that over 7,500 rules and regulations were promulgated in 1979. It appears that the handling of such a volume of regulations would swamp the abilities of any single Congressional committee.

The Board suggests, therefore, that serious consideration be given to improvement in oversight procedures by the various committees having legislative jurisdiction over the regulatory agencies, aided by the reforms in regulatory procedures that have been adopted or are currently being considered by the Congress. For example, Title VIII of the Depository Institutions Deregulation and Monetary Control Act of 1980, (P.L. 96-221) adopted a "Financial Regulation Simplification Act of 1980." Among the requirements imposed are directions to avoid conflicts, duplications and inconsistencies between regulations issued by the Federal Financial Regulatory Agencies and to obtain timely participation and comment by other Federal agencies, appropriate state and local agencies and financial institutions and consumers. In addition, regulatory reform bills such as H.R. 3263, S. 262 and S. 2147 now under active consideration by the Congress would furnish much more background analysis of regulations and more information about overlaps and duplication in Federal regulations. With this new body of information, Congressional oversight could be made more effective.

I am pleased to have had the opportunity to submit these comments and hope they will be helpful in the further consideration of your report.

Sincerely,

*S/*Paul A. Volcker

CRM:DJW:pjt (#V-177)
bcc: Mr. McNeill
Mrs. Mallardi (2) ✓

JOHN JOSEPH MOAKLEY, MASS., CHAIRMAN
CHRISTOPHER J. DODD, CONN. JOHN B. ANDERSON, ILL.
ANTHONY C. BEILENSON, CALIF. ROBERT E. BAUMAN, MD.
MARTIN FROST, TEX.
JOHN J. DOOLING, COUNSEL
DON WOLFENBERGER, MINORITY COUNSEL

U.S. House of Representatives
Committee on Rules
Washington, D.C. 20515

NINETY-SIXTH CONGRESS
COMMITTEE ON RULES
RICHARD BOLLING, MO.,
CHAIRMAN
SUBCOMMITTEE OFFICE
H-152 THE CAPITOL
(202) 225-9091

April 21, 1980

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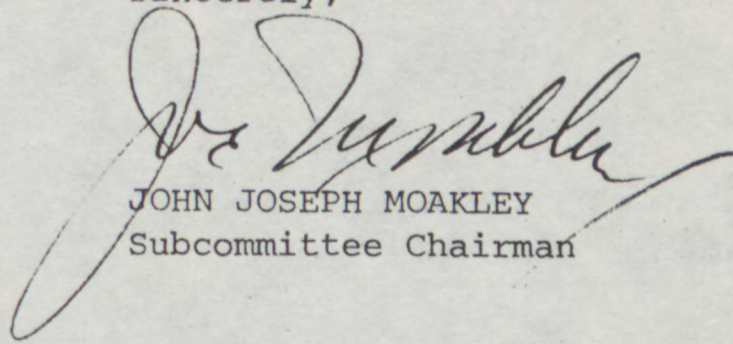
The Honorable Paul A. Volcker
Chairman
Board of Governors
Federal Reserve Board
20th Street & Constitution Avenue, NW
Washington, D.C. 20551

Dear Mr. Chairman:

Enclosed is a copy of our subcommittee print on the "Establishment of Procedures for Congressional Review of Agency Rules" which contains an analysis of the issues raised by the legislative veto and a discussion of our proposed alternative - the establishment of a Select Committee on Regulatory Affairs. The Select Committee would have broad jurisdiction over the rulemaking activities of the federal government and thus would provide Congress with a mechanism to conduct the type of oversight which its compartmentalized committee system now precludes.

Our proposal would have an important effect on the rulemaking activities of your agency. I would appreciate your comments and suggestions on the discussion and recommendations contained in our subcommittee print. It is my hope that the Committee on Rules will take action on this issue in the near future and I am therefore requesting that you send your comments and suggestions to me by May 10th.

Sincerely,


JOHN JOSEPH MOAKLEY
Subcommittee Chairman

JJM:mp

Enclosure

May 22, 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:

In light of your Subcommittee's recent hearing on the Hunt-silver situation, I thought you would be interested in having the enclosed "Interim Report" on the financial aspects of that situation. I think the report will help clarify some of the factual issues that arose in your hearings.

As the "Interim Report" indicates, we have now turned much of our attention to the more basic questions as to how the whole situation arose in the first instance and what might be done to prevent a similar problem in the future. We will keep you informed.

Sincerely,

S/Paul A. Volcker

Enclosure
EGC:DJW:pjt

Mrs. Mallardi (2) ✓

May 22, 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:

As we discussed at the hearing on the "Federal Reserve Modernization Act," I am enclosing our "Interim Report" on the financial aspects of the recent Hunt-silver market situation.

This entire matter was an unhappy one in which some major financial institutions and the financial markets generally were tested. It appears that the storm has been weathered without any permanent damage to those markets or institutions. But, I think it is clear that we must turn our attention to an analysis of what can and should be done, in law or regulation, to prevent a similar occurrence in the future. That is precisely what we, in cooperation with other agencies, are doing and I will keep you informed as to the status of those efforts.

Sincerely,

S/Paul A. Volcker

Enclosure
EGC:DJW:pjt
bcc: Mrs. Mallardi(2) ✓

May 22, 1980

The Honorable Daniel P. Moynihan
United States Senate
Washington, D.C. 20510

Dear Pat:

Following our discussion at lunch yesterday, I am enclosing our "Interim Report" on the financial aspects of the recent Hunt-silver market situation.

This entire matter was an unhappy one in which some major financial institutions and the financial markets generally were tested. It appears that the storm has been weathered without any permanent damage to those markets or institutions. But, I think it is clear that we must turn our attention to an analysis of what can and should be done, in law or regulation, to prevent a similar occurrence in the future.

Sincerely,

S/Paul A. Volcker

Enclosure

EGC:DJW:pjt

bcc: Mrs. Mallardi (2) ✓

May 22, 1980

The Honorable Frank Church
United States Senate
Washington, D.C. 20510

Dear Senator Church:

As I promised you in my letter of May 13, I am sending you our "Interim Report" on the financial aspects of the recent Hunt-silver market situation.

This entire matter was an unhappy one in which some major financial institutions and the financial markets generally were tested. It appears that the storm has been weathered without any permanent damage to those markets or institutions. But, I think it is clear that we must turn our attention to an analysis of what can and should be done, in law or regulation, to prevent a similar occurrence in the future. That is precisely what we, in cooperation with other agencies, are doing and I will keep you informed as to the status of those efforts.

Sincerely,

S/Paul A. Volcker

Enclosure

EGC:DJW:pjt (Nsee #V-187)
bcc: Mrs. Mallardi (2) ✓

CM
V-188

May 23, 1980

The Honorable Martin Frost
House of Representatives
Washington, D.C. 20515

Dear Mr. Frost:

I appreciate and share your concern regarding recent difficulties affecting the motor vehicle industry, as expressed in your letter of May 1. It is my opinion that inventory control by both manufacturers and dealers, recent financial developments, and the Administration's and the Board's anti-inflation programs will help to alleviate the problems being faced by this industry.

Within the motor vehicle industry, steps have been taken to reduce excessive stocks since last summer. These reductions in inventories have been accomplished largely in the face of weak sales. Hence, while floorplanning costs per vehicle rose until mid-April, dealers were successful in containing total finance charges. During the last several weeks, the situation has been further aided by falling short-term interest rates.

I appreciate your proposal to exempt new car and truck loans from the 6 to 9 percent loan growth ranges. The Federal Reserve does not believe it appropriate at this time to specifically exempt any particular type of loan, because of the importance of maintaining the control over the growth of credit. However, consistent with the overall framework of the Special Credit Restraint Program, the Board had encouraged commercial banks to give priority to maintaining a reasonable flow of funds to consumers and small businesses; this includes auto dealers with credit lines of \$1.5 million or less. If necessary then, lending to larger businesses would have to be reduced in order to accommodate increases in consumer and floorplanning loans and still maintain growth of all loans within the guidelines.

Excessive inflation cannot persist over time, of course, unless fueled by excessive expansion in money and credit. Thus the basic thrust of Federal Reserve policy remains aimed at maintaining moderate growth in aggregate money and credit. The problem

The Honorable Martin Frost
Page Two

of assuring a moderate rate of growth in money and credit so as to fight inflation is obviously not easy or painless. We are now seeing signs that inflation and inflationary pressures are easing, credit demands weakening, and interest rates are declining from their recent levels. Ultimately this will increase consumer income, restore purchasing power, and help revive the auto industry.

Sincerely,

Paul A. Volcker

P.S. I am enclosing a release ~~we~~ we issued yesterday, which, among other things, emphasizes the fact that no special restraint under the program is appropriate for auto loans.

PAV

MARTIN FROST
24TH DISTRICT, TEXAS

Action assigned Mr. Kichline

1238 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-3605

RULES COMMITTEE

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

DISTRICT OFFICES:
DALLAS, TEXAS 75208
 OAK CLIFF BANK TOWER, ROOM 1319
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(214) 941-6032
GRAND PRAIRIE, TEXAS 75050
 211 WEST MAIN, ROOM 106
(214) 262-1503
ARLINGTON, TEXAS 76011
 611 RYAN PLAZA DRIVE, ROOM 717
(817) 265-7759
PLEASE REPLY TO
OFFICE CHECKED

May 1, 1980

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

Dear Mr. Chairman:

As you know, the new car and truck industry is now suffering from a set of circumstances which, if not corrected, could result in permanent damage to this industry and could also jeopardize the nation's chances for making a speedy recovery from present economic conditions.

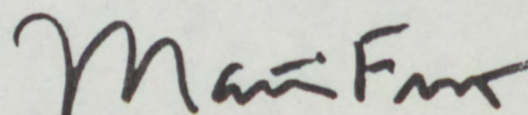
In Texas, the slowdown of new car and truck sales is particularly acute. High interest rates and a restrictive state usury law have combined with the Federal Reserve Board's loan growth limitation to rapidly deplete the funds available for dealer floorplanning and consumer loans for automobile purchases. While car and truck financing was exempted from the recently imposed reserve requirements in order to ease the impact of high interest rates, the loan growth restrictions have dramatically reduced the funds available for automobile financing. Financial institutions must be given an incentive to finance both consumer and floorplanning loans. If not, I see little possibility for relief for these small business concerns.

In light of these circumstances, I would like to propose the following suggestion for your consideration. I would propose that the current policy of limiting overall loans to a growth rate of 6% to 9% be adjusted, so as to exempt new car and truck loans. This would serve several purposes. One, it would free up money that is now critically needed for automotive financing without jeopardizing business and industry loan sources. It would do so without flooding the market with so much money so as to detract from overall Federal Reserve Board objectives. And, by reversing the clearly dangerous situation in which auto and truck dealerships now find themselves, this policy would do much to improve our chances for saving our small business dealer.

This is obviously only one of several possible approaches to this problem. I would urge you to carefully consider all possibilities, as the recovery of this industry is far too important to the nation as a whole to ignore a possible solution to its dilemma.

Your consideration of this suggestion would be most sincerely appreciated.

Sincerely,


Martin Frost

MF/bm

#188

1980 MAY 2 PM 1:00

May 23, 1980

Dear Senator Cranston:

I very much regretted to learn of the untimely death of your son, Robin. I want to express my sympathy to you and the members of your family at this time of sorrow.

Sincerely,

The Honorable Alan Cranston
United States Senate
Washington, D.C. 20510

JB:mrk

WILLIAM PROXMIRE, WIS., CHAIRMAN
HARRISON A. WILLIAMS, JR., N.J. JAKE GARN, UTAH
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MARY FRANCES DE LA PAVA, CHIEF CLERK

United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, D.C. 20510

May 23, 1980

Chairman Paul A. Volcker
Depository Institutions Deregulation Committee
20th and C Streets, N.W.
Washington, D.C. 20551

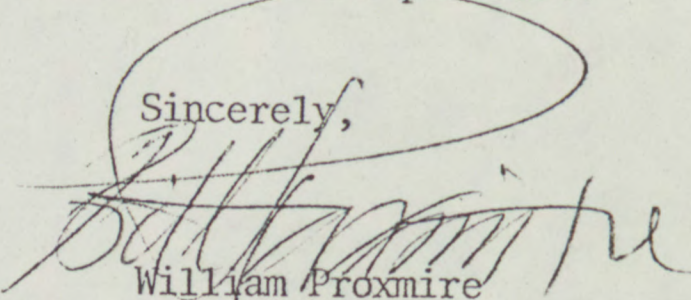
Dear Mr. Chairman:

It has been reported that the Depository Institutions Deregulation Committee will consider the advisability of eliminating the rate differential on money market certificates which otherwise will be restored when Treasury bill rates fall below 9 percent. Any decision on the differential will have to strike a delicate balance between preserving the financial stability of financial institutions, maintaining credit flows for housing, agriculture, and small business, and providing equity for savers. A judgment on this issue requires access to detailed information on the current condition of financial institutions and on the recent credit market developments. For these reasons, Congress left the issue of the differential on accounts created after December 10, 1975 to be decided by the Deregulation Committee.

For example, in passing the Depository Institutions Deregulation and Monetary Control Act of 1980, Congress could have amended P.L. 94-200 to require the differential be maintained on all categories of accounts and not just those in effect on December 10, 1975. Congress chose not to do so. It is obvious, therefore, that Congress intended to vest discretionary authority on post-December 10, 1975 accounts with the Deregulation Committee.

Hopefully, the Deregulation Committee will carefully assess the impact of restoring or eliminating the differential before making its decision. I believe the Congress clearly intended that the Deregulation Committee exercise its best judgment on such matters. I have taken no position on this issue; instead, I urge the Deregulation Committee to decide the issue strictly on its merits without reference to outside pressure.

Sincerely,


William Proxmire
Chairman

CM
V-197

May 23, 1980

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

Dear Berkley:

Thank you for giving me the opportunity to comment on the suggestions of your constituent, Mr. John Walther, about the Board's consumer restraint regulation. Mr. Walther proposed that controls be set on downpayment requirements for purchasing a variety of credit-financed consumer items. In emphasizing the direct control of credit terms, Mr. Walther's idea is similar to the approach taken toward credit restraint during the Korean War.

As you know, the Board on March 14 implemented a consumer credit restraint regulation which requires creditors to deposit with the Federal Reserve an amount equal to 15 percent of increases in certain types of consumer credit, including credit cards, check credit overdraft plans, unsecured personal loans, and secured credit where the proceeds are not used to finance the collateral. The regulation is designed to help ease the inflationary pressures to which excess credit growth contributes.

While the Board anticipated that many creditors would decide to impose more stringent credit terms in response to the regulation, the Board deliberately refrained from requiring such measures directly. In the Board's view, its approach provides creditors with considerable incentive to restrain growth of covered types of credit. At the same time, the regulation gives creditors flexibility to tailor restraining actions to their own operations and to the needs of their customers.

The special deposit requirements and the voluntary program calling for restraint on lending at banks are clearly extraordinary measures. If continued for any lengthy period they would likely disrupt normal market processes, and therefore

The Honorable Berkley Bedell
Page Two

are certainly not a substitute for the general instruments of monetary and fiscal policy. In recent weeks, demands for money and credit have declined and interest rates have dropped substantially. I am hopeful that these developments, along with progress in fighting inflation, will permit a removal of credit control measures in the not too distant future.

Sincerely,

P. S.

*P. S. We have, yesterday, taken
steps toward relaxation.
P. S.*

BERKLEY BEDELL
6TH DISTRICT, IOWA

Action assigned Mr. Kline

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
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ANTITRUST AND RESTRAINT OF TRADE
ACTIVITIES AFFECTING SMALL BUSINESS

Congress of the United States

House of Representatives

Washington, D.C. 20515

May 2, 1980

4197

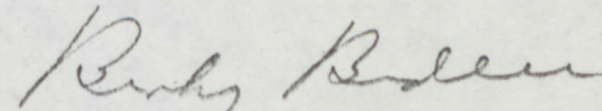
Mr. Paul Volcker
Chairman
Federal Reserve Board
Twentieth Street and Constitution Avenue N.W.
Washington, D.C. 20551

Dear Paul:

I am enclosing a copy of a letter from a constituent of mine, Mr. John Walther, who has several suggestions in regard to credit controls.

I would appreciate your reviewing his letter and responding to his concerns. Thank you very much for your attention to this request. With best personal regards, I am

Sincerely,



Berkley Bedell
Member of Congress

BB/gh

1980 MAY -27 11:00 AM

Barty Credit Walther/FD

4 21 Recd

RENWICK SAVINGS BANK

INDEPENDENT COMMUNITY BANK • RENWICK, IOWA 50577 • 515-824-3251

April 16, 1980

Berkley Bedell
316 Cannon House Office Bld.
Washington, D. C. 20515

Berkley:

Sorry I had to leave the Humboldt meeting early last Friday. Wanted to talk to you about Credit Controls.

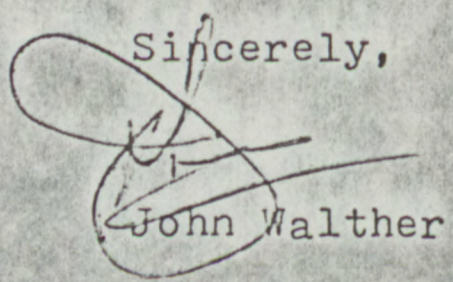
The President has stated that they would not use credit controls as a means of slowing down inflation. (Our economy is too dynamic to ever stop inflation or get it back to the 3% area of the 50's.) Anyway in your discussion you spoke about the need of personal savings and ways to get people to save. The \$200.00 tax free on the interest earned will help but IRS will destory that in a ruling to get financial institutions to withhold taxes on interest and dividends.* That will defeat SAVINGS!

Credit Controls on Consumer items from T. V.'s to Houses could be set by the Federal Reserve. A board of regulators composed of Consumers and Businessmen could set the amount of down payment needed to buy the items. Down payment requirements on each item would solve our savings problem as people would have to go back to saving in order to reach the goal of purchasing the item.

Controls would allow interest rates to come down to an area where people can live with them. Those people with the down payments can continue to purchase the items they want. Money could flow to areas of need. Farmers could get money to plant crops and purchase feeder livestock. Consumer purchases of manufactured goods and housing would start. Then perhaps we could get underway to reaching a level growing economy.

This sounds too simple but I think it is the only fair way to solve our credit crunch problems. Perhaps you could visit with Volker about it. I would be interested in hearing what he has to say.

Sincerely,



John Walther

*Enclosure: Letter From American Bankers Association.

JW:lh

May 23, 1980

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

Dear Chairman Proxmire:

Thank you for your letter of May 20 regarding your hearings on S. 2704, a bill to amend the Federal Reserve Act to authorize the Board of Governors of the Federal Reserve System to establish margin requirements for transactions in financial instruments.

I am looking forward to appearing at 10:00 a.m. on Thursday, May 29.

Sincerely,

S/Paul A. Volcker

CO:vcd (#V-229)

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

WILLIAM PROXMIRE, WIS. CHAIRMAN
HARRISON A. WILLIAMS, JR., N.J. JAKE GARNER, UTAH
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MARY FRANCES DE LA PAVA, CHIEF CLERK

United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, D.C. 20510

May 20, 1980

1980 MAY 22 11:58

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

Dear Mr. Chairman:

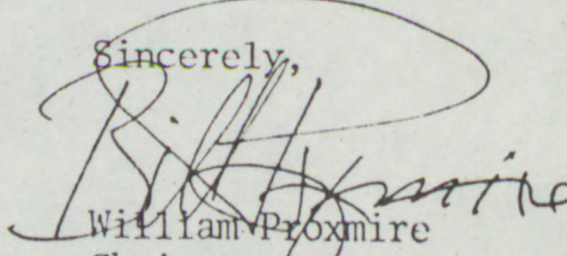
This will confirm our invitation to you to testify before the Committee on the recent developments in the silver market and on the adequacy of our system for regulating aspects of trading in certain financial instruments including foreign exchange, Treasury obligations, government guaranteed securities, gold or silver.

The Committee will explore the effects of excessive commodities speculation on the Nation's banking system and credit markets. The hearings will also address legislation I have introduced to authorize the Board of Governors of the Federal Reserve System to prescribe deposit requirements and regulate credit which may be extended in connection with the purchase or sale of certain financial instruments. A copy of S. 2704 is enclosed for your information.

The hearings will begin at 10:00 a.m. in Room 5302, Dirksen Senate Office Building on Thursday, May 29, 1980. Because of the large number of witnesses scheduled to appear, I am asking that oral presentations be held to a maximum of 10 minutes. Written statements will, of course, be included in full in the hearings record. Committee rules require that you submit at least 100 copies of your written testimony which should be made available no less than 48 hours prior to your appearance. Earlier submission of testimony will, of course, be most welcome. Copies of your statement should be delivered to the attention of Howard Menell of the Committee staff, #5300, Dirksen Senate Office Building, Washington, D.C. 20510.

If you have any questions concerning the hearing, please do not hesitate to contact Mr. Menell at 202/224-7391.

Sincerely,


William Proxmire
Chairman

Enclosure

96TH CONGRESS
2D SESSION

S. 2704

To amend the Federal Reserve Act to authorize the Board of Governors of the Federal Reserve System to establish margin requirements for transactions in financial instruments.

IN THE SENATE OF THE UNITED STATES

MAY 14 (legislative day, JANUARY 3), 1980

Mr. PROXMIRE introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

A BILL

To amend the Federal Reserve Act to authorize the Board of Governors of the Federal Reserve System to establish margin requirements for transactions in financial instruments.

- 1 *Be it enacted by the Senate and House of Representa-*
- 2 *tives of the United States of America in Congress assembled,*
- 3 That the Federal Reserve Act is amended by inserting after
- 4 section 23A the following:

1 "MARGIN REQUIREMENTS FOR TRANSACTIONS IN
2 FINANCIAL INSTRUMENTS

3 "SEC. 23B. (a) To prevent excessive speculation with
4 substantial adverse effects on the Nation's banking system,
5 credit markets, or economy, the Board of Governors shall
6 prescribe regulations applicable to transactions involving the
7 purchase or sale of any financial instrument or any futures
8 contract involving a financial instrument. Such regulations
9 shall be limited to the following:

10 "(1) the regulation of the terms, conditions, and
11 amounts of credit (including the specification of the
12 type of collateral which may be furnished) which may
13 be extended directly or indirectly for the purpose of ac-
14 quiring a financial instrument or meeting any minimum
15 deposit required in connection with a futures contract
16 involving a financial instrument; and

17 "(2) a requirement for the furnishing and mainte-
18 nance of a minimum deposit (including the specification
19 of the type of deposit) in connection with the purchase
20 or sale of a futures contract involving a financial in-
21 strument.

22 Such regulations may contain such exemptions, exceptions,
23 and classifications, by types of financial instruments or other-
24 wise, as the Board determines to be appropriate.

1 “(b) To ensure the continued efficiency and integrity of
2 the market for financial instruments and, in general, to moni-
3 tor the functioning of the markets for such instruments—

4 “(1) every person subject to any regulation issued
5 pursuant to subsection (a) shall furnish the Board with
6 such reports as the Board shall prescribe as necessary
7 and appropriate. The Board may require such reports
8 to contain (A) information relating to the size, composi-
9 tion, and sources of financing of positions in such in-
10 struments, profits from the trading of such instruments,
11 and the number and characteristics of transactions in
12 such instruments, and (B) any other information related
13 to the trading of such instruments; and

14 “(2) every department or agency of the Federal
15 Government collecting or compiling information which
16 the Board may require pursuant to paragraph (1) of
17 this subsection or exercising jurisdiction over persons
18 referred to in such paragraph shall consult and cooper-
19 ate with the Board and make available to it such infor-
20 mation as the Board may request.

21 “(c) Wherever it appears to the Board that any person
22 subject to any regulation issued pursuant to subsection (a) of
23 this section, is engaged or is about to engage in an act or
24 practice constituting a violation of any provision of this sec-
25 tion or the rules or regulations thereunder, the Board may in

1 its discretion bring an action in the proper district court of
2 the United States, the United States District Court for the
3 District of Columbia, or the United States courts of any terri-
4 tory or other place subject to the jurisdiction of the United
5 States, to enjoin such act or practice, and upon a proper
6 showing a permanent or temporary injunction or restraining
7 order shall be granted without bond. The Board may transmit
8 such evidence as may be available concerning such act or
9 practice as may constitute a violation of any provision of this
10 title or the rules or regulations thereunder to the Attorney
11 General, who may, in his discretion, institute the necessary
12 criminal proceedings under this title.

13 “(d) The Board may delegate its functions and authori-
14 ties under this section to any department, agency, or instru-
15 mentality of the United States Government as it deems ap-
16 propriate.

17 “(e) Any person who makes or receives an extension of
18 credit, or who arranges for the purchase or sale of a futures
19 contract, in violation of any regulation issued pursuant to
20 subsection (a) shall be fined not to exceed \$100,000 or, in the
21 case of a willful violation, shall be fined not to exceed
22 \$100,000 or imprisoned for not to exceed five years, or both.

23 “(f) As used in this section—

24 “(1) the term ‘financial instrument’ means any
25 currency, any security or other evidence of indebted-

1 ness not subject to the provisions of section 7 of the
2 Securities Exchange Act of 1934, gold bullion, silver
3 bullion, bulk gold coins, bulk silver coins, or any other
4 article, contract, or right which the Board determines
5 has monetary characteristics or is a store of value, but
6 such term does not include any agricultural commodity;
7 and

8 “(2) the term ‘futures contract’ means a contract
9 for the future delivery of any financial instrument
10 which is traded on any contract market or similar
11 entity located in the United States.”.

○

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

KENNETH A. MCLEAN, STAFF DIRECTOR
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MARY FRANCES DE LA PAVA, CHIEF CLERK

United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, D.C. 20510

May 23, 1980

Chairman Paul A. Volcker
Depository Institutions Deregulation Committee
20th and C Streets, N.W.
Washington, D.C. 20551

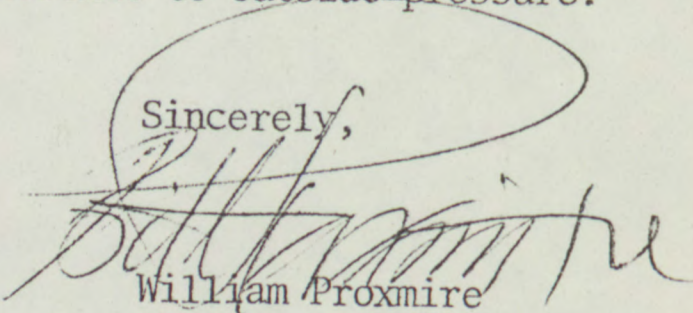
Dear Mr. Chairman:

It has been reported that the Depository Institutions Deregulation Committee will consider the advisability of eliminating the rate differential on money market certificates which otherwise will be restored when Treasury bill rates fall below 9 percent. Any decision on the differential will have to strike a delicate balance between preserving the financial stability of financial institutions, maintaining credit flows for housing, agriculture, and small business, and providing equity for savers. A judgment on this issue requires access to detailed information on the current condition of financial institutions and on the recent credit market developments. For these reasons, Congress left the issue of the differential on accounts created after December 10, 1975 to be decided by the Deregulation Committee.

For example, in passing the Depository Institutions Deregulation and Monetary Control Act of 1980, Congress could have amended P.L. 94-200 to require the differential be maintained on all categories of accounts and not just those in effect on December 10, 1975. Congress chose not to do so. It is obvious, therefore, that Congress intended to vest discretionary authority on post-December 10, 1975 accounts with the Deregulation Committee.

Hopefully, the Deregulation Committee will carefully assess the impact of restoring or eliminating the differential before making its decision. I believe the Congress clearly intended that the Deregulation Committee exercise its best judgment on such matters. I have taken no position on this issue; instead, I urge the Deregulation Committee to decide the issue strictly on its merits without reference to outside pressure.

Sincerely,


William Proxmire
Chairman

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

CHAIRMAN CONNELL COMPTROLLER HEIMANN CHAIRMAN JANIS SECRETARY MILLER CHAIRMAN SPRAGUE CHAIRMAN VOLCKER

May 23, 1980

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

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

Dear Chairman Proxmire
and Senator Garn:

Thank you for your letter concerning the question of opening the DIDC meeting to the public when it considers the differential on the money market certificate.

I fear there has been a considerable amount of confusion about this matter reflecting the intense interest of some groups on the differential question. The fact is that the last meeting of the Committee considered, in a preliminary and rather speculative way, a series of questions about the management of interest rate ceilings in the period ahead. While the differential question arose as part of that discussion, it was entirely in that larger context.

There was no question in my mind at the time that public discussion of possible changes in interest rate ceilings in the context of hypothetical market scenarios, and the impact of market and ceiling changes on earnings, exposure to adverse deposit flows, and the ability of particular institutions to service loans for housing and small business and agriculture, could have contributed to misunderstanding and speculative market reactions, including about monetary policy itself. Those possible reactions clearly could have been disruptive to both markets and institutional behavior. I sincerely doubt that such a result would have been in the public interest.

I am assured by counsel that, given the type of discussion contemplated, there was no doubt that closing the meeting met the provisions of the Government in the Sunshine Act, which, as I understand it, was expressly designed to recognize the kind of situation we faced. Of course, any decision to close a meeting, or any portion of a meeting, must be made by a majority vote of the Committee members.

Chairman Proxmire and Senator Garn -2-

I recognize the public interest in open meetings and I have no reservation about opening meetings, or portions thereof, including a meeting, or portion of a meeting, concentrating on reaching a decision on the differential itself, where the discussions are not likely to have an adverse impact on the stability of financial markets or particular groups of institutions. In this regard, I would be pleased to bring your concerns to the attention of the other members of the Committee.

Sincerely,

Paul A. Volker

May 27, 1980

The Honorable Edward M. Kennedy
United States Senate
Washington, D.C. 20510

Dear Senator Kennedy:

Thank you for your letter of May 15 concerning a letter you received from the New England Fuel Institute regarding the status, under the Board's consumer credit restraint regulation, of certain bank loans made for energy conservation purposes.

The Board's Legal Division has advised Mr. Burkhardt that bank financing arranged by fuel oil distributors for the purchase and installation of more energy efficient heating units is the kind of credit the Board intended to exempt and would not constitute "covered credit" under the Board's consumer credit restraint regulation. For your information, I have enclosed a copy of the Legal Division's response to Mr. Burkhardt. Also, when the Board modified the Special Credit Restraint Program on May 22, it informed the Chief Executive Officer of all commercial banks that this program is not designed to exert restraint on energy conservation credit.

I appreciate your interest in this matter. Please let me know if I can be of further assistance.

Sincerely,

S/Paul A. Volcker

Enclosure (Ltr. dtd. 5/15/80 to Mr. Burkhardt from Mr. Mannion.)

CO:pjt (#V-224)
bcc: Mrs. Mallardi (2)

United States Senate

WASHINGTON, D.C. 20510

May 15, 1980

#224

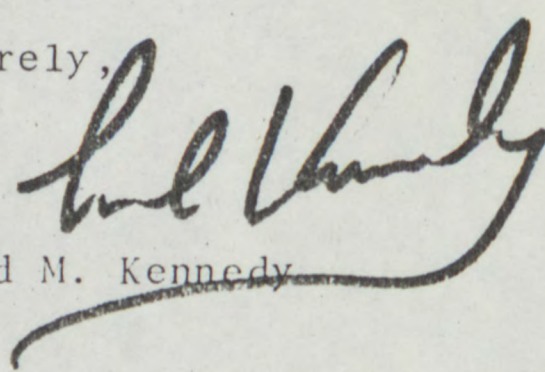
The Honorable Paul A. Volcker
Chairman
Board of Governors of the
Federal Reserve System
Washington, D.C. 20551

Dear Mr. Chairman:

I recently received the attached letter from the New England Fuel Institute indicating that the Federal Reserve Board's consumer credit restrictions will make it more difficult for consumers to install energy efficient heating units that are financed through bank loans. If this is in fact what the Federal Reserve Board's recent regulations have done, I believe it is a serious mistake. Increased residential energy conservation has the potential of saving over a million and a half barrels per day in the next decade. It is absolutely counterproductive from either an economic or an energy policy point of view to make such loans harder to obtain.

Would you please advise me as soon as possible whether the Fuel Institute has correctly interpreted the regulations and if they have, I urge you to expeditiously change the regulations so that our national policy of increasing energy conservation is not undercut by policies of the Federal Reserve Board.

Sincerely,



Edward M. Kennedy

Enclosure

cc: Charles H. Burkhardt
New England Fuel Institute

New England Fuel Institute

20 SUMMER STREET • P.O. BOX 888 • WATERTOWN, MASSACHUSETTS 02172 • (617) 924-1000 • Telex: NEFI-WTN 922-401

May 6, 1980

Cubie

Honorable Edward M. Kennedy
United States Senate
Washington, D.C. 20510

Dear Ted:

Enclosed is a copy of a letter that the New England Fuel Institute recently sent to the Federal Reserve Board concerning an adverse -- and, we are certain -- unintended impact that the Board's recent credit regulations are having on home energy conservation measures.

Under a program encouraged by the National Energy Conservation Policy Act of 1978, our members have been assisting consumers in cutting heating costs by installing new, more energy-efficient oil heaters and burners in their homes. These new units provide fuel savings of 10-40%. New England banking institutions which, until now, have been financing these installations, have informed our members that conservation loans can no longer be made because of the Federal Reserve Board's new restrictions on credit.

A fair reading of the Board's regulations makes clear that loans of this type were never meant to be subject to credit restrictions. Loans for home improvements, purchases of appliances, and utility services are generally exempted from the Board's rules. However, the regulations do not specify whether energy conservation loans fall within these exemptions.

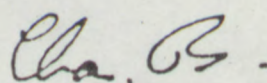
This lack of clarity in the regulations is frustrating a clear national energy policy, established by Congress, of encouraging home energy conservation measures.

May 6, 1980
Page 2

I would greatly appreciate any support that you could give to our efforts to convince the Board to rectify this matter as soon as possible.

Thank you very much.

Sincerely,

A handwritten signature in cursive script, appearing to read "Ch. B.", followed by a period.

Charles H. Burkhardt
Executive Vice President

New England Fuel Institute

20 SUMMER STREET • P.O. BOX 888 • WATERTOWN, MASSACHUSETTS 02172 • (617) 924-1000 • Telex: NEFI-WTN 922-401

April 24, 1980

Robert E. Mannion, Esq.
Deputy General Counsel
Federal Reserve Board
Washington, D.C. 20551

Dear Mr. Mannion:

We are writing to bring your attention to a potentially serious problem created by the Federal Reserve Board's consumer credit restrictions published on March 19, 1980.

Consumers in our area have been retrofitting their heating systems with new, more energy-efficient units and financing these improvements with bank loans. We have just been advised that the banks believe that such loans may be "covered credit" under the Federal Reserve Board's credit restraint program. Accordingly, the banks are no longer making these loans available, and these important energy conservation measures have been brought substantially to a halt.

We do not believe that the Board intended its regulations to restrict credit for energy-saving capital improvements. Accordingly, we urge that the regulations be clarified, by an appropriate question-and-answer or interpretive ruling, to exclude such expenditures from "covered credit".

1. Nature of the Transactions in Question

Over the past several years fuel oil distributors have undertaken to help consumers to cut heating bills by installing new, more efficient home heating units and arranging for bank financing of the transaction. Typically, the new equipment consists of a new oil burner and/or a new boiler. The new equipment and its installation generally costs from \$1,000 to \$3,000 and can be expected to provide fuel savings of 10-40% or higher. There is a great demand for these new units.

Because of the size of the initial investment required, bank loans are the only means for many consumers to proceed with these energy-saving home improvements. Until now, area banks have provided such financing. But they have stopped making these loans because of the Federal Reserve Board's new credit restrictions.

2. Federal Reserve Board Regulations

There are a number of grounds under which these loans might be considered "uncovered credit", not subject to the special reserve requirement. However, the Board's regulations and explanatory materials do not provide a conclusive answer.

First, the loans are "home improvement loans", which are generally exempted from the reserve requirements. See page 1 of the Board's Press Release of March 14, 1980. However, another part of the Board's regulations suggest that only home improvement loans covered by a mortgage qualify for such an exemption. 45 Fed. Reg. 17928 (1980). Loans for energy conservation are not treated as mortgages because of the expense of recording them pursuant to local property laws.

Second, the proceeds of the conservation loans are being used "to finance the purchase of household goods such as furniture and appliances", a category of credit which is generally exempted from the new requirements. See the March 14 Press Release at p. 1. However, the regulations appear to restrict the exemption to those purchases where a security interest is taken in the goods purchased. 45 Fed. Reg. 17929 (1980). This is impractical in the case of a fixture like a boiler or burner and may, in any event, conflict with an existing mortgage.

Third, the loans are being "extended for utilities... services" and may be exempt on that basis. See the May 14 Press Release at p. 5. However, the regulations imply that the exemption applies only where the credit is extended by the utilities themselves. 45 Fed. Reg. 17929 (1980). The loans in question are extended by the bank because an individual fuel oil dealer does not have the resources or the risk-spreading capability to make loans of this size and nature.

A fair reading of the Board's regulations indicates that loans of this type were never intended to be subject to the special reserve requirement. In fact, loans which are

practically identical in character and in effect on the economy are specifically exempted from the Board's program. The Board should move to correct this situation, both for reasons of equity and for the compelling public policy reasons outlined below.

3. Public Policy Considerations

It is scarcely necessary to state that energy conservation is a matter of highest national priority. What is significant for present purposes is that residential energy conservation has, by law, been established as a cornerstone of the nation's energy policy.

In enacting the National Energy Conservation Policy Act ("NECPA"), Congress found that:

all sectors of our Nation's economy must begin immediately to significantly reduce the demand for nonrenewable energy resources such as oil and natural gas by implementing and maintaining effective conservation measures for the efficient use of these and other energy sources.

Pub.L. '95-619, §102(a)(3), 95th Cong., 2d Sess. (1978). To implement this finding, Congress required states to draw up and implement residential energy conservation plans.^{1/} Under those plans, utilities are to conduct residential energy audits, inform consumers of available conservation measures and possible savings from implementing them, and provide for installation of energy-saving equipment.^{2/} States can make home heating oil dealers, who volunteer for these programs, subject to substantially the same requirements.^{3/} Significantly, the plans have to provide a mechanism by which the utility or home heating oil dealer offers to "arrange for a lender to make a loan to such residential customers to finance the purchase and installation costs of suggested measures...."^{4/} It is precisely these types of loans which are now threatened by the Board's new regulations.

^{1/} NECPA §212, 42 U.S.C. §8213.

^{2/} NECPA §§213, 215; 42 U.S.C. §§8214, 8216.

^{3/} NECPA §§212(c)(3), 214, 217; 42 U.S.C. §§8213(c)(3), 8215, 8217.

^{4/} NECPA §§215(b)(1)(C), 217(a)(2)(D); 42 U.S.C. §§8216(b)(1)(C), 8217(a)(2)(D).

The Energy Tax Act of 1978, Pub.L. No. 95-618, is also indicative of the central role Congress assigned to residential energy conservation in overall energy policy. The Act provides for a tax credit of up to \$300 for "qualified energy conservation expenditures" by homeowners. 26 U.S.C. §44C. Specifically included as qualifying expenditures deserving of this tax credit are

...furnace replacement burner[s]
designed to achieve a reduction in
the amount of fuel consumed as a
result of increased combustion
efficiency.... 26 U.S.C. §44C(c)
(4) (A) (i)

In his March 14, 1980, address pursuant to which the Board's credit restrictions were imposed, President Carter repeated his call for "unrelenting efforts for conservation", pursuant to a plan whose "aim is to involve every level of government, business, labor -- in fact, every single citizen -- in conserving American energy." It would be ironic indeed if the Board's regulations were interpreted in such a way as to work directly at cross purposes with this goal. But they are being so interpreted in at least some quarters. The Board and its staff have an affirmative obligation to correct the situation.

4. Recommendation

NEFI accordingly requests that the Board or its staff promptly issue a question-and-answer, or other interpretive ruling, that makes clear that bank loans for energy conservation purposes, under the circumstances described above, are not "covered credit" and are therefore not subject to the Board's special deposit requirement.

Sincerely,

Charles H. Burkhardt
Executive Vice President

May 27, 1980

The Honorable Stewart B. McKinney
House of Representatives
Washington, D.C. 20515

Dear Stu:

Thank you for your letter of May 16 concerning a letter you received from the New England Fuel Institute regarding the status, under the Board's consumer credit restraint regulation, of certain bank loans made for energy conservation purposes.

The Board's Legal Division has advised Mr. Burkhardt that bank financing arranged by fuel oil distributors for the purchase and installation of more energy efficient heating units is the kind of credit the Board intended to exempt and would not constitute "covered credit" under the Board's consumer credit restraint regulation. For your information, I have enclosed a copy of the Legal Division's response to Mr. Burkhardt. Also, when the Board modified the Special Credit Restraint Program on May 22, it informed the Chief Executive Officer of all commercial banks that this program is not designed to exert restraint on energy conservation credit.

I appreciate the support that you have expressed for Federal Reserve policies, and I look forward to working with you and your colleagues in finding solutions to our nation's economic problems.

Sincerely,

S. Paul

Enclosure (Ltr. dtd. 5/15/80 to Mr. Burkhardt from Mr. Mannion.)

CO:pjt (#V-219)

bcc: Mrs. Mallardi (2)

STEWART B. MCKINNEY
4TH DISTRICT, CONNECTICUT

106 CANNON HOUSE OFFICE BUILDING

COMMITTEES:
BANKING, FINANCE AND
URBAN AFFAIRS
DISTRICT OF COLUMBIA

TELEPHONE: (202) 225-5541

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

DISTRICT OFFICES:
FEDERAL BUILDING
LAFAYETTE BOULEVARD
BRIDGEPORT, CONNECTICUT 06604
TELEPHONE: (203) 579-5870
500 SUMMER STREET
STAMFORD, CONNECTICUT 06901
TELEPHONE: (203) 357-8277
NORWALK, CONNECTICUT
TELEPHONE: (203) 866-6469

May 16, 1980

Handwritten initials

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

Dear Paul:

Attached is a copy of a letter sent to the Board by the New England Fuel Institute. This special problem for New England banks that was created by the recent credit restrictions is clearly stated.

As an ardent supporter of energy conservation measures, I strongly endorse this requested clarification of the Board's intent. I am sure that the credit actions announced in March were not intended to restrict or otherwise interfere with loans used for energy-saving capital improvements.

I believe this to be more than a regional problem and I hope that this apparent oversight can be promptly corrected. Also, I want to assure you of my continuing support for the outstanding job that you are doing in the face of heavy criticism. We can make a lasting impact on inflation if you get some help from the Administration and Congress. Keep it up!

Best regards,

Handwritten signature of Stewart B. McKinney

Stewart B. McKinney, M.C.

SBM:dsk

Attachments

New England Fuel Institute

20 SUMMER STREET • P.O. BOX 888 • WATERTOWN, MASSACHUSETTS 02172 • (617) 924-1000 • Telex: NEFI-WTN 922-401

April 24, 1980

Robert E. Mannion, Esq.
Deputy General Counsel
Federal Reserve Board
Washington, D.C. 20551

Dear Mr. Mannion:

We are writing to bring your attention to a potentially serious problem created by the Federal Reserve Board's consumer credit restrictions published on March 19, 1980.

Consumers in our area have been retrofitting their heating systems with new, more energy-efficient units and financing these improvements with bank loans. We have just been advised that the banks believe that such loans may be "covered credit" under the Federal Reserve Board's credit restraint program. Accordingly, the banks are no longer making these loans available, and these important energy conservation measures have been brought substantially to a halt.

We do not believe that the Board intended its regulations to restrict credit for energy-saving capital improvements. Accordingly, we urge that the regulations be clarified, by an appropriate question-and-answer or interpretive ruling, to exclude such expenditures from "covered credit".

1. Nature of the Transactions in Question

Over the past several years fuel oil distributors have undertaken to help consumers to cut heating bills by installing new, more efficient home heating units and arranging for bank financing of the transaction. Typically, the new equipment consists of a new oil burner and/or a new boiler. The new equipment and its installation generally costs from \$1,000 to \$3,000 and can be expected to provide fuel savings of 10-40% or higher. There is a great demand for these new units.

Because of the size of the initial investment required, bank loans are the only means for many consumers to proceed with these energy-saving home improvements. Until now, area banks have provided such financing. But they have stopped making these loans because of the Federal Reserve Board's new credit restrictions.

2. Federal Reserve Board Regulations

There are a number of grounds under which these loans might be considered "uncovered credit", not subject to the special reserve requirement. However, the Board's regulations and explanatory materials do not provide a conclusive answer.

First, the loans are "home improvement loans", which are generally exempted from the reserve requirements. See page 1 of the Board's Press Release of March 14, 1980. However, another part of the Board's regulations suggest that only home improvement loans covered by a mortgage qualify for such an exemption. 45 Fed. Reg. 17928 (1980). Loans for energy conservation are not treated as mortgages because of the expense of recording them pursuant to local property laws.

Second, the proceeds of the conservation loans are being used "to finance the purchase of household goods such as furniture and appliances", a category of credit which is generally exempted from the new requirements. See the March 14 Press Release at p. 1. However, the regulations appear to restrict the exemption to those purchases where a security interest is taken in the goods purchased. 45 Fed. Reg. 17929 (1980). This is impractical in the case of a fixture like a boiler or burner and may, in any event, conflict with an existing mortgage.

Third, the loans are being "extended for utilities... services" and may be exempt on that basis. See the May 14 Press Release at p. 5. However, the regulations imply that the exemption applies only where the credit is extended by the utilities themselves. 45 Fed. Reg. 17929 (1980). The loans in question are extended by the bank because an individual fuel oil dealer does not have the resources or the risk-spreading capability to make loans of this size and nature.

A fair reading of the Board's regulations indicates that loans of this type were never intended to be subject to the special reserve requirement. In fact, loans which are

practically identical in character and in effect on the economy are specifically exempted from the Board's program. The Board should move to correct this situation, both for reasons of equity and for the compelling public policy reasons outlined below.

3. Public Policy Considerations

It is scarcely necessary to state that energy conservation is a matter of highest national priority. What is significant for present purposes is that residential energy conservation has, by law, been established as a cornerstone of the nation's energy policy.

In enacting the National Energy Conservation Policy Act ("NECPA"), Congress found that:

all sectors of our Nation's economy must begin immediately to significantly reduce the demand for nonrenewable energy resources such as oil and natural gas by implementing and maintaining effective conservation measures for the efficient use of these and other energy sources.

Pub.L. 95-619, §102(a)(3), 95th Cong., 2d Sess. (1978). To implement this finding, Congress required states to draw up and implement residential energy conservation plans.^{1/} Under those plans, utilities are to conduct residential energy audits, inform consumers of available conservation measures and possible savings from implementing them, and provide for installation of energy-saving equipment.^{2/} States can make home heating oil dealers, who volunteer for these programs, subject to substantially the same requirements.^{3/} Significantly, the plans have to provide a mechanism by which the utility or home heating oil dealer offers to "arrange for a lender to make a loan to such residential customers to finance the purchase and installation costs of suggested measures...."^{4/} It is precisely these types of loans which are now threatened by the Board's new regulations.

^{1/} NECPA §212, 42 U.S.C. §8213.

^{2/} NECPA §§213, 215; 42 U.S.C. §§8214, 8216.

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Robert E. Mannio, Esq.
April 24, 1980
Page 4

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...furnace replacement burner[s]
designed to achieve a reduction in
the amount of fuel consumed as a
result of increased combustion
efficiency.... 26 U.S.C. §44C(c)
(4)(A)(i)

In his March 14, 1980, address pursuant to which the Board's credit restrictions were imposed, President Carter repeated his call for "unrelenting efforts for conservation", pursuant to a plan whose "aim is to involve every level of government, business, labor -- in fact, every single citizen -- in conserving American energy." It would be ironic indeed if the Board's regulations were interpreted in such a way as to work directly at cross purposes with this goal. But they are being so interpreted in at least some quarters. The Board and its staff have an affirmative obligation to correct the situation.

4. Recommendation

NEFI accordingly requests that the Board or its staff promptly issue a question-and-answer, or other interpretive ruling, that makes clear that bank loans for energy conservation purposes, under the circumstances described above, are not "covered credit" and are therefore not subject to the Board's special deposit requirement.

Sincerely,

Charles H. Burkhardt
Executive Vice President

May 27, 1980

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

Dear Mr. Archer:

The letter that you forwarded from Mr. Raymond Hill, Chairman of the Board and President of Mainland Savings Association has been referred to my office. In his letter, Mr. Hill urges the retention of the interest rate differential between banks and other depository institutions, a matter that now falls under the jurisdiction of the Depository Institutions Derogulation Committee (DIDC). The Committee is actively engaged in a broad review of the competitive availability of funds to depository institutions and related questions. The interest rate differential is included in that review.

I will see to it that copies of Mr. Hill's correspondence are made available to all the members of the DIDC in addition to those he has already contacted. I am sure they will appreciate having his views.

Sincerely,

Normand Bernard
Executive Secretary

NB:cak
D-682

BILL ARCHER
7TH DISTRICT, TEXAS

MEMBER:
WAYS AND MEANS
COMMITTEE

WASHINGTON OFFICE:
LONGWORTH
HOUSE OFFICE BUILDING

DISTRICT OFFICE:
FEDERAL OFFICE BUILDING
HOUSTON, TEXAS 77002

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

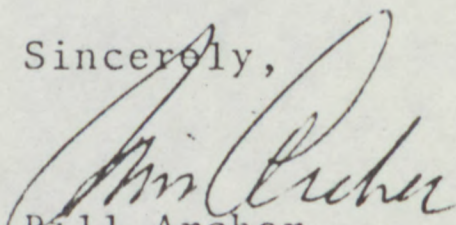
May 19, 1980

D-682

One of my constituents, Mr. Raymond Hill, sent the attached letter to me today by telecopier and asked that I forward a copy to you as quickly as possible.

I will appreciate your giving his comments every possible consideration.

Sincerely,


Bill Archer
Member of Congress

Handwritten text at the top of the page, possibly a reference or address, which is mostly illegible due to fading and blurring.

and M. Hill
Handwritten text in the upper left margin, possibly a name or address.

The 19th of May, 1980

Dear Sir:

Mainland Savings Association is thirty-two (32) years old with the same ownership for seventeen (17) years. In the last seven (7) months it has been unable to compete for savings at rates at or below yields of its mortgage loans; and Mainland's ownership has lost much of the fruit of seventeen (17) years hard labor. Our capital is now distressingly low. Our hope to survive lies in access to savings at reasonable rates.

Federal borrowings and profligate spending policies, not bank competition, have virtually destroyed our hopes to survive. Further, the public has been deliberately taught, through official policies emanating from Washington, to gamble and to abandon traditional habits of thrift. We have been pushed into habits that are exceedingly dangerous in order to satisfy the new tastes of consumers egged on to demand higher investment yields to match the rates being paid by even the most reckless of borrowers such as our federal government and its several agencies.

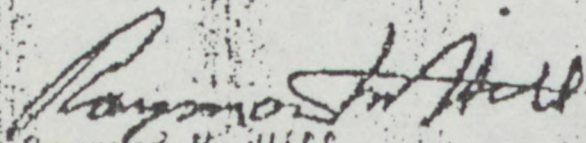
I am very familiar with the affairs of a commercial bank the same size as Mainland Savings. The bank is earning 2.4% return on its assets. (Savings associations rarely earn as much as one percent (1%) and now are experiencing losses.) The bank is one of several with the same ownership and they all have banner yields in the two percent (2%) or greater range. The contrast between small banks and small savings associations in this time of dislocation could not be greater. The banks have both financed and created our tragic inflationary spiral under the baton of our federal government for the past several years. And, fittingly, they are also its greatest beneficiaries in the short term. But, to be fair, it should be clear that no banker is comfortable in such a role. They all know that any borrower paying more than ten percent (10%) annually in interest is as weak as the great profligate borrower in Washington and, therefore, very likely to default. The Germans and Swiss wonder why we cannot learn this simple lesson. No banker or bank employee is likely to vote for an incumbent in any way sharing responsibility for the planned destruction of our economy in progress for the past several years now reaching a climax of which the recent interest rate excesses have been a symptom. You might be able to save housing, the

habit of thrift and the savings industry by a combination of remedies including retention of the rate differential, and you should try. Your failure to do so will not be repairable, even though final verdicts may lay responsibility for our demise on any one of a complex of causes all originating in well-meaning but foolish thoughts and votes of a self-perpetuating body too eager to govern and too slow to mature in wisdom. May God assist our Congress in its all too recent efforts to grow up and confront reality. And may the executive understand that the public will not tolerate any leadership which refuses to place the integrity of this country and its financial and military strength first in these troubled times.

As a footnote, I should add that Mainland Savings Association losses began earlier in time than those of many other associations. We are able to say that we kept our group of small builders alive. Our losses are the sacrifice paid for this effort. The authorities tell us we should not have been so interested in our customers' welfare, as though the current mess was their fault instead of yours or our Congressional and Administrative leaders. We suffered, and have paid a severe price in lost earnings. Mr. Jones, I appreciate your efforts and those of Mr. Volcher to turn the Washington spigot off and to cater to production for a while instead of catering to consumption. But, however heroic and right your ideas may be, they are so late and the nation bears a large caliber, gut-shot wound. The symptoms are slow to surface but the great productive giant just could be sick-with-death. Taunted, badgered, kicked and beleaguered by people you all well know, the beloved beast may now be dying. Please help the Savings and Loan industry directly and housing and our nation consequentially.

Thank you for your attention and concern.

Yours very truly,



Raymond H. Hill
Chairman of the Board
and President

cc: Senator Lloyd Bentsen
Congressman William Archer, III

Hon. Irvine H. Sprague
Chairman, FDIC
350 12th St, NW
Washington, D.C. 20429

Hon. Lawrence Conwell
Chairman, NCUA
1776 G. Street, N.W.
Washington, D. C. 20456

May 28, 1960

The Honorable J. Kenneth Robinson
House of Representatives
Washington, D. C. 20515

Dear Mr. Robinson:

Thank you for your letter of May 7 concerning comments you received from one of your constituents, Mr. C. Coleman McGehee of First and Merchants Corporation, Richmond, Virginia.

Mr. McGehee expresses concern about the impact that the Electronic Fund Transfer Act and Regulation E will have on the banking industry and on consumers. He notes that although the Act is intended to protect consumers, it requires financial institutions to make costly changes in equipment and operations and may severely hamper the development of EFT. You ask whether the Board gave special consideration to the effects cited in Mr. McGehee's letter, and whether any remedial action is now contemplated by the Board.

The Board is required by the Act to analyze and consider the likely economic impact of the implementing regulation and to demonstrate to the extent practicable that the consumer protections provided by the regulation outweigh the compliance costs imposed upon consumers and financial institutions. Please be assured that the Board made a conscious effort in its rulewriting to impose only those requirements that were necessary. The Electronic Fund Transfer Act is fairly comprehensive, however, and in many cases the Board had no choice but to follow the statutory requirements. In fact, many of the requirements that financial institutions find most burdensome are drawn directly from the statute. (This is the case with the points raised by Mr. McGehee, which are discussed below.) Only in limited instances does the regulation go beyond the Act's mandates. For this reason, the Board does not contemplate providing (or, indeed, being in a position to provide) major relief through changes in the regulation, although some technical adjustments may be made.

Mr. McGehee questions the need for two provisions which he says will result in the termination of certain services currently available at automated teller machines to F&M customers. The first is a requirement that a monthly statement be sent to customers whose accounts have had electronic transfers during a given month. His bank has traditionally sent statements to savings account customers on a quarterly basis, but under the Act and regulation the bank would have to send monthly statements to those customers who initiated transfers to or from these accounts at an ATM. Mr. McGehee does not see a need for more frequent mailings in the case of savings account customers with small balances.

The periodic statement requirement comes from section 906 of the Act, which generally requires monthly statements to be sent for any checking, savings, or other asset account that can be accessed electronically. This requirement applies to any account that can be accessed at an ATM, for any cycle in which there is electronic activity. If no electronic transfer occurs during a cycle, the institution need not send a monthly statement, but must still send a statement at least quarterly.

The Act creates a limited exception from the monthly statement requirement, for accounts that can be accessed electronically only by preauthorized transfers to the account (such as Social Security or payroll deposits). For nonpassbook accounts that qualify for this exception, a bank may continue to provide quarterly statements. For passbook accounts that qualify, the bank may instead update the passbook when the customer presents it for updating. The regulation essentially tracks these statutory provisions.

The second requirement that creates a problem for First and Merchants concerns payments to third parties (such as utility companies) that are initiated at ATMs. The Act and regulation require that the payees be identified by name on the periodic statements. First and Merchants, according to Mr. McGehee, would have to replace its existing equipment in order to comply with this requirement, and will be unable to do so by August 10, 1980, the date on which the requirement goes into effect.

Section 906 of the Act requires identification of the third party to or from whom funds are transferred to be given both on the terminal receipt and on the periodic statement that

The Honorable J. Kenneth Robinson
Page Three

reflects the transfer. One reason for this requirement has to do with proof of payment. Section 906(f) of the statute provides that if documentation required under the Act indicates that an electronic fund transfer was made by the consumer to another person, such documentation constitutes prima facie proof that the transfer was made. The Board did adopt an exception to the identification requirement for terminal receipts (but not periodic statements) in cases where the name of the payee is provided by the consumer in a form that the automated teller machine cannot reproduce. This is the case, for example, when the customer instructs the ATM to pay a specific amount and provides the name of the payee by inserting a payment stub into the machine.

I hope this information will be helpful to you.

Sincerely,

S/Paul A. Volcker

DSS:CO:vcd (#V-203)

bcc: D. Smith
Mrs. Mallardi (2)

J. KENNETH ROBINSON
7TH DISTRICT, VIRGINIA

COMMITTEES:
APPROPRIATIONS
INTELLIGENCE

WASHINGTON OFFICE:
2233 RAYBURN HOUSE OFFICE BUILDING
TELEPHONE: (202) 225-6551

Action assigned Janet Hart

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

OFFICES IN THE 7TH DISTRICT:
112 N. CAMERON STREET (P.O. Box 714)
WINCHESTER, VIRGINIA 22601
TELEPHONE: (703) 667-0990

100 COURT SQUARE ANNEX (P.O. Box 136)
CHARLOTTESVILLE, VIRGINIA 22902
TELEPHONE: (804) 293-2106

SUITE 305, 904 PRINCESS ANNE STREET
(P.O. Box 336)
FREDERICKSBURG, VIRGINIA 22401
TELEPHONE: (703) 373-0536

May 7, 1980

#203

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

Dear Mr. Chairman: .

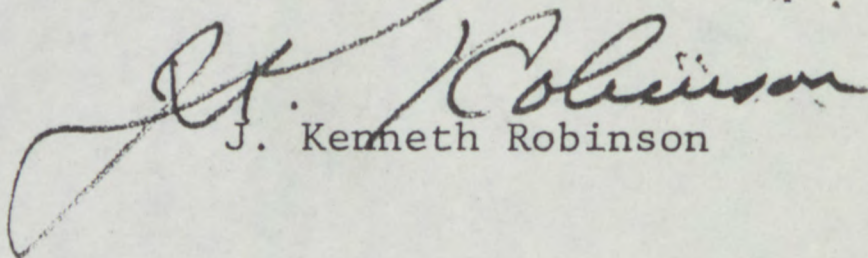
The enclosed is indicative of comments I am receiving from concerned bankers regarding the regulations recently proposed pursuant to authority granted the Board under the Electronic Funds Transfer Act.

I am interested in knowing whether the effects on both industry and consumer cited in Mr. McGehee's letter have been given specific consideration by the Board, and whether any remedial action might be anticipated from the Board's standpoint.

Your early reply will be greatly appreciated.

With every good wish, I am

Sincerely yours,


J. Kenneth Robinson

1980 MAY 10 11:52

FIRST MERCHANTS CORPORATION
P. O. Box 2025
Richmond, Virginia 23261
Telephone 804 788-2435

W. S. McGehee
Chairman of the Board

April 21, 1980

The Honorable J. Kenneth Robinson
2233 Rayburn House Office Building
Washington, D.C. 20515

Dear Ken:

For some time now I have been speaking out against the burdensome regulation of the banking industry which emanates from Washington. I can think of no better example of unnecessary and costly regulation than the Electronic Funds Transfer Act and Regulation E, which will become effective on May 10.

The Act purports to be a "Bill of Rights" for consumers who utilize electronic payments systems. I fear, however, that in its efforts to "protect" the consumer Congress has strapped the providers of EFT services with such costly requirements that the development of EFT may be severely hampered. I question whether such a result is in the best interest of the consumer.

In the case of First & Merchants, May 10 will witness the disabling of seven of the eleven services currently available at our automated teller machines (ATMs). This action is a direct response to two requirements of the Act.

The Act requires that a monthly savings account statement be mailed to every depositor whose account has been affected by EFT activity in a given month. F&M, like most banks, has traditionally sent quarterly savings statements to its customers. The quarterly cycle is appropriate given the less frequent activity which a savings account experiences as compared with a checking account. Moreover, our customers have accepted the quarterly cycle without complaint.

We do not currently have the systems capability to convert our savings accounts to a monthly statement cycle. Estimates of the cost of conversion approximate \$140,000, with recurring annual costs, based on today's cost figures, of at least \$237,000 covering equipment, personnel, printing and postage. We consider these costs to be excessive. Accordingly, until we are able to justify the expenditure of funds to convert our entire savings accounts base to a monthly cycle, we cannot permit ATM transfers to or from savings accounts. This conversion cannot take place prior to January 1, 1981, the effective date of the NOW Account bill recently enacted by Congress, and then only for that portion of our savings account customers who are willing to switch their savings over to a NOW account. However, since a NOW account is really only attractive to a saver who carries a reasonable balance, the small saver will continue to face the problems created by the Act.

The Honorable J. Kenneth Robinson
Page 2
April 21, 1980

If we saw a compelling need for a monthly statement cycle, our concerns might be reduced. However, we do not see that need. Quarterly savings statements have served our customers well for years. There is nothing unique in the ATM environment which would call for more frequent statements. Our experience shows that our customers do not utilize ATMs for savings-related transactions any more frequently than they utilize the services of branch personnel.

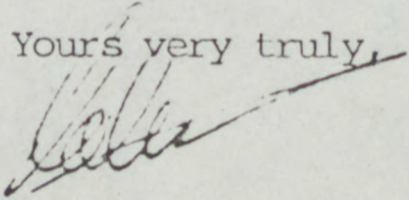
A second requirement of the Act which we cannot currently satisfy is the requirement that third party payees of electronic transfers be identified on the periodic statement. The difficulty with this requirement is that only the most sophisticated equipment and software can perform the function. As a practical matter, in order to comply with the law, many banks, including F&M, will be forced to replace existing ATMs and support systems with newer equipment at an enormous cost if they wish to continue to offer "bill payment" services at their ATMs. Since it is impossible to accomplish this feat by August 10, 1980 (the effective date of this requirement, recently extended from May 10 by the Federal Reserve Board), F&M and many other banks will be forced to terminate these services.

The provisions referred to above are but two of a number of provisions in the Act which are ill-conceived. There is obviously something amiss when an Act of Congress forces banks to discontinue popular and convenient banking services. In the case of the EFT Act, Congress has attempted to establish rules for a payments system without due regard for the impact on the institutions currently providing the services, and without due regard for the impact on institutions poised to enter the market. Furthermore, Congress has written detailed, arbitrary and burdensome rules without the benefit of a record drawn from experience with the system. EFT is in its infancy. I think it likely that it will remain in the developmental stage for quite some time as a result of this legislation. If F&M provides an example of the industry's response to the legislation, existing EFT services will be curtailed. It follows that potential entrants into the market will think twice before incurring the additional costs related to this law.

In conclusion, I encourage the Congress to examine the impact of the EFT Act on the banking industry and its customers and to correct those provisions of the Act which clearly burden the industry at this point in the development of EFT. At least we should delay the effective date of May 10 until another look can be taken at this onerous and restrictive legislation that will hurt the consumer more than it will protect him. In my judgment the public interest would be best served by allowing the use of the ATMs in their present mode rather than denying the public the use of these machines to conduct certain transactions.

I am, of course, at your disposal to discuss any of these issues and I would encourage you or your staff to call on me for any further assistance.

Yours very truly,



C. Coleman McGehee

SILVIO O. CONTE
FIRST DISTRICT, MASSACHUSETTS

COMMITTEE ON APPROPRIATIONS
RANKING MINORITY MEMBER
SUBCOMMITTEES:
TRANSPORTATION
LABOR-HEW
LEGISLATIVE
EX OFFICIO MEMBER
OF ALL SUBCOMMITTEES

COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON ENERGY,
ENVIRONMENT, SAFETY, AND RESEARCH

MIGRATORY BIRD
CONSERVATION COMMISSION

BOARD OF REGENTS
SMITHSONIAN INSTITUTION

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

WASHINGTON ADDRESS:
2300 RAYBURN OFFICE BUILDING
WASHINGTON, D.C. 20515
PHONE: 202-225-5335

DISTRICT OFFICES:
FEDERAL BUILDING
78 CENTER STREET ARTERIAL
PITTSFIELD, MASSACHUSETTS 01201
PHONE: 413-442-0946

ROOM 205
POST OFFICE BUILDING
650 DWIGHT STREET
HOLYOKE, MASSACHUSETTS 01040
PHONE: 413-532-7010

29 May 1980

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

Dear Chairman Volcker:

I want to thank you so much for the very informative and interesting talk you gave to my constituents on May 19th.


The community and business leaders of Western Massachusetts that attended this "Issues Symposium" took a great deal back with them from your presentation. I can assure you that your incisive commentary was the subject of conversation for the remainder of the conference.

I was most impressed by the ease and simplicity with which you discussed some of our nation's most complex and difficult economic issues.

This symposium was an outstanding success and I want to thank you again for the time and effort you gave in making it so.

With my very best wishes, I am

Cordially yours,


Silvio O. Conte
Member of Congress

SOC:cwh

RECEIVED
OFFICE OF THE CHAIRMAN
1980 JUN -5 PM 10:37
FEDERAL RESERVE SYSTEM
BOARD OF GOVERNORS

CM
V-209

May 30, 1980

The Honorable Norman E. D'Amours
House of Representatives
Washington, D.C. 20515

Dear Mr. D'Amours:

This letter is in response to your letter dated May 9, 1980, urging the heads of the federal financial supervisory agencies to request the Financial Institutions Examination Council not to adopt the Justice Department's interpretation regarding transfers of information to law enforcement agencies under the Right to Financial Privacy Act.

I am pleased to report that Governor Partee, the Board's representative on the Council, successfully persuaded the Council not to adopt the Justice Department position. Instead, the Council members decided to forego adoption of a uniform procedure for use by the five agencies when making these referrals. The Council recommended that in lieu of uniformity, each agency should be guided by its General Counsel as to the referral procedure it would use. Mr. Robert Lawrence, Executive Secretary of the Council, has informed our staff that the Council will be reporting directly to you about this action.

As you may know, the Board's staff rejected the Justice Department opinion regarding the criminal referrals. Instead, the Board's staff transmitted instructions to System member banks that they should refer these matters directly, and include the FBI case number assigned to a particular matter when reporting to the Reserve Bank that the particular referral had been made. In those rare instances where a member bank fails to make the referral, the Reserve Bank will refer the matter to the proper authorities and will give the bank customer notice that the referral has been made. This method also eliminates the former practice of a Reserve Bank duplicating a member bank's referral of information concerning an alleged violation of law to federal law enforcement authorities.

I believe that the practice described above complies fully with the financial privacy law and shields our employees from unintentionally making unlawful referrals.

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

CO:sep

Sincerely,

S/Raul A. Volcker

Identical letter sent to each of the following:

The Honorable John J. Cavanaugh
The Honorable James J. Blanchard
The Honorable Les AuCoin
The Honorable John H. Rousselot
The Honorable Fernand J. St Germain

The Honorable Jerry M. Patterson
The Honorable Barry M. Goldwater, Jr.
The Honorable Stewart B. McKinney
The Honorable James M. Hanley
The Honorable Parren J. Mitchell

The Honorable Stanley N. Lundine
The Honorable Henry S. Reuss

The Honorable Jim Mattox
The Honorable Fortney H. (Pete) Stark

Congress of the United States

House of Representatives

Washington, D.C. 20515

1980 MAY 12 10 33

May 9, 1980

#209

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

Dear Chairman Volcker:

As you know, several Members of Congress recently wrote to the FDIC regarding the Justice Department's interpretation of the Right to Financial Privacy Act's inter-agency transfer of information procedures. In that correspondence, we expressed our disagreement with the Department's interpretation in some detail. Recently, the GAO's report on the implementation of the Act supported the view expressed in our letter of February 26, 1980, that the Act requires agencies which transfer customer records to notify the customer within 14 days.

We understand that because the various financial institution regulatory agencies have differing views on this matter they have asked the Financial Institutions Examination Council to resolve the question. The aim of this effort is designed to produce a uniform position on this important issue.

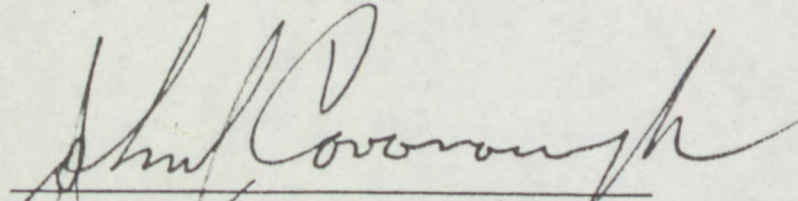
While we agree that uniformity on such matters is desirable, we would be most distressed if the Examination Council decided to adopt the Justice Department's position. Since this position is not supported by either the Act or its legislative history, we do not believe that agencies now following the Act faithfully should change their procedures. To the contrary, any agency which is following the now-discredited Justice Department interpretation should stop doing so and conform its procedures to the Act.

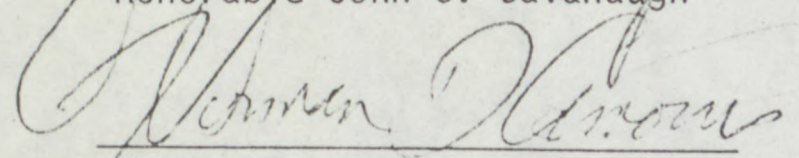
We understand that some agencies may find following the procedures of the Act difficult. If this is so, the proper avenue is to seek an amendment in the Congress, rather than to simply ignore the law. The Department of Justice specifically agreed to the language of section 1112 of the Act before it was offered to the House.

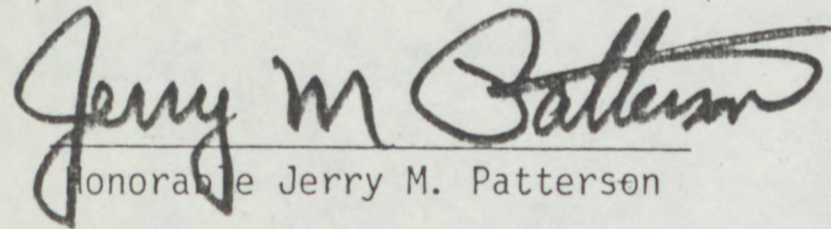
Honorable Paul A. Volcker
May 8, 1980
Page 2

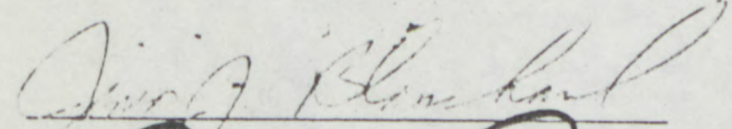
We hope, and trust, that you will make every effort to ensure that the Financial Institutions Examination Council will decide to adopt a policy on this issue that is consistent with the Right to Financial Privacy Act and its specific legislative history.

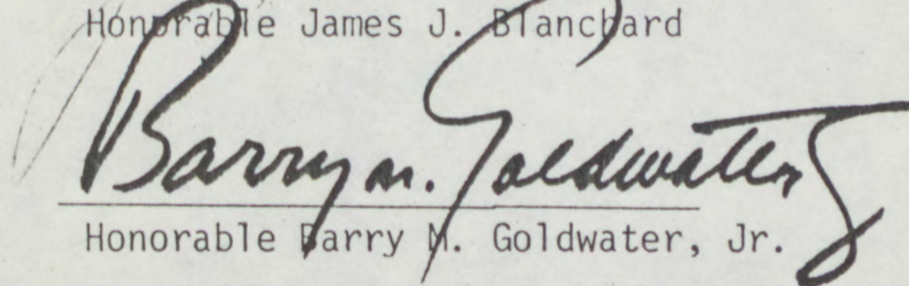
Sincerely,


Honorable John J. Cavanaugh

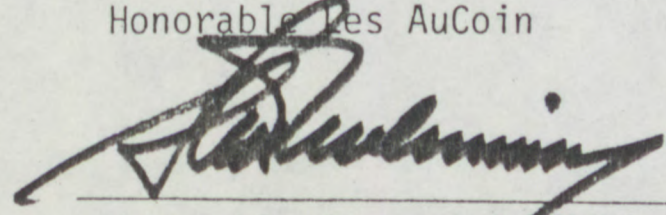

Honorable Norman E. D'Amours

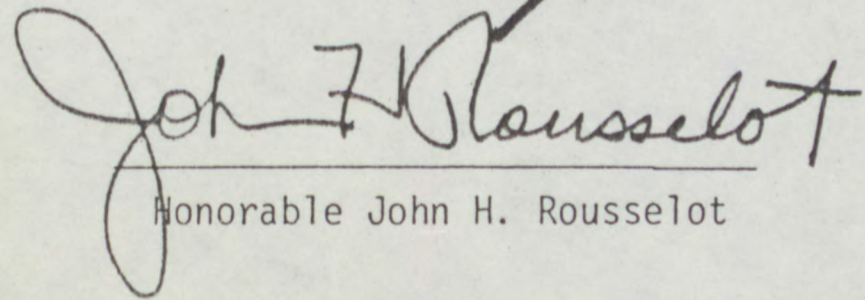

Honorable Jerry M. Patterson

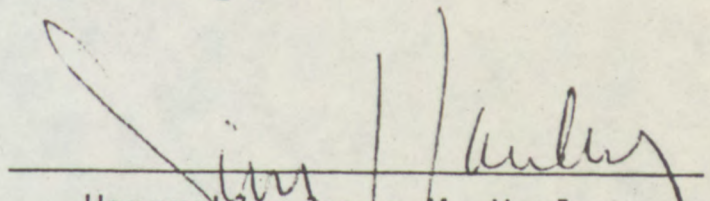

Honorable James J. Blanchard

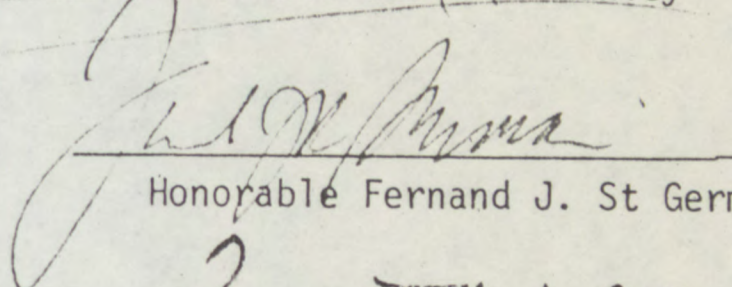

Honorable Barry M. Goldwater, Jr.

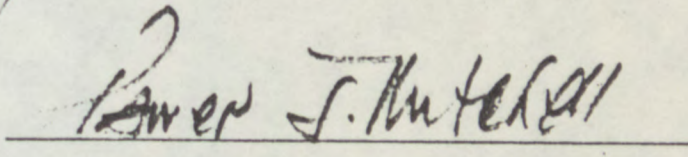

Honorable Les AuCoin

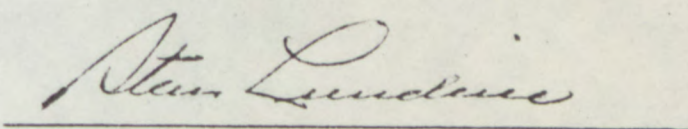

Honorable Stewart B. McKinney

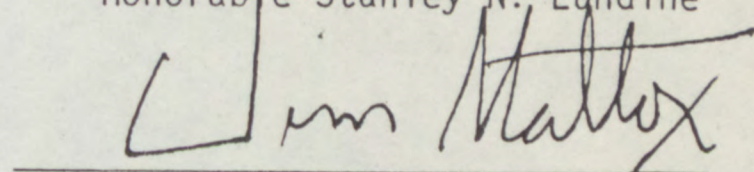

Honorable John H. Roussetot

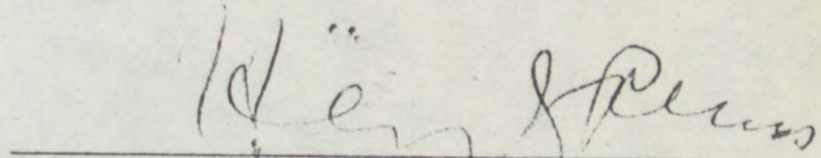

Honorable James M. Hanley

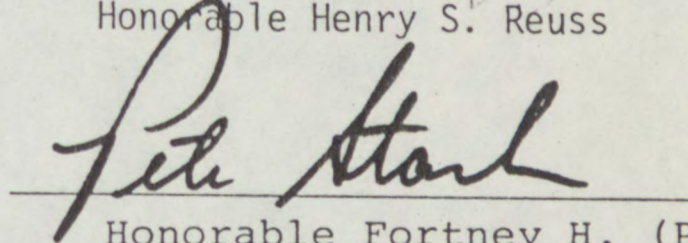

Honorable Fernand J. St Germain


Honorable Parren J. Mitchell


Honorable Stanley N. Lundine


Honorable Jim Mattox


Honorable Henry S. Reuss


Honorable Fortney H. (Pete) Star

May 30, 1980

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

Dear Mr. Royer:

As you may imagine, the reference to me in the article enclosed with your letter about the "last buzz saw" is a total fabrication. The fact is that I have not been to the West Coast for months, and had no meeting of the kind described at that time. Nor does the article in any way reflect my views.

I don't know how to catch up with this kind of irresponsibility. I, of course, wrote to suggest a correction, fruitlessly.

Sincerely,

S/Paul A. Volcker

Copy to:
Mr. Ray F. Galli, Jr.
Mr. Dan Dorfman

BILL ROYER
11TH DISTRICT, CALIFORNIA

WASHINGTON OFFICE:
1022 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-3531

COMMITTEES:
PUBLIC WORKS AND
TRANSPORTATION
SCIENCE AND TECHNOLOGY

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

DISTRICT OFFICES:
BAY VIEW PLAZA
2121 SOUTH EL CAMINO REAL, SUITE 410
SAN MATEO, CALIFORNIA 94403
(415) 349-1978

DALY CITY CITY HALL
90TH AND SULLIVAN AVENUE
DALY CITY, CALIFORNIA 94015
(415) 992-4500 EXT. 205

May 20, 1980

#230

1980 MAY 20 10:32

Mr. Paul Volcker, Chairman
Federal Reserve System
Twentieth Street & Constitution Avenue NW
Washington, D.C. 20551

Dear Chairman Volcker:

Attached hereto is a letter and newspaper article which I have received from a constituent of mine who is a home builder. As indicated by the letter and the newspaper article, you are quoted as saying you won't be satisfied "until the last buzz saw is silenced." Well, sir, you have been successful at least as to one of my constituents. Enclosed please find a "buzz saw" which your policies have silenced as far as he is concerned.

I am appalled that you are attempting to "fight the war on inflation" on the backs of the building industry. At a time when the housing needs of our country are so acute, it is unconscionable in my opinion that you should single out this one industry for your unseemly policies.

I ask that you cease these policies and that instead you take all actions necessary to restore the housing industry to the vigorous condition required in order to provide our citizens with the shelter they so desperately need.

I would be pleased to know your early response to my concerns.

Yours very truly,

Bill Royer

BILL ROYER
Member of Congress

BR/cr

Enclosures



License No. 367326

778 EL CAMINO REAL • SAN CARLOS, CALIFORNIA 94070 • 592-6904

5 May 1980

MAY 05 1980

Congressman Bill Royer
1022 Longworth House Office Building
Washington, D. C. 20515

Dear Congressman Royer;

It was a pleasure meeting you for lunch at the Holiday Inn last week. I appreciate your taking the time to meet with us and talk about our problems.

As I mentioned, I was upset at an article I read which quoted the Federal Reserve Board Chairman Paul Volcker as saying that "he wouldn't be satisfied until the last buzz saw was silenced". You requested that I send you a copy of this article. I am enclosing herewith said article which appeared in the San Francisco Sunday Examiner on April 20, 1980.

Our industry has been greatly affected by this unwarranted tightening of credit. As has been pointed out, inflation has not been or will not be controlled by tightening of the home mortgage market. In fact, this action has caused an increase in the last Consumer Pricing Index. The index was higher in March due primarily to higher mortgage interest???

I am enclosing herewith a skill saw blade which has been affectively silenced, you might pass this on to Chairman Volcker so that he might, at last, be satisfied.

Very truly yours,

Ray F. Galli, Jr.
President
GALLI BUILDERS, INC.

cag
Enclosure

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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 copyright protections.

Citation Information

Document Type: Newspaper article

Number of Pages Removed: 1

Citations: Dorfman, Dan. "The Shifting Home Market." *San Francisco Sunday Examiner*, April 20, 1980.

May 30, 1980

The Honorable Joseph P. Addabbo
House of Representatives
Washington, D. C. 20515

Dear Mr. Addabbo:

Thank you for your May 20 letter regarding a provision in the Board's consumer credit restraint regulation that allows credit card issuers to increase interest rates on consumers' existing balances.

The provision to which you refer provides a uniform rule for creditors to follow in changing certain terms in their revolving credit accounts and 30-day credit accounts. (While credit card issuers would be among those subject to this rule, it also applies to other creditors offering those types of accounts.) The Board was concerned that the variety of State laws and contract provisions addressing changes in terms might not provide sufficient protection to consumers or adequate guidance to creditors seeking to curb their credit growth in accordance with the regulation. The Board believed that the amendment represented the best alternative in resolving the concerns of both creditors and consumers, while encouraging credit restraint.

I certainly understand your concern regarding the impact of the rule on consumers, but would like to point out that the Board's amendment in many cases gives consumers an option that would not be available under either State law or their credit contracts. That option allows customers to repay outstanding balances under the old terms if they do not use their accounts after the effective date of a change. The information gathered by the Board's staff indicates that only four States currently prohibit application of changes in terms to existing balances, while the remainder either expressly permit these changes or are silent on the issue. Where State law is silent, the result is generally governed by the contract between the consumer and the creditor. We understand that contracts generally allow changes in terms to be applied to outstanding balances.

The Honorable Joseph P. Addabbo
Page Two

Thus, our action does not appear to alter most State laws
or contract provisions in this regard.

I appreciate your taking the time to share your
concerns on this important issue.

Sincerely,

S/Paul A. Volcker

MAS:vcd (#V-226)

bcc: Ms. Stewart
Mrs. Mallardi (2)

JOSEPH P. ADDABBO
7TH DIST., NEW YORK

REPLY TO:
2256 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-3461

DISTRICT OFFICE:
96-11 101ST AVENUE
OZONE PARK, NEW YORK 11416

Action assigned Janet Hart

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

ADMINISTRATIVE ASSISTANT
DICK SEELMEYER

COMMITTEE ON
APPROPRIATIONS

SUBCOMMITTEES:
CHAIRMAN, DEFENSE
TREASURY-POST OFFICE
MILITARY CONSTRUCTION

COMMITTEE ON
SMALL BUSINESS

#226

May 20, 1980

Mr. Paul Volcker
Chairman
Board of Governors of
the Federal Reserve System
20th Street & Constitution Ave., N.W.
Washington, D.C. 20551

Dear Chairman Volcker:

I am addressing myself to you with reference to the Federal Reserve Board's recent ruling that banks and other companies which issue credit cards are allowed to increase interest rates on a customer's existing credit balance. This matter has been brought to my attention by a third party and I am writing to express my own concern as well as to urge the Board's reconsideration of this ruling.

While the need to restrain consumer credit in order to fight inflation is great, it seems unfair to permit interest rates to be raised on a customer's prior purchases -- those made on the assumption that the existing rate of interest would be maintained. Reconciling fairness to consumers with anti-inflation initiatives should involve a distinction between past and future credit transactions. Consumers are entitled to the kind of warning that will enable them to make intelligent credit decisions.

I hope that you will take this recommendation under consideration as I am most concerned with the unfair disadvantage to the consumer which the new rules present. I would greatly appreciate your comments on this matter.

Thank you very much for whatever consideration you may render this issue. I will be awaiting your response.

With best regards, I am

Sincerely yours,

JOSEPH P. ADDABBO, M. C.

JPA:jfo

OFFICE
1980 MAY 21 PM 9:08
MAN

May 30, 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 letter of May 6 regarding the document received by your Committee from Mr. George A. Pavlik of U. S. Consultants. In this document Mr. Pavlik requests special treatment under the Federal Reserve Special Credit Restraint Program for bank loans to a client of the consulting firm with which he is associated. He bases this request on the fact that such loans are used to finance the purchase of equipment which is then leased to farmers.

As you know, the Board has encouraged banks to maintain normal lending activity to borrowers, including farmers and other small businesses, with limited access to alternative sources of financing. At the same time, a bank whose loan expansion in 1980 seems likely to exceed the 9 percent limit stipulated by the program guidelines is expected to cut back its lending to larger businesses. Mr. Pavlik's client is neither a farmer nor a nonfarm small business; rather, it is a subsidiary of one of the 300 largest corporations in the country, A. O. Smith Corporation.

As Mr. Pavlik describes the borrowing and leasing arrangement, A. O. Smith Harvestore Products, Inc., a manufacturer of farm equipment, established a new leasing subsidiary (Agristore) a couple of years ago. Through Agristore, a partnership in which A. O. Smith has an 80 percent interest buys equipment from A. O. Smith Harvestore, financing these intra-company purchases largely with bank credit. The partnership leases the equipment to farmers and repays its bank loans out of the proceeds of the farmers' lease payments.

The Honorable William Frowaire
Page Two

A. O. Smith Harvestore is concerned that, in the absence of any specific exemption, bank compliance with the Special Credit Restraint guidelines may restrain the volume of bank credit available to the leasing partnership.

I see no justification for according any special treatment to this kind of lending activity. In fact, given the partnership's close relationship to a major U. S. corporation, and thus its obvious access to other sources of financing, some restraint on loans to the partnership may be appropriate for any of its banks whose loan growth is pressing against the 9 percent limitation.

I hope these comments prove useful to you.

Sincerely,

SZ Paul

EJS:JFB:Wvcd (#V206)

cc: Ms. Stockwell
Mrs. Mallardi (2)

Action assigned Mr. Keir

WILLIAM PROXMIRE, WIS., CHAIRMAN
HARRISON A. WILLIAMS, JR., N.J.
ALAN CRANSTON, CALIF.
ADLAI E. STEVENSON, ILL.
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DONALD W. STEWART, ALA.
PAUL E. TSONGAS, MASS.

JAKE GARN, UTAH
JOHN TOWER, TEX.
JOHN HEINZ, PA.
WILLIAM L. ARMSTRONG, COLO.
NANCY LONDON KASSEDAUM, KANS.
RICHARD G. LUGAR, IND.

KENNETH A. MC LEAN, STAFF DIRECTOR
M. DANNY WALL, MINORITY STAFF DIRECTOR
MARY FRANCES DE LA PAVA, CHIEF CLERK

United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, D.C. 20510

May 6, 1980

7206


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

Dear Mr. Chairman:

The Committee has received the enclosed document concerning the Federal Reserve Credit Restraint Program from Mr. George A. Pavlik.

I am forwarding the material to you for your appropriate consideration.

Sincerely,


William Proxmire
Chairman

WP:lmg

cc: Mr. George A. Pvalik

U. S. CONSULTANTS

Marketing · Legislation · Public Relations · International Affairs

WILLIAM J. SCHERLE
President

GEORGE A. PAVLIK, Attorney
Associate Research Consultant
Washington, D. C.

201 Massachusetts Ave. N. E. - # 317
WASHINGTON, D. C. 20002
Telephone: (202) 543-0289

HON. WILLIAM H. HARBOE
Associate Consultant

HENDERSON, IOWA 51541
Telephone: (712) 825-3141

PROF. MING T. LEE
Senior Vice Pres. - International Affairs

April 25, 1980

U. S. Consultants, of which former Congressman William J. Scherle (Ia.) is President, has as a client A. O. Smith Harvestore Products, Inc., Box 395, Arlington Heights, Illinois 60006. A. O. Smith Harvestore manufactures farm equipment, principally Harvestore grain and fodder handling and storage systems and Slurrystore manure handling and storage systems. This equipment has been increasingly popular with farmers throughout the United States for many reasons, including reduced costs, labor-saving, conservation of energy, reduction of waste and, in the case of Slurrystore, prevention of pollution. Methane produced from manure stored in Slurrystores is a practical alternate energy source, and the saving and recycling of manure through Slurrystore systems restores fertility to fields which otherwise would have to depend on commercial fertilizers manufactured and transported at considerable energy cost. The Administration encourages on-farm storage of grain. An increasing number of farmers utilize Harvestore systems in connection with on-farm production of alcohol from bio-mass as an alternate source of energy.

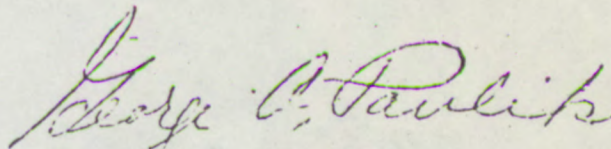
About 2½ years ago, A. O. Smith Harvestore began a leasing operation, managed by a new subsidiary, Agristore, Milwaukee, Wisconsin. Farmers were having increasing difficulty in raising capital for their farming equipment and operation needs. A partnership (80% A. O. Smith, 20% Steiner) through the Agristore management company purchases the Harvestore or Slurrystore equipment and leases it to farmers. The partners provided about 25% of the capital used in making these purchases and borrowed about 75% of the total capital from various commercial banks, using the leases as collateral, using the proceeds from the leases to repay the debt. The leasing arrangement has become increasingly popular to farmers, and sales to the partnership for leasing to farmers accounted for some 20% of A. O. Smith Harvestore Products Inc. production in 1979. Some \$ 70 million in equipment is now under lease. Harvestore expected the leasing operation to continue to grow rapidly in 1980 and in future years, envisaging perhaps another \$ 60 to \$ 80 million in equipment being leased this year.

A. O. Smith Harvestore Products Inc. is seriously concerned that the credit restraint regulations and guidelines issued by the Board of the Federal Reserve System on March 14, 1980 and since may result in critical curtailment of the leasing program, reflected in drastic cuts in sales and production, through the inhibition those regulations and guidelines place upon the ability of the leasing-partnership to obtain capital by borrowing from commercial banks. It would appear consistent with the Administration's

avowed policy of ensuring availability of credit to agriculture and with its objectives of encouraging conservation of energy, expanding production of alternate energy resources, control of pollution, increasing on-farm storage capacity, and increasing net income to farmers, for relief to be provided in this situation, perhaps through exemption from the 6 to 9 per cent credit increase guideline for capitalization of such leasing operations.

Your efforts on behalf of obtaining appropriate relief would be most sincerely appreciated, by A. O. Smith Harvestore Products, Inc., by Agristore, by A. O. Smith, by their stockholders and employees, by Harvestore and Slurrystore dealers, and by farmers interested in leasing equipment.

Respectfully submitted,



George A. Pavlik
Associate Research Consultant
U. S. Consultants

May 30, 1980

The Honorable Joseph L. Fisher
House of Representatives
Washington, D. C. 20515

Dear Mr. Fisher:

Thank you for your letter expressing concern about the current situation at thrift institutions and my reaction to two suggestions for alleviating these institutions' problems.

I can assure you that we at the Federal Reserve are aware of the difficulties caused savings and loan associations by the recent high levels of interest rates. It is a situation we monitor constantly and one which we have discussed extensively with the other federal regulators who have responsibilities in this area. The basic problem faced by these institutions, as you know, is that rising interest rates increase their cost of obtaining funds much more than their returns on assets, a large portion of which are older, lower-yielding mortgages. From this perspective, I think the recent declines in rates are most encouraging and should in time relieve much of the current intense earnings pressures on thrifts. Over the longer run, the cyclical character of thrift earnings will become less pronounced with the increased use of alternative mortgage instruments whose returns also fluctuate with the level of market rates.

The opportunity to sell low-yielding mortgages to the government would, of course, provide some immediate relief for many institutions and better position them should short-term rates once again rise rapidly. However, I am concerned about the budgetary impact of the program and the precedent it would set. It would require substantial outlays, with the taxpayers absorbing the losses represented by the difference between the market and book values of these assets. Such outlays would seem especially ill-advised at a time when budget discipline is important to our efforts to curb inflation. Moreover, if

The Honorable Joseph L. Fisher
Page Two

the government bought low-yielding assets of thrifts, others with similar problems would also seek federal aid. These might include industries with outmoded productive capacity as well as financial institutions. I might note that the Depository Institutions Deregulation and Monetary Control Act mandates an interagency study of what can be done about the imbalance between thrift asset and liability portfolios. The approach you put forward is being considered in this study, and I would expect that the analysis there will help to clarify the issues.

With respect to money market mutual funds, our concerns about their ability to divert credit from its traditional channels led us--under the Credit Control Act of 1969--to impose a special marginal reserve requirement on the growth in their assets. We have recently reduced this requirement along with relaxation of other special measures imposed on March 14, given slackening of credit demands, lower interest rates, and some strengthening of flows to thrift institutions. Nonetheless, there remain serious questions about the impact of these funds on the distribution of credit and about competitive equity between the funds and depository institutions. These considerations, of course, must be weighed against the obvious convenience and returns they offer savers. In general, I remain concerned about the present regulatory status of money market funds and believe that the matter deserves the attention of the Congress and appropriate federal agencies.

I appreciate the opportunity to comment on these ideas.

Sincerely,

Paul A. Volker

P.S. I am enclosing a release describing the steps taken by the DDC that, I believe, will be constructive for all depository institutions.

PAV

JOSEPH L. FISHER
10TH DISTRICT, VIRGINIA

COMMITTEE ON
WAYS AND MEANS
SUBCOMMITTEE ON TRADE
SUBCOMMITTEE ON
SOCIAL SECURITY

SELECT COMMITTEE ON
COMMITTEES

ENVIRONMENTAL STUDY
CONFERENCE CHAIRMAN

Action assigned Mr. Kichlin

Congress of the United States
House of Representatives

Washington, D.C. 20515
May 8, 1980

WASHINGTON OFFICE:
223 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-5136

JOHN L. NORMAN
EXECUTIVE ASSISTANT

450 WEST BROAD STREET
ROOM 416
FALLS CHURCH, VIRGINIA 22046
TELEPHONE: (703) 534-2888

19 EAST MARKET STREET
LEESBURG, VIRGINIA 22075
TELEPHONE: (703) 777-5859

H. V. B.

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

Dear Chairman Volcker:

One of the central elements of the current anti-inflation policy is a tight monetary policy and stringent credit restraints. This has caused significant increases in interest rates which, although they appear to have peaked and are falling, are still at historically high levels.

I have recently met with a group of officials from savings and loan associations which are located in my congressional district. Although the Federal Reserve Board does not directly regulate the savings and loan industry, the Board's actions in controlling monetary policy have a substantial effect on this industry. The soaring prime interest rate, the high yields on money market instruments and Treasury offerings have caused increased costs and disintermediation within the savings and loan industry. Coupled with the decline in new mortgage loans and the substantial portfolio of low yielding, older, outstanding loans, the associations have experienced a severe squeeze on profit margins. Although the recently enacted Depository Institutions Deregulation and Monetary Control Act will ultimately provide the banking industry with additional flexibility to compete for funds, it will not provide immediate relief to the crucial situation that many of these associations face at the present time.

During my meeting with officials of the savings and loan associations, two suggestions were made on which I would appreciate the reaction of the Federal Reserve Board.

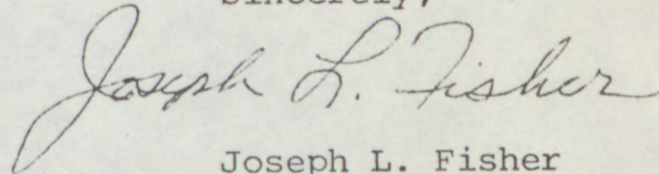
The first recommendation was to establish a Federal agency which would buy a portion of the low yield mortgages issued by the savings and loan institutions during earlier years. This would provide an influx of additional funds as well as increase the profit margin for the institutions. Such a proposal might be implemented by an existing agency, perhaps the Federal Home Loan Mortgage Corporation, or by the creation of a new agency specifically designed for this purpose. I have written to Chairman Janis of the Federal Home Loan Bank Board and to Chairman Reuss of the House Banking Committee requesting their comments on this proposal.

Chairman Paul A. Volcker
May 15, 1980
Page: 2

The second recommendation concerns money market funds. Many investment companies and brokerage houses are presently offering money market funds in direct competition with financial institutions. While the banks and savings and loan associations are presently regulated, these other organizations remain virtually unregulated on these fund offerings. The officials of the savings and loan industry have suggested that all entities which offer money market investments be subject to the same rules and regulations. I have requested comments from the Securities and Exchange Commission on this proposal also.

I look forward to your comments about these two recommendations, primarily as they would affect the monetary and other anti-inflation programs administered by the Federal Reserve System.

Sincerely,



Joseph L. Fisher
Member of Congress

JLF/afe

May 30, 1980

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

Dear Chairman Proxmire:

Thank you for your letter of May 19 concerning your Committee's hearing into the effects of the narcotics money flow on banks in south Florida.

I am pleased to inform you that John E. Ryan, Director, Division of Banking Supervision and Regulation, will appear on behalf of the Board on June 6 at 10:00 a.m.

Sincerely,

S/ Paul

CO:pjt (#322)
bcc: Jack Ryan

May 30, 1980

The Honorable Howard M. Metzenbaum
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Senator Metzenbaum:

In reference to your letter of May 16 and Chairman Volcker's reply of May 22, I am pleased to inform you that the Depository Institutions Deregulation Committee at its meeting late yesterday considered the question that you had raised and decided to extend the period for comments on its proposal to ban premiums from June 16 to July 16.

Sincerely,

Normand Bernard
Executive Secretary

NB:tb
D-273

May 30, 1980

The Honorable Howard W. Cannon
United States Senate
Washington, D. C. 20510

Dear Senator Cannon:

Thank you for your letter of May 10 with which you enclosed copies of mailgrams you have received concerning a proposal to ban the offering of premiums or gifts by depository institutions. I will be pleased to bring copies of this correspondence to the attention of the members of the Depository Institutions Deregulation Committee for their consideration prior to a final decision on this matter.

Sincerely,

Normand Bernard
Executive Secretary

NB:cak
D-697

cc: Mrs. Mallardi (1)
Mr. Winn (1)

HOWARD W. CANNON
NEVADA

COMMITTEES:
COMMERCE, SCIENCE, AND TRANSPORTATION,
CHAIRMAN
ARMED SERVICES
RULES AND ADMINISTRATION

United States Senate

WASHINGTON, D.C. 20510.

May 20, 1980

D-697

Mr. Normand R.V. Bernard, Executive Secretary
Depository Institutions De-Regulation Committee
Federal Reserve Building
20th and Constitution Avenue, N.W.
Washington, D. C. 20551

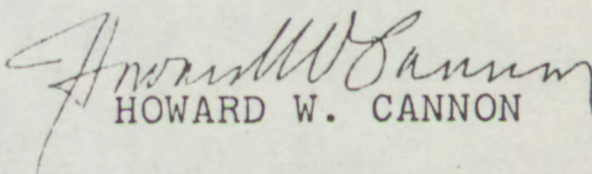
Dear Mr. Bernard:

Enclosed please find a copy of Mailgrams I have received relative to the proposed DIDC regulations banning the offering of premiums or gifts by financial institutions.

I trust these comments will be taken into consideration prior to a final decision concerning the proposed regulations.

With best wishes, I am

Sincerely,


HOWARD W. CANNON

HWC/CCsa

Enclosures

KANNEY MARKETIN SERVICES
90 PLANT AVENUE
HAUPPAUGE, NY 11787



4-023201A137-055 05/17/80 TWX NJ KANNEY HAUP WSHB
02 HAUPPUG, NY MAY 16, 1980

HON HOWARD W. CANNON
SENATE OFFICE BLDG
WASHINGTON, DC 20510

TO ALL MEMBERS OF THE SENATE OF THE UNITED STATES

IN ITS FIRST MEETING ON TUESDAY, MAY 6, 1980, THE NEWLY CREATED DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE PROPOSED A BAN ON ALL PREMIUM PROMOTIONS FOR ALL FINANCIAL INSTITUTIONS AND HAS GIVEN ONLY A THIRTY DAY PERIOD FOR "PUBLIC COMMENT".

THIS UNCONSCIONABLE ACTION HAS BEEN TAKEN IN DIRECT CONTRAVENTION TO THE EXPRESS WISHES OF CONGRESS AS EXPRESSED IN HR 4986.

CONGRESS IN HR 4986 (NOW PL 96-221) PROVIDES THAT EACH MEMBER REPORTS RECOMMENDATIONS FOR MEASURES WHICH WOULD ENCOURAGE SAVINGS, PROVIDE FOR THE EQUITABLE TREATMENT OF SMALL SAVERS, AND ENSURE A STEADY AND ADEQUATE FLOW OF FUNDS TO THRIFT INSTITUTIONS AND HOUSING MARKET.

THIS ACTION OF THE DIDC WILL UNNECESSARILY AND WITHOUT ARGUMENT:

1. DISCOURAGE SAVINGS OF ALL KINDS.
2. DISPROPORTIONATELY EFFECT SMALL SAVERS, WHO, UNDER HIS PROPOSAL WOULD NOW LOSE THE ONLY INCENTIVE THEY HAVE HAD TO SAVE SMALL AMOUNTS OF THEIR DISCRETIONARY INCOME IN DEPOSITORY INSTITUTIONS.
3. FURTHER THE SLOW OF FUNDS TO AN ALREADY CRIPPLIED HOUSING INDUSTRY.
4. DESTROY VIRTUALLY OVERNIGHT AN ESTABLISHED 30 YEAR OLD INDUSTRY WHICH IS CHARACTERIZED BY SMALL, INDEPENDENT, AND HIGHLY COMPETITIVE BUSINESSES. PREMIUM PROMOTION IS CLEARLY HELPFUL AND EFFECTIVE WHEN THE FINANCIAL INSTITUTION CHOOSES TO EMPLOY IT. THEY HAVE THE OBVIOUS RIGHT TO USE IT OR NOT. CRITICS OF BANK PREMIUMS SUCH AS CHAIRMAN SPRAGUE OF THE F.D.I.C. CALL PREMIUMS CONSUMER "RIP OFFS" AND CLAIM THAT BANKS WOULD PAY MORE INTEREST IF THEY DID NOT USE PREMIUMS. THIS IS NOT TRUE. BANKS WHO OFFER PREMIUMS PAY THE MAXIMUM INTEREST AND OFFER GIFTS AS AN ADDITIONAL INCENTIVE. THE COST OF THESE GIFTS ARE BORNE OUT OF BANKS

ADVERTISING AND PROMOTION BUDGETS. UNDERSTANDING THAT THE MERE ANNOUNCEMENT OF THIS PROPOSED BAN HAS CAUSED AN IMMEDIATE AND DAMAGING EFFECT THROUGH THE CANCELLATION OF ORDERS FOR MILLIONS OF DOLLARS OF MERCHANDISE WITH THE RESULT THAT JOBS HAVE ALREADY BEEN LOST, WE URGE THAT YOU CONTACT THE MEMBERS OF THE DIDC TO STRONGLY VOICE YOUR OPPOSITION TO THIS PROPOSED REGULATION,

THANK YOU FOR YOUR HELP.

SINCERELY
NEIL J. KANNEY
KANNEY MARKETING SERVICES
90 PLANT AVENUE
HAUPPAUGE, NY 11787
TWX 510 227 6620

08:11 EST

MGMCOMP MGM

SENATOR HOWARD CANNON
MAY 19 1980
WASHINGTON, D.C. 20510

W.M. DALTON & ASSOC.
11 BELL'S TRAIL
NEWTOWN, PA 18940

Mailgram
WESTERN UNION

1-004234A136-055 05/15/80 TX WMDALTON NTOW WSHA
01 NEWTOWN, PA, MAY 14, 1980

HON HOWARD W. CANNON
SENATE OFFICE BLDG
WASHINGTON, DC 20510

TO ALL MEMBERS OF THE CONGRESS OF THE UNITED STATES OF AMERICA

IN ITS FIRST MEETING, ON TUESDAY MAY 6, 1980, THE NEWLY CREATED DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE PROPOSED A BAN ON ALL PREMIUM PROMOTIONS FOR ALL FINANCIAL INSTITUTIONS- AND HAS GIVEN ONLY A THIRTY DAY PERIOD FOR "PUBLIC COMMENT."

THIS UNCONSCIONABLE ACTION HAS BEEN TAKEN IN DIRECT CONTRAVENTION TO THE EXPRESS WISHES OF CONGRESS AS EXPRESSED IN HR 4986- "AN ACT TO FACILITATE THE IMPLEMENTATION OF MONETARY POLICY, TO PROVIDE FOR THE GRADUAL ELIMINATION OF ALL LIMITATIONS ON THE RATES OF INTEREST WHICH ARE PAYABLE ON DEPOSITS..."

CONGRESS STATES IN HR 4986)(NOW PL 96-221) THAT "EACH MEMBER (OF THE DIDC) SHALL SEPARATELY REPORT TO CONGRESS (AND) EACH MEMBER REPORT SHALL CONTAIN...RECOMMENDATIONS FOR MEASURES WHICH WOULD ENCOURAGE SAVINGS, PROVIDE FOR THE EQUITABLE TREATMENT OF SMALL SAVERS, AND ENSURE A STEADY AND ADAQUATE FLOW OF FUNDS TO THRIFT INSTITUTIONS AND THE HOUSING MARKET."

PL 96-221 SEC 206 P (2.)

THIS FIRST ACTION OF THE DIDC WILL UNNECESSARILY AND WITHOUT ARGUMENT:

1. DISCOURAGE SAVINGS OF ALL KINDS, AND
2. DISPROPORTIONATELY EFFECT SMALL SAVERS, WHO, HAVE NOT YET RECEIVED ANY BENEFIT FROM PL 96-221'S PHASE-OUT OF AND WHO UNDER THIS PROPOSAL WOULD NOW LOSE THE ONLY BENEFIT AND INCENTIVE THEY HAVE HAD SINCE 1966 TO SAVE SMALL AMOUNTS OF THEIR DISCRESSIONARY INCOME IN DEPOSITORY INSTITUTIONS, AND,
3. FURTHER SLOW THE FLOW OF FUNDS TO AN ALREADY CRIPPLED HOUSING INDUSTRY, AND,
4. DESTROY VIRTUALLY OVERNIGHT AND ESTABLISHED INDUSTRY WHICH IS CHARACTERIZED BY SMALL, INDEPENDENT, AND HIGHLY COMPETITIVE BUSINESSES, AND,
5. ADD TO UNEMPLOYMENT, AND,
6. FUEL INFLATION



ALL UNNECESSARY AND IN DIRECT CONTRAVENTION TO THE WISHES OF CONGRESS WHO STATED THAT:

"REGULATIONS SHOULD ACHIEVE LEGISLATIVE GOALS EFFECTIVELY AND EFFICIENTLY

PL96-221, SEC 802

"ANY REGULATION ISSUED BY THE FEDERAL REGULATORY AGENCIES SHALL, TO THE MAXIMUM EXTENT PRACTICABLE, INSURE THAT-

- (1.) THE NEED FOR AND PURPOSE OF SUCH REGULATION IS ESTABLISHED CLEARLY;
- (2.) MEANINGFUL ALTERNATIVES TO THE PROMULGATION OF SUCH REGULATIONS ARE CONSIDERED BEFORE SUCH REGULATION IS ISSUED;
- (3.) TIMELY PARTICIPATION AND COMMENT BY OTHER FEDERAL AGENCIES, APPROPRIATE STATE AND LOCAL INSTITUTIONS, FINANCIAL INSTITUTIONS, AND CONSUMERS ARE AVAILABLE

PL96-221

I CANNOT EMPHASIZE STRONGLY ENOUGH THAT THIRTY DAYS FOR COMMENT ON THIS COMPLICATED ISSUE DOES NOT ALLOW FOR THE CONGRESSIONAL MANDATE OF "TIMELY PARTICIPATION." THE ACTION OF THE DIDC IN SUBMITTING THIS PROPOSAL IS AT BEST MISGUIDED, BUT WHEN THEY ALLOW ONLY THIRTY DAYS FOR COMMENT BEFORE DESTROYING AN INDUSTRY I AM STUNNED THAT THIS IS THE STATE OF AFFAIRS WITH A COMMITTEE CREATED BY OUR REPRESENTATIVES IN CONGRESS. IF THIS IS A HINT OF THINGS TO COME FROM THE DIDC I AM EXTREMELY APPREHENSIVE ABOUT THE ABUSE OF PL 96-221 AND HOW IT MAY IN THE FUTURE BE USED TO HARM THE SMALL SAVER WHOM IT IS SUPPOSED TO PROTECT, THE HOUSING INDUSTRY WHICH IT IS SUPPOSED TO AID. WE RESPECTFULLY REQUEST THAT AN EXTENSION OF AT LEAST 90 (NINTY) DAYS BE GRANTED BEFORE ANY ACTION CAN BE TAKEN ON THESE PROPOSALS SO THAT HIS MATTER MAY BE CAREFULLY EVALUATED AND TIMELY PARTICIPATION ALLOWED FOR ALL CONCERNED PARTIES.

WE THANK YOU FOR YOUR CONSIDERATION IN THIS MATTER OF EXTREME URGENCY TO US.

FLORENCE M. DALTON, PRESIDENT
 W.M. DALTON & ASSOC., INC.
 11 PENNS TRAIL
 NEWTOWN, PENNA. 18940
 215-968-5051
 TWX # 5106672242

08:35 EST

MGMCOMP MGM

SENATOR HOWARD CANNON
RECEIVED
 MAY 15 1980
RECEIVED
 WASHINGTON, D.C. 20510

May 30, 1980

The Honorable Henry S. Reuss
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Reuss:

Thank you for your letter of May 20 in which you endorsed requests from a number of your constituents who urged an extension of the period for comments on the proposal to ban the use of premiums by depository institutions. At its meeting late yesterday afternoon, the Committee considered this matter, and I am pleased to report that the period for receiving comments has been extended from June 16 to July 16.

Sincerely,

Normand Bernard
Executive Secretary

NB:tb
D-696

HENRY S. REUSS
5TH DISTRICT, WISCONSIN

WASHINGTON OFFICE:
2413 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
PHONE: 202-225-3571

MILWAUKEE OFFICE:
FEDERAL BUILDING ROOM 400
517 EAST WISCONSIN AVENUE
MILWAUKEE, WISCONSIN 53202
PHONE: 414-291-1331

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

COMMITTEES:
BANKING, FINANCE AND
URBAN AFFAIRS
CHAIRMAN
SUBCOMMITTEE ON THE CITY
CHAIRMAN
JOINT ECONOMIC COMMITTEE
INTERNATIONAL ECONOMICS SUBCOMMITTEE
CO-CHAIRMAN

May 20, 1980

Norman R. V. Bernard
Executive Secretary
Depository Institutions Deregulation Committee
Federal Reserve Building
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Dear Mr. Bernard:

I write on behalf of several constituents, who have expressed to me their concern about the Committee's May 16, 1980, Federal Register proposal to curtail financial institutions from giving gifts or premiums to depositors. They oppose the proposal, and intend to submit formal comments to the Committee. However, they specifically argue at this time that the Committee approve at least a 30-day extension of the period for public comment, so that all affected firms and persons can be notified about the proposal and have time to prepare substantial comments about it, particularly adverse economic consequences which would result from its implementation.

I believe that the request for an extension is a reasonable one, and I would appreciate hearing from you about it.

Sincerely,

Henry S. Reuss

Henry S. Reuss
Member of Congress

D-696

May 30, 1980

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

Dear Mr. Chairman:

Thank you for your thoughtful letter of May 23 concerning interest rate differentials between banks and thrifts. The decisions of the Depository Institutions Deregulation Committee earlier this week were indeed fashioned, after extended deliberations by the Committee, "to strike a delicate balance between preserving the financial stability of financial institutions, maintaining credit flows for housing, agriculture, and small business, and providing equity for savers." Only time will tell us whether we have succeeded in that objective, but my colleagues and I on the Committee will be watching developments very carefully and we will make whatever adjustments may appear desirable in light of evolving economic and financial conditions.

Your support of our efforts is deeply appreciated.

Sincerely,

Paul A. Volcker
Chairman

NB:cak
D-694

cc: Mrs. Mallardi (2)
Mr. Winn (1)

WILLIAM PROXMIRE, WIS., CHAIRMAN
HARRISON A. WILLIAMS, JR., N.J. JAKE GARN, UTAH
ALAN CRANSTON, CALIF. JOHN TOWER, TEX.
ADLAI E. STEVENSON, ILL. JOHN HEINZ, PA.
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KENNETH A. MCLEAN, STAFF DIRECTOR
M. DANNY WALL, MINORITY STAFF DIRECTOR
MARY FRANCES DE LA PAVA, CHIEF CLERK

United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, D.C. 20510

May 23, 1980

Chairman Paul A. Volcker
Depository Institutions Deregulation Committee
20th and C Streets, N.W.
Washington, D.C. 20551

D-694

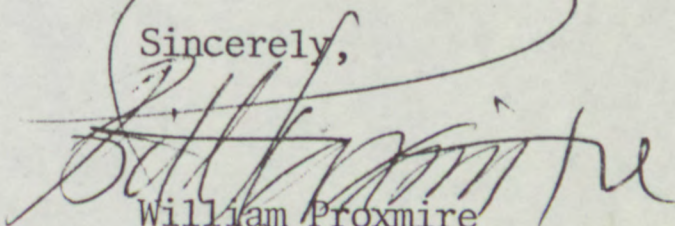
Dear Mr. Chairman:

It has been reported that the Depository Institutions Deregulation Committee will consider the advisability of eliminating the rate differential on money market certificates which otherwise will be restored when Treasury bill rates fall below 9 percent. Any decision on the differential will have to strike a delicate balance between preserving the financial stability of financial institutions, maintaining credit flows for housing, agriculture, and small business, and providing equity for savers. A judgment on this issue requires access to detailed information on the current condition of financial institutions and on the recent credit market developments. For these reasons, Congress left the issue of the differential on accounts created after December 10, 1975 to be decided by the Deregulation Committee.

For example, in passing the Depository Institutions Deregulation and Monetary Control Act of 1980, Congress could have amended P.L. 94-200 to require the differential be maintained on all categories of accounts and not just those in effect on December 10, 1975. Congress chose not to do so. It is obvious, therefore, that Congress intended to vest discretionary authority on post-December 10, 1975 accounts with the Deregulation Committee.

Hopefully, the Deregulation Committee will carefully assess the impact of restoring or eliminating the differential before making its decision. I believe the Congress clearly intended that the Deregulation Committee exercise its best judgment on such matters. I have taken no position on this issue; instead, I urge the Deregulation Committee to decide the issue strictly on its merits without reference to outside pressure.

Sincerely,


William Proxmire
Chairman

May 30, 1980

The Honorable William R. Ratchford
House of Representatives
Washington, D. C. 20515

Dear Mr. Ratchford:

Thank you for your letter of May 20 with which you enclosed a copy of correspondence you received from Mr. Robert J. Andrews, regarding the proposal to ban premiums offered by depository institutions. I have arranged to bring Mr. Andrews letter to the attention of all the members of the Depository Institutions Deregulation Committee and want to assure you his views will be considered before a decision is reached on this issue.

Sincerely,

Normand Bernard
Executive Secretary

NB:cak
D-695

cc: Mrs. Mallardi (1)
Mr. Winn (1)

WILLIAM R. RATCHFORD
FIFTH DISTRICT, CONNECTICUT

COMMITTEES:
EDUCATION AND LABOR
HOUSE ADMINISTRATION
SELECT COMMITTEE ON AGING

Congress of the United States
House of Representatives

Washington, D.C. 20515

May 20, 1980

WASHINGTON OFFICE:
437 CANNON HOUSE OFFICE BUILDING
PHONE (202) 225-3822

DISTRICT OFFICES:
135 GRAND STREET
WATERBURY, CONNECTICUT 06701
(203) 573-1418

DANBURY OFFICE PARK
57 NORTH STREET
DANBURY, CONNECTICUT 06810
(203) 748-3332

Mr. Normand R.V. Bernard
Executive Secretary
Depository Institutions De-Regulation Committee
Federal Reserve Building
20th and Constitution Avenue, N.W.
Washington, D.C. 20551

D-695

Dear Mr. Bernard:

I am writing regarding a letter I recently received from Mr. Robert J. Andrews, President of the Creative Financial Concepts, Inc. in Milldale, Connecticut concerning his opposition to the proposed regulations regarding financial institutions offering gifts to depositors.

I understand that the Depository Institutions De-Regulation Committee is presently taking public comment on the recent proposal which would ban the offering of premiums or gifts by financial institutions. Mr. Andrews has expressed his opposition to this proposal and I would appreciate your considering his thoughts on this issue. For your interest and information, I am enclosing a copy of the letter I received from Mr. Andrews.

If I can be of any further assistance before I hear from you on this subject, please do not hesitate to write or call me.

With best wishes,

Sincerely,

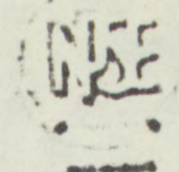
William R. Ratchford

William R. Ratchford
Member of Congress
5th District, Connecticut

WRR/glk
Enclosure

ive
inancial
oncepts

Inc. 1300 Menden Waterbury Road, P.O. Box 569 · Milford, Connecticut 06467 · 703 · 637-4877



May 8, 1980

The Honorable William Ratchford
House of Representatives
437 Cannon House Office Building
Washington, D.C. 20510

Dear Mr. Ratchford:

At the first meeting of the Depository Institutions Deregulation Committee held on Tuesday, May 6, 1980, Federal Bank regulators proposed that banks and thrift institutions be barred from offering gifts and premiums to attract deposits.

This committee was established by Congress earlier this year to phase out restraints on the amount of interest that Banks and thrifts may pay depositors. In its first move, the committee tightened these restraints.

Our company, Creative Financial Concepts, Inc., is dedicated solely to providing financial institutions with incentive programs to attract deposits. If this committee approves this proposal, we could be out of business within sixty days.

We are opposed to regulations which will unfairly restrain financial institutions from using premiums to attract deposits.

For your information:

- 1) Premiums are the most proven vehicle to attract deposits.
- 2) Premiums provide an important means for one financial institution to differentiate itself from another. The benefits accrued by the public are numerous. The increased sales resulting from incentive programs create needed jobs in the community. During this time of recession and increased unemployment, it seems rather ludicrous for our government to kill a multi-billion dollar industry.

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- 3) The major reason for this proposed regulation is the problems created by the so-called "Bring A Friend" programs in the New York City area. The Federal regulators have proposed to limit "finders fees" to cash instead of gifts and to count cash gifts as part of the interest paid on the deposit. We are in favor of the elimination of "Bring A Friend" programs but are unequivocally opposed to the total elimination of gifts and premiums.
- 4) Incentive programs result in increased savings. During a time of excessively high inflation, the public should be encouraged to save. Savings create monies that have long-term effects on the economy of our country. At this moment, our country needs all the help it can get in order to encourage stabilization.
- 5) Prohibiting premiums in one outlet seems to be a violation of our constitutional rights and our free enterprise system. The prohibition of premiums in the financial market will significantly affect the sales volume of many manufacturing companies supplying the products for premiums and consequently the employment of these firms.

This is only a brief synopsis of the position we take regarding regulations prohibiting premiums in the banking industry. Many of the suppliers of premium products sold nationally are from the State of Connecticut, and it would adversely affect the employment of this State.

We urge your support in this matter as the livelihood of our company is completely at stake, as well as that of many other Connecticut based operations.

Thank you for your consideration.

Sincerely,
CREATIVE FINANCIAL CONCEPTS, INC.

Robert J. Andrews

Robert J. Andrews
President

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