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P. O. Box 128 Dear Mr. Forsythe:

#### BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

PAUL A. VOLCKER CHAIRMAN

October 1, 1980

The Honorable Edwin B. Forsythe Member of Congress Moorestown, New Jersey 08057

Thank you for your letter of September 17 regarding correspondence you received from Mrs. Celia Horwitz requesting assistance in obtaining a replacement check for a \$394.10 discount check that she did not receive. The discount check was issued in connection with Mrs. Horwitz's purchase of a \$10,000 six-month Treasury bill.

Board staff has contacted the Division of Check Claims at the Treasury Department and has learned that Mrs. Horwitz's stop payment order was entered on July 14, 1980. The Treasury's records also show that Mrs. Horwitz's discount check has been cashed. They are now in the process of looking into Mrs. Horwitz's request. In order to expedite a resolution of this case, we are forwarding your inquiry to the Treasury Department. I am sure you will be hearing from them in the near future.

Sincerely,

S/Paul A. Volcker

FMY:CO:ved (\$V-371)

bcc: Mr. Wallace Ms. Young Mrs. Malaardi (2) Department of Bureau of Go Congressiona Division of 401 14th Str Washington,

## BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D.C. 20551

October 1, 1980

Department of the Treasury
Bureau of Government Financial Operations
Congressional Claims Branch
Division of Check Claims
401 14th Street, S.W.
Washington, D.C. 20227

Dear Sir:

Enclosed is a copy of an inquiry that we received from Congressman Edwin B. Forsythe. Congressman Forsythe's constituent, Mrs. Celia Horwitz, submitted an Advice of Request for Stop Payment on July 1, 1980, for a discount check in the amount of Since Mrs. Horwitz submitted her request, she has received no response to her claim.

We would appreciate your investigating Mrs. Horwitz's request and responding to Congressman Forsythe directly.

Thank you for your assistance.

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn Special Assistant to the Board

Enclosure

FMY: mxk (#V-371)

bcc: Mr. Wallace Ms. Young

Mrs. Mallardi (2)

EDWIN B. FORSYTHE

303 CANNON HOUSE OFFICE BUILDING

WASHINGTON, D.C. 20515

202-225-4765

Action assigned Mr. Wallace

MEMBER:
COMMITTEE ON
MERCHANT MARINE AND FISHERIES

COMMITTEE ON SCIENCE AND TECHNOLOGY

# Congress of the United States House of Representatives

Washington, D.C. 20515

September 17, 1980

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

Dear Mr. Volcker:

The attached correspondence from Mrs. Celia Horwitz is sent for your consideration and review. I would appreciate it if you could investigate this matter as soon as possible.

Your assistance in providing me with the necessary information for replying to my constituent and returning the enclosed correspondence with your answer would be most helpful.

Thank you very much for your time and efforts in responding to this request.

Sincerely,

Edwin B. Forsythe Member of Congress

EBF/pd Enclosure

P.S. Please reply to: P.O. Box 128, Moorestown, New Jersey 08057.

SEP. 12 1900

TELEPHONE 388-0124

September 11, 1980

Congressmen Edwin B. Forsythe F. O Box 128
Moorestown, N. J. C8057

Dear Congressman Forsythe:

I purchased a 6 month Treasury Bill for on May 29, 1980. The account # is with a discount amount of . A copy of the "statement of account" with all the pertinent information identifying the account is attached.

I never received my discount check for

I waited a reasonable time and then notified the Federal Reserve Bank of Philadelphia where the Bill was bought that I had not yet received my interest for the "bill".

The Federal Reserve Bank of Philadelphia sent me an "Advice for Request for Stop Fayment" together with a covering letter, a copy of each is also attached, herewith. Both of these are dated July 1, 1980.

Until today I have received no reply from my Government. Between July 10, 1980 and September 10, 1980 I have telephoned and written to both the Federal Reserve Bank Of Fhiladelphia and to the Bureau of the Public Debt in Washington, D. C. several times but to no avail.

No one knows anything about anything. What makes it most frustrating is that to whomsoever I speak refuses to give me a name for future reference.

Congressmen Forsythe, I would be most appreciative if you would use your good offices to cajole your government and mine to please send me which they now owe me for over 3 months. I'll be satisfied to forgo the interest.

Very sincerely yours,

Ella Horwitz

Celia Horwitz

ix h

ES=

BUREAU OF THE PUBLIC DEBT DEPARTMENT X WASHINGTO' D C 20226

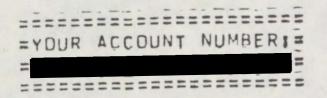
TELEPHONE NO: (202) 287-4113 TELEPHONE NO FOR DEAF: (202) 287-4097 BOOK-ENTRY SECURITIES

THIS STATEMENT IS NOT NEGOTIABLE

CELIA HORWITZ

\_\_\_\_

SEP 12 1980



STATEMENT DATE: 06/19/80

= WHEN CORRESPONDING WRITE TO THE TREASURY ADDRESS ABOVE. PLEASE = INCLUDE YOUR ACCOUNT NUMBER AS SHOWN ON THIS STATEMENT. ALL CHANGES = FOR THIS BILL ACCOUNT MUST BE RECEIVED AT THE BUREAU BY: 10/29/80 =

DESCRIPTION OF SECURITIES: TREASURY BILLS TYPE OF SECURITY 031-18557 FRB REQUEST NO! 912793505 CUSIP NUMBER! 05/29/80 ISSUE DATE: 11/28/80 MATURITY DATES 394.10 DISCOUNT AMOUNT: 110-01-4879 SOCIAL SECURITY OR EMPLOYEE ID NO: AMOUNT CURRENT STATUS OF ACCOUNT: 10,000 BALANCE AS OF STATEMENT DATE TO BE REINVESTED: 10,000 TO BE REDEEMED!

> Lid met rec cliech yet as of 6/25/66 pent setters to History

03603977

## FEDERAL RESERVE BANK OF PHILADELPHIA

SECURITIES DIVISION POST OFFICE BOX 90 PHILADELPHIA, PENNSYLVANIA 19105

July 1, 1980 .

Dear: Mr. Horwitz

We are sorry that you have not received your check of discount from your Treasury Bill. You will hear from the Treasury in Washington in the next several weeks. They will send you a discount check to cover the one you did not receive. Please keep this yellow copy that is enclosed with this letter.

Thank you,

Federal Reserve Bank of Pa. Securities Division



tps://fraser.stlouisfed.org

7/1/80 Stolen	J. Anount	4. Date of Check	5. Symbol	6. Check Number
Offien Should "x" if correction	\$394.10	5/29/80	4870	10065741
hen not identical to the 210% claimant's name in Box 9) (VIII)				
Femarks (including identification or reference) 9. Claimant of Chec	k and Current Address			
see attached logion, D.C. 2,225 CELTY H	DENTITZ VZ IZZLED	TO PAYEES	DYTLY, BOY	TH MUST SIGN
correspondence HLEGER 472: 463 HIG	STREET TO LLES	sucer of the Linita	States, Check	Chans Drision,
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11 this is not the check in question, go not write to	se submitted over your temperatures of the U	signature and mu	s accurately o	Estatible the crieda

Enclosures: P. R. dtd. 3/31/80 P.R. dtd. 4/17/80 Ltr. to Executive Officer of Commercial Banks from Chrmn. dtd. 4/17/80. P.R. dtd. 4/23/80 P.R. dtd. 6/4/80 P.R. dtd. 6/10/80 P.R. dtd. 6/26/80 Memo to Board from Mr. Axilrod re Reg. D dtd. 7/31/80 Memo to Board from Discount Policy Group re Reg. A dtd. 7/31/80 Memo to Board from R&S & Legal Divs. re Public Comments on Proposed Pass-Through Guidelines dtd. 8/8/80 P.R. dtd. 4/11/80 Memo to Board from Bk.Ops, R&S, Legal Divs. re Federal Reserve Float dtd. 8/15/80 P.R. dtd. 8/15/80 P.R. dtd. 8/27/80 P.R. dtd. 8/28/80 Memo to DIDC from DIDC staff re Selection of Chrmn. and Initial Organizational Decisions dtd. 5/2/80 Memo to DIDC from DIDC staff re Interest as a Deposit for Purposes of the Early Withdrawal Penalty Rule; Payment of Interest After Maturity dtd. 5/2/80 Memo to DIDC from DIDC staff re Premiums and Finders Fees dtd. 5/2/80 P.R. from DIDC dtd. 5/7/80 P.R. from DIDC dtd. 5/13/80 Memo to DIDC from DIDC staff re Adjusting Rate Ceilings on Variable Ceiling Deposits dtd. 5/27/80 P.R. from DIDC dtd. 5/29/80 P.R. from DIDC dtd. 6/4/80 P.R. from DIDC dtd. 6/6/80 P.R. from DIDC dtd. 6/10/80 Memo to DIDC from DIDC staff re Early Withdrawal from IRA and Keogh Accounts dtd. 6/20/80 Memo to DIDC from DIDC staff re Congressional request for comment on money market mutual fund-type accounts for depository institutions dtd. 6/20/80 Memo to DIDC from DIDC staff re Deposit Rate Ceilings on Interestbearing Household Transaction Accounts dtd. 6/20/80 Memo to DIDC from DIDC staff re Rhode Island Petition dtd. 6/23/80 P.R. from DIDC dtd. 6/30/80 Memo to DIDC from DIDC staff re Deposit Rate Ceilings on Interestbearing Household Transaction Accounts dtd. 9/3/80 Memo to DIDC from DIDC staff re Actions Relating to the Authorization of 14-29 Day Time Deposits dtd. 9/4/80 Memo to DIDC from DIDC staff re Proposed Rules on Premiums and Finders Fees dtd. 9/5/80 Charts Accompanying Briefing on Savings Deposit Flows -- dtd. 9/9/80 by Dale P. Riordan of FHLBB. gitized for FRASER ps://fraser.stlouisfed.org

October 2, 1980 The Honorable Donald W. Stewart United States Sonate Washington, D.C. 20510 Dear Donald. Thank you for your letter of September 10, concerning the bankers' bank exemption from reserve requirements under the Monotary Control Act. Last Wednesday the Board discussed the criteria to be applied in order to qualify for the exemption. Voicer the Act, a depository institution is a bankers' bank if it does not do business with the general public. Consistent with the intent of Congress, the Board determined that an institution that possesses deposits or share accounts of no more than 10 per cent of its total liabilities from, or makes loans of no more than 10 per cent of total assets to, certain limited custowers such as officers or directors of other credit unions, members of failed credit unions, or trade associations generally would qualify for the bankers' bank exemption. Based upon the information presented, Alabama Central would appear to have assets and liabilities attributable to individuals in excess of the 10 per cent limits and therefore would not appear to qualify at this time for the exemption from reserve requirements. Staff plans to discuss the Board's interpretation with Alabama Central to determine the possibility of reducing the extent to which it does business with the general public by means of spinning off the individual portion of its business to a new credit union. This approach would appear to enable Alabana Central to qualify for the bankers' bank exemption. Thank you for your views on this matter. Sincerely. S/Paul A. Volcker GTS:pjt (SV-378) Gil Schwarts Legal Records (2) Mrs. Mallardi (2) itized for FRASER //fraser.stlouisfed.org

Action assigned Mr. Petersen DONALD W. STEWART STATE OFFICES: ALABAMA MONTGOMERY FEDERAL BUILDING 474 SOUTH COURT STREET United States Senate MONTGOMERY, ALABAMA 36104 COMMITTEES: (205) 832-7600 AGRICULTURE, NUTRITION, AND BIRMINGHAM WASHINGTON, D.C. 20510 FORESTRY FEDERAL BUILDING 1 000 1800 5TH AVENUE NORTH CHAIRMAN: SUBCOMMITTEE ON September 10, 1980 BIRMINGHAM, ALABAMA 35203 (205) 254-1288 AGRICULTURAL RESEARCH AND MOBILE RURAL DEVELOPMENT 3280 DAUPHIN STREET ENVIRONMENT. SOIL CONSERVATION. BUILDING B MOBILE, ALABAMA 36606 (205) 690-3125 AND FORESTRY BANKING, HOUSING, AND URBAN AFFAIRS ANNISTON CHAIRMAN: INSURANCE SUBCOMMITTEE FEDERAL BUILDING RURAL HOUSING 1129 NOBLE STREET ANNISTON, ALABAMA 36201 (205) 237-5990 FINANCIAL INSTITUTIONS HUNTSVILLE SMALL BUSINESS GOVERNMENT REGULATION 500 LOWELL DRIVE BUILDING 2-B HUNTSVILLE, ALABAMA 35801 (205) 536-4493 GOVERNMENT PROCUREMENT The Honorable Paul Volcker Chairman, Federal Reserve Board 20th and Constitution Ave. NW Washington, DC 20551 Dear Mr. Chairman: I have attached a letter from the Alabama Central Credit Union which discusses a concern they and other central credit unions have with the "banker's bank" provision of Regulation D, which is presently being considered by the Board. It is my understanding that any institution under the definition of a "banker's bank" would be exempt from placing reserves against their transactions accounts. The Alabama Central Credit Union serves both institutions and individuals and is concerned that it may be required to hold reserves not only against its individual accounts but against its institutional accounts as well. The President of the Alabama Central Credit Union, his legal counsel and a member of my staff have met with Federal Reserve staffers and fully discussed the nature and extent of this problem. We felt that the response from the Fed staffers was very good and that an equitable solution was certainly within reach. I feel strongly that this is the type of case which merits the kind of flexible regulatory consideration that you and I have THE . discussed in the past. Sincerely, Donald W. Stewart United States Senator DWS/jr THIS PAPER IS 100% RECYCLED FIBER. aitized for FRASER os://fraser.stlouisfed.org

ALABAMA CENTRAL CREDIT UNION
3601 38th AVENUE SOUTH PR. O. BOX 10324 / BIRMINGHAM, ALA. 35202
TELEPHONE 252-8031

September 3, 1980

Mr. Theodore E. Allison
Board of Governors of the Federal Reserve System
20th Street at Constitution Avenue, Northwest
Washington, D. C. 20551

Re: Monetary Control Act
"Bankers' Bank" Exclusion

Dear Mr. Allison:

Alabama Central Credit Union wishes to make certain

Alabama Central Credit Union wishes to make certain comments regarding the "Bankers' Bank" exclusion from reserves required by the Monetary Control Act (P.L. 96-221) and regulations promulgated pursuant thereto. Alabama Central Credit Union is a credit union which was organized under state law in 1938 to serve its members, consisting of other credit unions and the officials of other credit unions. Throughout its history, the credit union has served not only credit union members, but also individual members. As of August 31, 1980, Alabama Central had approximately \$77,000,000 of corporate assets and \$20,000,000 of individual assets.

Alabama Central Credit Union is concerned that it will be required to maintain reserves on all of the deposits which represent its corporate deposits, when such reserves are not required if it reorganized into a "pure corporate" credit union. This result might be required by the provisions of the "Bankers' Bank" exclusion contained in §201.1(c)(4) as follows:

"This Part does not apply to any financial institution that (i) is organized solely to do business with other financial institutions; (ii) is owned primarily by the financial institutions with

Mr. Theodore E. Allison Page 2 September 3, 1980 which it does business; and (iii) does not do business with the general public." The above exemption is, of course, simply a restatement of the statutory exemption which appears in \$103(9) of the Act. Obviously, Alabama Central Credit Union could avoid any reserve requirements for its corporate business if it would "spin-off" its corporate functions from its individual functions. We know of no congressional policy which this would advance and feel that some consideration should be given to requiring such reserves for Alabama Central as would be necessary if the credit union had reorganized into two separate credit unions. Essentially, this would permit Alabama Central to continue to do business in its present form, but require reserves for transaction accounts like any other credit union. This result would be achieved by recognizing the "Bankers' Bank" exclusion as applying to Alabama Central Credit Union's corporate deposits. Certainly, the "Bankers' Bank" exception should not be applied to all credit unions, but only to credit unions whose major function is being a "credit union's credit union". In this connection, the Central Liquidity Fund provides for a 51% requirement for existing central credit unions and the NCUA provides for a 75% requirement in chartering a new corporate "central credit union". The NCUA regulations define a credit union as a corporate central credit union as follows: "Corporate central Federal credit union' means a Federal credit union operated for the primary purpose of serving corporate accounts. A Federal credit union will be deemed to be a corporate central Federal credit union when its total dollar amount of outstanding gitized for FRASER ps://fraser.stlouisfed.org

Mr. Theodore E. Allison Page 3 September 3, 1980 corporate loans plus corporate shareholdings is equal to or in excess of 75 per centus of its total outstanding loans plus shareholdings." One of the difficulties with the above definition is that it does not recognize corporate funds which are invested in anything other than loans to credit unions as "corporate". Therefore, if a credit union had 75% of its deposits from credit unions (but had no outstanding loans to credit unions) and had the remaining 25% loaned to individuals, the credit union would have 75/125ths "corporate business" as defined by the above formula. Obviously, credit union members tend to all need either loans or investments at about the same time. It is, therefore, obvious that at certain times the deposits of credit unions will not be reflected by loans back to the credit unions, but by investments. Whether the credit union members need loans or investments at a particular time does not really detract from whether a credit union is more or less corporate. However, a definition such as is described above might have the unfortunate effect of having a credit union meet the test at one point in time and not meet the test the next day. The NCUA regulations which permit participation in the National Credit Union Central Liquidity Fund (pursuant to the National Credit Union Central Facility Act, Subchapter III of the Federal Credit Union Act) deals with this problem by defining a central credit union as follows: "'Central credit union' means a Federal or state-chartered credit union primarily serving other credit unions. A credit union is primarily serving other credit unions when the total dollar amount of the shares and deposits received from other credit unions plus loans to other credit unions exceeds 50 percent of the total dollar aitized for FRASER ps://fraser.stlouisfed.org

Mr. Theodore E. Allison Page 4 September 3, 1980 amount of all shares and deposits plus loans during the qualifying period, as defined in subsection (o) of this section." Certainly the percentage figures for qualification in the Central Liquidity Fund are less likely to result in any institution waivering as to its qualifications. In summary, Alabama Central Credit Union believes that it should not be required to undergo an artificially contrived reorganization in order to avoid reserving on its corporate business. The most practical solution is permitting credit unions like it which are basically "credit unions' credit unions" to come within the "Bankers' Bank" exemption with reference to their credit union deposits. To permit this to be done would not detract from any of the policy which prompted the Monetary Control Act, but would permit the market place to determine whether "mixed" corporate centrals can adequately serve their corporate members. Very truly yours, ALABAMA CENTRAL CREDIT UNION William E Jordan, President WEJ/lw CC: Alabama Credit Union League 617 - 37th Street South Birmingham, Alabama 35222 U.S. Central Credit Union P. O. Box 431 Madison, Wisconcin 53701 igitized for FRASER ps://fraser.stlouisfed.org

Mrs. Mallarchi (V-372) BOARD OF GOVERNORS FEDERAL RESERVE SYSTEM WASHINGTON, D. C. 20551 PAUL A. VOLCKER CHAIRMAN October 2, 1980 The Honorable Ed Jones House of Representatives Washington, D.C. Dear Mr. Jones: Thank you for giving me the opportunity to comment on the recent letter from your constituent, Mr. John Clinton. Mr. Clinton is concerned with the effect of high interest rates on small businesses and farmers and the role of the Federal Reserve in causing those rates. High interest rates are primarily the result of the rapid rate of inflation we are experiencing and the deeply embedded expectations that prices will continue to climb. In this environment, interest rates are high because demands for credit to finance purchases are strong, while lenders are reluctant to extend credit without being compensated for the declining value of the dollars they will receive in repayment. The Federal Reserve might be able to offset these effects temporarily by encouraging more rapid expansion of money and credit, but this would only increase inflationary pressure in our economy over the long run. The most prudent course for the Federal Reserve to follow in the present situation is to lower the growth of the money stock gradually. Such a policy, over time, will reduce our inflationary spiral and allow interest rates to fall to lower levels. We are pursuing a policy of slower monetary growth not by manipulating interest rates themselves, but rather by controlling the growth of bank reserves. This approach, which we have been following since October 6, 1979, is expected to give us closer control over the money stock and, thereby, promote a higher degree of stability in the economy. An unavoidable byproduct of the reserve approach, however, is that interest rates are determined solely by market forces. With the new control procedures, therefore, we can expect larger and more frequent interest rate fluctuations. Mr. Clinton is correct in pointing out that responsible fiscal policy is an essential element in improving conditions in our credit markets. A reduction in government spending will help reduce inflation and limit the need for government borrowing, both of which will allow interest rates to fall. gitized for FRASER os://fraser.stlouisfed.org

The Honorable Ed Jones Page Two I understand the problems that high interest rates can cause some borrowers. Over the long run, however, your constituent will best be served by monetary and fiscal policies designed to remove inflationary biases and to create a stable economic environment in which businesses can thrive and expand. I believe the Federal Reserve is pursuing a course that will contribute to a more prosperous economic situation. Sincerely, S/Paul A. Volcker MM:DK:JLK:pjt (#V-372) bcc: Mr. Kichline Mr. Kohn Mr. Moran Mrs. Mallardi (2) gitized for FRASER ps://fraser.stlouisfed.org

' ED JONES

7TH DISTRICT, TENNESSEE

108 CANNON HOUSE OFFICE BUILDING
(202) 225-4714

COMMITTEE ON AGRICULTURE

CHAIRMAN:
SUBCOMMITTEE ON
CONSERVATION AND CREDIT

HOUSE ADMINISTRATION

SUBCOMMITTEE ON HOUSE SERVICES

Action assigned Jim Kichline

## Congress of the United States House of Representatives

Washington, D.C. 20515

POSTRICT OFFICES:
ROOM B-7, POST OFFICE BUILDING
JACKSON, TENNESSEE 38301
(901) 423-4848

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

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

September 23, 1980

#372

Jouen

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

Dear Mr. Chairman:

Enclosed is a copy of the letter I received from a constituent in my district regarding his concerns on the policy of high interest rates. I believe you will find the enclosed self explanatory.

I am confident that the arguments of this citizen will be given every consideration that they merit. May I please be provided with information to use in response to Mr. Clinton.

Thanking you for your kind and prompt attention and with kindest regards, I am

Sincerely,

ED JONES, A. C.

EJ/cac

Enclosure

Brownsville Bank September 16, 1980 The Honorable Ed Jones The United States House of Representatives 108 Cannon House Office Building Washington, D. C. 20515 Dear Ed: I am writing you concerning the way the Federal Reserve is handling our interest rates. I do not believe that the people sitting up there realize what they are doing to the small business man and the farmer of our community. It does not make much sense to me to talk about inflation when we are bankrupting the above-mentioned people while inflation is actually being caused by the way the government is spending the money. I think the people of our community are completely fed up with the way this is being handled. I personally feel that it is a grave injustice to be treating the people who are supporting the government this way while the government is taking no action at all to slow down spending to help solve the problem. We have had a Chrysler dealer close, a Chevrolet-Buick dealer close, a Massey-Ferguson dealer close, an Allis-Chalmers dealer close, several small retail businesses close, and quite a few building contractors are in serious trouble with houses they have built for sale. Yet, every time we try to hold our interest rates down to help these people the Federal Reserve runs the rates back up. The working people are scared to death of the government and are afraid to invest in anything in our community. I am sick and tired of the way this is being handled and would appreciate hearing from you concerning your views. Sincerely President JC:jm gitized for FRASER ps://fraser.stlouisfed.org

September 30, 1980 The Honorable Mancy Landon Kassebaum United States Senate Washington, D.C. 20510 Dear Hancy: I am writing in further response to your concern about the impact of the Electronic Fund Transfer Regulation on financial institutions using a brand of automated teller machine (ATM) that permits access to multiple accounts of the same type but that cannot uniquely identify the account accessed on the terminal receipt, as required by the Regulation. On September 24, the Board adopted an amendment to the Regulation, effective immediately, to exempt these terminals from this identification requirement. The exception is available for ATMs that were ordered or purchased before the Regulation was issued in final form. A copy of the press release on the amendment is enclosed. I believe that this modification of the Regulation is responsive to your concerns. Sincerely, S/Paul A. Voickel Enclosure LBB; DJW: pjt (#(V-198) bcc: Lynne Barr Mrs. Mallardi (2) Identical ltr. also sent to Cong. Jeffries (#244). itized for FRASER



# FEDERAL RESERVE SYSTEM WASHINGTON, D. C. 20551

PAUL A. VOLCKER

October 6, 1980

The Honorable John Glenn United States Senate 201 Superior Avenue Room 104 Cleveland, Ohio 44114

Dear Senator Glenn:

Thank you for your letter of September 16, concerning the Federal Reserve System's procedures for processing protests filed pursuant to the Community Reinvestment Act. In particular, you mentioned the processing of the CRA challenge by Ohio Public Interest Campaign ("OPIC") and Citizens to Bring Broadway Back ("CBBB"), to the application of National City Corporation, Cleveland, Ohio, to acquire The Henry County Bank.

I assure you that in acting on this application, the Board will base its decision on all facts of record, including the comments submitted by OPIC and CBBB. In addition, while I believe the System's present procedures for processing CRA protests are fair, I agree that a review of these procedures could be useful. The System has a continuing interest in improving its CRA procedures and, in any such review, will take into consideration its experiences in administering the present procedures.

In closing, I appreciate your interest in this matter and your comments relating to Community Reinvestment Act generally. Please let me know if I can provide any further information.

Sincerely,

S/Paul A. Volcker

SMW:CO:pjt (#V-367)

bcc: Federal Reserve Bank/Cleveland Attn: John Davis

Mr. Claude Blair
President
National City Corporation
P.O. Box 5756
Cleveland, Ohio

Ms. Sandy Buchanan Ohio Public Interest Campaign 340 Chester-12th Building Cleveland, Ohio 44114 Ms. Weinberg Mrs. Mallardi (2) ✓ S&R Clearing Unit

Mr. Dan Liuzzo
Citizens to Bring Broadway
Back
4947 Broadway Avenue
Cleveland, Ohio 44127

Action assigned Mr. Peterse ABRAHAM RIBICOFF, CONN., CHAIRMAN HENRY M. JACKSON, WASH. THOMAS F. EAGLETON, MO. LAWTON CHILES, FLA. CHARLES H. PERCY, ILL. JACOB K. JAVITS, N.Y.
WILLIAM V. ROTH, JR., DEL.
TED STEVENS, ALASKA SAM NUNN. GA. CHARLES MC C. MATHIAS, JR., MD. JIM BASSER, TENN. JOHN C. DANFORTH, MO. WILLIAM S. COHEN, MAINE DAVID H. PRYOR, ARK. United States Senate DAVID DURENBERGER, MINN. RICHARD A. WEGMAN
CHIEF COUNSEL AND STAFF DIRECTOR COMMITTEE ON GOVERNMENTAL AFFAIRS WASHINGTON, D.C. 20510 September 16, 1980 Board of Governors Federal Reserve System Washington, D.C. 20551

Attention: Mr. Paul Volcker, Chairman

Dear Mr. Volcker:

During the past month my office has received correspondence from the Ohio Public Interest Campaign and the Citizens to Bring Broadway Back expressing concern about the procedures used in their CRA protest of National City Corporation's application to acquire the Henry County Bank. Also, my Executive Assistant in Cleveland, Mr. Pat Bluso, attended a meeting in the North Broadway neighborhood on September 10, where the case was discussed by OPIC and CBBB.

After talking with Mr. Bluso, I feel that the Federal Reserve Bank of Cleveland has attempted to be fair, but I am concerned that the Federal Reserve System's procedures for CRA are not the most effective possible for adjudicating and mediating such sensitive matters. Since the Community Reinvestment Act is still relatively new, I would like to suggest that a review of procedures might be useful to all parties involved.

In reviewing your published procedures, it's clear that the decision on whether to have a formal hearing is made by the Board of Governors rather than Reserve Bank Staff. In making your decision on a hearing in the National City case, I know you will take into consideration the needs and concerns of all parties.

Sincerely,

John Glenn

United States Senator

JG:bjp

Please reply to

Senator John Glenn 201 Superior Avenue Room 104 Cleveland, Ohio 44114

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### BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

October 7, 1980

PAUL A. VOLCKER

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

Dear Chairman Ribicoff:

This letter concerns the General Accounting Office (GAO) Report GGD-80-59 entitled "Internal Auditing Can be Strengthened in the Federal Reserve System." This report contains recommendations concerning the Federal Reserve and therefore requires comment in accordance with Section 236 of the Legislative Reorganization Act of 1970.

The GAO report makes three recommendations regarding the Federal Reserve's use of internal auditing: one concerns internal auditing at the Board of Governors; the other two concern internal auditing of the Federal Reserve Banks by the General Auditors. These recommendations do not concern, directly or indirectly, the Federal Reserve System's use of internal auditing with respect to more than 80 percent of its operations. The GAO recommendations are limited because the Federal Reserve System maintains one of the largest internal auditing capabilities in the U.S. Government on both an absolute scale and relative to the size of our budget and staff. This is not mentioned in the GAO report. The observations that are the basis for the three GAO recommendations are directed not at whether the remaining operations are audited, which they are, or at the results of such audits, but only at the specific methods employed. Moreover, there is not unanimous agreement in the auditing profession regarding such methods. Indeed, the Board's external auditors, who have the responsibility to review our overall audit program, have not questioned these methods.

The Board addressed the basis for its current internal auditing methods in its May 7, 1980, response to the draft of the GAO report. The Board's response is included in the Appendix to the final report. This letter is meant to supplement that response and identify the actions that the Board has taken and plans to take with regard to the three recommendations.

GAO's first recommendation is that the Board "establish a permanent, independent internal audit group at the Board of Governors, consistent with professional internal auditing standards." The GAO basis for this recommendation is their general observation that no single group involved in the Board's auditing function provides fully independent, full scope evaluations. Specifically, GAO observed that the Operational Review Program (ORP), although it reports to the Vice Chairman, is staffed entirely by part-time personnel and, therefore, presents the possibility of compromise of independence; the ORP performs no follow-up on its reviews; the Controller

To: The Honorable Abraham A. Ribicoff lacks independence since he reports directly to the Staff Director for Management; the possibility for redundancy exists between ORP's and the Controller's efforts; and the external auditor's activities are limited to financial reviews. If adopted in toto, the GAO recommendations would combine the internal auditing activities of the Controller with the ORP into a single group with direct access to the Board. It is the Board's belief that the present combination of the ORP and the Office of the Controller has served and can continue to serve the needs of the Board well in the areas of operational review and financial controls. A group such as GAO recommends is not absolutely necessary nor even better than the current combination because of the unique nature of the Board's operations for the following reasons. First, the Board's financial operations are expense oriented, and predominantly (80 per cent) made up of personal services expenses; therefore, financial risks are identified almost entirely with the personal services area. All purchases and services are directed and controlled on-site. The Board issues no grants, large scale, off-site contracts, or computer based financial transactions (other than payroll), characteristics of the operations of many large government agencies. Therefore, the potential for fraud and abuse is identified, minimized and controlled adequately by the internal techniques overseen by the Office of the Controller. Second, in view of the special status of the Federal Reserve System in the U.S. Government, the Board has chosen to undergo an annual financial examination by an outside auditor who reviews our financial statements and the status of our internal controls and reports the results directly to the Board. This function is typically assigned to internal auditing groups in other government agencies and often performed on less than an annual frequency. The Board does not wish to change the method or frequency of such an examination or supplement it with a redundant internal capability. Third, management of the Board's operations is separate from that of the Federal Reserve Banks; its internal auditing function extends only to the Board, unlike other government agencies whose internal auditing functions serve headquarters and regional operations. Separate Board staff and general auditors in each of the Reserve Banks perform the internal auditing functions of those Banks and their branches. Finally, there exists in the Federal Reserve Banks a large and experienced staff both trained in internal auditing and familiar with the Federal Reserve's highly technical operations. The Board believes that, with the proper precautions, efficiency and effectiveness reviews of its operations can best be achieved through the use of such staff rather than a small cadre of generalists permanently assigned to the Board's staff. Although the creation of a separate, permanent staff has a certain superficial appeal, it is the Board's belief that it would turn out to be divisive and counterproductive. gitized for FRASFR

To: The Honorable Abraham A. Ribicoff -3-Although the Board is generally satisfied with the organization of its current internal auditing functions, the Board has taken the following actions in the areas of the GAO observations: o Created a full-time position of Manager, Operational Review Activities in the Office of Board Members which will substantially reduce the possibility of independence compromises (recruiting for this position is currently underway); o Directed its Operational Review Committee to reconcile with the Vice Chairman all team-member independence conflicts, should they arise; o Directed the Operational Review Committee to follow up on its reviews, including all those undertaken since the inception of the program; o Reaffirmed the Controller's direct access to the Board in areas involving internal auditing; o Assigned two additional full-time staff members to the Controller's internal auditing function; and o Directed the Chairman of the Operational Review Committee and the Controller to coordinate their activities in the interest of sharing mutually relevant information and avoiding redundant activities. In addition, the Board plans to go beyond the areas covered by the GAO report and in the future will: o Direct the external auditor to review the policies and procedures of the Operational Review Program on a periodic basis and report its results to the Board; and o Assign the responsibility to follow up specifically on actions resulting from GAO recommendations to our internal auditing elements. With regard to the GAO report in the area of internal audit activities at the Reserve Banks, the Board was generally gratified that the report gave recognition to a number of positive features of those activities: its foundation on progressive and dynamic System-wide audit standards, its organizational independence, its provision for a quality control mechanism managed through the Board of Governors, its commitment to building highly qualified professional staffs and, in general, the encouragement and support afforded the audit function by System management. The Board believes Reserve Bank audit departments make valuable observations and recommendations and that they do a thorough job of utilizing modern tools and techniques. aitized for FRASER

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Among the tools used by audit departments to review operations and to signal potential trouble spots is the System's own expense accounting and management information system. PACS, as our planning and control system is known, was recently cited by the Joint Financial Management Improvement Program, to which the GAO itself has been a collaborating agency, as one of the five most sophisticated of its kind in government. We believe that the nature of the current report recommendations, like the aforementioned evaluation of the System's underlying management information system, suggests that Federal Reserve controls, including audit policies and practices, have measured up well against the stiff criteria that traditionally marks GAO scrutiny.

GAO's second recommendation is that the Board "require Reserve Bank General Auditors to review the efficiency and effectiveness of bank supervision and regulation and economic research activities."

The Board wishes to reaffirm its general agreement with this recommendation. As noted in the response to the preliminary report, the Board of Governors has issued a policy letter that endorses the appropriateness of Reserve Bank audits of supervision and regulation and economic research. It is believed that this endorsement furnishes Reserve Bank General Auditors with explicit authorization to perform reviews in those staff areas. Furthermore, the Conference of General Auditors, consisting of the General Auditor of each Federal Reserve Bank, has charged a task force with responsibility for developing a "core program" for use by Reserve Bank audit departments in tailoring procedures for their own reviews of supervision and regulation. The "core program" has been completed and forwarded to the Conference of General Auditors for its approval. Also, a task force will be named in the near future to develop similar guidelines for use in performing reviews in the economic research area.

While it is believed, then, that significant progress has already been made in developing a collective approach to the audit of staff areas by the General Auditors, the Board continues to believe that the unrestricted scope of such audits cannot be justified. The Board believes that the GAO's recommendation has insufficiently distinguished between the objectives of (1) auditing for efficiency and effectiveness of internal controls and existing operating procedures, and (2) auditing performance against "desired results." The Federal Reserve's missions in the bank supervision and regulation and economic research areas are aimed at broad national goals and objectives toward which other governmental entities are working as well. Success or failure in achieving such "desired results" should only be measured at a level where those performing the evaluation are able to compare the products of all of the contributing units and also consider the impact of external factors. In the Federal Reserve System, the relatively local Reserve Bank internal audit

To: The Honorable Abraham A. Ribicoff

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departments do not have the proper vantage point from which to make such an evaluation. Therefore, while the Board fully encourages General Auditors' evaluation of the efficiency and effectiveness of internal controls and operating procedures, the synergism of the System's component members and the presence of external variables do not permit a meaningful evaluation at the local level of the respective components' professional products and judgments that support the System's overall effectiveness in contributing to broad national goals.

The Board believes that an evaluation of the professional products and judgments of the bank supervision and regulation area is currently being performed at the appropriate level. Such an evaluation is afforded on a continuous basis through the Board's Division of Banking Supervision and Regulation, and on a periodic basis via Board-conducted operations review programs. Moreover, the Board of Governors itself maintains a further independent check on the System's supervision and regulation activities through its Committee on Banking Supervision and Regulation, consisting of three Board members. Finally, the System's overall performance in this area is regularly scrutinized by the Congress and its effectiveness weighed against the perceived effectiveness of other financial institution supervisory agencies.

Similarly, the Board believes that the "desired results" of the economic research function at the Reserve Banks are already evaluated at appropriately high levels. Since Reserve Bank research activities are primarily aimed at furnishing data and information for judgmental use and consideration by the Board of Governors and the Federal Open Market Committee in formulating national monetary and credit policies, professional evaluations of those activities must be performed by members of those bodies. Such appraisals are currently performed on a continuous basis by the respective Reserve Bank Presidents who, as participants in the deliberations of the FOMC, not only direct the economic research activities of their own Banks but use and must rely on the products of the other Banks. In addition, the Committee on Research and Statistics of the Board of Governors, composed of individuals who can appreciate the full range of national policy considerations as well as the System's regional economic intelligence needs, evaluate the effectiveness of the System's collective and component research capabilities. In the economic research area, as well, Congressional oversight serves to appraise independently the Federal Reserve's effectiveness in the monetary policy area, which is highly related to and dependent on the research function.

In summary then, the Board believes that reviews by Reserve Bank audit departments, keying on compliance, administrative efficiency and effectiveness, and the appropriateness of internal controls and operating procedures, will contribute significantly to the quality and comprehensiveness of broader evaluations that must be made at levels commensurate with those at

To: The Honorable Abraham A. Ribicoff -6which policies are actually made and at which ultimate responsibility lies. Thus, while the GAO regards limitations placed on the scope of such reviews by Reserve Bank audit departments as inconsistent with professional internal auditing standards, the Board believes they are necessary given the decisionmaking structure of the System and the complexity and sensitivity of its "desired results." Furthermore, the Board is satisfied that the broader types of evaluations that the GAO envisions be made by internal audit departments are already regularly made at more appropriate levels. GAO's final recommendation is that the Board "instruct the Conference of General Auditors to amend their 'Audit Standards and Levels of Audit Attention for Federal Reserve Banks' to include a System-wide approach toward reviewing bank supervision and regulation and economic research activities and a specific operational policy statement requiring the follow-up of the Board of Governors' reviews by General Auditors." The Board believes the issuance of its May 12, 1980, policy letter in this regard has the intended effect of requiring such reviews. Furthermore, efforts made by the Conference of General Auditors to design core audit programs for use in the bank supervision and economic research areas evidences the development of a System-wide approach toward reviewing these areas. The core program for supervision and regulation will be presented to the Conference in October 1980 and the core program for research is expected to be completed in 1981. The Conference is also preparing a statement for inclusion in its Audit Standards concerning follow-up of all audits and external reviews for adoption in October. Also, the General Auditors have been officially charged with following up on findings and recommendations resulting from Board of Governors operations reviews since 1975, and the Board clarified and strengthened that requirement last year. In addition, the Board expects the Conference of General Auditors to consider changes to its "Audit Standards" document that would establish a separate standard prescribing responsibilities for following up on the results of all internal and external reviews. Paul Cilitalian ETM:evjj boc: Mr. Mulrenin Mrs. Mallardi (2) Identical letter also sent to Chairman Jack Brooks. gitized for FRASER ps://fraser.stlouisfed.org

October 7, 1980 Dear Henry; I understand that you are doing very well It's a unique way to spend an election campaign -- maybe better suited to a Fed Chairman. But we look forward to seeing you back, hale and hearty as ever. All the best, The Honorable Henry S. Reuss St. Mary's Hospital 2323 North Lake Drive Milwaukee, Wisconsin 53211 CCM; PAV gitized for FRASER os://fraser.stlouisfed.org

October 7, 1980 DBar Pat: I appreciate your sending me the copy of "Counting Our Blessings." Sometimes I need to be reminded, and I look forward to reading it. Sincerely, The Honorable Daniel P. Moynihan United States Senate Washington, D. C. 20510

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Start port

DANIEL PATRICK MOYNIHAN

UNITED STATES SENATOR

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Ederal Reserve Bank of St. Louis

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Federal Peserve Bank of St. Louis

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## BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

October 9, 1980

The Honorable Paul E. Tsongas United States Senate Washington, D.C. 20510

Dear Senator Tsongas:

Chairman Volcker has asked that I acknowledge receipt of your letter of October 2 requesting views on a letter you received from a constituent expressing concern regarding the activities of Citibank, N.A., New York, New York, in promoting a service called Citi-Shopper. Citi-Shopper is a merchandising service offered to holders of Citibank credit cards by Comp-U-Card, Inc., an organization unrelated to Citibank.

Citibank is a national bank and as such is under the jurisdiction of the Comptroller of the Currency. Citibank's parent corporation, Citicorp, New York, New York, is a bank holding company and its primary supervisory authority is the Federal Reserve Board. Members of the Board's staff contacted representatives of Citicorp regarding the Citi-Shopper program and were advised that the promotional activities questioned by your constituent are performed by Citibank rather than Citicorp. We have, therefore, referred your request to the Comptroller of the Currency for response.

Sincerely,

(Signed) Donald J. Wing

Donald J. Winn
Special Assistant to the Board

bcc: Congressional Liaison Office Office of the Comptroller of the Currency

CO:pjt (#V-384) bcc: Mrs. Mallardi PAUL TSONGAS MASSACHUSETTS United States Senate WASHINGTON, D.C. 20510 October 2, 1980 The Honorable Paul Volcker Chairman Board of Governors of the Federal Reserve System Room B-2125 20th and Constitution Avenue, N.W. Washington, D.C. 20551 Dear Chairman Volcker: I have enclosed a letter from my constituent, Wayne Walega, regarding a Citibank banking service called "Citishopper". Mr. Walega questions whether or not this is a non-related banking service which violates the charter of Citibank. I would appreciate a full report on this matter so I can respond to my constituent. Please answer in duplicate and return the attached materials to the attention of Ms. Toni Travis.

Thank you.

PAUL E. TSONGAS United States Senator

PET/ttt Enclosure 16t PLACE NATIONAL DESIGN AWARD

September 9, 1989

Senator Paul Tsongas 2003 J.F. Kennedy Federal Building Boston, MA 02203

Dear Senator Tsongas,

It has recently been announced by Citibank, one of the nation's largest banks, that they are starting a new banking service called "Citishopper". It is a telephone buying service, offered in conjunction with Comp-U-Card, Inc. of Stamford, Connecticut; which offers Citibank holders of their VISA and MasterCard, this buying service.

The cost is based on \$18.00 per year membership and it entitles the member the right to purchase most small and major appliances among those items listed, at 40% off of the manufacturers' suggested retail price.

This banking service offered to the customers of Citibank for marketing the Visa and MasterCard service is certainly a non-related banking service and must violate the charter of Citibank. At best, this service does set up an unfair competitive practice for the distributors and retail dealers of these products.

Customers of these buying services are at a disadvantage insofar as delivered, damaged merchandise is concerned and service to these products when it is required.

I would hope that this type of unquestionable banking service would cause you some concern and that we can look forward to your support in ending these practices.

Sincerely,

Wayne Walega, CKD

President

hn/enr

# MEW DESIGN INC

97 North Street Mattiposett Massachusetts 02739 (617) 756 3736



# BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

PAUL A. VOLCKER
CHAIRMAN

October 9, 1980

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

Dear Chairman Proxmire:

In response to your letter of September 17, the Board's staff has compiled the enclosed material you requested on the issues of remote disbursement and delayed funds availability.

On the subject of remote disbursement, three documents are enclosed: a November 14, 1978, staff memorandum to the Board, the January 11, 1979, press release and policy statement issued by the Board, and a May 3, 1978, letter of instructions to Federal Reserve examiners. Regarding delayed funds availability, we have enclosed the report of the Delayed Funds Availability Task Force dated February 16, 1979, testimony of Governor Rice before the Commerce, Consumer, and Monetary Affairs Subcommittee of the House Committee on Government Operations given on September 12, 1979, and relevant portions of our response to an inquiry from Chairman Rosenthal of the House Commerce, Consumer, and Monetary Affairs Subcommittee.

Not included with this transmittal are copies of the following material which we have previously supplied to you: staff memoranda attached to correspondence on these subjects addressed to you from Chairman Burns dated March 4, 1977, and February 8, 1978, and the 1978 Survey of Selected Bank Practices (includes delayed funds availability) conducted by examiners of the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Federal Reserve System which was released by the Board in 1979. Copies of all consumer complaints and inquiries are being collected from the Reserve Banks as well as being extracted from the Board's files. We expect this material to be available in about two weeks and details of their transmittal will be arranged with your staff.

Board staff work is continuing on efforts to develop recommendations to the Board that could alleviate the undesirable

3

The Honorable William Proxmire Page Two aspects of delayed funds availability and remote disbursement without imposing burdensome and costly regulation. We will, of course, keep you informed of any action the Board takes regarding either of these issues. Sincerely, S/Paul A. Volcker Enclosures LSM: vcd (§V-368) bcc: Mr. Meeder Mrs. Mallardi (2) V gitized for FRASER ps://fraser.stlouisfed.org

Action assigned Janet Hart and Bill Wallace for coordination WILLIAM PROXMIRE, WIS., CHAIRMAN HARRISON A. WILLIAMS, JR., N.J. JAKE GARN, UTAH of respon JOHN TOWER, TEX.
JOHN HEINZ, PA. ALAN CRANSTON, CALIF. ADLAI E. STEVENSON, ILL. ROBERT MORGAN, N.C. WILLIAM L. ARMSTRONG, COLO. DONALD W. RIEGLE, JR., MICH. PAUL S. SARBANES, MD. NANCY LANDON KASSEBAUM, KANS. Ulnited States Senate RICHARD G. LUGAR, IND. DONALD W. STEWART, ALA. GEORGE J. MITCHELL, MAINE COMMITTEE ON BANKING, HOUSING, AND KENNETH A. MC LEAN, STAFF DIRECTOR URBAN AFFAIRS M. DANNY WALL, MINORITY STAFF DIRECTOR MARY FRANCES DE LA PAVA, CHIEF CLERK WASHINGTON, D.C. 20510 September 17, 1980 Honorable Paul A. Volcker Chairman Board of Governors of the Federal Reserve System Constitution Avenue between 20th and 21st Streets Washington, D.C. 20551 Dear Chairman Volcker: The Senate Banking Committee may schedule oversight hearings at the beginning of the 97th Congress to review the actions taken by the various federal financial regulatory agencies to resolve the issue of delayed funds availability and remote disbursement.

To prepare for these hearings, I wish to request copies of all correspondence arising from and relating to any consumer complaints or inquiries lodged with your agency relating to these issues since January 1, 1977.

I understand that it has been the practice of your agency in recent years to forward copies of such complaints only after the names and addresses of the consumer and the institution have been blacked out, presumably, to preserve the privacy of the consumer. I would request that, henceforth, unexpurgated copies be forwarded in response to this and future requests in view of the fact that consumers will not be identified either in the hearings, the public record or elsewhere without the Committee's staff first acquiring the permission of the consumer involved.

I also wish to request copies of any staff survey or study or Board policy statement relating to these areas and developed since January 1, 1977.

MIVI

Sincerely

Chairman

WP: jaj

Mrs. Malandi (V-376) BOARD OF GOVERNORS DETHE FEDERAL RESERVE SYSTEM WASHINGTON FREDERICK H. SCHULTZ VICE CHAIRMAN October 10, 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: In Chairman Volcker's absence, I want to thank you for your letter regarding the Board's proposal to exempt overdraft checking plans from the Electronic Fund Transfer (EFT) Act's prohibition on compulsory use of EFT as a condition of an extension

of credit to a consumer.

You believe that adoption of this proposed amendment to Regulation E would exceed the Board's authority and contravene what you believe to be unambiguous statutory language, and ask that the Board withdraw the proposal. You point out that, under the EFT Act, the Board may grant exceptions for a class of electronic fund transfers only if it concludes that an exception is necessary or proper to effectuate the purposes of the Act, prevent circumvention or evasion, or facilitate compliance with the statute. The primary purpose of the EFT Act (as stated in the statute) is to provide consumers with individual rights with respect to EFT services, and you feel that the Board's proposed exception would take from consumers their right not to be coerced into accepting EFT services.

The Board proposed this amendment in response to petitions from financial institutions. According to the petitioners, the extensive programming changes that would be required in order to eliminate the automatic debiting of minimum payments would increase collection and programming costs significantly, and may increase costs for the payments system by leading to greater numbers of returned items and paper-based payments.

The Board is concerned about the adverse impact of regulatory requirements on the provision and cost of EFT services. The EFT Act requires the Board to demonstrate that the consumer protections of Regulation E outweigh the compliance costs imposed

The Honorable Frank Annunzio Page Two upon consumers and financial institutions. In this instance, as you point out in your letter, the required use of preauthorized debits to repay overdraft checking extensions of credit is not unduly onerous for consumers. Moreover, these plans have been increasingly popular, with little evidence of consumer problems. The costs of nonautomatic payment options, on the other hand, could be substantial and could have an adverse impact on the payments system. They could also lead to higher prices or reduced service levels for consumers. Thus, a balancing of the competing concerns of consumers and financial institutions may well support the proposed exemption. Thank you again for your views on this matter. The Board will consider them along with those of other interested commenters when the amendment is again brought before it. Sincerely, Frederick H. Schultz LBB:DJW:pjt (#V-376) bcc: Gov. Schultz Lynne Barr Mrs. Mallardi gitized for FRASER tps://fraser.stlouisfed.org

CURTIS A PINS, STAFF DIRECTOR

TELEPHONE: 225-9181

### 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 September 29, 1980

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

Re: Docket No. R-326

Dear Mr. Chairman:

I have reviewed the Board's proposed amendment to Regulation E to exempt overdraft checking plans from the Electronic Fund Transfer Act's prohibition against any person conditioning the extension of credit to a consumer on such consumer's repayment by means of preauthorized electronic fund transfers.

The impact of permitting preauthorized debits by a financial institution to repay extensions of credit pursuant to an overdraft checking plan is not unduly onerous on consumers.

However, the Electronic Fund Transfer Act expressly, without ambiguity, forbids a financial institution from forcing a consumer to agree to repay credit through preauthorized debits from his account. Permitting a financial institution to require a consumer to agree to preauthorized debits from his account as part of an overdraft checking agreement is precisely what the Electronic Fund Transfer law forbids. This provision of the law provides consumers with the right to be protected from being coerced into accepting electronic fund transfer services.

I believe the Board is exceeding its regulatory authority by proposing this exemption. Section 904(c) of the Act grants the Board regulatory authority, but limits that authority so that the Board may only grant exceptions for a class of electronic fund transfers if the Board concludes that the exception is necessary or proper to effectuate the purposes of the Electronic Fund Transfer Act, the exception will prevent the circumvention or evasion of the purposes of the Electronic Fund Transfer Act or the exception will facilitate compliance with the purposes of the Electronic Fund Transfer Act. Section 902 of the Electronic Fund Transfer Act sets forth the purpose of the law. It states in relevant part:

The primary objective of this title, however, is a provision of individual consumer rights.

Since the Board's action will take from consumers the individual consumer right provided in Section 913 that they not be coerced into accepting electronic fund transfer services, the Board's action is in violation of its regulatory authority.

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THOMAS B. EVANS, JR., DEL. CHALMERS P. WYLIE, OHIO

DON RITTER, PA.

Honorable Paul A. Volcker September 29, 1980 Page Two If the Board feels there is a compelling need to take from consumers a consumer protection clearly provided to them under the Electronic Fund Transfer Act, the appropriate action for the Board to take is to recommend that Congress amend the law so that overdraft checking plans are exempt. The Board, in proposing this exemption as a regulatory amendment is usurping Congressional authority. Accordingly, I believe the Board should withdraw this proposed amendment. I would appreciate an explanation of why the Board chose in this instance to exceed its authority under Section 904(c) of the Electronic Fund Transfer Act. With every best wish, Frank Annunzio Chairman



# FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

PAUL A. VOLCKER CHAIRMAN

October 15, 1980

The Honorable Norman D. Dicks House of Representatives Washington, D. C. 20515

Dear Mr. Dicks:

Thank you for your letter of October 3 regarding the Federal Reserve's conduct of monetary policy. The Board shares your concern about the problems facing the economy and about the relatively harsh impacts of high interest rates on some sectors, such as housing. However, we believe that the way out of the present difficulties is not to be found in a rollback of recent increases in the discount rate or in an attempt to push interest rates down to lower levels.

This is not to say that it is the aim of the Federal Reserve to maintain a high level of interest rates. Rather we are endeavoring to pursue a long-range policy that will help restore price stability and foster an environment conducive to sustained, vigorous economic growth. It is well-established that price stability cannot be attained if money is permitted to expand too rapidly. Consequently, we have set out to achieve a gradual moderation of monetary expansion. Unfortunately, in the recent period demands for money and credit have been enlarged as the continuing brisk rise in the general level of prices, occurring against a backdrop of firming business activity, has resulted in pressures on financial markets and increasing rates. Those tendencies for rates to rise perhaps could have been offset for a time, but only by permitting a still more rapid growth of money and credit, with clearly adverse results with respect to inflation in the months ahead. The fact of the matter is that we cannot hope to have a substantial and durable drop in interest rates until there is a decisive slowing in the pace of inflation and a lowering of the inflationary expectations that are currently embedded in rates.

You suggest that the Federal Reserve might be able to achieve its basic objectives at lower interest rates through the use of selective credit controls. The System has only a

The Honorable Norman D. Dicks Page Two very limited set of selective control measures at its disposal, primarily the power to set margin requirements on certain security transactions. The extraordinary powers granted to the Federal Reserve by the President under the Credit Control Act earlier this year have been revoked -- as they should have been once it became clear; that the inflationary pressures in the economy were not being supported by excessive use of credit by businesses or consumers. I think it fair to say that our experience with the special credit restraints served to reinforce the view that credit controls are extremely difficult to operate in a way that is equitable and that avoids undesirable distortions of funds flows. In most circumstances, our highly competitive financial system can be expected to bring about a more efficient allocation of credit among the many potential borrowers in our economy than can any governmental agency. I share your belief that our ability to achieve strong, non-inflationary economic growth would be enhanced by a restructuring of our tax system that provided greater incentives for business investment. With the potential after-tax returns on capital outlays improved by a more hospitable tax structure, firms would be in a position to bid more aggressively for funds in the nation's capital markets. The most urgent priority for federal tax policy, as for monetary policy, is to exercise the sustained restraint necessary to wind down the inflation that is plaguing the economy. Restoration of reasonable price stability would in itself produce conditions more conducive to saving and long-term investment. My colleagues and I on the Board believe that the decision by the Congress to defer action on tax cut proposals was a most constructive step in the fight against inflation, and continued fiscal discipline will do much to ease the burden of needed monetary restraint. In these difficult times no one can be certain of the precise answer to the problems confronting us. I hope that the ongoing dialogue between members of the Congress and this Board will aid in the identification and implementation of effective public policy action. Sincerely, S/Paul A. Volcker MJP:JZ:vcd (V-381) bcc: Mr. Kichline Mr. Zeisel Mr. Prell Mrs. Mallardi (2) gitized for FRASER

NORMAN D. DICKS

COMMITTEE:
APPROPRIATIONS

SUBCOMMITTEES: DEFENSE INTERIOR

1508 LONGWORTH HOUSE OFFICE BUILDING WASHINGTON, D.C. 20515
PHONE: (202) 225-5916



# Congress of the United States

House of Representatives Washington, D.C. 20515 738

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October 3, 1980

Chairman Paul A. Volcker
Board of Governors
Federal Reserve Board
20th and Constitution Avenue, NW
Washington, D.C. 20551

Dear Mr. Chairman:

At this time, I urge you and the Federal Reserve Board to immediately roll back the July increases in the discount rate and examine other alternatives to eliminate the rate of inflation without causing additional unnecessary hardship to the American people.

In my view, the current high discount rates will ultimately prove to be extremely counter-productive to our efforts to restore this nation's economic health.

The Federal Reserve's high interest policy has had a devastating effect on America's housing industry. Because of the recent high interest rates, housing starts are down an astounding 34 percent from last year. This has caused large numbers of homebuilders to absorb severe business losses, prevented thousands of homebuyers from buying homes and harmed our realtors. This cannot continue.

As I told you and the President this spring at the White House, I am very concerned that the continuation of the Board's high interest rate policy will lengthen the current recession and continue the unnecessarily high levels of unemployment which exist. This policy has caused thousands of Americans to suffer needlessly and has created severe pressures on the budget. As I am sure you know, when unemployment in this country rises by one percentage point annually, it automatically costs the Federal government billions in lost tax revenues.

There are alternatives to high interest rates which can be used to slow inflation. For instance, the Federal Reserve can use its selective credit control authority to direct available capital into long-term investments which will increase current supplies of housing, energy, and other manufactured goods. All of these alternatives should be explored immediately.

Chairman Paul A. Volcker Page Two October 3, 1980

I am convinced that these alternatives, when combined with Congressional efforts to develop "supply-side" economic and tax proposals to increase our nation's productivity, can effectively restore America's economic health and substantially reduce the current rate of inflation.

Thank you for your kind consideration of this matter.

Sincerely,

NORMAN D. DICKS

Member of Congress

NDD:wp



## WASHINGTON, D. C.

1980 OCT -6 AMII: 19

HOWARD H. BAKER, JR.
TENNESSEE

October 1, 1980

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

Dear Paul:

Thank you for sending to me a copy of your letter to Senator Byrd on the advisability of a pre-election tax cut.

Sincerely,

Howard H. Baker, Jr.

HHBJr:rdt

Mrs. Mallarde BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM WASHINGTON, D. C. 20551 PAUL A. VOLCKER CHAIRMAN October 15, 1980 The Honorable Dante B. Fascell House of Representatives Washington, D.C. 20515 Dear Mr. Fascell: Thank you for your note of October 2 requesting comment on correspondence you received from Mr. Robert L. Epling, President of the Community Bank of Homestead. Mr. Epling expresses concern about what he believes to be an unfair application by the courts of the Truth in Lending law's civil liability provisions. He is particularly concerned about court interpretations of the regulation holding that the right of a creditor, in an automobile installment sale contract, to receive insurance proceeds and retain unearned insurance premiums constitutes a security interest that must be disclosed. Based on these court decisions, financial institutions have been held liable for a statutory penalty of \$1,000 per obligor in cases where the disclosure appeared on the reverse rather than the face of the contract. The Board is aware of the difficulties that creditors face in achieving compliance with Truth in Lending disclosure requirements. The requirements relating to the disclosure of security interests have been particularly troublesome. The staff is now restudying the relevant provisions of Regulation Z, following the adoption of the Truth in Lending Simplification and Reform Act, in the light of public comments on this issue. We believe the revised regulation that is ultimately adopted by the Board will provide clearer guidance to creditors -- and to the courts -- regarding disclosures, and will thereby alleviate some of the burden that creditors now face in their efforts to comply. The promulgation by the Board of model disclosure forms (pursuant to a statutory mandate) should also enhance understanding and compliance, and provide a safe harbor from civil liability. Application of the Act's civil liability provisions, however, is totally within the province of the courts. The recent statutory amendments, as you may know, do attempt to narrow the scope of creditors' liability by reducing the number of disclosures that gitized for FRASER ps://fraser.stlouisfed.org

The Honorable Dante B. Fascell Page Two are subject to the statutory penalty. It is hoped that this change will eliminate litigation such as that described by Mr. Epling, which is based on violations of a purely technical nature. I hope this response will be helpful. Please let me know if we can be of further assistance. Sincerely, S/Paul A. Volcker RS: CO:pjt (#E V-380) boo: Mr. Silver Mrs. Mallardi (2) gitized for FRASER ps://fraser.stlouisfed.org

Action assigned Janet Harthes R. OREGAN DANTE B. FASCELL ADMINISTRATIVE ASSISTA 15TH DISTRICT, FLORIDA COMMITTEES: FOREIGN AFFAIRS Chairman international operations Congress of the United States SURCOMMITTEE MEMBER: INTER AMERICAN AFFAIRS House of Representatives SUBCOMMITTEE GOVERNMENT OPERATIONS Washington, D.C. 20515 MEMBER: LEGISLATION AND NATIONAL SECURITY SUBCOMMITTEE October 2, 1980 COMMISSION ON SECURITY AND COOPERATION IN EUROPE CHAIRMAN CANADIAN-UNITED STATES
INTERPARLIAMENTARY GROUP CHAIRMAN, U.S. DELEGATION The Honorable Paul A. Volcker Chairman, Federal Reserve Board 20th Street & Constitution, N.W. Washington, D.C. 20551 O Dear Mr. Chairman:

Enclosed is a copy of correspondence from my constituent, Mr. Robert Epling.

Your consideration and comments regarding the matter discussed in his correspondence would be greatly appreciated.

Sincerely,

DANTE B. FASCELL Member of Congress

DBF/AAC Enclosure

gitized for FRASER tps://fraser.stlouisfed.org

September 10, 1980

Paul A. Volcker, Chairman Federal Reserve Board Federal Reserve Building Constitution Ave. & 20 St. Washington, D. C. 20551

RE: Alleged Violations of Truth-In-Lending Act

Dear Mr. Volcker:

We should like to bring an incident to your attention which appears to be an unfair interpretation or application of Section 128(a)(10), 15 U.S.C.A. Section 1638(a)(10); Truth-In-Lending Regulations; Regulation Z, Section 226.8(b), (b)(5), 15 U.S.C.A. following Section 1700.

On September 21, 1979, Community Bank of Homestead purchased a Retail Instalment Contract from Cy's Car Sales, Inc. of Homestead. The borrower's names were Ramon and Maria Ramos. A copy of the contract is enclosed. The loan was handled in a normal manner with adequate documentation, and the borrower has to date made all payments in accordance with the contract.

On or about May 17, 1980, we received a copy of correspondence from Robert M. Hustead, an attorney with the Florida Rural Legal Services, Inc. A copy of same is enclosed and is self-explanatory.

The first accusation in the correspondence is untrue, as the reverse of the contract (highlighted) does include the right of the creditor to retain returned premiums from cancelled insurance policies.

The second and third accusations of the correspondence have since been acknowledged by Mr. Hustead to have been incorrect and properly disclosed by the bank.

Based upon similar situations in <u>Davis v. United Companies</u>, 551 F.2d 971 (5th Cir., 1977) and <u>Edmondson v. Allen-Russel Ford</u>, 78-1072, it was adjudicated that the financing institutions were liable for a statutory penalty of \$1,000 per maker because the disclosure was on the reverse of the contract rather than the face of the contract. (See enclosures from FEDERAL REPORTER).

None of the parties in our case have been harmed and our rationale is absent to the fact that our bank must pay this statutory penalty for the simple failure of not having the disclosure on the "face" of the contract. Our payment of such penalties will obviously add to the cost of borrowing for all consumers.

POST OFFICE BOX 379, HOMESTEAD, FLORIDA 33030 (305)245-2211

September 10, 1980 aul A. Volcker, Chairman Page Two Many fellow bankers have similar liabilities and we do not feel it was the "legislative intent" for business to suffer from the statute. We at Community Bank pride ourselves in being fair and equitable bankers as evidenced by our earnings and growth; doing our best to obey the law. We certainly would not intentionally violate the law. In view of the situation presented, we sincerely request your consideration of legislation or regulations to remedy the situation. Very truly yours, RLE: jn Encls. cc: Senator Lawton Chiles Senator Richard Stone Congressman Dante Fascell Senator Dick Anderson Mr. G. Eicher Mr. J. McDonald Mr. J. Marcus Mr. D. Stone Mr. J. Milstead-Florida Bankers Association American Bankers Association Federal Deposit Insurance Corporation - Atlanta State Comptroller of Banking uisfed.org

Florida Rural Legal Services, Inc. and Legal Services of Greater Miami, Inc. 381 NORTH KROME AVENUE, SUITE 204 POST OFFICE BOX P And the state of t HOMESTEAD, FLORIDA 33030 TELEPHONE: (305) 248-5500 May 15, 1980 Cy's Car Sales 29120 South Federal Highway Homestead, Florida 33030 . . . Dear Mr. Pastor: On September 21, 1979 you sold to Ramon and Maria Ramos a 1976 Ford Torino. The contract form used violates the Truth in Lending Act in the following ways. First, the description of the security interest does not include the right of the creditor to retain returned premiums from cancelled insurance policies. Edmondson v Allen-Russell Ford, 577 F.2d 291 (5th Cir., 1978). Nor does it disclose the requirement of physical damage insurance being maintained nor that such insurance is payable to the creditor. Second, the default charges are not properly disclosed in that your perlineation of a portion of that disclosure renders it inconsistent with permissible charges under law. I hereby make demand on you for the sum of \$1,000.00 for each buyer for the faulty disclosures, as provided by the Truth In Lending Act. see Davis v United Companies, 551 F.2d 971 (5th Cir., 1977). This demand is also directed to Community Bank of Homestead, to whom I am providing a copy of this letter. The case citations are supplied as a courtesy so that legal correctness of our position can be checked by your or the bank's attorney with the utmost economy and I suggest that you have an attorney read the cases cited; if we get into litigation and our position prove correct, you will be liable for attorneys fees to Plaintiffs' counsel. I hope that we can all save expense and aggravation by settling immediately. Very truly yours, Robert M. Hustead Attorney At Law - Wil -gitized for FRASER

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#### **Citation Information**

**Document Type:** Sale contract **Number of Pages Removed:** 2

Citations: Sale contract, Cy's Car Sales, Inc., September 21, 1979.

FILE JOINT LAW OFFICES OF Florida Rural Legal Services, Inc. and Legal Services of Greater Miami, Inc. 381 NORTH KROME AVENUE, SUITE 204 POST OFFICE BOX P HOMESTEAD, FLORIDA 33030 TELEPHONE: (305) 248-5500 July 14, 1980 Dennis E. Stone, Esq. Malikas & Stone Krome Plaza, Suite 868 9th and North Krome Avenue Homestead, Florida 33030 Dear Mr. Stone: Please find enclosed the copies of the The United States Law Week entries on Edmondson v. Allen Russel Ford. The first page is the subject matter summary of cases recently filed and the second reflects the denial of certiorari by the Supreme Court. While I knew that I had read that cert had been denied, I was way off on the date; the denial appears in the May 15, 1979, issue of U.S. Law Week. I hope that this information results in some expeditious resolution of our case. With best regards, I remain RMH/rs/enc. gitized for FRASER os://fraser.stlouisfed.org

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### **Citation Information**

**Document Type:** Newspaper articles **Number of Pages Removed:** 14

Citations: "78-1072 Ford Motor Credit Co. v. Edmondson." United States Law Week, 1979.

"Money and Finance." United States Law Week, 1979.

"Edmondson v. Allen-Russell Ford, Inc." Federal Reporter 2d Series, 1979.

Mrs. Mallardi BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM WASHINGTON, D. C. 20551 PAUL A. VOLCKER CHAIRMAN October 15, 1980 The Honorable Abraham A. Ribicoff Chairman. Committee on Governmental Affairs United States Senate Washington, D.C. 20510 Report by the General Accounting Office entitled "Despite Positive Effects, Further Foreign Acquisitions of U.S. Banks Should Be Limited Until Policy Conflicts Are Fully Addressed" (GGD-80-66) Dear Chairman Ribicoff: On pages 5-14 of this report, certain recommendations are directed to the Board and to the other Federal banking agencies. These recommendations concern the procedures followed and the information received when applications are received for foreign acquisitions of U.S. banks. The first of the three recommendations is that, in such circumstances, contact be made with the regulatory authority of the acquiring bank to determine the bank's financial strength and reputation. As noted in the Board's earlier comment on the draft of this report, the Board announced in its policy statement dated February 23, 1979, that it would obtain the views of the home regulatory authority before acting on an application by a foreign bank to acquire a U.S. bank. The second recommendation is that the Board deny applications where the home regulatory authority furnishes an unfavorable

The second recommendation is that the Board deny applications where the home regulatory authority furnishes an unfavorable reference. Under the Bank Holding Company Act, the Board is obliged to take into consideration, among other things, the financial and managerial resources of the banks concerned. An adverse comment by the home regulatory authority would reflect unfavorably on the bank's financial and managerial resources and would be weighed accordingly by the Board in acting on the application.

Under the third recommendation, foreign banks and other businesses seeking to acquire U.S. banks would have to submit certified consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles. In the major

The Honorable Abraham A. Ribicoff Page Two acquisitions that the Board has already acted upon, the Board considered very carefully its needs for adequate information on the condition of the acquiring bank. In all of these cases, the Board was able to assure itself about the financial condition of the acquiring bank on the basis of the financial statements presented and other information furnished, including explanations of any material differences from U.S. accounting standards. It was the Board's judgment that it would be unduly burdensome to require the foreign bank to recast all of its accounts, and all of the accounts of its subsidiaries, according to U.S. accounting principles. Board continues to believe that the reporting and other informational requirements which it is putting in place will be sufficient for the exercise of its supervisory responsibilities toward foreign Sincerely, S/Paul A. Voicker PED:DIE hoo: Fred Dahl Born. Hallardi (2) Identical letter also sent to Chron. Jack Brooks. gitized for FRASER tps://fraser.stlouisfed.org

October 16, 1980 The Honorable Sam B. Hall, Jr. House of Representatives Washington, D.C. 20515 Dear Mr. Hall: Thank you for your letter of October 6, 1980, concerning the reporting problem under the Monetary Control Act of 1980 raised by Hr. T.B. Crawford of the Henderson Clay Products Credit Union. The Board has made an effort to minimize reporting burdens on small institutions by deferring reporting and reserve requirements for those depository institutions with less than \$1 million in total deposits (including over 11,000 credit unions) until May 1981, and by requiring reports from depository institutions between \$1 million and \$5 million in total deposits only quarterly beginning in January 1981. Mr. Crawford has been contacted by staff at the Federal Reserve Bank of Dallas in an effort to verify the eligibility of the Handerson Clay Products Credit Union for deferred reporting and maintenance of required reserves. Please let me know if I can be of further assistance. Eincerely. WRJ:JSZ:CO:pjt (#V-383) bcc: Mr. Kichline S/Paul A. Volcker Mr. Jones Mrs. Mallardi (2)

JUDICIARY

SUBCOMMITTEES:

CRIMINAL JUSTICE

IMMIGRATION, CITIZENSHIP, AND
INTERNATIONAL LAW

VETERANS' AFFAIRS

COMPENSATION, PENSION AND INSURANCE
MEDICAL FACILITIES AND BENEFITS

Action assigned Mr. Kichline

## Congress of the United States

House of Representatives

Wlashington, D.C. 20515 October 6, 1980 318 CANNON HOUSE OFFICE BUILDING WASHINGTON, D.C. 20515 TELEPHONE: (202) 225-3035

U.S. FEDERAL BUILDING, ROOM G 15 MARSHALL, TEXAS 75670

U.S. Post Office and Federal Building Room 210—Paris, Texas 75460

U.S. Post Office and Federal Building Room 401—TEXARKANA, TEXAS 75501

1383

The Honorable Paul A. Volcker, Chairman Board of Governors of the Federal Reserve System Twentieth St. and Constitution Ave. NW Washington, D.C. 20551

Dear Mr. Chairman:

Enclosed for your kind attention is a letter from one of my constituents, Mr. T. E. Crawford of Henderson, Texas. As you will note, Mr. Crawford is President of a small credit union which is experiencing difficulties in complying with the reporting requirements created by the Board under the Monetary Control Act of 1980, PL 96-221.

While I recognize that this law gives the Board very broad powers in this area, I would encourage reconsideration of the problems many smaller institutions may face in trying to comply with the Boards rules. Any information or advice which you can properly provide concerning this matter will be greatly appreciated, but I would urge an amendment to these reporting requirements to exempt smaller institutions such as Mr. Crawford's

Thank you for your assistance and with kindest regards and best wishes, I am

Sincerely yours,

Sam B. Hall. Jr

Employees Credit Union of H.C.P. Sep 30 1030 POST OFFICE BOX 1129 HENDERSON, TEXAS 75652 September 24, 1980 Honorable Sam B. Hall Jr. House of Representatives 318 Cannon House Office Building Washington, D. C. 20515 Dear Representative Hall: Reference is made to "The Monetary Control Act of 1980" (P.L. 96-221), enacted on March 31, 1980. The employees of Henderson Clay Products have a small State Chartered Credit Union with less than \$200,000 in shares. This small Credit Union has one part time paid bookkeeper while the remainder of the Credit Union officers donate their time. Our purpose is to encourage thrift among employees and also provide a place where employees can borrow money. Many of our minority employees find this is the only source of money at reasonable interest rates. The attached publication states reporting for institutions with deposits less than \$1 million do not have to report until May 1981; however, the Federal Reserve Bank of Dallas Circular No. 80-171, September 8, 1980 requires a "questionnaire" be completed by September 17, 1980. This questionnaire would require several days research in order to complete. Additionally, this Credit Union has started to receive volumes of regulations from the Federal Reserve Bank that are difficult for non-financial personnel to understand. Please help this, as well as other, small Credit Unions escape the reporting requirements imposed under "The Monetary Control Act of 1980." Most small Credit Unions will not be able to survive government reporting, where as, larger Credit Unions with their full time staffs and larger deposits will find the reporting expensive and time consuming but achievable. Your assistance is appreciated. Sincerely, E. Crawford President enclosure

October 16, 1980 The Honorable Pernand J. St Germain Chairman Subcommittee on Financial Institutions Supervision, Regulation and Insurance Committee on Banking, Finance and Urban Affairs House of Representatives Washington, D.C. 20515 Dear Chairman St Gormain: Thank you for your letter of October 10 recommending Mr. Joseph Cugini as a member of the Board's Consumer Advisory Council. Mr. Cugini's resume is on file with the Board, and I can assure you that his qualifications will receive full consideration when the Board makes the 1981 appointments to the Council. We will be in touch with you when the selections are made. The Board appreciates receiving your recommendation and your interest in the Consumer Advisory Council. Sincerely, S/Paul A. Volcker CO:pjt (#V-391) bcc: Ann Marie Bray (w/copy of incoming)
Mrs. Mallardi (2) gitized for FRASER os://fraser.stlouisfed.org

FERNAND J. ST GERMAIN, R.I., CHAIRMAN
FRANK ANNUNZIO, ILL.
JAMES M. HANLEY, N.Y.
CARROLL HUBBARD, JR., KY.
JERRY M. PATTERSON, CALIF.
THOMAS L. ASHLEY, OHIO
NORMAN E. D'AMOURS, N.H.
JOHN J. CAVANAUGH, NEBR.
JIM MATTOX, TEX.
JOSEPH G. MINISH, N.J.
WALTER E. FAUNTROY, D.C.
DOUG BARNARD, GA.

Response will be prepared by Cong. Liaison Office

CHALMERS P. WYLIE, OHIO HENRY J. HYDE, ILL. GEORGE HANSEN, IDAHO JIM LEACH, IOWA CARROLL A. CAMPBELL, JR., S.C. ED BETHUNE, ARK.

#### U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS SUPERVISION, REGULATION AND INSURANCE OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

NINETY-SIXTH CONGRESS

WASHINGTON, D.C. 20515

October 10, 1980

1391

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

Dear Mr. Chairman:

As Chairman of the House Subcommittee on Financial Institutions, I am enthusiastically recommending the appointment of Mr. Joseph Cugini of Rhode Island to be a member of the Consumer Advisory Council of the Federal Reserve System.

Mr. Cugini's many years of experience in the credit union movement assures thoughtful and valuable input from the perspective of both financial institutions and the consumers they serve. I am personally acquainted with Mr. Cugini and consider him exceptionally well qualified to serve the Board as a member of the Council. I am certain that his contributions to the work of the Council will reflect his interest in and knowledge of consumer affairs legislation and regulation, as well as his expertise as a credit union manager.

I enthusiastically support Mr. Cugini's nomination and urge the Board to appoint him a member of the Consumer Advisory Council of the Federal Reserve System.

Sincerely

Fernand J. St Germain

Chairman

FJStG:hh

BOARD OF GOVERNORS OFTHE FEDERAL RESERVE SYSTEM WASHINGTON, D. C. 20551 October 17, 1980 The Honorable Berkley Bedell House of Representatives Washington, D.C. Dear Mr. Bedell: Chairman Volcker has asked me to acknowledge your letter of October 14 requesting our views on a letter you received from Mr. Dick Krommenhoek. Mr. Krommenhoek expresses concern regarding the activities of Citibank, N.A., New York, New York, in promoting a service called Citi-Shopper. Citi-Shopper is a merchandising service offered to holders of Citibank credit cards by Comp-U-Card, Inc., an organization unrelated to Citibank. Citibank is a national bank and as such is under the jurisdiction of the Comptroller of the Currency. Citibank's parent corporation, Citicorp, New York, New York, is a bank holding company and its primary supervisory authority is the Federal Reserve Board. Members of the Board's staff contacted representatives of Citicorp regarding the Citi-Shopper program and were advised that the promotional activities questioned by Mr. Krommenhoek are performed by Citibank rather than Citicorp. We have, therefore, referred your request to the Comptroller of the Currency for response. Sincerely, (Signed) Donald J. Winn Donald J. Winn Special Assistant to the Board bcc: Congressional Liaison Office of the Comptroller of the Currency CO:pjt (@V-394) bec: Mrs. Mallardi gitized for FRASER tps://fraser.stlouisfed.org

BERKLEY BEDELL 6TH DISTRICT, IOWA

> COMMITTEES: AGRICULTURE

SUBCOMMITTEES:

LIVESTOCK AND GRAINS FAMILY FARMS, RURAL DEVELOPMENT AND SPECIAL STUDIES CONSERVATION AND CREDIT

SMALL BUSINESS

SUBCOMMITTEES:

ANTITRUST AND RESTRAINT OF TRADE ACTIVITIES AFFECTING SMALL BUSINESS Response will be handled by Corressional Liaison Office

WASHINGTON OFFICE: 405 CANNON HOUSE OFFICE BUILDING WASHINGTON, D.C. 20515

DISTRICT OFFICES:

(202) 225-5476

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

313 FEDERAL BUILDING SIOUX CITY, IOWA 51101 (712) 252-4164 Ext. 281

## Congress of the United States

House of Representatives

Washington, D.C. 20515

October 14, 1980

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

Dear Mr. Volcker:

Congressman Bedell has asked that I write to you in regard to a letter he received concerning a new banking service called "Citishopper". A copy of that letter is enclosed.

Congressman Bedell's constituent is concerned that the new service will set up an unfair competitive practice for the distributors and retail dealers of products offered in conjunction with this service. Furthermore, he believes this to be a non-related banking service in violation of the charter of the bank involved.

Congressman Bedell believes that these concerns merit review. He would appreciate your consideration of these views, and looks forward to your thoughts on this matter.

Thank you for your assistance.

Sincerely,

Gayy Hubbard

Législative Assistant to.

Congressman Bedell

KITCHENS by KROMMENHOEK
1916 PIERCE - SIOUX CITY, IOWA 51104 · (712) 252-4402 RECEIVED SEP 1 7 1980 Dear Representative Bedell, SEP 22 1980 It has recently been announced by Citibank, one of the nation's largest banks, that they are starting a new banking service called "Citishopper". It is a telephone buying service, offered in conjunction with Comp-U-Card, Inc., of Stamford, Connecticut; which offers Citibank holders of their VISA and MasterCard, this buying service. The cost is based on \$18.00 per year membership and it entitles the member the right to purchase most small and major appliances among those items listed, at 40% off of the manufacturers' suggested retail price. This banking service offered to the customers of Citibank for marketing the VISA and MasterCard service is certainly a non-related banking service and must violate the charter of the Citibank. At best, this service does set up an unfair competitive practice for the distributors and retail dealers of these products. Customers of these buying services are at a disadvantage insofar as delivered, damaged merchandise is concerned and service to these products when it is required. I would hope that this type of unquestionable banking service would cause you some concern and that we can look forward to your support in ending these practices. Sincerely. Vice Somoundant Dick Krommenhoek Kitchens by Krommenhoek gitized for FRASER ns://fraser.stlouisfed.org

October 16, 1980 The Honorable Gary Hart United States Senate Washington, D.C. 20510 Dear Senator Hart: Chairman Volcker has asked me to acknowledge your letter of October 10 requesting our views on a letter you received from Mr. Harold E. Mabie, Jr. Mr. Mabie expresses concern regarding the activities of Citibank, N.A., New York, New York, in promoting a service called Citi-Shopper. Citi-Shopper is a merchandising service offered to holders of Citibank credit cards by Comp-U-Card, Inc., an organization unrelated to Citibank. Citibank is a national bank and as such is under the jurisdiction of the Comptroller of the Currency. Citibank's parent corporation, Citicorp, New York, New York, is a bank holding company and its primary supervisory authority is the Federal Reserve Board. Members of the Board's staff contacted representatives of Citicorp regarding the Citi-Shopper program and were advised that the promotional activities questioned by Mr. Mabie are performed by Citibank rather than Citicorp. We have, therefore, referred your request to the Comptroller of the Currency for response. Sincerely, (Signed) Donald J. Winn Donald J. Winn Special Assistant to the Board bcc: Congressional Liaison Office Office of the Comptroller of the Currency CO:pjt (#V-389) gitized for FRASER ps://fraser.stlouisfed.org

COMMITTEES: ARMED SERVICES ENVIRONMENT AND PUBLIC WORKS BUDGET

## United States Senate

WASHINGTON, D.C. 20510

October 10, 1980

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

Dear Mr. Chairman:

Attached is a copy of a letter from Mr. Harold E. Mabie, Jr. concerning the "citishopper" service offered by Citibank. The service apparently offers appliances at reduced rates to Comp-U-Card, Visa, and Master Charge holders.

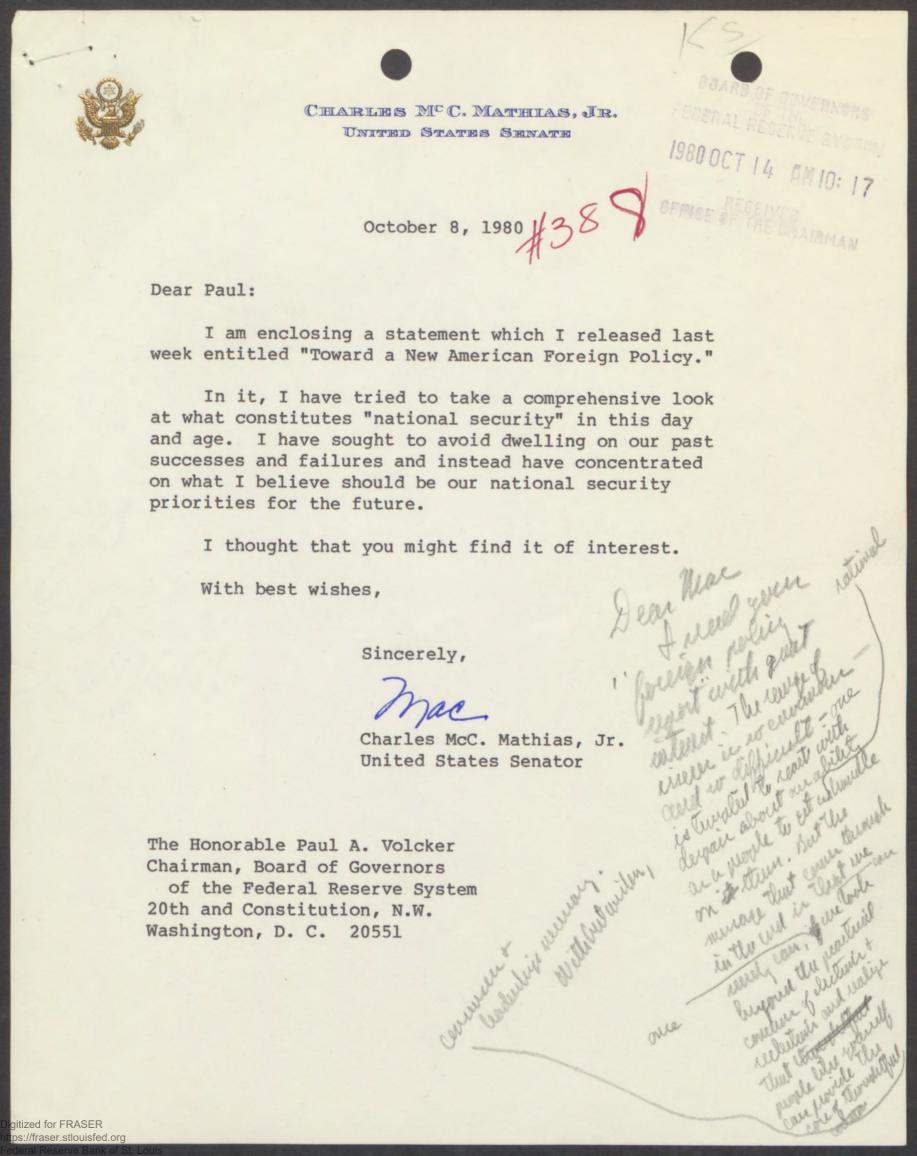
I would appreciate your attention and review of this matter.

Gary Hart

Enclosure

Pueblo, Colorade 1 03 September 20, 1980 Senator Gary Hart 254 Russell Building Washington, D. C. 20510 Dear Senator Hart: It has recently been announced by Citibank, one of the nation's largest banks, that they are starting a new banking service called "Citishopper". It is a telephone buying service, offered in conjunction with Comp-U-Card, Inc., of Stamford, Connecticut; which offers Citibank holders of their Visa and MasterCard, this buying service. The cost is based on \$18.00 per year membership and it entitles the member the right to purchase most small and major appliances among those items listed at 40% off the manufacturers' suggested retail price. This banking service offered to the customers of Citibank for marketing the Vice and Mactaronia service is certainly a nonrelated banking service and must violate the charter of the Cititark. At test, this service does set up an unfair competitive practice for the distributors and retail dealers of these products. Customers of these buying services are at a disadvantage insofar as delivered, damaged merchandise is concerned and service to these products when it is required. I would hope that this type of unquestionable banking service would that we can look forward to your suppor in ending these practices. Sincerely, KINGS KITCHEN CENTER " directed or release Harold E. Mabie, Jr. HEM/ect gitized for FRASER

October 17, 1980 Dear Mac: I read your "foreign policy report" with great interest. The range of issues is so enormous -and so difficult -- one is tempted to react with despair about our ability as a people to get a rational handle on them. But the message that comes through in the end is that we really can -- once we look beyond the practical concerns of elections and re-elections and realize that people like yourself can provide the core of thoughtful consensus and leadership necessary. With best wishes, Sincerely, The Honorable Charles McC. Mathias, Jr. United States Senate Washington, D. C. 20510 PAV:ccm #388 itized for FRASER os://fraser.stlouisfed.org





United States of America

# Congressional Record

PROCEEDINGS AND DEBATES OF THE 96th CONGRESS, SECOND SESSION

No. 153-Part II WASHINGTON, TUESDAY, SEPTEMBER 30, 1980 Vol. 126

# Senate

#### TOWARD A NEW AMERICAN FOREIGN POLICY

Mr. MATHIAS. Mr. President, we have all been following closely the war taking place between Iraq and Iran. All of us recognize that although only two nations are directly involved, at present, in the fighting, the global implications of their conflict could be very grave indeed. The potential for serious energy shortages in the West, escalating regional violence, and superpower friction arising out of the current Iraq/Iran confrontation cannot be ignored.

We need desperately to set a prudent course through these troubled waters. Our foreign policy must be one which is responsive to the full range of threats affecting our national security and yet guides us in pursuit of clearly defined priorities. I should like to explore this subject in detail with other Senators and

with the American people.

PART I-THE CHALLENGES OF THE 1980'S

Americans, with good reason, look back on much of the post-World War II era with some degree of nostalgia. The many international crises we faced during the period prior to our Vietnam engagement were very real. Some, such as the Cuban missile crisis, were potentially catastrophic. But, in retrospect, we never had it so good. We were, in fact and in the perceptions of our friends and foes, the strongest nation on earth.

Our major adversary, the Soviet Union, could operate with impunity only within its relatively narrow sphere of influence. Its ability to project its power beyond the territory it overran during World War II, was restricted. Its global role was largely that of a spoiler, not of

a shaper, of events.

Economically, we had no rival. We were active participants in a global economy, the framework of which was largely shaped to our specifications. But we were not directly dependent on that world economy for our ultimate security. Foreign trade was in no sense critical to our survival as a free and functioning

Finally, and critically, there was a high level of popular support in the United States for an activist American foreign policy along the lines of that pursued by the administrations in office in the 1950's and much of the 1960's. The "containment" of Soviet power was a goal acceptable to the American people. The strong American domestic economy made the pursuit of that goal all the easier.

The Vietnam war helped to erode both the economic and popular underpinnings of American foreign policy. Americans came out of that experience with an altered view of the world and, most particularly, with an altered view of our role in it. The domestic base for an activist U.S. foreign policy seemed to have dissipated by the early 1970's. (The Nixon doctrine, with its stress on giving others the tools to pursue our interests, was the policy consequence of this shift in popular sentiment.)

But what only became clear in the latter half of the 1970's was that the world, and our relative position in it, had shifted fundamentally. What is less clear is whether or not Americans appreciate the

extent of the changes and are prepared to deal with their implications for U.S.

As we embark on the 1980's, it is vital to understand what sort of a world we are operating in and what sort of forces will impact on our interests in the years ahead. The following points are worth

emphasizing:

First. In the early 1960's, the Soviet Union embarked on a major effort to build up its capabilities in the strategic nuclear, tactical nuclear and conventional military fields. This effort has been sustained up to the present with annual military expenditures amounting to from 11 to 14 percent of Soviet GNP (as against our approximately 5 percent of a larger GNP).

The result of this effort is a Soviet military establishment very substantially larger and far more capable than it was

15 or 20 years ago.

It is, of course, difficult to compare U.S./Soviet military capabilities with any precision. The two countries have emphasized different aspects of their force structures. (We do not match the Soviet Union in numbers of tanks, but they have no equivalent to our carrier task forces.) Nonetheless, across a wide range of indicators of military strength, the Soviet Union is now challenging the United States.

It goes without saying that other factors must be considered in making the comparison. For example, a substantial portion (roughly a quarter) of the Soviet Union's military assets are directed against the People's Republic of China, whereas the PRC is not, at present, considered by us to be a significant threat to the United States.

But even granting the more varied nature of Soviet security concerns, one is still left with a fundamental conclusion. One major reason the world will be different for the United States in the 1980's than it was in preceding decades is that the other superpower is now our

military equal.

Second. There is an unfortunate tendency on the part of some Americans to believe that expanding Soviet power is the only major threat to U.S. security in the 1980's. This perception, unfortunately, is far from accurate. Economic, demographic, political, and other forces at work in the world today are reshaping the very environment in which we will have to operate in the 1980's. These forces could ultimately have far greater impact on our Nation's security than will the Soviet Union.

We are, for example, witnessing a tremendous transfer of wealth to the oil producing nations of the world. The implications of this transfer are still only clear in outline, but the emerging picture

is not a reassuring one.

It is estimated that OPEC's net financial assets will reach \$380 billion by the end of 1981, up from \$8 billion in 1973. In 1980 alone, thanks to the precipitous price rise in 1979, OPEC's current account surplus will top \$100 billion, up from about \$7 billion in 1978.

Indeed, the World Bank estimates that "the real price of oil is likely to be at least 80 percent higher in 1980 than in

The impact of higher energy prices is

felt everywhere. In 1978, the U.S. oil import bill was \$42 billion. This year, it may well top \$90 billion. In the nonoil producing developing countries, the situation is particularly grim. The Economist estimates that "Every time the price of oil rises by \$1 a barrel, the nonoil LDC's (Lesser Developed Countries) have to find nearly \$2 billion more a year to pay for their imports." It is estimated that the LDC's must come up with \$65 billion to pay for their imported oil this year alone.

In the past, adding to debt as well as increasing exports have helped to fund LDC oil purchases. These funding ave-

nues are in question.

The Third World is already heavily burdened with debt. It is estimated that the debt of nonOPEC developing countries was approximately \$250 billion at the end of 1979, up from \$73 billion in 1973. It is not clear how much more financing is available. On the export side, with the deepening economic troubles of Europe and the United States, it is questionable that these markets for LDC exports will remain stable (much less grow). At present, the United States and Europe take over 60 percent of LDC

Nor is the West immune from this cycle. More than 30 percent of the total annual exports of the United States, Europe, and Japan go to the developing countries. Whole industries in the West could be adversely affected by the LDCs'

inability to import.

As if this were not enough, the world goes on adding people at a fantastic rate. The population of this globe is now over 4.5 billion and is expected to reach 6 billion within 20 years. "Unless current trends are reversed," according to a State Department report, "the growth of the world's population in the last quarter of this century will equal the growth in world population from the birth of Christ to 1950; 90 percent of that growth will occur in developing countries.

From Cairo to Calcutta, Mexico City to Bangkok, young people are making demands impossible for any government to meet and impossible for any government to ignore without incurring grave risks to its own future. They are asking for food, shelter, and work. They are straining the earth's resources to the breaking

These many and varied pressures undermine the political stability of nations all over the globe. Governments are are being replaced with regularity. Authoritarian solutions to governance problems are becoming more common. Leaders are driven to desperate measures to divert public attention from the economic ills which plague them. The 1980's promise to be a decade of great political

Third. Some Americans still believe that we can isolate ourselves from the misery of the rest of the world. The third major reason that the 1980's will be different than preceding decades is that it is now very clear that such isolation is no longer an option for us. After World War II, we took on global responsibilities voluntarily; today we have no choice.

The United States provides the ultimate counter weight to expanding Soviet power. No other country, or group of

countries, can realistically expect to withstand Soviet military pressure without the credible backing of the United

States.

This basic fact imposes great risks and responsibilities on us. The dangers of a regional conflict escalating and drawing in the superpowers is all too real. The balance of nuclear terror is so delicate that the risks of miscalculation must never be minimized. At the time of the Cuban missile crisis, one side backed down. The next time, the world may not

be so lucky.

The problem that we will face in the 1980's-as the example of Iran graphically illustrates—is that the internal resources and cohesion of many countries are being sapped by the forces discussed above. In Korea, Thailand, Pakistan, Turkey, Saudi Arabia, and other countries important to the United States, internal processes at work are weakening the ability of these countries to control their own destinies.

We are also experiencing divergences in interests with our most valued allies in Europe and the Far East. These could become fundamental and unbridgeable. For example, the United States only imports from 40 to 50 percent of its oil and relies on its sizable domestic production for the balance. Europe and Japan have no such cushion. (Japan imports over 90 percent of its oil consumption.) As one observer puts it, these countries live "closer to the edge of catastrophe." This basic fact has conditioned very different European/Japanese responses to Middle Eastern problems in general and the Palestinian issue in particular than those of the United States. In addition, our attitudes on East/West relations have been diverging more and more recently.

But more than strategic necessity and political reality bind us to the rest of the world. Like it or not, the United States is no longer economically independent, a bald fact which by itself dictates our

active role on the world scene.

The United States relies increasingly on the rest of the world for its raw materials. In 1950 we imported only about 15 percent of our raw mineral needs. We now import close to 35 percent. For example, we import over 90 percent of the maganese, cobalt, bauxite, and chromium we use. But imported energy is our most critical dependency. In September 1973, we imported 3.4 million barrels of oil per day. In August 1979, we imported 6.7 million barrels of oil per day, almost double the 1973 figure. This amounts to over 40 percent of our daily consumption. Approximately 25 percent of our oil imports come from the Persian Gulf. During the same period, our domestic production, even with Alaska coming on line, stayed essentially flat.

There is every prospect that in the 1980's U.S. dependence on imported raw materials will increase. In fact, the U.S. Bureau of Mines estimates that by the year 2000 only 20 percent of our primary materials will come solely from domestic

This dependence on imported raw materials is only one aspect of an increasing U.S. involvement in a global economy. In 1960 exports provide 5 percent of our GNP; by 1979 this figure had risen to 10 percent. Today, every third acre of farmland in the United States and every eighth manufacturing job produces for export.

Those who say that we can ignore the Third World should ponder the fact that the bulk of our imports of raw materials comes from developing countries. Today, we export more to LDCs than to Western Europe and Japan combined. The twelve fastest growing markets for American exports today are in developing coun-

The impact of all this on the U.S. domestic economy is profound. The U.S. dollar is the currency of the world. Its declining value relative to other currencies pushes up the price of U.S. imports, fueling American inflation. The U.S. Government is unable to exert adequate control over the dollar assets held by foreigners, thus restricting our ability to resolve our inflation difficulties.

We cannot retreat from the problems which face us, but neither can we give in to the pressures which confront us.

The challenge to American foreign policy is to understand that we are broadly involved and our responses must be broad. We must not be lulled into believing that we can escape our problems or goaded into thinking they can be resolved by military solutions alone. We face two vital imperatives, in Harvard Prof. Stanley Hoffmann's words, "the imperative to evaluate correctly our own predicament and the imperative to think in the long term."

PART II-THE DOMESTIC BASE OF AMERICAN FOR-EIGN POLICY

These are the challenges Americans will face in the 1980's. We must ask ourselves whether we are philosophically and institutionally ready and able to meet them. The answer is no.

#### PHILOSOPHICAL CONSTRAINTS

Americans' view of the world has been conditioned by our country's geographic isolation and its historic material selfsufficiency. We have never had to get along with other peoples. We have never had to understand perspectives other than our own. And we find it difficult to do so.

The world, for us, is divided into good and evil. We are, by definition, on the side of the angels. We do battle with the forces of evil and are surprised when even our friends do not see the global challenges the same way we do. Because we fail to understand what concerns or motivates others, our global policies too often appear irrelevant or dangerous to others.

Because we are used to having our own way within our own geographic sphere, we find it difficult to apply our power subtly and effectively in other spheres. We favor quick, technological solutions to problems. We are prone to believe that the global influence of a nation is only or largely a function of its military strength, and that global problems are amenable to military solutions. We are uncomfortable with nuance or compromise.

#### INSTITUTIONAL CONSTRAINTS

Many of our foreign policy problems have institutional roots, both in the executive branch and in the Congress.

One overriding problem is that American foreign policy originating from the executive branch has, in recent years, lacked continuity of purpose and direction. The extensive personnel changes with every new administration have undermined the purposeful conduct of foreign affairs. President Carter, for example, put his own people into 16 of the top 22 positions in the State Department. We are reinventing the wheel every 4 years or less.

Moreover, every department of government seems to be actively engaged in foreign policy related activities. For example, our relations with Mexico are conducted through State (diplomacy). Energy (oil), Commerce (trade), Justice (illegal immigrants), and so on. Try as it does, the bureaucracy cannot seem to weave these different strands into a serviceable fabric. The National Security Council should do so, but since Mc-George Bundy it—or at least the senior adviser-has too often operated as an advocate of its own point of view rather than a distiller of other bureaucratic viewpoints.

The complexity and unwieldly nature of the U.S. foreign policy process has been further complicated by the entry onto the scene of a new participant-Congress. In the early 1970's, Congress reasserted itself in the foreign policy arena after a period of some passivity. Its effect on the process has been influenced by recent changes in the nature

of the Congress itself.

The dispersal of power among Members of Congress reached a new peak in the 1970's. Today, party leaders cannot deliver their members' votes. Chairmen cannot deliver their committees. The Members joining Congress in the 1970's are a less disciplined lot than their predecessors. Moreover, Congress as an institution has dispersed foreign policy issues across a range of committees. It has no coordinating mechanism analogous to the NSC in the executive

Despite these shortcomings, Congress has injected itself into the foreign policy

ocess with a vengence. Its primary impact in recent years has been to restrict executive branch initiatives, not to formulate policy. The congressional review process has often been constructive. It has also been pernicious at times.

Members of Congress often find it difficult to fit individual foreign policy issues into a larger framework. Aid issues. military sales issues, and even major treaties are too often examined in narrow and parochial terms. There is too little real understanding of the need to sustain foreign policy initiatives with the effective use of foreign policy tools (military, assistance, trade).

#### RECOMMENDATIONS

A successful foreign policy is dependent on successful domestic policies. To a large extent our foreign policy problems have domestic roots. There are a number of actions we could take at home to make our efforts abroad more fruitful. For example:

First. We put great stock in the image of military might which we project abroad, but nothing has so undermined our credibility in recent years as our inability to get our own economic house in order. Americans traditionally have paid little attention to the position of the U.S. dollar abroad. For foreigners however, this is a prime indicator of the strength of the American economy. The dollar's precipitous drop in value deeply troubles our friends as has our continuing failure to gain control over our excessive use of energy, our inflation rate, our declining productivity, and our low national rate of savings.

These all suggest to foreigners that we cannot manage our affairs, that we are weak and unreliable. For many foreigners, these economic weaknesses are more important than whether or not we can deploy the 82d Airborne rapidly to the Persian Gulf. We must get our economic house in order if for no other reason than that it is a vital underpinning to an effective foreign policy.

Second. The NSC and the job of the National Security Adviser should be returned to what it was most recently under Brent Scowcroft and before that under McGeorge Bundy. The NSC should bring the bureaucratic strands together. It should not be one more competing

agency in the Government.

Ideally, power in the foreign affairs field should be restored to the one department of the U.S. Government designed to manage it—the State Department. At the same time, there has to be greater expertise and more continuity of leadership in that organization. The periodic house cleaning that takes place, in the Department itself and in our ambassadorial ranks, does much to reduce the effectiveness of our diplomacy. Our professionals have a great deal to contribute; they should be better utilized.

Third. If Congress is to be constructive in its foreign policy interventions in the future, not only attitudes but institutions will have to change. Perhaps the single most effective action that could be taken would be to establish some sort of coordinating mechanism to bring together the work of the several committees with jurisdiction into a unified foreign policy framework.

More generally, members of Congress will have to develop greater sensitivity to the serious and far-reaching implications their actions have for both foreign and domestic policy. A cut in U.S. contributions to the World Bank, for example, can show up as an increase in American energy bills or in decreased exports of American companies.

The Congress is inherently subject to the force of public opinion in both domestic and foreign policy. It is therefore important that foreign policy issues be framed so that public perceptions are not polarized along narrow and emotional lines. Otherwise the Congress will only intensify its own problems and its own pain while helping to mislead the

To make a start at solving our problems, all Americans must learn to appreciate the complex interdependencies of the world we live in. If we do not help Mexico with its employment and population problems, there will be serious consequences for us further down the

road. If a Khomeini comes to power in Saudi Arabia, we will feel the effects of that change at the gas pumps. If the Soviet Union does not find our military capabilities credible, we will have to confront increased Soviet global probing.

The purpose of a strong military establishment is not to invite war but to deter it. Those who seek only military answers to our foreign policy problems, however, fail to understand that many of these problems do not lend themselves to military solutions.

We must, in short, begin to pull together, if we are not to pull apart. To do that, we need a strategic policy abroad which can promote American interests and command the support of the American people.

PART III—A STRATEGIC FOREIGN POLICY FOR THE 1980'S

America sits astride a crossroads without a map. A troubling agenda of international problems faces us, but we lack the conceptual framework to address it.

We could, of course, conduct our international relations on a piecemeal, reactive basis, jumping from issue to issue. But every administration since World War II has recognized that this approach is not in our best interests. Without some sense of direction and purpose, our foreign policy is ultimately doomed to flounder.

We live today in a world of radical change. Whether we become victims or beneficiaries of this change depends on the measures we take in cooperation with our friends to meet the challenges of a complex and changing world. If we are to master the future, we must be strong—militarily, economically, and politically. But above all, we must be wise.

Our priority must be to manage the changes we face skillfully enough to prevent the tide of world affairs from going against us. Specifically, our interests lie in insuring that:

The Soviet Union does not so shift the balance of power against the West that it can dictate to us from a position of military supremacy or geographic control of vital resources.

A regional conflict does not so escalate that the superpowers are drawn into a direct confrontation neither wants nor can survive.

The proliferation of conventional arms and nuclear weaponry does not get out of hand to the point that conflicts of ever-increasing intensity become a permanent feature of the world scene.

The alliance system on which Western security rests does not succumb to narrow economic protectionism and diverging political imperatives.

The socio/political ideals of the Western democracies continue to find free expression around the globe.

The fragile balance between man and his environment not be overturned by a world population that outstrips the resources that sustain it.

The United States and her allies retain access to vital raw materials.

To come to grips with these imperatives, we are left with a fundamental and continuing task—to persuade others to join us in building a more stable world.

The tangible tools of persuasion available to us are diplomatic, economic, and military. But they are also perceptual—the confidence others have in our strength, resolve, reliability and the soundness of our approach to world affairs.

What is called for now is not a Pax Americana but a system of cooperative relationships which binds responsible members of the world community in a common approach to the challenges facing all of us. Our problems are all shared problems, the solutions must be shared as well.

For such a system to work, Americans must begin by setting a course designed to bring others aboard. What then should our direction be? Where do our priorities lie?

#### PART IV-GLOBAL PRIORITIES

#### ALLIES

At no time since the 1940's has the need to coordinate our responses to global problems with our allies been so great.

All the evidence suggests that the 1980's will expose the United States to an unprecedented range of threats to its

security. Soviet power will be relatively greater than ever before. Global economic interdependence will be dramatically accentuated. Indeed, if left to fester, the problems facing the Third World—determining political legitimacy, curbing population growth, or finding the economic resources to maintain life itself—could doom us all.

We simply can no longer avoid the imperative of seeking coordinated Western responses to the common global challenges facing us. The United States cannot, and indeed should not, "go it alone." Our most fundamental priority is the preservation of Western unity in word and deed.

Every U.S. administration since Truman's has supported allied coordination and cooperation but, too often, the practical application of this support has been lacking. When Henry Kissinger went to China and when we ultimately normalized our relations with the People's Republic of China, Japan was among the last to know. Fortunately, Japan favored the policy—but its execution left much to be desired.

Only when our allies participate in the shaping of policy can we be confident they will participate in its execution.

Structuring a foreign policy grounded on cooperation is not easy. Consensus can be difficult to obtain. Many bases have to be touched. Moreover, our immediate interests may not be compatible with those of our allies. All parties have to keep firmly in mind the greater risks of a complete breakdown in alliance cooperation and coordination.

The rewards of a cooperative allied approach to problems can be great. The military, political, and economic strength of the West simply cannot be matched by the Soviet Union and its unreliable client states. This strength, when applied in a coordinated way, can have enormous impact.

Another advantage to this approach is that there are problems for which there may be no American solution, but there could well be a French or British one. The recent settlement in Rhodesia is a case in point.

In sum, our fundamental priority is to maintain the strength and cohesion of the Western alliance. It is the sine qua non in our pursuit of every other interest of concern to us.

#### ECONOMICS

To a remarkable degree, our foreign policy must be developed with global economic realities in mind.

If Western democracies are going to continue to function as free societies, effective control over global inflation must be achieved and assured access to raw materials guaranteed. If political chaos is not to engulf the Third World, economic progress must be continuous and significant. In an interdependent world economy, all countries have a stake in the smooth flow of goods and services between nations. All nations—to varying degrees—are vulnerable to any interruption of this flow.

Economic imperatives increasingly dictate our geographic interests and those of our allies. Oil is a crucial factor in our approach to Middle East issues. It is a growing factor in our relations with Mexico.

Inflation has become a global phenomenon and requires a global response. The burgeoning debt of the Third World is a Western dilemma as well. The continued role of the dollar as the premier world currency remains a common problem in search of a common solution.

Perhaps because we have such difficulty in dealing with our domestic economy, we shy away from these vastly more complex international economic issues. But, this is a luxury we cannot afford. The health of our domestic economy is tied to that of the world economy. A major priority of the United States must be to pursue a strengthened global economy.

#### SOVIET UNION

I have delayed examining the U.S./ Soviet relationship not because it is not critical, but to underline two points. First, for relations with the U.S.S.R. to be constructive, from our point of view, we must first reestablish good relations Second, although the Soviet Union and the United States can destroy each other militarily, our vulnerability to economic catastrophe is a clear and present danger and would persist even were the Soviet threat to disappear miraculously overnight.

Nonetheless, our competition with the other superpower will continue to be of vital U.S. national concern.

This being the case, it is all the more remarkable that we lack any sort of national consensus on answers to basic questions concerning the Soviet Union and our relations with it. Consider the following list:

What are the fundamental interests of the Soviet Union and what are merely peripheral?

What is the nature of the Soviet threat to us? Is it primarily military or primarily political or potentially economic?

Are there incentives or disincentives that influence Soviet behavior? What are they?

Is it in our interest to deny to the Soviet Union grain or oil field technology in order to undermine the Soviet economy? Or, by doing so, do we merely support those in Moscow calling for more vigorous confrontation with the West?

In our dealings with countries on the Soviet border, should we be promoting an anti-Soviet alliance or should our approach be more balanced (i.e. What is

Finally, in our competition with the Soviet Union, should we be primarily concerned with the "lessons" of 1939 when compromise was seen to whet the appetite of an implacable aggressor? Or should we be recalling the events of 1914 when the superpowers of the day were sucked into a catastrophic war by the requirements of mobilization schedules and by the needs of lesser states embroiled in secondary concerns?

Without having resolved fundamental questions such as these, we blithely continue to make tactical decisions of potentially enormous impact on the direction of Soviet strategic thinking. Playing the China Card and approving the introduction of nuclear armed cruise missiles onto German soil are two examples which come to mind.

This is not to argue the merits of these decisions, but only to point out that decisions of such import as these should only be taken within a much larger strategic context. Tactical decisions on issues affecting the U.S.S.R. should only flow from a strategic view of Soviet intentions.

What, then, is the threat that the Soviet poses for U.S. interests? It is obviously military. Soviet strategic nuclear, theater nuclear and conventional military capabilities are sizable and expanding rapidly. Soviet defense expenditures are estimated to be running as much as 30 percent ahead of ours.

Moreover, the Soviet Union has been demonstrating an increasing propensity to project its military presence internationally. Military equipment in vast quantities has been transferred to the Third World. Soviet, Cuban, and East German advisors have been active around the globe. Cuban combat troops have been a significant force in such countries as Ethiopia. The Soviet invasion of Afghanistan represents only the latest escalation in Soviet activity.

The Soviet threat to U.S. interests is also political. Soviet leaders pursue policies designed to separate us from our allies. Soviet agents seek to undermine regimes friendly to the West.

It is quite possibly economic. The Soviet Union may soon be a bidder in world oil markets and a competitor for other natural resources.

Here again, Stanley Hoffmann articulates our dilemma. "Geopolitically," says Hoffmann, "as the main status quo power in a world of change, the United States is on a kind of universal defensive, while its rival can pick and choose the points for attack from among the many ferments of trouble." We sit, today, waiting for blowups in Yugoslavia, Pakistan, and elsewhere.

In structuring a response to the Soviet challenge, we must, however, guard against being one dimensional. Our policies must be for the long term.

Clearly, the U.S./Soviet military bal-

ance must be maintained. We cannot permit either the fact or the perception of U.S. military weakness vis-a-vis our major competitor to arise. But neither should our force buildup be mindless. Instead of debating percentage increases in the defense budget, we should be talking about military missions and the force structures necessary to carry them out. What should a Rapid Deployment Force be able to do? The answer to that question should determine how we begin to structure the force.

If only because perceptions matter, we should soft-pedal what has become our excessive public denigration of our own strengths, military and otherwise. The world is far more unfriendly to Soviet interests than many would have us believe. The Soviet Union faces a Western alliance with formidable military capabilities. It is ringed by unfriendly neighbors. It cannot rely on its closest allies. It has little to offer beyond military hardware to Third World countries concerned with economic progress and political stability.

Beyond maintaining our military strength, we must be clear about our objectives. The Soviet Union must understand clearly what we consider our vital interests to be and what penalties attach to threatening them.

Much of our response to the Soviet challenge must be political as well as military in nature. The real threat to the Western alliance is not a Warsaw Pact attack (though we must be prepared for this) but the corrosive effects of diverging interests among the allies being exploited by Moscow. The primary threat in the Third World is not Cuban troops and Soviet advisors but political instability arising from economic and social roots. The Shah, even with his vast military arsenal, could not withstand the revolutionary forces at work in Iranian society.

In our anxiety to respond to the challenges posed by the Soviet Union, we must not overlook what we have in common. Each superpower fears and expects the worst from the other. We each retain the capability of annihilating the other. With the steady increase in and diversification of our respective nuclear arsenals, the underpinnings of deterrence may be eroding. Nuclear war may become a greater possibility in the years ahead.

We tend to forget that accommodation with the Soviet Union, if managed prudently, can be in our mutual interests. The air we breathe is less deadly because both nations are abiding by the 1963 Test Ban Treaty. We share a need to control nuclear arms and reduce the possibility of conflict.

In short, we need a decathlon policy for dealing with the Soviet Union. No single strength or skill will suffice. We must have the capacity to take the initiative in the economic sphere, in political cooperation, in military power, in technological transfer, in cultural exchange, et cetera.

We must evolve a policy toward the Soviet Union which employs both the stick and the carrot. We must, on the one hand, be clear about our vital interests and our ability and willingness to defend them. But, on the other hand, we must also understand that the Soviet Union has vital interests of its own. "The worst possible situation," writes Seweryn Bialer of Columbia University, "is when the U.S.S.R. feels that it has nothing to fear from the U.S. and nothing to gain."

In the final analysis, we should seek stability and predictability in our relations with our major competitor.

#### GLOBAL ISSUES

Our relations with our allies, our international economic concerns, and our competition with the Soviet Union are, of necessity, priority concerns for U.S. policymakers. But these issues cannot be permitted to dominate our thinking to the extent that we ignore the host of "global" issues that ultimately could have a far greater impact on our Nation's security and well-being.

It is increasingly clear that we must devote more attention to the Third World and Third World issues—political legitimacy, population, hunger, debt, trade, and security. We have to concern ourselves with the question of nuclear pro-

liferation. Finally, we must deal with the continuing deterioration of the global environment.

It is vital to stress that these global issues require our consideration quite apart from our pursuit of our other interests.

No sensible animal fouls its own nest. Yet man is progressively destroying his environment. Unless we actively move to repair the damage, we will have to share in the consequences.

Dramatic population growth and hopeless poverty in the Third World will increase the incidence of waves of refugees cast upon our shores and pressures for more immigration.

Six nations have exploded nuclear devices. But a number of others are believed to be capable of doing so. The day may not be far off when Libyans, Iraqis, and Pakistanis have nuclear bombs. That should be of concern to us.

Finally, and specifically, we should not let our competition with the Soviet Union so dominate our thinking that we are unable to respond to Third World needs except in terms of that competition.

One of our greatest challenges—and worst failings—has been our inability to frame a constructive framework for responding to Third World challenges. Our security is at stake in the future stability of Saudi Arabia and Nigeria. Yet we understand little about the forces at work in these and other Third World countries.

#### PART V-REGIONAL POLICIES

Our conceptual priorities—centrality of alliances, economic imperatives, et cetera—have regional implications which are important to consider. A sound U.S. foreign policy must be grounded in active and sensible policies in Western Europe, the Middle East, Japan, and the Western Hemisphere. These regions must receive the focus of U.S. policy initiatives.

#### WESTERN EUROPE

Our relations with the major nations of Western Europe are fundamental to the United States. These relations are, however, currently under strain for the following reasons:

The credibility of American strength, reliability, and commitment is widely questioned in Europe. The European responsiveness to global challenges is doubted in Washington.

Europe and the United States appear to have divergent interests on Middle East and East-West issues in particular.

Economic problems on both sides of the Atlantic inevitably promote talk of regional or national rather than Western responses to these problems.

Nonetheless, there remains widespread understanding of the overriding commonality of certain Western interests.

Only the Soviets can gain from a split in the Western alliance, a split they are actively attempting to promote. Moreover, the augmentation of Soviet military power has direct implications for the European balance. This is particularly the case given the weakening of the Southern flank of NATO in recent years. Turbulence in the Third World poses a general threat to the West and a particular threat to European nations dependent on raw materials for their economic survival. Yet institutionally, in the military sphere in particular, we are not prepared to deal with conflicts outside of Europe. NATO was set up to respond to European not Middle Eastern crises.

The United States, and her key European allies, must begin by stepping back from the tactical discussions—Afghanistan, trade, Iran, and so forth—which occupy so much of our time, and try to reach a consensus on the strategic challenges which face our alliance. Only then can cooperative programs be devised to meet these challenges.

The strategic framework for our East-West and North-South relations must be constructed so that crises, such as are occurring now in Afghanistan and Iran, can be dealt within the context of larger realities.

Only in this way can we mitigate the inevitable tactical disagreements which are today splitting the alliance.

But if these programs are going to obtain the necessary consensus support, there will have to be accommodation by all parties. Specifically, the United States

Qust:

First: Begin to negotiate with her allies. The era of simple notification after decisions is over. Our European friends, if they are to be expected to lend their power to policies, must have a hand in the formulations of those policies in genuine consultation.

Second: This means that the European component of our foreign policies must increase. This is difficult for us to accept and understand, but it is this very departure that could determine the success or failure of these policies.

Europe must:

First. Understand that with power comes responsibility. Germany, France, and Britain must reorient their thinking to the global challenges which can undermine their regional security. The battle for Bonn may be lost in Kabul or Riyadh.

Second. The European component in the global "burden sharing" must become more significant. Americans must not be left with the feeling that they are alone on the front line while Europeans reap the benefits of détente.

#### THE MIDDLE EAST

The United States has longstanding ties to certain nations in this region. We are, for example, committed for a variety of good reasons to the security and well-being of the State of Israel.

A primary interest in the Middle East of the United States and her allies is continued access to adequate supplies of energy at "acceptable" prices. We get one-quarter, Western Europe two-thirds, and Japan three-quarters of its imported oil from the Persian Gulf.

Access to this oil is threatened by political instability in the region, Soviet activity, and by the continuation of the Arab-Israeli conflict.

Ever since World War II, the Middle East has been a region of political instability. The continuing search for national identity and political legitimacy in that part of the world has not been an easy one. The experience of Iran provides only the latest example of just how difficult this process can be. It is quite possible that abrupt shifts in the ruling elites, such as took place in Tehran, will occur in other countries in the region.

Soviet activity in the Middle East must also be viewed as threatening to us. In recent years, as has been noted earlier, there has been a particularly determined effort by Moscow to expand its influence in that part of the world. This effort has not always met with success, but it continues. The Soviet use of surrogates such as the Cubans and East Germans is a particularly worrisome phenomenon.

The Arab-Israeli conflict represents a dangerous situation for the United States. There is always the possibility that this conflict could expand into a direct superpower confrontation. Moreover, the continued absence of an acceptable solution to the Palestinian issue affects our other relations in the Middle East. Quite obviously, our problems in the region would not disappear if this and other issues were resolved. However. our ability to concentrate on our pursuit of our other interests in the region would be enhanced by an enduring resolution that is, acceptable to Israel and the Arabs—of these issues.

We have not been very adept at constructing policies responsive to these challenges. We have yet to determine the proper balance between maintaining the status quo and recognition that inevitable change in the region will leave us behind unless we are nimble. Moreover, our tendency has been to "go it alone" in the Middle East in the last decade. We abandoned the Five Power talks for oneman shuttle diplomacy. We are now developing a Rapid Deployment Force for the region that could send us hurtling into the Middle East alone and unaided.

We must begin by recognizing that there are severe limitations on our ability to maneuver in that part of the world. There is a tendency in some quarters in the United States to want to believe that our only problem in the Middle East is that we are no longer respected. Our "power" is no longer feared and our "will" is in question.

There is an element of truth in these

assertions, but to the extent that the adherents believe we can restore American influence through the use of military force alone, it is a dangerous misconception.

We have to recognize that the nations of the Middle East suspect us of having ulterior designs in the region. For us to use our own military forces to resolve what is seen as an internal Middle East issue would be to confirm their worst fears. It would not lead to greater respect. It would lead to a far greater regional coalescence against an external American threat.

We must, in short, walk a fine line in which we make clear our ability to defend our interests without exercising that ability indiscriminately in a misguided effort to demonstrate our will. This suggests, of course, that we must begin to involve our allies—regional and external—far more than we have in the past in cooperative approaches to regional challenges.

We must have priorities. Recent administrations have been right to focus on resolution of the Arab-Israeli conflict. Our ability to work constructively with both Israel and Egypt will be enhanced when these countries are no longer isolated in the region. Quite clearly, we must provide more effective responses to Soviet challenges. Augmenting our naval capabilities in the Indian Ocean is certainly necessary.

We must not, however, permit Soviet activity in the Middle East to blind us to the underlying political/economic problems in the region. These countries will develop their own antibodies to Soviet expansion if we assist, not threaten, them.

FAR EAST

The United States has vital strategic interests in the Far East. They affect both our security and our economic well-being.

These interests include: insuring the safety of U.S. allies in the region; maintaining regional stability particularly with respect to possible conflict situations in Korea, Taiwan or Southeast Asia; and promoting stable economic relationships between the United States and the countries of the region.

The cornerstone of our Asian relations is, and must continue to be, Japan, our strongest and most reliable ally in the area. Japan has the second or third largest economy in the world. It is strategically located and is tied to the United States by mutually binding treaty commitments.

U.S. relations with the Japanese have not always been easy. Our refusal for many years to normalize relations with the PRC and our involvement in Vietnam strained our ties with Tokyo. Economic differences remain an ever present source of potential friction.

Nonetheless, there is a general understanding on both sides of the Pacific that what binds us is far greater than what separates us. It is important, therefore, that our commitment to the relationship be strengthened. The Japanese are understandably concerned by our talk of troop withdrawals from Korea and a "swing" defense strategy that would send U.S. Pacific-based military assets to Europe in the event of a crisis there. Sending our 7th Fleet carrier task force to the Indian Ocean did nothing to dampen these concerns.

Our relations with Korea are of a different sort. We have a historical commitment to that country's security, which is vital to maintain if for no other reason than that Korean security has great significance for Japanese security.

Our most difficult regional policy dilemmas are with the Peoples' Republic of China. Few disagree that cooperative relations between the PRC and the United States are in the mutual interest of both countries. It is much less clear how close these relations should be.

We have tended to display great enthusiasm for the PRC connection without, perhaps, sufficiently considering the pitfalls of overplaying the China card.

Chinese leaders have attempted to draw the United States into a more confrontational stance vis-a-vis the Soviet Union. These efforts have, of course, provoked considerable concern in Moscow. A little bit of Soviet uncertainty regarding the extent and purpose of United

States-PRC ties is not unhealthy. Henry Kissinger understood this well. But too much uncertainty could be catastrophic.

The point is a relatively simple one. The Soviet Union has the military capability—and may also have the necessary paranoia about Chinese intentions—to wipe out the People's Republic as a functioning society. It is in our interest to improve our relations with Beijing but not at the expense of creating major tensions in Moscow. Our relations with the Soviet Union and our interest in avoiding a major Sino/Soviet military confrontation must temper our hot pursuit of improved ties with China.

We should certainly proceed with the improvement in our economic and cultural interaction but stay away from

military ties with Beijing.

Whatever improvement in United States-People's Republic of China relations occurs will have to take place despite the internal political instabilities in China and the nonresolution of the Taiwan issue. We cannot hope to have much effect on the first and must remain resolute in our insistence that the second be resolved by peaceful means.

In the rest of the region, we must continue in the closest relationship with Australia and New Zealand. We should seek to understand and respond sympathetically to the economic aspirations of the people of Asia. But, we cannot expect to exert great influence on their security arrangements. The response, for example, to Vietnamese expansion must come largely from local forces not American.

#### WESTERN HEMISPHERE

We have historically neglected our relations with our neighbors. Key bilateral relations have not been properly nurtured and regional priorities have traditionally been overshadowed by other foreign policy concerns.

Three countries, in particular, are of critical importance to the United States in this hemisphere—Canada, Brazil, and Mexico.

The United States has traditionally devoted insufficient attention to its relations with its northern neighbor. We have assumed too much. It is not too late to rectify this mistake, but considerable effort will be required on our part. Canada's interests do not necessarily converge with ours and managing our differences in the decade ahead will be of vital importance to both of us.

Brazil has traditionally had close relations with the United States. In the economic field, 19 percent of Brazil's exports go to the United States, we supply 16 percent of Brazil's imports, and our banks supply close to a third of Brazil's foreign debt. In each of these categories, we are Brazil's largest partner.

However, Brazil is determined to chart a course independent of the United States. It is determined to play a role on the world scene commensurate with its size—fifth largest country in the world—population—sixth most populous with 125 million inhabitants—and economic clout—eighth largest Western economy with a 1979 GNP of \$200 billion.

For the United States to deal with Brazil constructively, we must be willing to address ourselves to the issues—largely economic—which concern her. Brazilians recognize that their fate is, in part, tied to ours. An economic recession in our country inevitably has negative repercussions in Brazil. What Brazilians want and need is U.S. movement on commodity, trade, and technology transfer issues. If Brazil's economy is to maintain its impressive growth rate, her commodities must be traded in a more predictable pricing environment. She must have access to our markets and to our technology.

By the mid-1980's, Mexico could be our largest single trading partner. At present, Mexico sends over 70 percent of its oil exports to the United States. It could become a growing source of energy for us in the future.

There are, however, severe strains in our bilateral relations. These are, in part, inevitable. Mexico is seeking a separate role in the region and the world. Inevitably, this involves distancing itself from the United States on certain issues. We, on the other hand, have not been sufficiently sensitive to Mexico's special con-

erns. We have not accorded that country the respect it deserves.

We can no longer avoid the problems and the opportunities that exist with regard to United States-Mexican relations.

Mexico has a population of 65 million which could double by the year 2000. To-day 30 million Mexicans are under the age of 14. Mexico is our largest single source of undocumented aliens. Unless this problem is dealt with, it will plague our relations for years to come. Part of the solution may be in the fact that 8 of Mexico's 32 states account for 80 percent of all Mexican migration to the United States. If we could help solve the economic problems in those states, the issue of illegal immigration could become more manageable.

But the United States needs not only good bilateral relations in the Western Hemisphere, it needs good regional policies as well. This is particularly the case with respect to the Caribbean area.

We have unwisely neglected the Caribbean region. It should be a vital regional priority of the United States to remedy

this neglect quickly.

The Caribbean, and the countries in and around it, form the strategic underbelly of the United States. Through the Caribbean flows more than 50 percent of our annual oil imports. It commands the entrance to the Panama Canal. It—in particular Jamaica—is the source of much of our bauxite. Last, but not least, the Soviet Union has established a presence there which is potentially threatening to us.

These are all sound security reasons for paying more attention to the countries of the Caribbean, but there are domestic American reasons as well.

The United States is now the fifth largest Spanish-speaking country in the world. The 17 to 22 million Hispanic Americans may shortly be our largest minority. Moreover, the Caribbean is now our second largest source of undocumented aliens—after Mexico.

The barriers to effective U.S. policies in the Caribbean are enormous. Political instability is endemic to the region. It arises out of the failure of nations in the region to reach internal agreements on issues of political legitimacy. Who should hold power and how should power be transferred? These political problems are exacerbated by severe economic and demographic strains.

The combination of economic mismanagement, high oil prices, and low commodity prices has created a regional economic depression. High unemployment is rampant. High emigration saps the regional talent pool. All these problems are made worse by a dangerous demographic situation. The median age in the Caribbean is 16, as compared to 29 in the United States. The young people in the Caribbean, collectively, constitute a time bomb set to explode.

We will have to live with the inevitability of change—sometimes violent—in the region.

We must awaken to these challenges. Certainly we must not neglect the possible military implications of joint Soviet-Cuban activity in the region. But real problems also lie elsewhere. We cannot deal with them by blaming Cuba for all the unrest in the area. The Soviet Union would like nothing better than to have the Caribbean polarized between those who are "with us" and those who are "against us."

I can, therefore, think of no region of the world for which it is more important to have sound aid and trade policies. We will want to achieve the proper balance between bilateral and multilateral assistance. But there must be no question that the United States is not ready to assist in the economic rehabilitation of the region. We must also be more receptive to exports from the Caribbean. Exports mean jobs for these countries and until unemployment is reduced political instability will be a fact of life.

In the final analysis, however, we can only assist the countries of the region to assist themselves.

October 17, 1980 The Honorable William Proxmire Chairman Committee on Banking, Housing and Urban Affairs United States Senate 20510 Washington, D.C. Dear Chairman Proxmire: Thank you for your October 1 letter commenting on the proposed revision of Regulation Z. You are particularly concerned about that portion of the draft allowing for alternate shopping disclosures. While you endorse the concept of early disclosures to encourage the informed use of credit, you believe that the proposed draft could create a loophole by which creditors might avoid making complete disclosures. The Board's proposed provision for alternate shopping disclosures was intended to benefit both consumers and creditors. It was designed to encourage creditors to provide early disclosure of credit costs, thereby allowing consumers a better opportunity to shop and engage in the informed use of credit. The proposal represented a departure from the current regulation, as you know, and the Board therefore solicited specific comment as to whether the proposed disclosures would promote the credit shopping function of the Truth in Lending Act.

The comments received on the proposal were largely negative; both industry and consumer commenters expressed concern about the potential problems posed by alternate disclosures. As a result, staff is restudying the proposal to determine how best to carry out the Board's commitment to enhance the credit shopping function of the Act. In view of your long-standing interest and involvement in Truth in Lending, the Board appreciates having your comments and they will be kept in mind in any revisions that we might make to improve the credit shopping function of the disclosures.

Sincerely,

S/Paul A. Volcker

GH: DJW: CO: pjt (#V-379)

bcc: Mr. Hurst

Mrs. Mallardi (2)

Paula Rice (for distribution)

Action assigned Janet Hart

HARRISON A. WILLIAMS, JR., N.J. JAKE GARN, UTAH ALAN CRANSTON, CALIF. ADLAI E. STEVENSON, ILL. ROBERT MORGAN, N.C. DONALD W. RIEGLE, JR., MICH. PAUL S. SARBANES, MD. DAVALD W. STEWART, ALA. G. ORGE J. MITCHELL, MAINE

WILLIAM PROXMIRE, WIS., CHAIRMAN JOHN TOWER, TEX. JOHN HEINZ, PA. WILLIAM L. ARMSTRONG, COLO. NANCY LANDON KASSEBAUM, 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

October 1, 1980

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

Dear Chairman Volcker:

The Board will soon be considering the proposed revision of Regulation Z. I wish to indicate serious reservations concerning that section of the revision relating to advanced disclosures. While I concur with the Board that the concept of advance disclosure has the potential to greatly encourage the informed use of credit, promulgation of this proposal in its present form would most certainly undermine not only the potential utility of this concept but the basic premises of TIL itself.

On October 29, 1979 I stated my support for advance disclosure on the Senate floor. I specifically noted that the benefit from such advance disclosures would derive from the fact that "the borrower could review credit cost information when applying for credit, at a time when credit shopping is possible, rather than obtaining the disclosure at the loan closing". Unfortunately, your proposal does not in any way differentiate between transactional circumstances where the borrower is making tentative inquiries concerning the cost of borrowed funds and those situations where the borrower is sitting down with the creditor to consummate the agreement to extend credit. The failure to make this distinction will undoubtedly permit any number of unscrupulous creditors to avoid making complete disclosure merely by supplying the borrower with "advance" disclosures at the consummation of the transaction as permitted (if not encouraged) by this loophole.

Another obvious weakness of this proposal would permit the disclosure of an amount financed which may be as much as 10% at variance with the actual amount financed. This permissible variance, without any dollar limitation, would be particularly troublesome in the case of larger consumer credit transactions,

gitized for FRASER

The Honorable Paul A. Volcker -2- October 1, 1980 such as home improvement and mobile home loans. For example, your proposal would permit an aluminum siding firm to solicit a family, in their home, to purchase siding and to consummate a 15 year credit transaction for \$16,200 with this family, all on the same day, while providing only "advance" disclosures with a grossly understated amounted financed of only \$15,000. Obviously, any advance disclosure of the total finance charge would be similarly understated. The potential for mischief is unmistakable. I would therefore urge the Board to reject this advance disclosure proposal until such time as these deficiencies have been obviated. I trust that we are in agreement that advance disclosure deserves a much stronger foundation than would be provided by this particular proposal. William Proxmire

Chairman

WP: 1gj

OF GOVERADOR WILLS

# BOARD OF GOVERNORS

## FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

PAUL A. VOLCKER
CHAIRMAN

October 20, 1980

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

Dear Mr. Ritter:

I want to thank you for your recent letter describing H. R. 7655, which would reduce personal and corporate tax burdens and limit the growth of federal spending.

Last month I had the occasion to discuss the tax cut issue with the House Budget Committee, so my comments regarding H. R. 7655 probably will come as no surprise to you. I continue to be concerned that the fiscal policy proposals before the Congress -- including H. R. 7655 and the Senate Finance Committee's bill--would prove detrimental to our nation's long-run economic health. While there is an understandable desire to foster a vigorous recovery from the current economic downturn -- and to ease personal and corporate tax burdens -- we must not lose sight of the implications that an expansive budgetary policy would have on inflationary expectations. In our current environment, any deviation from a commitment to a sustained fiscal discipline is likely to have a destabilizing effect on the public's view of the prospects for a return to price stability. As a result, any benefits accruing from a tax reduction may be dissipated in further financial and price pressures.

I agree with you that a well-structured tax reduction can make an important contribution to solving our nation's economic difficulties. The tax system can be adjusted to add incentives that encourage capital formation, and thereby enhance productivity growth. As your letter suggests, a tax reduction also can help relieve the pressures that have been placed on many household budgets by a combination of rising living costs and increasing marginal tax rates.

A decision on the size and timing of a tax reduction, however, must be reconciled with the nation's economic outlook and the government's budgetary stance. All evidence points to

The Honorable Don Ritter Page Two a substantial growth in federal spending in the year ahead. This growth coupled with strong inflationary trends already in place argues against a tax cut of the magnitude embodied in H. R. 7655. Until restraint is demonstrated on the spending side of the budget, any increase in the deficit would be viewed as inflationary and would pose a threat to the recovery of such interest rate sensitive sectors as housing and autos, Given these factors, I continue to favor delaying any consideration of a tax cut until early next year. At that time, some of the current economic uncertainties will be resolved and a clearer picture will emerge about the spending priorities of the Congress and the Administration. The next three to six months will provide an opportunity to refine our thinking about the structure of any future tax reduction. We want to be certain that it provides the most efficient means of achieving the objectives of long-term economic growth, price stability, and budget balance. Sincerely, S/Paul A. Volcker JSF:FMS:JSZ:vcd (#V-377) bcc: Messrs. Kichline, Struble, Fralick, Zeisel Mrs. Mallardi (2) gitized for FRASER ns://fraser.stlouisfed.org

Action assigned Jim Kichline

DON RITTER 15TH DISTRICT, PENNSYLVANIA

COMMITTEES:

BANKING, FINANCE AND URBAN AFFAIRS

SUBCOMMITTEES.

HOUSING AND COMMUNITY DEVELOPMENT DOMESTIC MONETARY POLICY CONSUMER AFFAIRS

SCIENCE AND TECHNOLOGY

SUBCOMMITTEES:

ENERGY DEVELOPMENT AND APPLICATIONS SCIENCE, RESEARCH AND TECHNOLOGY

NATURAL RESOURCES AND ENVIRONMENT Mr. Paul A. Volcker Chairman-Board of Governors of

The Federal Reserve System 20th and C Streets, N.W. Washington, D.C. 20551

Dear Mr. Volcker:



# Congress of the United States

House of Representatives

Washington, D.C. 20515 September 26, 1980

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

DISTRICT OFFICES:

SUITE 1005 1 BETHLEHEM PLAZA
(215) 866-0916

> **ROOM 212** ALLENTOWN POST OFFICE BUILDING ALLENTOWN. PENNSYLVANIA 18101 (215) 439-8861

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

I thought you would be interested to learn of a major new legislative proposal to help fight inflation and reduce the burden of taxation on the American people.

I am pleased to be a cosponsor of H.R. 7655 which embodies principles that have received my support since my election to Congress. H.R. 7655 not only increases after-tax incentives for all individuals but slows the growth of federal spending. In addition to providing a 30 percent tax cut in three years, this legislation would begin to adjust - or "index" - all tax brackets in the fourth year according to the Consumer Price Index. This will prevent taxpayers from being pushed into higher tax brackets without increases in income. This bill also provides much needed tax incentives for business by accelerating depreciation rates for business investments.

As you know, I have continually fought for legislation to limit the amount of taxes we are forced to pay. For too many years, individuals have been relentlessly pushed into higher tax brackets regardless of whether their earnings increased in "real" terms or merely because of inflation. Only through reduced levels of taxation will our society again see the beginning of real economic growth, productivity at work and increased savings. The wealth of our nation is created not only from natural resources but also, and more importantly, by people responding to economic incentives. The poverty of a nation is the result of a lack of these resources and of people being discouraged by lack of incentives to realize their full potential. When we are urged to make money, only to discover that the government will permit us to keep less than half of it, we are disinclined to do so.

It is time to end the circular process of raising tax rates, economic decline, widening deficits and further tax increases. I firmly believe we must cut tax rates beginning in 1981. My support for this important legislation is not only to return to work those millions of Americans who have lost their jobs in this unnecessary recession. We must restore permanent incentives to provide the climate of lasting prosperity we need to get our fiscal house in order to meet the many challenges facing us at home and abroad.

With kindest regards. I am

Sincerely,

DON RITTER Member of Congress



# BOARD OF GOVERNORS

## FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

PAUL A. VOLCKER

October 20, 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 recent letter that includes correspondence from Mr. Milton Schmidt concerning the Bank of Sturgeon Bay in Sturgeon Bay, Wisconsin. The facts outlined in his letter indicate that he entered into a mortgage contract with the bank in 1972, with a disclosed interest rate of seven percent. Subsequently, he was informed by the bank that the interest rate would be raised to eight percent, pursuant to a provision in the mortgage note which he signed.

At the time Mr. Schmidt signed his mortgage, the Board's Regulation Z (Truth in Lending) gave creditors an option in dealing with contractual variable rate provisions for purposes of required disclosures. Creditors could either (1) give certain variable rate disclosures as part of the Truth in Lending disclosure statement that is provided prior to consummation of the contract or (2) make no disclosures on the disclosure statement provided at consummation and treat each rate increase as a refinancing of the original contract requiring a full new set of disclosures. Effective October 1977, the Board amended Regulation Z to require certain disclosures in connection with any contract containing a variable rate provision.

Mr. Schmidt's contract was signed in 1972 and his bank can properly operate under the pre-October 1977 rules outlined above. Evidently the bank chose to treat each rate increase as a refinancing subject to new disclosures. The new disclosure statement Mr. Schmidt received in the mail appears to be the bank's effort to make the required new disclosures for the rate increase.

Mr. Schmidt also indicates that the variable rate clause may have been added to his contract after it was signed. This of course raises an issue of fact that we are not able to resolve.

I trust you find this information useful.

RF:CO:D3W:pjt (6V-375) bco: Robin Fenner Mrs. Hallardi (2) Sincerely,

S/Paul A. Volcker



BOARD OF GOVERNORS

## FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

PAUL A. VOLCKER
CHAIRMAN

October 20, 1980

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

Dear Chairman Reuss:

Thank you for your letter of October 2 regarding implementation of the Monetary Control Act through Federal Reserve Regulation D (12 C.F.R. 204). You expressed concern that the provisions of Regulation D could unnecessarily subject credit union share accounts to reserve requirements because, under the definition of transaction account, routine distributions of Federal government employee salary allotments directed to savings accounts could cause the accounts to fit within the definition of "transaction account" and thus be subject to reserve requirements.

This problem has been considered recently in light of the concerns which you and others have expressed about the impact of Regulation D on the type of plans offered to customers of financial institutions which have the effect of encouraging thrift among depositors. We have concluded that where a deposit is made directly of a portion of a payroll deposit are made to family member accounts or other accounts of the depositor, such disbursements are an element of the deposit transaction and are not to be regarded as funds in this manner would not in and of itself render an account to which the payroll funds are initially deposited to be a transaction account.

We feel that the above position clearly affords institutions the flexibility to continue to offer plans which encourage savings and also achieves the objectives of the Monetary Control Act by applying reserve requirements to accounts used truly for transactions purposes.

MPH:CTS:pjt (6V-378)
boo: Ms. Winebarger
Mr. Schwartz
Nrs. Mallardi (2)
Loyal Records (2)

Sincerely,

WILLIAM PROXMIRE, WIS., CHAIRMAN Action assigned Janet Hart HARRISON A. WILLIAMS, JR., N.J. JAKE GARN, UTAH JOHN TOWER, TEX.
JOHN HEINZ, PA. ALAN CRANSTON, CALIF. ADLAI E. STEVENSON, ILL. WILLIAM L. ARMSTRONG COLO. DONALD W. RIEGLE, JR., MICH. NANCY LANDON KASSEBAUM, KANS. PAUL S. SARBANES, MD. DONALD W. STEWART, ALA.

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

GEORGE J. MITCHELL, MAINE

## United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WASHINGTON, D.C. 20510

00

September 24, 1980

Honorable Paul A. Volcker Chairman Federal Reserve Board Constitution Avenue between 20th and 21st Streets Washington, D.C. 20551

Dear Chairman Volcker:

I am enclosing correspondence from a Mr. Milton Schmidt of Sturgeon Bay, Wisconsin who has brought to my attention a problem he has encountered with the Bank of Sturgeon Bay.

Would you please review both the documents and the procedures utilized by the bank in this case and issue a statement on your inquiry as soon as possible.

Best wishes.

Sincerely

Chairman

WP: lgj Enclosures

FROM THE K OF



MILTON "BUD" SCHMIDT

STURGEON BAS: WISCONSIN 54235 PHONE 743-6966

September 3, 1900

Senator William Promine, 5241 Dirksen Building, Washington, D. C. 20510.

Dear Senator Promire:

This letter is in addition to the letter which I mailed to you on August 25, 1980 regarding the problem I am having with the Pank of Sturgeon Bay at Sturgeon Bay, Misconsin with reference to the Truth in Lending Disclosure form. I just received the enclosed copy of a letter and a newly prepared Truth in Lending form from the bank charing an inclose in parameter, which needless to cay, I or my wife did not sign. Their letter to us was dated August 27, 1980 and this, undoubtedly, was the date the new Truth in Lending form was prepared. I feel this is definitely a violation of the Truth in Lending law and would greatly appreciate your investigating this in combination with our August 25, 1900 letter to you. It is not only a violation of the Misconsin Truth in Lending laws but also a violation of the Misconsin Truth in Lending laws but also

Sincerely,

Wilton W. Schmidt





MAIN OFFICE 215 NORTH THIRD AVENUE STURGEON BAY, WISCONSIN 5423!

PHONE: 414-743-555

SERVING DOOR COUNT

August 27, 1980

Mr. Milton W. Schmidt

RE: Mortgage Escalation

Dear Mr. Schmidt:

Pursuant to the Federal Reserve Bank of Chicago's letter of August 22, 1980, we are forwarding to you the additional disclosure required under section 226.8(b)(8) of Regulation Z. The enclosed Truth-in-Lending statement indicates the anticipated principal balance due for your October payment and, calculating the interest rate to be applied on the balance of your loan, it also shows the total finance charge as well as the monthly payment. This statement complies with all Federal and State disclosure requirements and should avoid any possibility of confusion or misunderstanding in the future. However, should you have any questions, please feel free to contact me personally.

Very truly yours

Stephen A. Kase

Corporation Counsel

SAK: 1ms

Enclosure

cc: Ron Berg
Tom Herlache
Federal Reserve Bank

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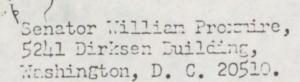
Citations: Mortgage loan disclosure, Bank of Sturgeon Bay, May 31, 1972.

FEDERAL RESERVE BANK OF CHICAGO 230 SOUTH LA SALLE STREET CHICAGO, ILI INOIS 60690 (312) 322-5322 August 21, 1980 Mr. Milton W. Schmidt Dear Mr. Schmidt: This is to acknowledge your letter of August 16, 1980. We have enclosed Federal Reserve Board staff Public Information Letter number 749, written for a situation identical to yours. Therefore, our opinion is consistent with letter 749, that is, by a contractual agreement outisde the sphere of Regulation Z, the bank is free to change the rate so long as it treats the change in terms as a refinancing requiring new Truth in Lending disclosures. A copy of Regulation Z, is enclosed. Please note that Interpretation 226.810(page 76) has been superceded by Section 226.8(b)(8). Very truly yours Yohn L. Bergstrom Supervisory Examiner NOTE: This letter was just received today when we were about to mail this information to you. You can see our problem. Our loan on our home has not been refinanced but is the original loan as of May 31, 1972 and payments have been made each and every month without fail. Milton "Bud" Schmidt ps://fraser.stlouisfed.org

FROM THE DOK OF

# MILTON "BUD" SCHMIDT

3998 Hwy. 42-57 Rt. 2 STURGEON BAY, WISCONSIN 54235 PHONE 743-6966 417 August 25, 1980



Dear Senator Proxmire:

A matter has arisen with reference to the Truth in Lending Disclosure form which my wife and I signed when we mortgaged our home on May 31, 1972 with the Dank of Sturgeon Bay at Sturgeon Bay, Wisconsin.

The bank sent us a notice on June 23, 1980 stating our interest rate would be increased from 7% to 8%. Our Truth in Lending form did not specify that there would be any increase in interest at any time. It clearly specified that we would have 240 consecutive payments at \$124.05 per nonth, at 7% interest, with no indication of any further payments or possible increases in the future. It is our understanding that any escalation clause must be also noted on this form. Had we known there may be an increase in interest, we would not have signed the form or taken the mortgage from them. A copy of this form is enclosed, as well as their letters to us.

Also enclosed is a copy of the mortgage note which we signed. However, we would like to point out that we did not receive a copy of this note at the time we executed the nortgage. This copy was made for us at the bank just a few days ago at our request. We also wish to point out that the nortgage note indicated an escalation clause was added of which we have no Inouledge and was typed on the reverse side of the note. Had we known this at the time in 1972, we would not have signed the note. This addition may have been added at a later date by the bank. We have no way of Inowing, but one thing is sure, it was not disclosed to us or reflected in the Truth in Lending Disclosure form. If you notice, on the Truth in Lending form under "Nortgage Costs", additional charges were crossed off because we would not agree to any additional charges. We wanted to know what our exact costs would be at the closing as well as in the future.

We checked with the Federal Reserve Bank in Chicago, and they said this is legal. However, we do not feel it is legal--otherwise there would be no reason for a Truth in Lending form and the form is definitely then worthless and a waste of taxpayer's money.

Mindly investigate this matter and advise as soon as possible. We do not feel an increase in interest is warranted since it did not appear on the Truth in Lending Disclosure form. We feel this is a violation of the Truth in Lending regulation. Please refer to Regulation Z 226.8 (B) (8) 12/27/78 and also memorandum FCO152.

Thank you very much for your help. I know I can count on your assistance.

MOTT: See notation on bottom of Federal Reserve Bank letter dated Aug. 21, 1980.

milton Bud "Schmidt

"We Live and Work in Beautiful Door County, God's Country"





MAIN OFFICE 215 NORTH THIRD AVENUE STURGEON BAY, WISCONSIN 54235

June 23, 1980

PHONE: 414-743-5551

SERVING DOOR COUNTY
SINCE 1889

Mr. and Mrs. Milton Schmidt

Dear Mr. and Mrs. Schmidt:

As we all know, spiraling inflation is making everything more expensive. The cost of money is no exception. As you may recall, your mortgage note with the Bank of Sturgeon Bay contains a clause which permits the Bank of Sturgeon Bay to escalate the interest rate under certain circumstances and after proper notice to you. Other financial institutions have long been invoking the escalation clause but until recently the Bank of Sturgeon Bay has been able to avoid doing so. Recently, inflation has become so severe that the Bank of Sturgeon Bay has been compelled to increase its interest rates as well. We regret that this action has become necessary.

Attached to this letter is the official notice required by the Wisconsin Statutes advising you of your rate increase. At the time your new rate becomes effective, you will be sent a new payment book. Please read the notice carefully. If you have any questions, please feel free to contact our Mortgage Loan Department.

Sincerely,

Ronald D. Berg Vice President

RDB: nad

## **Removal Notice**



The item(s) identified below have been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to personally identifiable information.

#### **Citation Information**

**Document Type:** Personal account documents **Number of Pages Removed:** 5

Citations: Notice of interest adjustment, Bank of Sturgeon Bay, June 23, 1980.

Mortgage agreement, Bank of Sturgeon Bay, May 31, 1972.

Mortgage note, Bank of Sturgeon Bay, June 30, 1972.

Payment record, undated.

Mortgage note, Bank of Sturgeon Bay, June 30, 1972.

N-398 October 22, 1980 The Honorable Daniel K. Incuye United States Senate Washington, D.C. 20510 Dear Senator Inouye: Thank you for your letter of October 18, 1980, concerning the requests of nonmember depository institutions in Hawaii for temporary relief from Federal reserve requirements under the Monetary Control Act of 1980. Yesterday the Board considered these requests and determined that a six-month waiver of reserve requirements until May 1981 is appropriate for nonmember depository institutions in Mawaii that are not currently required to maintain reserves under the Act. The Board's action was taken after examination of the legislative history of the exemption provided by the Act for certain State-chartered institutions located in Hawaii and in view of the small amount of reserves that otherwise would be required to be maintained. It is anticipated that the Board's action will provide Congress with an opportunity early next year to re-examine the extraordinary exemption for institutions located in Hawaii. In order to assist the Board in obtaining data necessary for the conduct of monetary policy, all institutions in Hawaii are requested to prepare and file the Federal Reserve's report of deposits form in accordance with Regulation D just as is required of all of the nation's depository institutions. The Board appreciates your interest in this matter and having received the benefit of your views. Sincerely, S/Paul A. Volcker GTS:bbo 10/22/80 gitized for FRASER



# CHARLES MCC. MATHIAS, JR. UNITED STATES SENATE

October 27, 1980

Dear Paul:

Thank you for your generous letter regarding my recent foreign policy statement.

I appreciate your taking the time to share your thoughtful comments with me.

With best wishes,

Sincerely,

Charles McC. Mathias, Jr. United States Senator

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

October 27, 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 October 22 recommending Warren L. Dennis as a member of the Board's Consumer Advisory Council.

I can assure you that Mr. Dennis' qualifications will receive full consideration when the Board makes the 1981 appointments to the Council.

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

Sincerely,

S/ Paul

CO:pjt (#V-402)
bcc: Ann Marie Bray (w/copy of incoming)
Mrs. Mallardi (2)

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WILLIAM PROXMIRE, WIS., CHAIRMAN HARRISON A. WILLIAMS, JR., N.J. JAKE GARN, UTAH ALAN CRANSTON, CALIF. JOHN TOWER, TEX. ADLAI E. STEVENSON, ILL. JOHN HEINZ, PA. ROBERT MORGAN, N.C. WILLIAM L. ARMSTRONG, COLO. DONALD W. RIEGLE, JR., MICH. NANCY LANDON KASSEBAUM, KANS. PAUL S. SARBANES, MD. United States Senate RICHARD G. LUGAR, IND. DONALD W. STEWART, ALA. GEORGE J. MITCHELL, MAINE COMMITTEE ON BANKING, HOUSING, AND KENNETH A. MC LEAN, STAFF DIRECTOR URBAN AFFAIRS M. DANNY WALL, MINORITY STAFF DIRECTOR MARY FRANCES DE LA PAVA, CHIEF CLERK WASHINGTON, D.C. 20510 October 22, 1980 Honorable Paul A. Volcker Chairman, Board of Governors of the Federal Reserve System Washington, DC 20551 Dear Chairman Volcker: I write to recommend the appointment of Warren L. Dennis to be a member of the Board's Consumer Advisory Council. Mr. Dennis has demonstrated exceptional knowledge and an exceptional record of accomplishment both in his prior work with the Department of Justice and his more recent work with the firm of Troy, Malin and Pottinger. Mr. Dennis has substantial expertise on the subjects of the Equal Credit Opportunity Act, Fair Housing Act, and Community Reinvestment Act. I am sure that he would be a valuable addition to the Advisory Council. Sincerely Chairman WP:srj gitized for FRASER ps://fraser.stlouisfed.org

October 27, 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 October 10 in which you enclose correspondence from Mr. and Mrs. Wilfred Heiting concerning the application of Hudson Bancshares Corporation for Board approval to become a bank holding company. Mr. and Mrs. Heiting have been contacted by the Federal Reserve Bank of Minneapolis and advised that the application has been accepted for processing by the Reserve Bank. Notice of the application has been published in the Federal Register and the close of the public comment period as set forth in the Federal Register is November 3. Any further comments that the Heitings have concerning the application should be submitted by that date. Sincerely, S/Paul A. Volcken REM: DJW: pjt (#V-392) bcc: Mr. Mannion Mrs. Mallardi (2) Legal Records (2) gitized for FRASER ps://fraser.stlouisfed.org

WILLIAM PROXMIRE, WIS., CHAIRMAN MARRISON A. WILLIAMS, JR., N.J. JAKE GARN, UTAH ALAN CRANSTON, CALIF. ADLAI E. STEVENSON, ILL. JOHN TOWER, TEX. JOHN HEINZ, PA. ROBERT MORGAN, N.C. WILLIAM L. ARMSTRONG, COLO. DONALD W RIEGLE, JR., MICH. NANCY LANDON KASSEBAUM, KANS. United States Senate RICHARD G. LUGAR, IND. DONALD W. STEWART, ALA. GEORGE J. MITCHELL, MAINE COMMITTEE ON BANKING, HOUSING, AND KENNETH A. MC LEAN, STAFF DIRECTOR URBAN AFFAIRS M. DANNY WALL, MINORITY STAFF DIRECTOR MARY FRANCES DE LA PAVA, CHIEF CLERK WASHINGTON, D.C. 20510 October 10, 1980 The Honorable Paul Volcker Chairman Federal Reserve System Washington, D. C. Dear Mr. Chairman: I have enclosed a copy of a letter with attachments from Mr. & Mrs. Wilfred Heiting regarding the application of Hudson Bancshares Corporation. I would appreciate it if your Office or the Federal Reserve Bank of Minneapolis would contact the Heiting's about this matter so that they may be fully heard. Thank you in advance for your cooperation. Sincerely, William Proxmire Chairman WP:1mg

September 14, 1980 \_1980 SEP 16 PH 4: 52 Hon. William Proxmire United States Senate TET SEP 1 PMING 5241 Dirksen Senate Office Building Washington, D.C. 20510 Re: Application of Hudson Bancshares Corporation Dear Senator Proxmire: The Hudson State Bank was organized in 1968-69 with the help of approximately 300 local middle class people who saw a need for a second bank in our community. It was truly a people's bank until the enclosed letter went out to the shareholders in late June. We are still in shock. Some of us asked for a courtesy meeting where we could learn about the "changing priorities" mentioned in the letter. This has not been granted. We have also appealed to the Federal Reserve Bank of Minneapolis, and we are informed that our only opportunity to participate in a hearing would be after notice is given in the Federal Register ... and that is only a faint possibility. During the years when the bank was growing, we were thanked profusely and praised for our support. Suddenly the sweet-talk has stopped, and we are left trying to figure why we are suddenly dispensible. Our question at this time is: How do we become aware of the notice in the Federal Register? Could your office help us? We thank you for any assistance you can give us, and for all past work on our behalf. Wilfred & & Cathorina Wilfred G. and Catherine B. Heiting gitized for FRASER ps://fraser.stlouisfed.org

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neceurer 5/31/80.

Dear Stockholder,

Changing priorities, interests and personal needs of some of our major State Bank of Hudson stockholders have brought on a number of requests for sale of their stock. In an effort to retain local ownership and current bank management, staff and philosophy, Glen Gaynor, Richard Kenall, David Cleveland and Darrell Youngberg have agreed to purchase controlling interest in the bank. No other agreements with any individuals or holding companies to sell the banks controlling interest shares have been made or are anticipated.

This letter is an offer to purchase all of your State Bank of Hudson stock at \$130.00 per share. Current book value for your stock is \$120.00.

This offer to buy your stock is made to you contingent on; A.) Your tendering of all of your shares, B.) Buyers ability to buy no less than 80% of all of the outstanding shares C.) Buyers ability to gain approval from the Federal Reserve to form a one Bank holding company.)

The buyers have the right, but are not obligated, to purchase more than 80% of the outstanding shares. In the event that more than 80% are offered for sale, 80% of each individual's share holdings may be purchased on a prorata basis but in no case will the 20% remaining unsold be fewer than two shares. The buyers do not anticipate any future offers to purchase minority shares.

Your acceptance of this offer, in order to be valid, must be signed and returned to Darrell Youngberg, at his State Bank office, on or before June 20, 1980. Upon acceptance and if the other conditions of the offer are met, we anticipate finalization of purchase and payment to you on or before September 15, 1980. An offer to purchase is being made to all State Bank of Hudson shareholders.

Please direct any questions	you might have to any of the undersigned
Die 1 House	Slen D. Samos
Richard Kenall	Glen p. Gaynor
DR Moursberg	Doniel & Elevelones
Darrell R. Youngberg	David E. Cleveland

I (we) agree to sell all of my (our) State Bank of Hudson stock pursuant to the above provisions.

organizers to shareholders During July, 1967, a group of nine local businessmen met to discuss the feasibility of a new financial institution to serve the Hudson area. From that meeting came the basic philosophy that has guided the incorporators during the past eighteen months in the development of the new State Bank of Hudson. 1. That the bank be locally owned. That the ownership be spread among as many stockholders as possible. That the best possible location be used. 4. That the best possible facility be built. 5. That services be provided the community which are not presently provided. These guide lines have constantly effected the decisions of the incorporators. Three of the incorporators were present at that original meeting - James V. Hirsch, G. Fred Kremer, and Richard N. Larsen. Monthly meetings were held from July through December. Subscription agreement was circulated through out the area to assess public interest. The community showed \$400,000.00 worth of interest without making the subscriptions a public issue. In January and February the bank group met weekly at breakfast meetings, some as early as 6:30, with Attorney John Bosshard of La Crosse, whom the incorporators hired to progide specific legal counsel. All of these meetings were pointing toward

State Banking Federal Reserve Board and FDIC approval.

In March, Mr. Hirsch, Mr. Kremer, Mr. Dabruzzi, and Mr. Larsen flew to Madison to set up a hearing date before the State Banking Com dissioner.

· In April, each of the incorporators submitted to a lengthy examination given by the FDIC and Federal Reserve Board.

The hearing, which was contested by the other local banking facility, took place in May at Madison. Preparations for this meeting included the proposed facilities, area growth potential and financial needs and expected growth of the new bank.

The State Bank of Hudson became a reality as the information given by the incorporators convinced the banking commissioner of Hudson's need.

In June, the incorporators elected officers from the group. President-G. Fred Kremer, Vice President - James V. Hirsch, Secretary - Richard N. Larsen, Treasurer - Glen D. Gaynor.

The incorporators have met each Tuesday evening since June, assessing building plans, selling stock and the thousand and one things necessary to the formation of a new business.

In March, an option was taken on the Wichser building and purchase was completed on October first. Construction on the new building began November first and will continue throughout the winter. The new building will be completed by June 16, 1969, almost two years after the original meeting.

Stock sale began in September of 1968, and the goal of \$400,000.00 was reached to \$750.76 Tox curicity \$2223.66 Total by December 16, 1968.

Building \$150,000 - ideal location costs

454.00 - 14.00

9148 man hours have been spent during the past 18 months to bring the State.

Bank of Hudson to its first Stockholders meeting. It would take one man working

40 hours per week almost five years to amass 9148 hours of labor. On a basis of

\$4.00 per hour, that man would have earned \$36,592.00 during this five year period.

The incorporators have received no payment for the time spent and the various trips and meetings have been held at their own expense.

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### **Citation Information**

**Document Type:** Advertisements **Number of Pages Removed:** 2

Citations: The State Bank of Hudson. "Hudson's Community Owned Bank." Undated.

October 27, 1980 The Henorable Robert E. Badham Rouse of Representatives Washington, D.C. 20515 Dear Hr. Badham: Thank you for giving me the opportunity to respond to the recent letter from your constituent, Mr. John Sharp. Many of his proposals are interesting and innavative. In fact, previous correspondence between Mr. and Mrs. Sharp and Chairman Hiller has addressed the work-sharing plan (see enclosures). My views on this proposel are essentially the same as those expressed in the earlier correspondence. In addition, I would note that several institutions are experimenting with loans of the equity-shering type that Mr. Sherp proposes. Hr. Sharp has offered some constructive ideas; however, I believe that inflationary pressures are so deeply entrenched, that a broader-based policy rosponse is required. Appropriate and persistent actions by the government, in cooperation with efforts by business and labor, should result over time in a gradual winding down of inflation and a rise in the level of employment. I can assure you that monetary policy is being conducted with these objectives in mind. Sincerely, S/Paul A. Volcker Enclosures (Ltrs. dtd. 10/23/78 & 9/29/78 from Miller to the Sharps and ltrs. dtd. 10/13/79 a 9/5/78 from the Sharps to Chrmn. Miller) RRL: JZ: DJW: pjt (#V-385) bcc: Mr. Michline Ma. Loney Mr. McKelvey Mrs. Mallardi (2) gitized for FRASER

SUBCOMMITTEES:
PROCUREMENT AND MILITARY
NUCLEAR SYSTEMS

HOUSE ADMINISTRATION
COMMITTEE
SUBCOMMITTEES:

INVESTIGATIONS

OFFICE SYSTEMS
ACCOUNTS

Action assigned Mr. Kichline

# Congress of the United States House of Representatives

ROBERT E. BADHAM 40TH DISTRICT, CALIFORNIA WASHINGTON OFFICE:

1108 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515

(202) 225-5611

DISTRICT OFFICE:
1649 WESTCLIFF DRIVE
NEWPORT BEACH, CALIFORNIA 92660
(714) 631-0040

#385

300 OCT -9 TTH: C

October 2, 1980

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

Dear Chairman Volcker:

Enclosed is a letter that a constituent of mine, John Sharp, requested I bring to your attention. Mr. Sharp outlines a proposal to reduce inflation and employment at the same time. It would be appreciated if you would carefully consider this proposal and share with Mr. Sharp any comments you may have on it.

cordially,

Robert E. Badham Member of Congress

REB: cmw

cc: Mr. John V. Sharp



3015-N Via Buena Vista Laguna Hills, CA 92653 September 15, 1980

The Honorable Paul A. Volcker Chairman of the Federal Reserve Board Washington, DC 20551

Dear Chairman Volcker:

You have again shown how to cut our inflation rate. Your action, as you know, would save about \$25 billion for each 1%-cut you achieve this year. Yet Senator Cranston, while visiting Leisure World in July, said "Congress would lose about \$25 billion for each 1% rise in unemployment". Consequently, will you please consider a set of legal provisions--similar to ones used in California and elsewhere.

A review of the legal status of <u>similar</u> provisions is as follows:

• Credit-sharing loans--started by your policy letter of 8/23/79.

Work-sharing compensation--started in California in July, 1978 by Senator Greene of Watts--a former union official. Its success now leads Congress-woman Schroeder to extend this law nationwide.

• Equity-sharing loans--issued in California to defer senior homeowner taxes,

and elsewhere as mortgages for new-home buyers.

Rent-sharing agreements—to pass through cuts by Proposition "13". Extending this set could cut inflation and unemployment together.

How? Each employer who uses bank loans <u>could</u> prepare a plan using these provisions. By his plan he could reduce spending to hold down prices, yet avoid lay-offs during <u>severe regional downturns only</u>. Tax, union, and rental officials could approve when needed.

The set of provisions which any regional employer could use, are:

Credit-sharing loans--with reduced purchases and inventories.
 Work-sharing compensation--with reduced payrolls and no lay-offs.

• Equity-sharing loans -- with reduced mortgage repayments and taxes.

Rent-sharing agreements--with reduced rents paid to owners who choose to participate as employers or employees.

My convictions about the use of these cost-effective\* provisions are:

Related laws with incentives can be promptly extended nationwide.

• Fewer lay-offs and equitable income-sharing could result for all.

You could then cut both inflation and unemployment less painfully.

Accordingly, will you and your regional bankers consider giving the legislative push, plus the administration, needed to combine the provisions into "A National Downturn-Sharing System"?(1) By contrast, is not income-indexing really upturn-sharing? Will you then favor me with a critique of this policy to share with its many contributors?

Ref. (1)--details, if you wish.

John V. Sharp

Productively yours,

(\*)-All reductions are in 5% steps--set by the percentage a region's downturn exceeds the nation's during the three preceding months.



### BOARD OF GOVERNORS

OF THE

#### FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

PAUL A. VOLCKER
CHAIRMAN

October 27, 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 October 9 inquiring about the legality of the Citi-Shopper customer discount service that is being promoted by Citibank.

Citi-Shopper is a merchandising service offered to holders of Citibank credit cards by Comp-U-Card, Inc., an organization unrelated to Citibank. Although this service does not appear to violate Regulation Q or give rise to consumer problems, I have asked my staff to review this matter in more detail. In addition, because Citibank is a national bank and as such is under the jurisdiction of the Comptroller of the Currency, I have also referred your request to the Comptroller for response.

Sincerely,

S/Paul A. Volcker

cc: Congressional Liaison Office

Office of the Comptroller of the Currency

LSA: vcd (#V-390)

<mark>giti</mark>zed for FRASER tps://fraser.stlouisfed.org bcc: Lee Adams (for follow-up)

Mrs. Mallardi (2)

Action assigned Gil Schwartz for coordination with WILLIAM PROXMIRE, WIS., CHAIRMAN HARRISON A. WILLIAMS, JR., N.J. JAKE GARN, UTAH Janet Hart's Division ALAN CRANSTON, CALIF. JOHN TOWER, TEX.
JOHN HEINZ, PA. ADLAI E. STEVENSON, ILL. ROBERT MORGAN, N.G. DONALD W. RIEGLE, JR., MICH. PAUL S. SARBANES, MD. WILLIAM L. ARMSTRONG, COLO. NANCY LANDON KASSEBAUM, KANS. United States Senate RICHARD G. LUGAR, IND. DONALD W. STEWART, ALA.
GEORGE J. MITCHELL, MAINE COMMITTEE ON BANKING, HOUSING, AND KENNETH A. MC LEAN, STAFF DIRECTOR M. DANNY WALL, MINORITY STAFF DIRECTOR MARY FRANCES DE LA PAVA, CHIEF CLERK URBAN AFFAIRS WASHINGTON, D.C. 20510 October 9, 1980 Honorable Paul A. Volcker Chairman Federal Reserve Board Constitution Avenue between 20th and 21st Streets N Washington, D.C. 20551 Dear Chairman Volcker: A considerable number of constituents have expressed concern that a new customer discount program initiated by Citibank, known as "Citishopper", may include several anticonsumer elements. I would appreciate it if the Board would initiate an investigation of this program to determine whether it complies with all applicable federal and state laws and regulations. Best wishes. Sincerely, William Proxmire Chairman WP: 1j gitized for FRASER ps://fraser.stlouisfed.org

The Monorable J. Bennett Johnston
United States Senate
Washington, D.C. 20510
Dear Senator Johnston:
Thank you for your letter of October 8 recommending that

Thank you for your letter of October 8 recommending that Mr. Thomas C. Jeffery be considered for appointment as a Director of the New Orleans Branch of the Federal Reserve Bank of Atlanta. The Federal Reserve is very much interested in talented individuals from a wide variety of backgrounds for possible service as Reserve Bank Directors.

We shall keep Mr. Jeffrey's name in mind as a possible candidate for the New Orleans Branch Scard, and your recommendation has also been sent to Mr. William F. Ford, President of the Pederal Reserve Bank of Atlanta, for consideration of Mr. Jeffrey as a candidate for a Reserve Bank appointed Director of the New Orleans Branch.

I appreciate your interest in identifying qualified individuals for Roserve Bank Directors.

Sincerely,

SL Paul

WHW: DJW:pjt (0V-387)
bcc: Mr. Ford--FRB, Atlanta
Mr. Wallace
Mrs. Mallardi (2)

Action assigned Bill Wallace HENRY M. JACKBON, WATH, CHAIRMAN FRANK CHURCH, IDALIO MARK O. HATFIELD, OREG. J. BEWNETT JOHNSTON, LA. JAMES A. MC CLURE, IDAHO DALE BUMPERS, ARK. WENDELL H. FORD, KY. LOWELL P. WEICKER, JR., CONN. PETE V. DOMENICI, N. MEX. TED STEVENS, ALASKA JOHN A. DURKIN, N.H. Mnited States Senate 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. **ENERGY AND NATURAL RESOURCES** DANIEL A. DREYFUS, STAFF DIRECTOR WASHINGTON, D.C. 20510 #387 D. MICHAEL HARVEY, CHIEF COUNSEL STEVEN G. MICKOK, STAFF DIRECTOR FOR THE MINORITY October 8, 1980 The Honorable Paul A. Volcher Chairman Board of Governors Federal Reserve System Washington, D.C. Dear Chairman Volcher: I am writing to bring to your attention the candidacy of Thomas C. Jeffery for a Class C Director position in the New Orleans branch of the Federal Reserve System. While I am not personally acquainted with Mr. Jeffery, I have been impressed with all that I have learned of him from the Managing Director of the Louisiana Credit Union League, whose organization has nominated him for this post. Mr. Jeffery has long been active in the League as well as in his own credit union. He has played a very important part in initiating programs at both levels and has been recognized, in particular, for the job he has done in heading up the League's Legislative and Government Affairs Committee and chairing the Student Loan Program Committee. Because the Federal Reserve is now beginning to regulate some of the programs sponsored by credit unions I'm sure that persons representative of these organizations will soon be made a part of your agency. I know that Mr. Jeffery will be one to whom you will want to give careful consideration. With kindest regards, I am ited States Senator JBJ:mm gitized for FRASER ps://fraser.stlouisfed.org

Mrs. Mallardi V-396 BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM WASHINGTON, D. C. 20551 PAUL A. VOLCKER CHAIRMAN October 28, 1980 · The Honorable Russell B. Long United States Senate Washington, D.C. 20510 Dear Senator Long: Thank you for your letter of October 16, enclosing a copy of correspondence you received from First Republic Bank, Rayville, Louisiana, concerning Federal reserves required to be maintained by the Bank pursuant to the Monetary Control Act of 1980, Public Law 96-221. As you know, Public Law 96-221 provides that a bank that was a member of the Federal Reserve System on July 1, 1979, and withdrew between that time and March 30, 1980, is required to maintain reserves to the same extent as a member bank. Nonmember depository institutions, including banks that withdrew from membership before July 1, 1979, are entitled to an eight-year phase-in of reserve requirements under the Act. First Republic Bank withdrew from System membership on February 1, 1980, and thus is required by Public Law 96-221 to maintain reserves to the same extent as a member bank. In recognition that an individual bank's withdrawal from the Federal Reserve System may have been delayed by individual circumstances, the Board, consistent with the legislative history of the Monetary Control Act, on April 23, 1980, issued an interpretive ruling (12 C.F.R. § 204.120) providing that a former member bank that presented evidence that it made an unambiguous, irrevocable decision to withdraw from membership before July 1, 1979, would be entitled to an eight-year phase-in of required reserves. The interpretation provided that a former national bank that presented the Board with documentation that its shareholders voted to convert to a State charter prior to July 1, 1979, and that was not a member bank on March 31, 1980, would qualify for the eight-year phase-in of reserves. The interpretation stated that banks desiring consideration under the provisions of the interpretation should submit full documentation to the Board as soon as possible, but in any event no later than June 16, 1980. On June 17, 1980, First Republic Bank requested consideration under the Board's interpretation. The Bank supplied information

The Honorable Russell B. Long Page Two to the Board indicating that its board of directors did not vote to convert to a State charter until November 13, 1979, and that its shareholders did not vote to approve the conversion until January 15, 1980. Accordingly, in a letter dated July 17, 1980, the Board advised the Bank that it was not eligible for the eightyear phase-in of reserves under the interpretation and that it would be required to maintain reserves to the same extent as a member bank, as required by Public Law 96-221, beginning with the seven day reserve maintenance period commencing on August 28, 1980. The Board also advised the Bank that the Board would consider granting limited extensions of the time for maintaining reserves in extraordinary circumstances in recognition that former member banks could experience hardship by being subjected to Federal reserve requirements by the August 28 maintenance period. The Bank was requested to submit any relevant information to the Board before July 31, 1980, if it wished to be considered for hardship relief. The Board has received no further correspondence from the Bank indicating that it wished to be considered for hardship relief. The Board has afforded to First Republic Bank the full extent of the opportunity for relief that the Board believes is available under Public Law 96-221. While we can understand the Bank's concern, the Board does not believe that the statute authorizes the exemption from the provisions of the law that First Republic Bank requests. We appreciate your interest in this matter. Please let us know if we can provide any additional information. Sincerely, S/Paul A. Volcker GTS:MLF:CO:DJW:pjt (8V-396) boo: Gil Schwartz Ms. Fein Mrs. Mallerdi (2) Logal Records (2) gitized for FRASER

Action assigned Mr. Petersen RUSSELL B. LONG, LA., CHAIRMAN United States Senate \$396 HERMANT, TALMADGE, GA. ROBERT J. DOLE, KANS ABRAHAM RIBICOFF, CONN. BOB PACKWOOD, DREG. HARRY F. BYRD, JR., VA. WILLIAM V. ROTH, JR., DEL. GAYLORD NELSON, WIS. JOHN C. DANFORTH, MO. MIKE GRAVEL, ALASKA JOHN H. CHAFEE, R.I. LLOYD BENTSEN, TEX. JOHN HEINZ, PA. SPARK M. MATSUNAGA, HAWAII MALCOLM WALLOP, WYO. DANIEL PATRICK MOYNIHAN, N.Y. DAVID DURENBERGER, MINN. MAX BAUCUS, MONT. DAVID L. BOREN, OKLA. WASHINGTON, D.C. 20510 BILL BRADLEY, N.J. MICHAEL STERN. STAFF DIRECTOR ROBERT E. LIGHTHIZER, CHIEF MINORITY COUNSEL October 16, 1980 Honorable Paul A. Volcker Chairman, Board of Governors of the Federal Reserve System Federal Reserve Building Constitution Avenue between Twentieth and Twenty-first Streets Washington, D. C. Dear Mr. Chairman: Enclosed is a copy of correspondence from First Republic Bank of Rayville, Louisiana, concerning problems they are experiencing with reserve requirements as a result of Public Law 96-221. I would appreciate your consideration of the correspondence and your comments on the matter. Thank you for your assistance. With best wishes, I am Sincerely yours gitized for FRASER ps://fraser.stlouisfed.org

FIRST REPUBLIC BANK
P. O. BOX 877 / RAYVILLE, LOUISIANA 71269

W. D. COTTON, Chairman Of The Board
PHULP F. STAFFORD, President
WALTERS, Vice President
BOBBY J. KING, Vice President
MRS. FLORA B. KALIL, Cashier
MRS. HATTIE C. EPPINETTE, Assistant Cashier
10 54 AM 100

September 16, 1980

Honorable Russell B. Long Senate Office Building Washington, D. C. 20510

> Subject: Monetary Control Act of 1980 Public Law 96-221 - March 31, 1980

Dear Senator Long:

On June 25, 1980, we wrote you regarding the referenced legislation and its impact on our bank. The specific part of the law which has such a stevastating effect on our bank is Section 103(8)(D)(i), which provides:

"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 enactment of the Depository Institutions Deregulation and Monetary Control Act of 1980, 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. After such date of enactment, any such bank shall maintain reserves in the same amounts as member banks are required to maintain under this subsection, pursuant to subparagraphs (B) and (C)(i)."

We were formerly First National Bank of Rayville. We had been a national bank and Fed member since May, 1952. After many months of thoughtful and deliberate analysis and investigation, we applied and were approved for a charter conversion from a national banking association to a state bank, regulated and supervised by the Office of Financial Institutions, State of Louisiana. Our charter conversion and Fed withdrawal was effective February 1, 1980.

As we informed you in our June 25th letter, we had applied to the Federal Reserve Board of Governors for an exemption from this provision. We outlined in detail our reasons for the request, citing the step by step process we used



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to convert our charter from a National Banking Association to a state bank and to withdraw our membership from the Federal Reserve System. Our request for exemption was subsequently denied, and a copy of the letter informing us of the denial is enclosed for your information. You will note in paragraph two of this letter of denial that a former member bank may present evidence that it made an unambiguous, irrevocable decision to withdraw from membership before July 1, 1979, in order to qualify for an exemption from this provision. In paragraph three, the letter states that the Board regards votes of both the directors and shareholders as necessary elements of an irrevocable decision.

As we pointed out to the Board of Governors we commenced our conversion process on May 11, 1979, prior to July 1, 1979. As a matter of practicality and priority, it would have been very ill-advised for us to have made the "irrevocable and unambiguous" decision to convert our charter and withdraw our membership before we obtained charter approval from the Office of Financial Institutions, State of Louisiana. In our opinion, that certainly would have been "putting the cart before the horse".

We have subsequently been ordered to maintain reserves on deposit with the Federal Reserve Bank of Dallas, beginning August 28, 1980. We have no alternative but to maintain these reserves, regardless of the effect on our bank, unless we can obtain an exemption. Therefore, we are writing you again to make our position very clear and to call on you for assistance.

We sincerely feel that the fears and concerns expressed by several members of the House and Senate, when this legislation was pending have come to full fruition. We refer you to the Congressional Record, of the House dated March 27, 1980, when Mr. Hammerschmidt said:

"H-2289 Mr. Speaker, I am still somewhat troubled over a particular section of this legislation which would adversely impact on some banks in the congressional district that I represent. \* \* \* \* My primary objection is that the numerous banks across the Nation who have withdrawn from the Federal Reserve System will be penalized by this provision for action they have taken over 6 months ago. It would certainly seem more logical and equitable to modify the July 1, 1979, effective date to the date of the enactment of this legislation and to have the longer, 8-year phase in period for non-members applicable to these banks which have withdrawn to date. \* \* \* \* I would hope this legislation would provide the Board of Governors some leeway in accomplishing the desired purpose of H.R. 4986 without forcing a "fire sale" and endangering these institutions. Is that the understanding of the gentleman of Board's discretionary authority? \* \* \* \* "

After the foregoing concerns were expressed, Mr. Stanton the floor manager in the House for the bill states:

As you will recall, on S-3174, similar assurance was given by Senator Proxmire when Senator Bayh questioned him, relative to the provision of the act, and pointed out that there would be a "small number of financial institutions which would be unduly penalized, if restrictive interpretations were applied to this language". Senator Proxmire replied:

"The Congress and the conferees did take into account the chance that there might be certain circumstances where an immediate change in the requirement would cause significant losses. In such cases, the conferees provided that the Federal Reserve Board should take into account such other matters as it deems necessary to ameliorate the adverse effect of this change in reserve requirements."

In view of the repeated assurances, given to the Congress, it certainly would appear to us that it would be fair and equitable that the Federal Reserve System take cognizance of our unique position, and of the unfair and unprecedented position which the legislation has forced upon us.

We feel that this one paragraph provision in the law is very discriminatory and creates an EX POST FACTO situation whereby we are severely penalized for our action taken prior to the passage of the law. We had completed our charter conversion and our Fed withdrawal on February 1, 1980, two (2) months prior to passage. The effect of this provision on our bank will be devastating insofar as our earnings and capital retention are concerned. We are at present a \$36 million dollar bank, and we estimate the loss in earnings to our bank, if we do not grow at all, to be approximately \$80,000.00 per year. This, in our opinion, is most unfair to our shareholders and to the community which we serve.

We are not asking for any special treatment. We are strongly urging you to consider our situation and make any efforts which you can to amend this discriminatory law and to allow us and other banks in our situation equal protection and the ability to phase-in our reserves over the eight year period as provided in the law. In essence, we are requesting status of a state, non-member bank, which we were on February 1, 1980.

We trust this information will enable you to assist us in our efforts. However, should you require any additional, we will furnish any data at our disposal.

Senator Long, please be assured that any efforts you make in our behalf will be most appreciated by us and also by the other banks in our same situation.

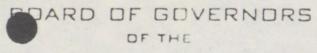
Yours very truly,

otton, Chairman

Philip F. Stafford, President

WDC/PFS:mh Enclosure





### FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE

July 17, 1980

W.D. Cotton, Chairman
Philip F. Stafford, President
First Republic Bank
P.O. Box 877
Rayville, Louisiana 71269

Dear Messrs. Cotton & Stafford:

This is in response to your letter of June 17, 1980, requesting that First Republic Bank (formerly First National Bank of Rayville), Rayville, Louisiana ("Bank") be permitted to phase-in the new reserve requirements under the Monetary Control Act of 1980 (Title I of the Depository Institutions Deregulation and Monetary Control Act of 1980, P.L. 96-221). The Act provides that a bank that was a member of the Federal Reserve System on July 1, 1979, and withdrew between that time and March 30, 1980, is required to maintain reserves to the same extent as a member bank. Nonmember depository institutions, including banks that withdrew from membership before July 1, 1979, are entitled to an eight-year phase-in of reserve requirements under the Act. According to the Board's records, Bank converted to a State charter and withdrew from System membership on February 1, 1980. Therefore, under the Act, it would be required to maintain reserves to the same extent as a member bank.

In recognition of the fact than an individual bank's with-drawal from the System may have been delayed by individual circumstances, the Board, consistent with the legislative history of the Monetary Control Act, has issued an interpretation (12 C.F.R. 204.120) providing that a former member bank may present evidence that it made an unambiguous, irrevocable decision to withdraw from membership before July 1, 1979, and thus is entitled to an eight-year phase-in of required reserves. The interpretation provides that a former national bank whose shareholders voted to convert to a State charter prior to July 1, 1979, and was not a member bank on March 31, 1980, may present the Board with clear, unambiguous documentation of such action.

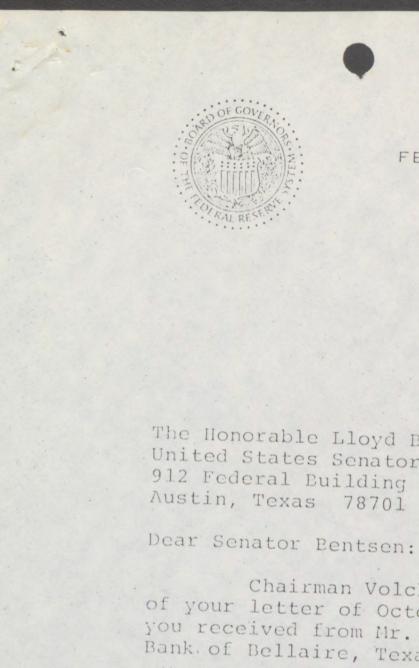
You state in your letter that Bank commenced conversion discussions with the Louisiana Commissioner of Financial Institutions on May 11, 1979, and applied to convert to a State charter on September 27, 1979. According to information provided by Mr. Stafford to Ms. Melanie Fein of the Board's Legal Division, in a telephone conversation on June 26, 1980, the Bank's board of directors did not vote to convert until November 13, 1979, and the shareholders did not vote to approve the conversion until

January 15, 1980. The Board regards the votes of both the directors and shareholders as necessary elements of an irrevocable decision by a national bank to convert to a State charter. Under the National Bank Act (12 U.S.C. § 214a), these votes are required before a national bank can convert to a State charter. Since these votes were not taken before July 1, 1979, Bank is regarded as having withdrawn from Federal Reserve membership after that date. Thus, under the provisions of the Monetary Control Act, Bank will be required to maintain reserves to the same extent as a member bank beginning with the seven-day reserve maintenance period that commences August 28, 1980.

In recognition that former member banks may experience hardship by being subjected to Federal reserve requirements by the August 28 maintenance period, the Board will consider granting limited extensions beyond that date in extraordinary circumstances. If bank desires consideration under this provision, please submit any relevant information to the Board before July 31, 1980.

I have enclosed a copy of the Board's interpretation concerning the new Federal reserve requirements for your information. As Mr. Stafford
requested in a telephone conversation with Ms. Fein on July 11, also
enclosed is a list of former member banks that withdrew from System membership
after July 1, 1979.

Deputy Secretary of the Board



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

October 28, 1980

The Honorable Lloyd Bentsen United States Senator 912 Federal Building

Chairman Volcker has asked me to acknowledge receipt of your letter of October 24 requesting comment on correspondence you received from Mr. Gary Woodburn concerning the First National Bank of Bellaire, Texas.

By statute, the Board's primary supervisory jurisdiction is limited to State banks which are members of the Federal Reserve System. Although all national banks are members of the Federal Reserve System, primary supervisory authority rests with the Comptroller of the Currency. Therefore, I have referred your request to that agency for reply.

.Sincerely,

(Signed) Donald J. Winn

Donald J. Winn Special Assistant to the Board

Congressional Liaison Office Office of the Comptroller of the Currency

CO: vcd (#V-404)

bcc: Mrs. Mallardi

LLOYD BENTSEN TEXAS

Incoming will be referred to the Comptroller of the Currency

by the Cor Liaison Office

ENVIRONMENT AND PUBLIC WORKS

JOINT ECONOMIC

Mnited States Senate

WASHINGTON, D.C. 20510

October 24, 1980

J-1/2

Chairman
Federal Reserve System
Constitution Avenue bewteen
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: Mario Ortiz

C.T . . . . . October 13, 1980 Senator Lloyd Bentsen Russell Senate Office Building Washington, D.C. 20510 Dear Sir: We would appreciate your assistance in getting the Regional Administrator of National Banks to take action against the First National Bank. This bank is trying to "bulldoze" over the rights of property owners in Richmond Plaza Subdivision by violating our deed restrictions. Despite protests by property owners, the bank continues to use two lots in Richmond Plaza for commercial purposes. We the property owners do not want the deterioration we have seen in other neighborhoods as a result of deed restriction violations. We do not want a "shade tree" auto repair shop with cars all over the front lawn, topless bar, or used car lot in Richmond Plaza. There is currently no commercial activity in Richmond Plaza other than the bank's attempt to build a commercial parking lot. The bank's address is: First National Bank 5315 Bellaire Blvd. P.O. Box 40 Bellaire, Texas 77401 Your assistance is appreciated. Sincerely, Modellum Gary Woodburn Richmond Plaza Civic Association gitized for FRASER tps://fraser.stlouisfed.org

October 13, 1980 Regional Administrator of National Banks 1201 Elm Street, Suite 3800 Dallas, Texas 75270 Re: 147860, Revolking the banking charter of First National Dear Sir: Would you please revolk the bank charter for the First National Bank for violation of the public trust? The bank's address is: First National Bank 5315 Bellaire Blvd. P.O. Box 40 Bellaire, Texas 77401 The reason for this bank's charter being revolked is as follows. We the homeowners of Richmond Plaza Subdivision in Houston bought our homes in a peaceful residential neighborhood. The First National Bank is threatening our neighborhood by violating our deed restrictions. Our deed restrictions protect our property from small "pigpen" type businesses being established in the homes such as "shadetree" auto repair garages with vehicles parked all over the frontlawns. We do not want the deterioration we have seen in other neighborhoods as a result of the deed restrictions being violated. A topless bar was built in one neighborhood across the street from a Paptist church. An adjacent subdivision has a used car lot in one front lawn and a car wash operating out of another home. Despite protests by the property owners, the First National Bank continues to violate the deed restrictions of Richmond Plaza by using two lots as a commercial bank parking lot. Instead of discontinuing this violation, the bank has hired several "Philadelphia" lawyers to "bulldoze" the property owners by some legal technicality. The bank's officers seem to feel the bank's money makes them immune from the law. Due to this bank's wreckless behavior, we want the bank's charter revolked. Thank you. Could you please send us a copy of any correspondence relating to this case? Sincerely, Gary Woodburn Richmond Plaza Civic Association cc: Congressman Bill Archer cc: Senator John Tower. cc: Senator Lloyd Bentsen cc: file gitized for FRASER ps://fraser.stlouisfed.org

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### **Citation Information**

**Document Type:** Newspaper articles **Number of Pages Removed:** 3

Citations: "Letters." Suburbia Reporter.

Pedersen, Nedland. "FNB Patrons' Use of Vacant Lot May Lead to Court Battle." Suburbia

Reporter.

October 29, 1980 The Honorable Howard H. Baker, Jr. United States Senate Washington, D.C. 20510 Dear Senator Baker: Chairman Volcker has asked me to acknowledge your letter of October 27 requesting our views on a letter you received from Mr. T.R. Smartt. Mr. Smartt expresses concern regarding the activities of Citibank, N.A., New York, New York, in promoting a service called Citi-Shopper. Citi-Shopper is a merchandising service offered to holders of Citibank credit cards by Comp-U-Card, Inc., an organization unrelated to Citibank. Citibank is a national bank and as such is under the jurisdiction of the Comptroller of the Currency. Citibank's parent corporation, Citicorp, New York, New York, is a bank holding company and its primary supervisory authority is the Federal Reserve Board. Members of the Board's staff contacted representatives of Citicorp regarding the Citi-Shopper program and were advised that the promotional activities questioned by Mr. Smartt are performed by Citibank rather than Citicorp. We have, therefore, referred your request to the Comptroller of the Currency for response. Sincerely, (Signed) Donald J. Winn Donald J. Winn Special Assistant to the Board bcc: Congressional Liaison Office of the Comptroller of the Currency CO:pjt (4V-407) bcc: Mrs. Mallardi gitized for FRASER

HOWARD H. BAKER, JR. TENNESSEE United States Senate WASHINGTON, D.C. 20510 October 27, 1980 Mr. Paul A. Volcker Chairman Federal Reserve System 5 20th and Constitution Avenue, N.W. Washington, D.C. 20551 Dear Mr. Chairman: I have enclosed correspondence from Mr. T. R. Smartt, which I believe is self-explanatory. I am grateful for your review of this matter, and for any information you might provide that will assist me in responding to this inquiry. Please respond to the attention of my staff assistant, Ms. Lee Hunt. Sincerely ward H. Baker, Jr. HHBJr:rdt Enclosure

Smantt Cabinets

801 Signal Mtn. Road Chattanooga, Tenn 37405 Telephone: (615) 266 - 8157

1980 SEP -9

September 2, 1980

Senator Howard Baker Senate Office Building Washington, DC

Dear Senator Baker:

It has recently been announced by Citibank, one of the nation's largest banks, that they are starting a new <u>banking</u> service called "Citishopper". It is a telephone buying service, offered in conjunction with Comp-U-Card, Inc., of Stamford, Connecticut; which offers Citibank holders of their VISA and MasterCard, this buying service.

The cost is based on \$18.00 per year membership and it entitles the member the right to purchase most small and major appliances among those items listed, at 40% off the manufacturers' retail price.

This banking service offered to the customers of Citibank for marketing the Visa and MasterCard service is certainly a non-related banking service and must violate the charter of the Citibank. At best, this service does æt up an unfair competitive practice for the distributors and retail dealers of these products.

Customers of these buying services are at a disadvantage insofar as delivered, damaged merchandise is concerned and service to these products when it is required.

I would hope that this type of unquestionable banking service would cause you some concern and that we can look forward to your support in ending these practices.

7 7

HOWARD H. BAKER, JR. TENNESSEE United States Senate WASHINGTON, D.C. 20510 October 27, 1980 Mr. T. R. Smartt Smartt Cabinets 801 Signal Mountain Road Chattanooga, Tennessee 37405 Dear Mr. Smartt: Thank you for your letter of September 2, 1980. I certainly appreciate hearing from you and hope you will forgive my extremely long delay in replying. I understand your concerns regarding the growing number of "services" available through financial institutions which appear to fall outside the realm of acceptable or traditional "banking services". I am interested in receiving the reaction of the Federal Reserve Board to services such as the Citishopper plan you referenced, and I have requested the position of the Board for this purpose. I believe their assessment will be most informative for us both, and I will be pleased to advise you as soon as I receive a response. I do appreciate your bringing this matter to my attention and, again, I apologize for the delay in responding. I appreciate your interest and will be back in touch in the near future. Sincerely, Original signed by Howard Baker Howard H. Baker, Jr. HHBJr:rdt bcc: Chairman Paul A. Volcker A CONTRACTION OF THE PARTY OF T - Marine Control of the State o gitized for FRASER ps://fraser.stlouisfed.org

The Honorable S. Willi

# FEDERAL RESERVE SYSTEM WASHINGTON, D. C. 20551

CN1 V-397

PAUL A. VOLCKER

October 31, 1980

The Honorable S. William Green House of Representatives Washington, D. C. 20515

Dear Mr. Green:

Thank you for your letter of October 20 requesting my comments on two articles sent to you by one of your constituents. One article suggests that inflation is caused by increases in the Federal Reserve's discount rate. The other article evinces concern over the instability in interest rates—and in the monetary aggregates—that is perceived to have arisen from the operating policies adopted in October 1979.

High interest rates commonly are associated with high inflation rates, but it is high inflation rates that inevitably cause high interest rates rather than the other way around. In a period of rapid inflation, lenders insist upon interest rates high enough to compensate them for the anticipated decline in the purchasing power of the dollars they are lending. Borrowers are willing to pay these high rates because they too anticipate that both interest and principal will be repaid in cheaper dollars. Higher interest rates tend to foster savings at the expense of consumption and to encourage the deferral of less promising investment projects—developments that reduce overall demands and reduce inflationary pressures. Since the discount rate is kept in reasonable alignment with the level of market interest rates, it also will tend to be high in times of rapid inflation.

We believe that it is premature to conclude that the operating policies adopted last October have been a failure, as suggested by the article from the Guardian. This year's environment has not been conducive to stable interest rates nor to steady growth in the monetary aggregates. Monthly and quarterly movements in the growth of the monetary aggregates this year were substantially influenced by the sharpest economic contraction on record earlier in the year, followed by a very rapid recovery to positive economic growth. Moreover, policy was carried out

The Honorable S. William Green Page Two against a background of a series of changes in the federal budgetary picture, the imposition and subsequent removal of credit controls, the Soviet invasion of Afghanistan, and the outbreak of war between Iran and Iraq, all of which have left their mark on financial markets. In light of all these difficulties, the relevant question with respect to this past year's policies is whether or not there were better ones available. Needless to say, the benefit of hindsight might suggest some alterations in policy; nevertheless, it should be noted that despite this year's problems, the monetary aggregates stand in reasonable alignment with the ranges set for this year. In addition, the Federal Reserve's visible commitment to monetary restraint seems to have helped contain inflationary expectations. I hope that these comments have been helpful. Please let me know if I can be of further assistance. Sincerely, P. S. You have to all yourself what would have happened - e.g. to the uplatien rate-had are nert acted. ed for FRASER fraser.stlouisfed.org

S. WILLIAM GREEN

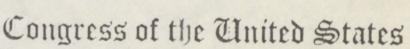
COMMITTEES:

BANKING, FINANCE AND URBAN AFFAIRS

SUBCOMMITTEES:
HOUSING AND COMMUNITY DEVELOPMENT
ECONOMIC STABILIZATION
GENT HAL OVERSIGHT AND RENEGOTIATION

SELECT COMMITTEE ON AGING

Action assigned Mr. Kichline



House of Representatives

Washington, D.C. 20515

October 20, 1980

WASHINGTON OFFICE:

1118 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515

(202) 225-2436

NEW YORK OFFICES:
1628 SECOND AVENUE (84TH STREET)
NEW YORK, NEW YORK 10028
(212) 826-4466

229 FIRST AVENUE (14TH STREET)
NEW YORK, NEW YORK 10003
(212) 826-4466

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

Dear Chairman Volcker:

Enclosed are two articles from a constituent of mine. I would appreciate your comments on the major points on monetary policy.

Best wishes.

Bill Green

Sincerely

Member of Congress

BG:nwh

Enclosures

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### **Citation Information**

**Document Type:** Newspaper articles **Number of Pages Removed:** 2

Citations: Lewis, Ardron D. "Economy: 'Chains of Causation of Our Distress.'" New York Times, June

27, 1978.

"Wall Street Echoes UK Disenchantment With Monetarism." The Guardian, September 28,

1980.



# FEDERAL RESERVE SYSTEM WASHINGTON, D. C. 20551

PAUL A. VOLCKER CHAIRMAN

October 31, 1980

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

Dear Mr. Vento:

Thank you for your recent letter regarding the Federal Reserve's interest rate policies.

I can assure you that it is not the objective of the Board or of the Federal Open Market Committee to bring about high or widely fluctuating interest rates. The instability of money and interest rates this year has certainly been a matter of concern to me, as it has been to you. Inflation is too high, productivity remains low, and we have too many unemployed. But the only relevant question is whether these conditions would have been better or worse with a different monetary policy, and I feel reasonably satisfied about the technical changes introduced last October.

I'm sure you can appreciate that the circumstances in which the Federal Reserve has operated in the past year have been extraordinary. We've seen tremendous variations in the rate of increase in major price indexes and in the intensity of inflationary expectations. The federal budgetary picture has gone through a series of significant changes. We've experienced the sharpest economic downturn of the postwar period, but it also appears to have been extraordinarily short and unemployment has remained well below levels projected some months ago. Credit controls were instituted and subsequently removed. The Soviet invasion of Afghanistan and the Iran-Iraq war have given rise to serious concerns that have left their mark on financial markets. This has not been the sort of environment in which one could reasonably expect stability in interest rates and steady monetary expansion.

This is not to say that, as always with the benefit of hind-sight, I might not have chosen to modify somewhat the course of policy this year. But even so, I think that our performance has had a significant measure of success.

In assessing our record with respect to monetary control, I would argue that it is not the month-to-month or quarter-to-quarter movements in the money supply that matter, but rather the longer trends. In that regard, it may be noted that, despite the difficult circumstances in which we have operated, the monetary

The Honorable Bruce F. Vento Page Two aggregates at this point stand in reasonable alignment -although a bit higher than we would like -- with the ranges we set for the year. Moreover, I firmly believe that our visible commitment to a policy of monetary restraint has helped to contain inflationary expectations in the face of some extremely troubling developments that would have otherwise led to substantially higher inflation. Our determination to avoid excessive monetary expansion has, to be sure, played a role in the recent increase in interest rates. However, it must be said that such factors as the talk of a deficit-expanding tax cut, the impetus to inflation from recent agricultural adversities, and the fears of economic dislocation in connection with the turmoil in the Middle East-as well as the surprising strength of the third quarter economic rebound and the lack of progress in moderating underlying wage/ price trends -- have contributed importantly to the very negative psychology prevailing in the debt markets. But while the rise in interest rates cannot be regarded as a favorable development at this early stage of an economic recovery, I don't think that a shift in System policy toward greater monetary accommodation would have proven wise. Quite likely the result would have been a still more pronounced aggravation of inflationary expectations, with negative implications for interest rates and future economic stability. In a meaningful sense, we have been following the steadier course by permitting interest rates to rise as monetary expansion accelerated in the past few months. The rise in rates does tend to focus attention on those segments of the economy that may be relatively hard hit by a tightening of credit conditions. However, I must say that our experience with the credit control program earlier this year has made me more certain than ever that government-directed credit allocation schemes should not be a standard feature of our financial landscape. The Federal Reserve, as you know, has no significant allocative powers at present, and it probably is best that it remain so. Credit controls are extremely difficult to manage in a way that is equitable and that avoids undesirable distortions of funds flows. Jawboning and other informal techniques must for the same reasons be used with care--and are unlikely to be effective for extended periods in the face of contrary market pressures. By and large, our highly competitive financial system can be expected to bring about a more efficient allocation of credit among the many potential borrowers in our economy than any governmental agency. igitized for FRASER tps://fraser.stlouisfed.org

The Honorable Bruce F. Vento Page Three I think that the only real hope for attaining on a sustained basis lower, more stable nominal interest rates and an environment conducive to productivity-enhancing capital formation lies in a return to greater price stability, which in turn is dependent in part on the persistent application of reasonable monetary and fiscal restraint. We recognize that what the Federal Reserve does has significant consequences for the economic fortunes of our nation, and within that basic framework, the Federal Reserve will continue to subject its policies and procedures to the most intense scrutiny to ensure that its actions are as effective as possible in serving the public interest. Sincerely, Paul A. Volcker gitized for FRASER ps://fraser.stlouisfed.org

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Action assigned Mr. Kichline

# Congress of the United States House of Representatives

Washington, D.C. 20515

October 7, 1980

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

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

Re: High Interest Rates

Dear Chairman Volcker:

#386

I am writing to express my strong opposition to the Fed's recent decision to raise the discount rate in order to control recent growth in the money supply. This action has effectively forced the nation's banks to raise their prime interest rates to the unreasonably high interest levels of 13.5% and 14% and, in my opinion, will likely precipitate negative economic consequences.

One year ago today, the Fed unveiled its new policy of targetting growth in the monetary aggregates while allowing interest rates to fluctuate with the market. The Fed adopted this policy in the hopes that it would prove more effective than past interest rate pegging policies at promoting moderate and steady monetary growth. Unfortunately, this new Fed policy has not proven successful. In fact, in the past year, this country has experienced highly erratic monetary growth together with the widest swings in interest rates that we have ever known. As a result of these broad interest rate swings, long term capital markets have been brought to the brink of disaster through a lack of investor confidence. Unless the Fed begins to re-examine the miserable performance of the economy under its heavy-handed ways and becomes more sensitive to the effects of fluctuating interest rates, I think the current economic pattern of long term investment instability, short term capital outflows and an insecure dollar will continue to persist and eventually pose a serious threat to our entire savings and investment structure.

In the House Banking Committee's August 19th rebuttal to your bi-annual monetary policy report, we strongly urged the Federal Reserve to pursue a policy of measured restraint so as to control inflation and excessive monetary growth without precipitating a downturn. This country needs a stable and consistent monetary policy that will allocate scarce credit to productive concerns and give investors the confidence to make important long term investments. Merely tightening the reins across the board flies in the face of the depressed industries, small businesses and thousands of unemployed workers who are finally feeling some economic hope after two of the worst quarters in recent years.

Mr. Paul A. Volcker October 7, 1980 Page Two During the past year, the Fed has shown itself quick to clamp down when the economy becomes heated, but unrelentingly slow at providing relief when a stimulus is needed. The recovery which the economy now appears to be in is an encouraging sign that should not be stamped out through heavy handed restraint. In this case, the Fed should exercise judicious encouragement of the recovery by implementing an extensive microeconomic program to curb banks from making speculative loans for purely financial activities such as stock buy backs, corporate takeovers and foreign exchange purchases and instead pressure banks to channel credit into areas in need of production-enhancing capital such as housing, agriculture and small business. The Fed has the tools to implement such a program and it certainly should use them. If the Fed continues on its current course of extreme restraint, I fear that it will only destroy the progress our economy has made in recent months and likely lead to a recessionary relapse accompanied by higher federal deficits, increased instability in our savings and investment structure, and further unemployment and domestic social upheaval. Again, Mr. Chairman, I strongly object to the Fed's continued use of high interest rate policies and strongly urge you to make a careful re-examination of the effects your actions have had. Thank you very much. Warm regards. Member of Congress BFV:mc gitized for FRASER ps://fraser.stlouisfed.org