Congressional
March - April 1981 [2]

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Federal Reserve Bank of St. Louis

Action assigned Mr. Petersen

NORM D'AMOURS
1ST DISTRICT, NEW HAMPSHIRE

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Washington, D.C. 20515

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February 27, 1981

#61

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

Dear Chairman Volcker:

It has come to my attention that under the Federal Reserve's current interpretation of Section 2(a)(2) of Public Law 93-100 (12 USC 1832(a)(2)) local school boards and educational institutions are permitted to have NOW accounts while municipalities and other governmental units are not permitted to have NOW accounts. I frankly cannot see any logical public policy goal which is advanced by this distinction.

I would appreciate receiving the Board's analysis of the merits of extending NOW account coverage to units of state and local government, and also to extending coverage to include any Section 501(c)(3) non-profit organizations which is not currently eligible for a NOW account.

Given the existing language in Section 2(a)(2) which authorizes NOW accounts for organizations which are operated "primarily for religious, philanthropic, charitable, educational, <u>or other similar purposes</u> and which is not operated for profit" (emphasis added), I would also appreciate your analysis of whether or not such an expansion could be accomplished by regulation.

Sincerely,

Norm D'Amours

Norman E. D'Amours
Member of Congress

NED/mr

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Federal Reserve Bank of St. Louis

March 24, 1981

The Honorable Fernand J. St Germain
Chairman
Committee on Banking, Finance and
  Urban Affairs
House of Representatives
Washington, D. C. 20515

Dear Chairman St Germain:

Thank you for your letter of March 13 forwarding correspondence from Congressman Floyd D. Spence and his constituent, Mr. Thomas L. Taylor, concerning the reservability of deferred compensation accounts under Regulation D. These accounts are maintained and controlled by employers in accordance with IRS requirements. Because of this, Regulation D currently requires that these funds be regarded as nonpersonal time deposits, subject to a 3 per cent reserve requirement. I have asked the Board's staff to review this matter and present to the Board its recommendations for a possible amendment to Regulation D.

As you requested, I will be pleased to inform Congressman Spence and Mr. Taylor when the Board reaches a decision on this matter.

Sincerely,

S/Paul A. Volcker

CO:vcd (V-88)

bcc: Gil Schwartz (w/copy of incoming)
     Mrs. Mallardi (2)

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Action assigned Mr. Petersen

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HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

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507-288-2384

33 E. WENTWORTH AVENUE
WEST ST. PAUL, MINNESOTA 55118
612-725-7716

March 10, 1981

#74

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

Dear Mr. Chairman:

Enclosed is a letter I have received from the City Administrator of the City of Mahtomedi, Minnesota. He indicates that present regulations prevent municipalities from establishing "NOW" accounts.

Would you please review this matter to determine whether the exclusion of municipalities was intended or was an oversight. Naturally, the municipalities are interested in being given this opportunity to establish such an account, so it would be most appreciated if this matter could be reviewed promptly.

With best regards,

Sincerely yours,

Arlen Erdahl

ARLEN ERDAHL
Member of Congress

AE:kms
Enclosure

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Federal Reserve Bank of St. Louis

CITY OF MAHTOMEDI

600 Stillwater Road
Mahtomedi, Minnesota 55115

February 27, 1981

Representative Arlen Erdahl
33 Wentworth Avenue
West St. Paul, Minn. 55118

Dear Representative Erdahl:

Recently, the City of Mahtomedi discussed with its auditor the possibility of establishing a "NOW" account to handle its checking transactions. After researching the possibility of establishing such an account, the City found from information received from the Federal Reserve Bank of Minneapolis that Section 303 of the Depositary Institutions Deregulation and Monetary Control Act of 1980 was being interpreted to exclude participation by local governments in "NOW" accounts. In reviewing the list of organizations determined to be eligible by the Federal Reserve for "NOW" accounts, it seems illogical that local housing authorities, school districts and redevelopment authorities are eligible organizations when local government units are exempt. Given today's demand by taxpayers for efficient operation of government, the ability of cities to obtain additional investment earnings through this vehicle seems appropriate to explore. If possible, could you or your staff explore this situation further to determine whether the exclusion of local government is consistent with the intent of the legislation. If this problem cannot be rectified through an administrative change in the regulations, a minor modification in the Act would be of significant benefit to local government.

Thank you for your assistance in this matter. If you have any questions regarding the City's concern, please feel free to contact me.

Sincerely,

David Pokorney

David Pokorney
City Administrator

DP:je

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March 31, 1981

The Honorable Pete V. Domenici
United States Senate
Washington, D.C. 20510

Dear Senator Domenici:

On behalf of the members of the Board, I want to thank you for your letters of March 26 expressing your support for the application of El Pueblo State Bank of Espanola, New Mexico, to become a one-bank holding company.

Your letters have been made a part of the record on this application, and I will be happy to advise you when the Board reaches a decision.

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn
Assistant to the Board

CO:pjt (#V-107)
bcc: Sid Sussan
Bill Sweet
Sue Mitchell
Mrs. Mallardi

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Federal Reserve Bank of St. Louis

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

March 31, 1981

PAUL A. VOLCKER
CHAIRMAN

The Honorable John C. Danforth
Chairman
Subcommittee on Federal Expenditures,
Research and Rules
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

In accordance with the requirements of the Government in the Sunshine Act, I am pleased to submit the Board's fourth Annual Report covering the implementation of its administrative responsibilities under the Act during calendar year 1980.

Sincerely,
S/Paul A. Volcker

Enclosure

JM:PAV:mrk

bcc: Mrs. Mallardi (2)

Identical letters also sent to: President of the Senate
Speaker of the House of Representatives
Chmn. English, Sub. on Gov't. Info. and Individual Rights of House Gov't. Opers.

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Federal Reserve Bank of St. Louis

March 31, 1981

The Honorable Glenn M. Anderson
House of Representatives
Washington, D. C. 20515

Dear Mr. Anderson:

Thank you for your letter of March 12 on behalf of your constituent, Mr. Dan Gaito, who has been unable to secure uncirculated $2 notes in his area.

I should point out that, despite encouragement by the Federal Reserve System to utilize the $2 note, the public has not, by and large, given it widespread usage, and therefore commercial banks may not keep a supply on hand for their own day-to-day business. Commercial banks can obtain the $2 notes from the Federal Reserve Banks and will ordinarily be willing to place an order for them if they receieve a sufficient number of requests from their customers. The Reserve Banks, however, are not able to grant requests by private individuals for currency and coin.

If Mr. Gaito wishes to obtain uncirculated $2 bills, he should contact banks in his locale to see if they would place an order for such notes with the nearest Federal Reserve Bank office. This is the procedure that people with numismatic interests generally follow. A commercial bank in the San Pedro area would direct its request to the Los Angeles Branch of the Federal Reserve Bank of San Francisco.

Sincerely,

S/Paul A. Volcker

RBSese/DJW:red
#V-84

bcc: Mr. App
Mr. Sese
Mr. Allison

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225-4247

March 13, 1981

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

Dear Chairman Volcker:

Please find enclosed correspondence I recently received from Congressman Floyd D. Spence and his constituent, Mr. Thomas L. Taylor, Vice President of Security Federal Savings and Loan Association, regarding Federal Reserve Regulation D.

I understand that the issues raised by Mr. Taylor are under review by the Federal Reserve; I would appreciate it if you would inform Congressman Spence and Mr. Taylor of the results of this review.

Sincerely,

Fernand

Fernand J. St Germain
Chairman

Enclosure

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AREA CODE 803, 536-4641

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

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ADMINISTRATIVE ASSISTANT

W. L. "SONNY" SANDERS
DISTRICT REPRESENTATIVE

January 29, 1981

RECEIVED
FEB 12 1981
Banking, Finance & Urban Affairs Committee

FEB 12 1981

Honorable Fernand St. Germain, Chairman
Committee on Banking, Finance and Urban Affairs
2129 Rayburn Building
Washington, D.C. 20515

Dear Mr. Chairman:

Enclosed is a copy of a letter from Mr. Thomas L. Taylor of the Security Federal Savings and Loan Association, Columbia, South Carolina concerning Federal Reserve Regulation "D" and its effect on Internal Revenue Code Section 457 Deferred Compensation Accounts. His letter is self-explanatory.

I am pleased to bring Mr. Taylor's comments to your attention and hope that they will receive your careful and serious consideration. I would welcome any comments which would be helpful in responding further to my constituent.

With best wishes, I am

Sincerely,

Floyd

FLOYD D. SPENCE
Member of Congress

FDS/cq

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Federal Reserve Bank of St. Louis

SECURITY FEDERAL SAVINGS AND LOAN ASSOCIATION

P. O. Box 11629 • Columbia, South Carolina 29211 • (803) 771-8750

January 13, 1981

The Honorable Floyd D. Spence
House Office Building
Washington, D. C. 20515

Dear Mr. Spence:

The Federal Reserve Regulation "D" is written in such a manner that Internal Revenue Code Section 457 Deferred Compensation Accounts are considered "non-personal" accounts and would require that we maintain reserves on these deposits. Deferred Compensation Plans are established pursuant to Section 457 of the Internal Revenue Code.

In order to meet Internal Revenue requirements, these plans were set up to maintain employer's control over the funds in a technical sense, while allowing them to function in the same manner as Individual Retirement Accounts and Corporate Retirement Plans. Since these plans are intended to be long term savings arrangements, we can see no reason for them to be treated differently from other funds placed on deposit for the purpose of providing retirement benefits for the participant. To classify these arrangements as "non-personal", thus requiring reserves, it places savings and loans and banks in an untenable position in competing for long term savings arrangements.

Any assistance that you can give us in having Federal Reserve Regulation "D" changed would be most appreciated.

Very truly yours,

Terry Taylor

Thomas L. Taylor
Vice President

TLT/ac

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Federal Reserve Bank of St. Louis

V-22

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

PAUL A. VOLCKER
CHAIRMAN

March 24, 1981

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

Dear Chairman Garn:

The concerns and questions raised in the recent letter from you and Senator Proxmire about weekly money supply data have been discussed and debated by the Federal Reserve Board, the Federal Open Market Committee, and the staff for some time. The issues are extremely important and strong arguments--other than Freedom of Information Act implications--can be made for and against publication of weekly data.

There is nearly unanimous agreement by all observers that weekly money statistics are extremely erratic and therefore poor indicators of underlying trends. While monthly data can often deviate considerably from such trends, the weekly observations are particularly "noisy". Week-to-week changes are quite large and recent estimates indicate that the "noise" element--attributable to the random nature of money flows and difficulties in seasonal adjustment--accounts for plus or minus $3.3 billion in weekly change two-thirds of the time. Such a large erratic element appears intrinsic to money behavior, rather than implying poor underlying statistics. In 1980, weekly M-1A and M-1B statistics revised on average only about $300 million between the first published and "final" data several weeks later, though in twelve weeks, revisions were larger than $500 million, and the largest single revision was $1.6 billion.

The great preponderance of active market participants are by now aware of the highly volatile nature of the weekly series. Publication has had that educational advantage, and the data to be used with a certain caution. However, from time to time overreactions have occurred.

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As a result of concerns about the reaction to and significance of weekly figures, the Federal Reserve has considered possible revisions to its current publication schedule or to its method of presentation. One option might be to delay weekly publication an additional seven days to incorporate more data--an important issue with additional reporters under the Monetary Control Act. This could reduce revisions to the weekly statistics. On the other hand, this option would increase the risk of inadvertent leaks and would increase the interval over which market participants might react to guesses and rumors of money stock changes, based in part on fragmentary data such as may be available in the weekly figures from large banks on deposits and loans. Even if no greater volatility in interest rates occurred over the unpublished interval, lagged publication of a more accurate, but still different than expected, change in weekly money might simply postpone the market reaction. In any event, weekly revisions are usually small, as noted above, relative to the underlying volatility of the series.

Another option might be to publish seasonally unadjusted money data in order to reduce the "importance" of the statistics. Our concern here is that market participants would then create their own seasonally adjusted series. The availability of a large number of conflicting series would only heighten market confusion, and might inevitably lead to questions to the Federal Reserve about what it considers to be the "normal seasonal" change in a particular week if what might seem to be an unusual change occurs in a seasonally unadjusted figure.

Another approach might be to publish data only monthly--as is now done, because of data reporting problems, with M-2 and M-3--and/or to publish weekly, but only a moving average series of weeks. Under the monthly approach, market participants would still try to estimate weekly series from bank balance sheets and clearing house data, and the market could be swept by rumors and guesses on movements in the money supply. And they would also probably attempt to glean the weekly number from a moving average series. In any event when a monthly figure was finally published, deviations from market expectations could cause yet further changes in interest rates as the new information was incorporated into market expectations. I might note that this has not been a significant problem with monthly publication of M-2 and M-3. A relatively small portion of these aggregates are supported by reserves, and they have played a less important role in the day-to-day targeting process than M-1.

In general, there is considerable merit to the view that weekly data as such convey little information and that weekly seasonal adjustments are subject to substantial uncertainty. However, the Board is not certain at present that the public interest would necessarily be better served if any of the alternatives noted above were adopted. While no one can be sure of their judgment in this respect, it does

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seem possible that volatility of money market conditions could be encouraged by misinterpretation of fragmentary data as well as by the continued availability of the present weekly data.

We will, of course, continue to review the money supply publication schedule, taking account of the constraints imposed by the Freedom of Information Act. To aid in our assessment of the value of weekly money supply data, we plan to ask for public comment on the desirability of continuing the weekly series, or of shifting to the options noted above. Our decision will be taken in the light of those comments. Should Freedom of Information Act requirements present difficulties in the light of the appropriate course, we will consult with you further.

I appreciate your interest in these questions. They are of concern to all of us.

Sincerely,

Paul

Identical letter also sent to Senator Proxmire.

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TELEPHONE: 225-9181

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GEORGE C. WORTLEY, N.Y.
GREGORY W. CARMAN, N.Y.

Ted Allison will be testifying

U.S. HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

SUBCOMMITTEE ON CONSUMER AFFAIRS AND COINAGE
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

ROOM 212 HOUSE OFFICE BUILDING ANNEX No. 1
WASHINGTON, D.C. 20515

March 17, 1981

#87

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

Dear Mr. Chairman:

The House Banking, Finance and Urban Affairs Subcommittee on Consumer Affairs and Coinage plans to hold hearings on Tuesday, March 31, 1981, on the Treasury Department proposal to manufacture copper-plated zinc one cent coins.

I wish to invite you or your designate to appear before the Subcommittee on Tuesday, March 31, 1981, at 9:30 a.m. The hearings will be held in Room 2222 Rayburn House Office Building. Your presentation should be limited to ten minutes; however, your written statement for the record may be of any length.

The Subcommittee requires a minimum of 50 copies of the prepared statement at least 48 hours prior to your scheduled appearance. The statements should be delivered to the Subcommittee office, Room 212, 300 New Jersey Avenue, S.E.

If you have any questions, please contact Curtis Prins, Staff Director of the Subcommittee on Consumer Affairs and Coinage at (202) 225-9181.

With every best wish,

Sincerely,

Frank Annunzio

Frank Annunzio
Chairman

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Federal Reserve Bank of St. Louis

Response will be prepared by Cong. Liaison Office
after discussions with Legal Division

MANUEL LUJAN, JR.
1ST DISTRICT, NEW MEXICO

COMMITTEES:
INTERIOR AND INSULAR AFFAIRS
SCIENCE AND TECHNOLOGY

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

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(202) 225-6316

DISTRICT OFFICES:
ALBUQUERQUE, NEW MEXICO
(505) 766-2538

SANTA FE, NEW MEXICO
(505) 988-6521

March 18, 1981

#89

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

Dear Mr. Chairman,

It has come to my attention that the El Pueblo State Bank of Espanola, New Mexico has applied for a one-bank-holding company through the Federal Reserve Bank.

It is my understanding that the approval of such an application would strengthen the Bank's capital base, encourage and enable expansion of current operations, create competition and will provide better service for the citizens in the area.

I would like to take this opportunity to personally express my support for this application and I would like to be kept advised of the status of this application.

Sincerely,

Manuel

Manuel Lujan, Jr.

ML/nck

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Federal Reserve Bank of St. Louis

March 23, 1981

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

Dear Chairman Annunzio:

Thank you for your letter of March 17 inviting the Board to appear before your Subcommittee on the Treasury Department proposal to manufacture copper-plated zinc one-cent coins.

I am pleased to designate Mr. Theodore E. Allison, Staff Director for Federal Reserve Bank Activities, to appear on behalf of the Board on Tuesday, March 31.

Sincerely,

S/Paul A. Volcker

CO:vcd (#V-87)

bcc: Mr. Allison
Mrs. Mallardi (2)

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Action assigned Mr. Allison

GLENN M. ANDERSON
32D DISTRICT, CALIFORNIA

2410 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-6676

300 LONG BEACH BOULEVARD
(P.O. BOX 2349)
LONG BEACH, CALIFORNIA 90801
TELEPHONE: (213) 548-2721

PLEASE ADDRESS REPLY TO MY:
☐ WASHINGTON OFFICE
☒ LONG BEACH OFFICE

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

COMMITTEES:
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- MEMBER, SHIPBUILDING CAUCUS

March 12, 1981

#84

Paul A. Volcker, Chairman
Federal Reserve System
20th Street and Constitution
Avenue, N.W.
Washington, D.C. 20051

Dear Mr. Volcker:

This letter is in behalf of my constituent, Mr. Dan Gaito, 946 West 7th Street, San Pedro, California, 90731.

Mr. Gaito informs our office that he is in the B2 F.D.C. BZJ4C Club, and states that he has not been able to secure uncirculated $2.00 bills.

It will be appreciated if you will inform us of the regulations and policy for issuance of uncirculated currency.

Thank you for your assistance to this matter.

Sincerely,

Glenn M. Anderson

GLENN M. ANDERSON
Member of Congress

GMA/lms

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Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
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WASHINGTON, D. C. 20551

March 31, 1981

PAUL A. VOLCKER
CHAIRMAN

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

Dear Mr. Neal:

Thank you for your letter of March 13, requesting comments on a legislative proposal to increase the limits that exist on the issuance of eligible bankers' acceptances by member banks. The Board has recently reviewed the general issue of limitations on bankers' acceptances in the context of a proposal received from the New York Clearing House.

The Board recognizes that the current aggregate limitation on the issuance of eligible bankers' acceptances places some member banks at a competitive disadvantage vis-a-vis nonmember commercial banks and United States branches and agencies of foreign banks. In this regard, the principal disadvantage to member banks is that nonmember banks and branches and agencies could use such instruments as a domestic reserve-free source of funds that is not constrained by statutory or regulatory limits. In 1973, when the Board subjected ineligible bankers' acceptances of member banks to reserve requirements, it was not considered necessary to subject eligible acceptances to reserve requirements because of the statutory limit that existed for issuing this type of managed liability. This approach was adopted in recognition of the traditional distinctions between eligible and ineligible acceptances and the role that eligible acceptances play in financing domestic and international trade.

In view of the fact that nonmember banks and branches and agencies are now subject to Federal reserve requirements and also have access to the discount window on the same basis as member banks, the Board believes that a statutory limitation on eligible bankers' acceptances should also be applied to such institutions. This will assure that the ability of these institutions to issue eligible acceptances currently free from reserve requirements will not grow without restraint and will not interfere with the needs of monetary policy. At the same time, the Board recognizes the need for an increase in the ability of member banks to issue eligible acceptances in order to compete on an equal basis.

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Accordingly, the Board would support legislation to raise the aggregate limitation on the creation of eligible bankers' acceptances contained in paragraph 7 of section 13 of the Federal Reserve Act (12 U.S.C. § 372) and to extend such limitation to nonmember commercial banks and to U.S. branches and agencies of foreign banks. However, in view of the fact that funds raised through the issuance of eligible bankers' acceptances described therein currently are exempt from reserve requirements, we believe that an immediate increase to 150 per cent of unimpaired capital and surplus for all institutions, and, with permission of the Federal Reserve, to 200 per cent of capital and surplus, would be appropriate. We believe that it is important to retain the present requirement that Board permission be obtained by institutions desiring to issue acceptances up to the higher limit in order to preserve the confidence of market participants. Therefore, the Federal Reserve should be authorized to prescribe certain standards, including minimum capital requirements, general condition, and level of exposure to risk that an institution must meet in order to issue eligible acceptances up to the proposed 200 per cent maximum. Of course, any legislation on this issue should not restrict the ability of the Board to impose reserve requirements on eligible acceptances at some future time if the needs of monetary policy required it. We have enclosed draft legislation that would accomplish these objectives.

Since eligible bankers' acceptances are currently a reserve-free source of funds to institutions subject to Regulation D, the Board is reluctant to expand significantly this vehicle, which in many respects is the equivalent of raising funds through the issuance of reservable managed liabilities. However, the approach of extending the limitation to all depository institutions and expanding the limitation modestly will afford competitive relief to member banks without adversely affecting monetary policy. In view of this, we believe that all eligible acceptances--secured and unsecured--should continue to be subject to the aggregate limitation. We also believe that it is desirable to preserve the existing documentation requirements in order to assure that these acceptances are in fact issued in connection with current transactions.

You also ask whether expanded bankers' acceptance authority could contribute to increasing exports by middle market U.S. companies. As of December 31, 1980, approximately 25 per cent of outstanding bankers' acceptances were issued in connection with export transactions. There is no evidence to suggest that expanded acceptance authority would alter that ratio in the future. Moreover, those banks that serve the middle market, i.e., the larger

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regional banks, are not currently under pressure with respect to their aggregate limits. Thus, it seems sufficient amounts of acceptance financing should be available to medium-sized companies at present.

The continuation of U.S. trade growth in excess of the rate of growth of bank capital and surplus could possibly lead to a situation where a smaller percentage of U.S. trade would be financed with acceptances of U.S. member banks if a binding limitation continued on issuance of eligible acceptances. The consequences for such trade of a binding limitation would seem to be serious only if alternative sources of financing were more costly. However, because there are numerous competitive financing alternatives to bankers' acceptances, the impact on trade of the present limitation on eligible acceptances is likely to be quite insignificant.

I appreciate the opportunity to offer the Board's views on this issue. Please let me know if I can be of further assistance.

Sincerely,

S/ Paul

Enclosure

PSP:GTS:RS:ECE:pjt (V-82)
bcc: Mr. Ettin
Mr. Gemmill
Mr. Eisenbeis
Mr. Schwartz
Mr. Pilecki
Mrs. Mallardi (2)
Legal Records (2)

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

That the seventh paragraph of section 13 of the Federal Reserve Act (12 U.S.C. 372) is hereby amended to read as follows:

"Any depository institution, as defined in section 19(b)(1)(A), and any Federal or State branch or agency of a foreign bank subject to reserve requirements under section 7 of the International Banking Act of 1978, may accept drafts or bills of exchange drawn upon it having not more than six months' sight to run, exclusive of days of grace, which grow out of transactions involving the importation or exportation of goods; or which grow out of transactions involving the domestic shipment of goods provided shipping documents conveying or securing title are attached at the time of acceptance; or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples. No such institution shall accept such bills to an amount equal at any time in the aggregate to more than one hundred-fifty per cent of its paid-up capital stock and surplus or its equivalent in the case of a United States branch or agency of a foreign bank, as defined by the Board of Governors of the Federal Reserve System. The Board, under such conditions as it may prescribe, may authorize, by regulation or order, any depository institution or United States branch or agency of a foreign bank that is subject to reserve requirements to accept such bills to an amount not exceeding at any time in the aggregate two hundred per cent of its paid-up and unimpaired capital stock and surplus or its equivalent in the case of a United States branch or agency of a foreign bank. No

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institution described above shall accept, whether in a foreign or domestic transaction, for any one person, partnership, corporation, association or other entity to an amount equal at any time in the aggregate to more than ten per cent of its paid-up and unimpaired capital stock and surplus, unless the institution is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance. In order to effectuate the purposes of this paragraph, the Board may define any of the terms used herein, and, for institutions that do not have capital or capital stock, it shall define an equivalent measure to which the limitations contained in this paragraph shall apply."

Description of provision. This amendment provides for the extension of the limitation on "eligible" bankers' acceptances to all depository institutions and to virtually all United States branches and agencies of foreign banks. The existing statutory aggregate limit is increased immediately to 150 per cent of capital stock and surplus from 50 per cent of capital stock and surplus. The discretionary limit for issuance of bankers' acceptances, i.e. a higher aggregate limit that requires individual approval by the Board, is increased from 100 per cent of capital stock and surplus to 200 per cent of capital stock and surplus. The Board is granted authority to define an equivalent of capital stock and surplus for those institutions that do not have a capital base and for United States branches and agencies of foreign banks and other terms used in the paragraph.

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Action assigned Mr. Petersen

JOHN MELCHER
MONTANA

United States Senate

#85

March 13, 1981

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

Dear Chairman Volcker:

I have received a request from Mr. Bernard Grimmer of Billings, Montana for a copy of the regulations that govern the transfer of funds from commercial banks to savings and loan associations. Mr. Grimmer receives a monthly check for his disability from the Veterans Administration. This check is automatically deposited in a bank in Missoula, Montana. Mr. Grimmer has had difficulty getting these funds transferred to a savings and loan in Billings and he doesn't understand why. I would appreciate it if you could send the relevant regulations directly to hime at this address:

Bernard Grimmer
Eagle Hotel
Billings, Montana 59101

Thank you,

Sincerely,

John Melcher

1123 DIRKSEN BUILDING WASHINGTON, D.C. 20510 (202) 224-2644

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

PAUL A. VOLCKER
CHAIRMAN

March 24, 1981

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

Dear Chairman Garn:

The concerns and questions raised in the recent letter from you and Senator Proxmire about weekly money supply data have been discussed and debated by the Federal Reserve Board, the Federal Open Market Committee, and the staff for some time. The issues are extremely important and strong arguments--other than Freedom of Information Act implications--can be made for and against publication of weekly data.

There is nearly unanimous agreement by all observers that weekly money statistics are extremely erratic and therefore poor indicators of underlying trends. While monthly data can often deviate considerably from such trends, the weekly observations are particularly "noisy". Week-to-week changes are quite large and recent estimates indicate that the "noise" element--attributable to the random nature of money flows and difficulties in seasonal adjustment--accounts for plus or minus $3.3 billion in weekly change two-thirds of the time. Such a large erratic element appears intrinsic to money behavior, rather than implying poor underlying statistics. In 1980, weekly M-1A and M-1B statistics revised on average only about $300 million between the first published and "final" data several weeks later, though in twelve weeks, revisions were larger than $500 million, and the largest single revision was $1.6 billion.

The great preponderance of active market participants are by now aware of the highly volatile nature of the weekly series. Publication has had that educational advantage, and the data to be used with a certain caution. However, from time to time overreactions have occurred.

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As a result of concerns about the reaction to and significance of weekly figures, the Federal Reserve has considered possible revisions to its current publication schedule or to its method of presentation. One option might be to delay weekly publication an additional seven days to incorporate more data--an important issue with additional reporters under the Monetary Control Act. This could reduce revisions to the weekly statistics. On the other hand, this option would increase the risk of inadvertent leaks and would increase the interval over which market participants might react to guesses and rumors of money stock changes, based in part on fragmentary data such as may be available in the weekly figures from large banks on deposits and loans. Even if no greater volatility in interest rates occurred over the unpublished interval, lagged publication of a more accurate, but still different than expected, change in weekly money might simply postpone the market reaction. In any event, weekly revisions are usually small, as noted above, relative to the underlying volatility of the series.

Another option might be to publish seasonally unadjusted money data in order to reduce the "importance" of the statistics. Our concern here is that market participants would then create their own seasonally adjusted series. The availability of a large number of conflicting series would only heighten market confusion, and might inevitably lead to questions to the Federal Reserve about what it considers to be the "normal seasonal" change in a particular week if what might seem to be an unusual change occurs in a seasonally unadjusted figure.

Another approach might be to publish data only monthly--as is now done, because of data reporting problems, with M-2 and M-3--and/or to publish weekly, but only a moving average series of weeks. Under the monthly approach, market participants would still try to estimate weekly series from bank balance sheets and clearing house data, and the market could be swept by rumors and guesses on movements in the money supply. And they would also probably attempt to glean the weekly number from a moving average series. In any event when a monthly figure was finally published, deviations from market expectations could cause yet further changes in interest rates as the new information was incorporated into market expectations. I might note that this has not been a significant problem with monthly publication of M-2 and M-3. A relatively small portion of these aggregates are supported by reserves, and they have played a less important role in the day-to-day targeting process than M-1.

In general, there is considerable merit to the view that weekly data as such convey little information and that weekly seasonal adjustments are subject to substantial uncertainty. However, the Board is not certain at present that the public interest would necessarily be better served if any of the alternatives noted above were adopted. While no one can be sure of their judgment in this respect, it does

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seem possible that volatility of money market conditions could be encouraged by misinterpretation of fragmentary data as well as by the continued availability of the present weekly data.

We will, of course, continue to review the money supply publication schedule, taking account of the constraints imposed by the Freedom of Information Act. To aid in our assessment of the value of weekly money supply data, we plan to ask for public comment on the desirability of continuing the weekly series, or of shifting to the options noted above. Our decision will be taken in the light of those comments. Should Freedom of Information Act requirements present difficulties in the light of the appropriate course, we will consult with you further.

I appreciate your interest in these questions. They are of concern to all of us.

Sincerely,

Paul

Identical letter also sent to Senator Proxmire.

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Action assigned Mr. Ettin

Congress of the United States
House of Representatives

STEVE NEAL
5TH DISTRICT, NORTH CAROLINA

March 13, 1981

#82

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

Dear Mr. Chairman:

Several banks have recently brought to my attention a problem posed by the statutory ceiling imposed on eligible bankers acceptances. I am now considering introducing legislation to increase this ceiling, and it would be extremely helpful to me to know your view of this problem.

As you know, the current law as amended in 1915 establishes a ceiling equal to 50 per cent of a bank's unimpaired capital and surplus, with authority for the Federal Reserve Board to increase a bank's ceiling to 100 per cent of such amount. It is my understanding that the Board has granted the 100 per cent ceiling to all major banks and that many banks across the country are up against the 100 per cent ceiling and, hence, are placed at a competitive disadvantage to foreign bank branches and non-member banks. Also, since 1915 the role U. S. banks have played in international trade financing has increased greatly.

My proposal would maintain a ceiling on acceptances and preserve the Board's role in regulating that ceiling. It would increase the ceiling to 200 per cent and give the board authority to increase it further to 300 per cent. I would envision the process whereby a bank's ceiling is increased from 200 per cent to 300 per cent as being more than a pro forma approval process. It should entail a vigorous review of the bank's financial position.

As chairman of the House Banking Subcommittee on International Trade, I am particularly interested in the possibility that expanded bankers acceptance authority could be used to expand American exports by middle market U. S. companies.

Some bankers have told me that they would like to attract new customers to bankers acceptance financing, but are unable to do so because their banks have already reached the 100 per cent ceiling. Bankers acceptance financing can provide middle market companies with trade financing at rates competitive with commercial

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WASHINGTON, D.C. 20515
PHONE: (202) 225-2071

DISTRICT MOBILE OFFICE:
TRAVELS THE DISTRICT
TO SERVE YOU

HOME OFFICE:
421 FEDERAL BUILDING
WINSTON-SALEM, NORTH CAROLINA 27101
PHONE: (919) 761-3125

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The Honorable Paul A. Volcker
Page Two

paper, a source of financing only available to larger corporations.

Bankers also have complained to me about the discrimination that exists between eligible domestic and international bankers acceptances. I would like to know the Board's view of a possible proposal to eliminate the shipping document requirement on eligible domestic bankers acceptances.

I would appreciate it if the Board could give me its view at the earliest possible date.

Best wishes,

Steve Neal

STEPHEN L. NEAL
U. S. Congressman

SLN:bc

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BOARD OF GOVERNORS
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WASHINGTON, D. C. 20551

PAUL A. VOLCKER
CHAIRMAN

March 30, 1981

The Honorable Mack Mattingly
United States Senate
Washington, D. C. 20510

Dear Senator Mattingly:

I am pleased to respond to your request for comment on a letter you received from your constitutent, Mr. Russell Ivie, President, Bank of Dahlonega, Dahlonega, Georgia, concerning NOW account eligibility requirements. As you are aware, the purpose of the Consumer Checking Account Equity Act of 1980 is to permit depository institutions throughout the nation to offer NOW accounts by extending NOW account authority beyond New England, New York, and New Jersey.

The statutory language adopted by Congress parallels the regulations previously adopted by the Board and the FDIC concerning NOW account eligibility. Based upon this statutory background, the Board's staff prepared a compilation of the numerous determinations previously made by the Board concerning what entities are operated primarily for educational and charitable purposes. I have enclosed a copy of this announcement for your information. Entities such as independent school districts, charities, and religious organizations have always been eligible to maintain NOW accounts. The Board has now asked the staff to review this matter in order to determine whether the NOW account eligibility list should be modified. Consideration of the staff recommendations is scheduled for April 8.

I will be pleased to keep you advised of the Board's actions in this matter.

Sincerely,

S/Paul A. Volcker

Enclosure (10/20/80 press release)

GTS:RS:mal (V-58)

bcc: Mr. Schwartz
Mrs. Mallardi (2)
G.C. Log #92
Legal Records (2)

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March 30, 1981

The Honorable Fernand J. St Germain
Chairman
Committee on Banking, Finance and
Urban Affairs
House of Representatives
Washington, D. C. 20515

Dear Chairman St Germain:

The Federal Reserve's 1981 Monetary Policy Report to the Congress, which I testified about on February 26, included the economic forecasts of the members of the Federal Open Market Committee for the current year. Even though the precise form of the new Administration's economic program had not been released when these forecasts were made, the members of the Federal Open Market Committee made tax and spending cut assumptions that were very close to the program as finally announced. I understand that your Committee would now like me to poll the Federal Reserve Governors and Reserve Bank Presidents again to find if their forecast has changed since the President's program was released. In my view that would not be productive.

The Administration's program is not sufficiently different from the tax and spending assumptions used by the Federal Open Market Committee members to result in a significant difference in economic forecasts. It is true that in the time since the Federal Open Market Committee members made their forecasts, the economy has performed more strongly than most economists had expected, and some members might change their forecast on that basis. However, I believe strongly that it is unwise to revise forecasts on the basis of just a couple of months new information. In any event we will be looking at this issue again for our mid-year report to Congress, and by that time it might well be desirable to make some revisions to the forecast.

Sincerely,

S/ Paul

RS:vcd

bcc: Mrs. Mallardi (2)

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March 30, 1981

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

Dear Chairman Brooks:

Thank you for the opportunity to review and comment on the January 23, 1981, General Accounting Office (GAO) report (AFMD-81-27) entitled, "Disappointing Progress in Improving Systems for Resolving Billions in Audit Findings."

The Federal Reserve System was not part of the original GAO study resulting in the January 23, 1981, report and therefore is not mentioned in the body of the report. However, the GAO undertook an extensive review of the Federal Reserve System's use of internal auditing and issued its final report on August 8, 1980, (GGD-80-59). The Board commented on the final report on October 7, 1980, in accordance with Section 236 of the Legislative Reorganization Act of 1970.

In its August 8, 1980, report, the GAO made two recommendations regarding the follow-up of audit findings in the Federal Reserve. Since that time, both recommendations have been implemented by the Board. With regard to the audit of the Federal Reserve Banks, the Board's reporting and follow-up procedures were recently enhanced to incorporate the GAO's follow-up recommendation. A specific reference has been incorporated in the "Audit Standards and Levels of Audit Attention for Federal Reserve Banks" documenting follow-up responsibilities for all Board operational reviews. The Board's audit review group will continue to evaluate this area during its reviews and report on any deficiencies.

With regard to the GAO's recommendations dealing with operational reviews at the Board, the Board has since hired a full-time manager for its operational review program and has charged the program with the responsibility to follow up on all of its reviews.

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With these recent actions, the Board feels that its reporting and follow-up procedures and practices are in compliance with the intent and spirit of the Office of Management and Budget guidelines as well as those of the General Accounting Office and other professional organizations.

Sincerely,

S/Paul A. Volcker

cc: Governor Schultz
Governor Gramley
Mr. Winn
Ms. Wolfe (2) ✓
Ms. Wells

PAVolcker:ETMulrenin:mdg

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√-55

March 30, 1981

The Honorable Charles H. Percy
Chairman
Committee on Governmental Affairs
United States Senate
Washington, D. C. 20510

Dear Chairman Percy:

This letter concerns the January 23, 1981, General Accounting Office (GAO) report (AFMD-81-27) entitled, "Disappointing Progress in Improving Systems for Resolving Billions in Audit Findings." This report contains recommendations to Federal agencies in general and therefore requires comment in accordance with Section 236 of the Legislative Reorganization Act of 1970.

The Federal Reserve System was not part of the original GAO study resulting in the January 23, 1981, report and therefore is not mentioned in the body of the report. However, the GAO undertook an extensive review of the Federal Reserve System's use of internal auditing and issued its final report on August 8, 1980, (GGD-80-59). The Board commented on the final report on October 7, 1980, in accordance with Section 236 of the Legislative Reorganization Act of 1970.

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With these recent actions, the Board feels that its reporting and follow-up procedures and practices are in compliance with the intent and spirit of the Office of Management and Budget guidelines as well as those of the General Accounting Office and other professional organizations.

Sincerely,

S/Paul A. Volcker

cc: Governor Schultz
Governor Gramley
Mr. Winn
Ms. Wolfe (2) ✓
Ms. Wells

PAVolcker:ETMulrenin:mdg

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BOARD OF GOVERNORS
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WASHINGTON, D. C. 20551

PAUL A. VOLCKER
CHAIRMAN

March 27, 1981

The Honorable Paul Findley
House of Representatives
Washington, D. C. 20515

Dear Mr. Findley:

Thank you for your recent letter asking for my comments on the enclosed letter you received from your constitutent, Mr. Louis Bellatti, expressing his concern about the high rates of interest and their effects on small businessmen.

I understand the feelings that Mr. Bellatti has voiced, and hope that monetary, fiscal, and other government policies soon will help in making noticeable progress in reducing inflation. The rapid inflation that we are experiencing, in fact, is the underlying cause of high rates of interest, and only through gaining control of inflationary forces can we look forward to a sustained lowering of interest rates. In that regard, the best thing we can do to encourage entrepreneurship is to bring inflation under control.

The appropriate role for the Federal Reserve under these circumstances is to continue to pursue a policy of restraint. To change patterns of behavior within our economy that have been grounded on the assumption of continued inflation will inevitably require a substantial on-going effort. Curtailed public spending, along with disciplined monetary policy, will obviously entail risks and strains for particular groups and for the economy as a whole in the short run. Both such policies seem to me essential, however, in order to achieve the basis for lower interest rates, and sustained and vigorous growth in general economic activity, over the longer term.

My views on such matters are discussed in greater detail in the enclosed copy of my recent testimony before the House Committee on Ways and Means. I hope that you will find these comments and materials responsive to Mr. Bellatti's concerns.

Sincerely,

S/Paul A. Volcker

Enclosures

LWing/JSZeisel:mal (#V-92)
bcc: Mr. Kichline
Ms. Wing
Mrs. Mallardi (2)

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Action assigned Mr. Kichline

ROOM 2113, RAYBURN BUILDING
WASHINGTON, D.C. 20515
(202) 225-5271
TOLL FREE 800-252-8517

PAUL FINDLEY
20TH DISTRICT, ILLINOIS

COMMITTEES:
FOREIGN AFFAIRS
AGRICULTURE

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

March 19, 1981

#92

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

Dear Mr. Volcker:

Enclosed is a letter from Louis Bellatti, who as you will see is very concerned about high interest rates. I hope you will find some way to respond to this concern.

Sincerely,

Paul Findley

Paul Findley
Representative in Congress

Enclosure

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[illegible], [illegible]

MAR 1[illegible]

Mr. [illegible] [illegible]dley
House of Representatives
Washington, D. C.

Dear Mr. [illegible]dley,

Thank you for your letter, and the chance of presenting my views [illegible] Federal Reserve [illegible] [illegible]. If there is anyone else you feel would benefit from reading the enclosed letter, you have my permission to show it to them.

Sincerely,

[illegible]

[redacted]

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Mt. Pulaski, Ill.
[illegible], [illegible]

[illegible]
[illegible]
[illegible], [illegible]

Dear Mr. Volcker;

I would like to introduce myself, and tell you a little of my background, so you can judge whether or not my reasoning is sound. A high school education, common sense, and practical experience combine to give me what knowledge I possess.

I am a soybean plant breeder with 5 varieties in my own name. My soybeans have been sent to [illegible] foreign countries, at their request. I am nationally and internationally known and recognized as a competent soybean breeder. I was [illegible] years old on my last birthday, and am the third generation to operate this family farm. My grandfather bought most of the ground, for [illegible] interest, when he was young. My grandmother was given a deed to 80 acres by President Andrew Jackson, which we sold about 5 yrs. ago. My brother and I own the remaining land jointly, but I do the actual farming. Inheritance taxes and interest that is too high, are very tough on farmers.

I went through the depression in 1929. Lots of farmers lost their farms then, but my wife and I feel we [illegible] our work for [illegible] yrs. in order to [illegible] in business, this interest rate of [illegible] is killing me! [illegible] farmers [illegible] for me to keep my [illegible]. They have the right to sell the seed to me any time after [illegible] of that given year. If they would all decide to sell at once, I would need [illegible] to cover the cost. If I keep one bushel of soybeans, worth $10.00, there would be [illegible] interest charge on it in 6 mos. time. Five years ago, the same length of time would show me a profit of [illegible], and I was well pleased. The expense of the added interest is hurting one of the most important businesses in the world, farming! If we do not have the seed for crops, we will all starve to death.

I have contacted several other seed men, and they agree with me that the situation is so bad, it is frightening! The government puts controls on other things, so why not control the supply of money to the most essential business of all, the farmer and other related occupations? The government could put priority controls on who should have the money. They do this on other things that are not so important, so why slap my hand, and others who are in the same predicament because [illegible] are using the money foolishly? You claim with higher interest rates, we will get over inflation more quickly. I say this is not so! If we had stayed at [illegible] interest, many businesses would not have failed, putting employees out of work, who then pay nothing toward the upkeep of the government. On unemployment, they not only draw money from government funds, they do not have enough extra to purchase products from others. Thus, another business must close.

I am very worried about the high interest rate as it affects the good of humanity. My old saying is,"The wealth of acountry is food, fiber, and pleasure; and money is the evil of exchange." Putting this in perspective, I think our nation is one of the richest in the world. Something is drastically wrong, or we would not be in this mess. All we need now is a run on the stock market, and people losing their confidence in our country, and there will be another crash like 1929. This could [illegible] civil war, as the young people are not conditioned to accept a situation like this.

To my way of thinking, you are caught in your own trap. If the high interest rate on the national debt was cut in half, look at the money the taxpayer would save. We could use the extra interest money to pay the other half of that debt.

I have been fortunate to know and work with Paul Findley, Edward Madigan, and John Block through the years in various enterprises, so am taking this opportunity to write to you on some of my feelings on this important matter. I know there are other things involved with inflation that I could name, but you have probably already given them extensive thought. I have written the above because this is in your field.

Please do not take offense at this letter, but I am trying to show how concerned I am in this matter. You have my permission to show this letter to anyone else who is concerned, and if I can be of any further assistance, please let me know.

[illegible],

Louis Bellatti
LOUIS BELLATTI

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Citation Information

Document Type: Advertisement

Number of Pages Removed: 2

Citations: Bellatti, Louis. "Information Relative to Bellatti's Developed Certified Soybeans..." Undated.

March 27, 1981

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

Dear Chairman Garn:

Thank you for your letter of March 19 enclosing correspondence you received from Mr. Al G. Sterner, President of Village Bank of Elm Grove, concerning the appropriateness and legality of using the term "checking account" to describe a NOW account.

The issue of whether NOW accounts may be referred to by all institutions as checking accounts was addressed by the Federal financial institution supervisory agencies several years ago in connection with the NOW experiment, which at that time limited the availability of NOW's to institutions in Massachusetts and New Hampshire. After consideration of this matter, the agencies concluded that negotiable instruments drawn against NOW accounts were checks since they conformed to the definition of the term "check" under section 3-104 of the Uniform Commercial Code, i.e., an order to pay a sum certain on demand which is drawn on an institution engaged in the business of banking. The fact that the underlying account is a savings account subject to the institution's right to require a notice period does not affect the nature of the NOW instrument--the check is still payable on demand. If the institution were to impose a notice period, the payee would be entitled to demand immediate payment from the drawer.

Accordingly, the agencies are in agreement that NOW accounts may be referred to by all institutions as interest-bearing checking accounts. In this regard, effective December 31, 1980, savings and loan associations were authorized to offer NOW accounts by the Consumer Checking Account Equity Act (Title III of P.L. 96-221).

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

Sincerely,

S/ Paul

(GTS):CO:vcd (#V-102)
bcc: Gil Schwartz
Mrs. Mallardi (2)

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Action assigned Mr. Kichline

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M. DANNY WALL, STAFF DIRECTOR
HOWARD A. MENELL, MINORITY STAFF DIRECTOR AND COUNSEL

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

March 16, 1981 #86

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

Dear Mr. Chairman:

The Banking Committee appreciated your appearing before it on February 25 to present the Federal Reserve's monetary policy report. In order to complete the Committee's hearing record, your responses to the following questions would be appreciated:

1. Much of economic policy to this day is based upon an idea of Irving Fischer known as the equation of exchange. This simply suggests that if one multiplies the quantity of money by the velocity of that money, the product will be equal to the product of the number of transactions in the economy multiplied by the average price of each transaction. This equation has been used to "show" that if velocity is stable (and it was suggested that it was), and if we are near full employment so that the number of transactions does not increase greatly, then an increase in the quantity of money will lead to higher prices and vice versa. This was used to prescribe monetary policy for some time.

   Is there any validity to this equation in today's world? Is velocity stable, or at least predictable? If the concept here is no longer valid, is there any way to justify activist monetary policy, especially in a world in which we have trouble even deciding how much money there is?

2. The Reagan tax program purports to have as its purpose increasing savings.

   Wouldn't it serve that purpose better to have less income tax cuts and more exclusion of taxable interest on savings? It would seem that such a policy would better increase capital formation.

3. Mr. Greenspan was quoted by Mr. Hobart Rowen recently as saying that if thrift institutions were given massive loan aid the resultant inflation rate would double from 10 to 20% with interest rates going sky high.

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Mr. Greenspan raised a basic question therefore about the economy in relation to the stability of the financial system.

May we have your comments?

4. We heard Mr. Stockman say recently that if the Reagan program is adopted intact there would be a dramatic change in interest rates to the 8 or 9% range within a very short period of time.

   Do you agree or disagree with Mr. Stockman?

5. During your confirmation hearing, you expressed some concern over the threat to the Fed's ability to actually control the growth of the money supply posed by the innovativeness of financial markets which has resulted in the creation of forms of money or near money springing up which are outside of your direct control. These innovations, combined with the uncertainty over NOW accounts, make me wonder if your concern is greater or less than it was 18 months ago?

6. During the last several weeks M1-A has shown a marked decline, while M1-B has grown at a moderate rate. Presumably this behavior is due to NOW accounts that were authorized nationwide as of January 1.

   Has the growth of NOW accounts been consistent with the Board's expectations, and has the shift of funds been from demand deposits and savings in the proportions expected?

   Would you say that the week-to-week changes on M1-A and M1-B remain useful indicators of Federal Reserve policy or would you caution the public against watching them?

   And, would there be any benefit in changing the way the M1-A and M1-B data are published--perhaps publishing them as monthly averages as is done with M2 and M3, or only on a non-seasonally adjusted basis, or only in component deposits not aggregated?

7. The discount rate has been at 13% since December 1980. During that time the prime lending rate has been as high as 20 3/8% and is now 19. Borrowing has been averaging $1.7 billion per day. This implies a high subsidy being given to borrowing banks--perhaps $200-$300 million at an annual rate.

   Can this subsidy be justified?

   Given the recent strong desire by the electorate to let the free market work in this economy, why not have the discount rate

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be at or above the rate paid for similar funds in the market place rather than at the ad hoc discretion of the Federal Reserve?

8. An interesting column by James Lebhenz in the WASHINGTON POST on Sunday, February 22, 1981, indicates that short-term interest rates have declined by 500 basis points, but long-term Treasury rates have increased by 125 basis points. Last April, a 500 basis point decline on short-rates produced a 174 basis point decline in long rates.

   Why the difference? Why have long-term rates increased rather than declined?

   What does this indicate about inflationary expectations and the possibility of future economic growth?

9. Some are very concerned over the apparent tremendous growth in banks' loan commitments over the past few months.

   How much impact would such an increase in commitments have?

10. In the past, you have recognized "the challenge of restoring employment, growth and productivity while at the same time visibly reducing inflation." An important goal of the Humphrey-Hawkins Act -- The Full Employment and Balanced Growth Act of 1978 -- is to reduce unemployment. Unemployment in Michigan is currently at 13.7%. Employment has not been restored or unemployment reduced in the seventh largest State in the country.

    In your opinion, what specific steps should be taken -- which are not currently being taken -- to reduce unemployment?

11. Has the Federal Reserve done any studies on the effect of high interest rates on different regions of the country? For example, is there any difference between the effect of high interest rates in the State of Michigan -- which is a large industrial State -- and say a predominantly rural, agricultural State? What is the difference?

Your cooperation in providing the Committee with your additional views is appreciated.

Sincerely yours,

Jake Garn

Jake Garn
Chairman

JG*JCrm

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March 27, 1981

The Honorable Thomas F. Eagleton
United States Senate
Washington, D. C. 20510

Dear Tom:

Appreciate the note -- you never know.

Sincerely,

PAV:ccm

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3/22/81

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE
1981 MAR 26 PM 3:15
RECEIVED
OFFICE OF THE CHAIRMAN

United States Senate

MEMORANDUM

Paul -

EXCELLENT job on "Face the Nation"!!

Regards,

Tom Eagleton

Dear Tom -
appreciate the
note - you were [illegible].
Paul

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

March 25, 1981

PAUL A. VOLCKER
CHAIRMAN

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

Dear Senator Melcher:

Thank you for your letter of March 13 requesting that a copy of regulations pertaining to the transfer of funds from a bank to a savings and loan association be sent to Mr. Bernard Grimmer of Billings, Montana. You indicated that Mr. Grimmer had his disability benefit check from the Veterans Administration deposited automatically in his bank in Missoula, Montana, and was experiencing difficulty in having these funds transferred to a savings and loan in Billings.

There are no Federal regulations that directly regulate the transfer of funds from a bank to a savings and loan association. Several Federal regulations may apply, however, should the bank wish to transfer these funds through an electronic funds transfer system to the savings and loan association. The Board's Regulation E (12 CFR § 205), issued pursuant to Section 904 of the Electronic Fund Transfer Act, establishes consumer protections for individuals using electronic money transfer services at financial institutions. In addition, if the transfer of funds was to be sent by the bank through the Federal Reserve's wire transfer network, the Board's Regulation J (12 CFR § 210) would govern the rights and liabilities of the Federal Reserve Bank as between the commercial bank and the savings and loan association.

Since the nature of Mr. Grimmer's difficulty was not identified in your letter, I am unable to provide any specific information on how he might resolve his problem. We are sending directly to Mr. Grimmer copies of the two Federal Reserve regulations identified above and a booklet describing the consumer protections of the Electronic Fund Transfer Act, and we are indicating to him that he may contact us for more information

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should this more general information not answer his questions. We would recommend, however, that Mr. Grimmer contact his local office of the Veterans Administration directly for information on how to redesignate the savings and loan association as the depository for his veteran's benefits.

Sincerely,

S/Paul A. Volcker

LSA:GTS:vcd (V-85)

bcc: Lee Adams
Gil Schwartz
G.C. Log #314
Legal Records (2)
Mrs. Mallardi (2)

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March 25, 1981

Mr. Bernard Grimmer
Eagle Hotel
Billings, Montana 59101

Dear Mr. Grimmer:

At Senator Melcher's request, Chairman Volcker has asked that I send you copies of two Federal Reserve regulations that apply to electronic fund transfers, and a copy of the Board publication that discusses consumer protections and the Electronic Fund Transfer Act. Senator Melcher indicated that you were experiencing difficulty in transferring funds from your bank to a savings and loan association, and that you wished copies of any relevant regulations.

While there are no general regulations that govern transfers of funds between banks and savings and loan associations, Regulation E establishes consumer protections for such transfers if they are made electronically. Also, if the transfer was made over the Federal Reserve wire transfer network, Subpart B of Regulation J would provide rules for the bank and savings and loan association to follow.

As the precise nature of your difficulty was not identified in Senator Melcher's letter, we are unable to provide you with any specific advice on how to resolve your problem. Thus, after reviewing the enclosed material, you may wish to write to the Board directly in more detail about the problem you are having. Please direct such an inquiry to Ms. Janet Hart, the Director of the Board's Division of Consumer and Community Affairs. Or you may wish to contact your local office of the Veterans Administration directly in order to designate your savings and loan association as the depository for your veteran's benefits.

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn
Assistant to the Board

LSA:GTS:vcd (V-85)
bcc: Lee Adams
Gil Schwartz
G.C. Log #314
Legal Records (2)
Mrs. Mallardi (2)
Enclosures

cc: Senator Melcher

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Action assigned ~~Mr. Petersen~~ Cong. Liaison Office

United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WASHINGTON, D.C. 20510

March 19, 1981

#102

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1981 MAR 26 AM 11:01
RECEIVED
OFFICE OF THE CHAIRMAN

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

Dear Mr. Chairman:

I have enclosed a copy of a letter I received from the President of the Village Bank of Elm Grove, Wisconsin.

I would appreciate your reviewing this matter and providing me with your views as to the appropriateness and legality of using the term "checking account" to describe a NOW account.

Your assistance is greatly appreciated.

Sincerely yours,

Jake Garn

Jake Garn
Chairman

JG:jcr
Enclosure

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Federal Reserve Bank of St. Louis

Phone (414) 784-8600

Village Bank of Elm Grove

Nine Thirty Elm Grove Road Elm Grove. WI 53122

January 8, 1981

United States Senator Jake Garn
5241 New Senate Office Building
Washington, D. C.

Dear Senator Garn,

Over the last couple of weeks I've raised a question to a number of people and haven't really had a straight answer, or for that matter even an attempt at one, and thought that perhaps with how active you have been in the evolution effecting banking you could help me out.

With the recent change in N. O. W. accounts permitting withdrawals to be made from interest bearing savings accounts has come a tremendous amount of advertising from the savings and loans which talks about being able to pay interest on checking accounts. Isn't this advertising false and misleading? Has there been any suit initiated which would preclude savings and loans from engaging in advertising Negotiable Orders of Withdrawal on checking accounts instead of on savings accounts? Isn't it in fact illegal for savings and loans to offer "checking account" service?

Thank you for your attention to this matter.

Sincerely,

Al G. Sterner
President

AGS/mak

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Federal Reserve Bank of St. Louis

Collins

Phone (414) 784-8600

Village Bank of Elm Grove

Nine Thirty Elm Grove Road Elm Grove, WI 53122

January 16, 1981

Bryan K. Koontz
Executive Director
Wisconsin Bankers Association
16 North Carroll Street
Madison, Wisconsin

Dear Mr. Koontz,

Enclosed is a copy of an ad that typifies some of the improper advertising that is being permitted to continue in this market place. It is improper in at least the following ways:

1) The savings and loan indicates to the reader of this ad that they can "BANK" at this savings and loan.
2) They indicate to the reader that they offer a "CHECKING ACCOUNT". My understanding of the law is that effective December 31, 1980 the savings and loans were permitted to begin to pay interest on savings accounts that permitted withdrawals under the Negotiable Order of Withdrawal (N.O.W.). My understanding of the new regulations makes no provision for the savings and loans to offer "CHECKING ACCOUNTS".

Since before December 31, 1980 when the savings and loans first began advertising I have brought this question up to a number of people in responsible positions that I expected would respond, and to date haven't. It's very odd that I have had no feedback to date.

Please let me know what movement is afoot to correct these situations.

Thank you.

Sincerely,

Al G. Sterner
President

CC: James E. Halvorson
Thomas E. Pederson
Sen. William Proxmire
Sen. Jake Garn
Rep. James Sensenbrenner
Rep. Henry Reuss
Hal Kuehl
George Slater
Al Simpson
Jack Puelicher
Roger Anderson

AGS/mak

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Citations: Great Midwest Savings. "5 1/4% Interest--The Checking Account That Gives You Back More Than A Statement." 1981.

CHAPTER 224

MISCELLANEOUS BANKING PROVISIONS

TABLE REPRINTED IN PART

224.01 Definitions. As used in chs. 220 to 224:

(1) Unless the context requires otherwise, the term "bank" means any banking institution incorporated under the laws of this state.

(2) The term "mutual savings bank" means any corporation organized pursuant to the laws of this state for the organization of savings banks and savings societies.

(3) The term "lawful money" means all forms of money issued by or under the authority of the United States as a circulating medium, and includes any form of certificate declared to be lawful money by any law of the United States.

224.02 Banking, defined. The soliciting, receiving, or accepting of money or its equivalent on deposit as a regular business by any person, copartnership, association, or corporation, shall be deemed to be doing a banking business, whether such deposit is made subject to check or is evidenced by a certificate of deposit, a pass book, a note, a receipt, or other writing, provided that nothing herein shall apply to or include money left with an agent, pending investment in real estate or securities for or on account of his principal. Provided, however, that if money so left with an agent for investment shall not be kept in a separate trust fund or if the agent receiving such money shall mingle same with his own property, whether with or without the consent of the principal, or shall make an agreement to pay any certain rate of interest thereon or any agreement to pay interest thereon other than an agreement to account for the actual income which may be derived from such money while held pending investment, the person receiving such money shall be deemed to be in the banking business.

Junior achievement bank would be a banking business and violates 224.03. 62 Atty. Gen. 254.

224.03 Banking, unlawful, without charter; penalty. It shall be unlawful for any person, copartnership, association, or corporation to do a banking business without having been regularly organized and chartered as a national bank, a state bank, a mutual savings bank, or a trust company bank. Any person or persons violating any of the provisions of this section, either individually or as an interested party in any copartnership, association, or corporation shall be guilty of a misdemeanor and on conviction thereof shall be fined in a sum not less than $300 nor more than $1,000, or by imprisonment in the county jail not less than 60 days nor more than one year, or by both such fine and imprisonment.

224.05 Municipality not preferred creditor. If any bank, banking institution or trust company, being indebted to the state of Wisconsin, or indebted to any county, city, town or other municipality therein, for deposits made or indebtedness incurred after April 23, 1899, becomes insolvent or bankrupt, the state, county, city, town or other municipality shall not be a preferred creditor and shall have no preference or priority of claim whatever over any other creditor or creditors thereof; but a just and fair distribution of the property of such bank, banking institution or trust company, and of the proceeds thereof, shall be made among the creditors thereof pro rata, according to the amount of their respective claims. Nothing herein contained shall in any manner affect the provisions of law as they existed on said date providing for the payment of unpaid taxes and assessments, laborer's claims, expenses of assignment and execution of the trust.

224.06 Fidelity bonds for bank officers and employes. (1) As a condition precedent to qualification or entry upon the discharge of his duties, every person appointed or elected to any position requiring the receipt, payment or custody of money or other personal property owned by a bank or in its custody or control as collateral or otherwise, shall give a bond in some responsible corporate surety company, licensed to do business in this state, in such adequate sum as the directors shall require and approve. In lieu of individual bonds the commissioner may accept a schedule or blanket bond which covers

March 27, 1981

The Honorable Fernand J. St Germain
Chairman
Committee on Banking, Finance and
Urban Affairs
House of Representatives
Washington, D. C. 20515

Dear Chairman St Germain:

As promised in my letter to you of February 24, I am pleased to enclose the results of the February Survey of Short-Term Business Lending Rates Below the Prime Rate.

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

Sincerely,

S/ Paul

Enclosure

CO:vcd (#V-46)

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

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SELECTED CHARACTERISTICS OF SHORT-TERM COMMERCIAL AND INDUSTRIAL LOANS MADE BY OTHER THAN 48 LARGE BANKS

	1977	1978	1979	1980	1980 May 5-10	1980 Aug. 4-8	1980 Nov. 3-8	1981 Feb. 2-7
Percent of gross loan extensions made at rates below prime	4.3	11.2	26.4	18.9	27.1	16.4	16.3	23.2
Spread between prime rate and weighted average rate on loans made below prime (basis points)	132	140	172	218	266	137	213	309
Average loan size ($ 1,000)								
- loans made below prime	81	37	23	43	45	66	36	49
- loans made at or above prime	53	42	37	39	40	37	42	41
Average maturity (months)[1]								
- loans made below prime	2.5	2.9	3.7	3.5	4.3	3.2	2.9	2.8
- loans made at or above prime	3.4	3.1	3.1	3.3	3.4	3.7	3.0	3.7

Source: Survey of Terms of Bank Lending.

Note: Beginning August 1979, calculations are based on prime rates reported by banks; calculations for earlier periods employ the prevailing prime rate. Annual numbers are averages of quarterly surveys.

1. Average maturities are weighted by loan volumes exclusive of loans with no stated maturity (demand loans).

March 1981

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SELECTED CHARACTERISTICS OF SHORT-TERM COMMERCIAL AND INDUSTRIAL
LOANS MADE BY 48 LARGE BANKS

					1980			1981
	1977	1978	1979	1980	May 5-10	Aug. 4-8	Nov. 3-8	Feb. 2-7
Percent of gross loan extentions made at rates below prime	10.2	16.4	32.9	47.1	53.3	64.7	20.3	71.5
Spread between prime rate and weighted average rate on loans made below prime (basis points)	87	81	100	206	419	212	65	181
Average loan size ($1,000)								
- loans made below prime	1127	746	674	1934	1067	4683	898	2811
- loans made at or above prime	156	173	221	312	205	223	593	248
Average maturity (months)[1]								
- loans made below prime	1.7	1.4	1.3	1.0	1.2	.7	1.2	.7
- loans made at or above prime	3.4	3.4	3.5	3.0	3.4	3.2	1.9	2.7

Source: Survey of Terms of Bank Lending.
Note: Beginning August 1979, calculations are based on prime rates reported by banks; calculations for earlier periods employ the prevailing prime rate. Annual numbers are averages of quarterly surveys.
1. Average maturities are weighted by loan volumes exclusive of loans with no stated maturity (demand loans).

March 1981

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Federal Reserve Bank of St. Louis

February 24, 1981

The Honorable Fernand J. St Germain
Chairman
Committee on Banking, Finance and
Urban Affairs
House of Representatives
Washington, D. C. 20515

Dear Chairman St Germain:

Thank you for your recent letter requesting the results of the February Survey of Short-Term Business Lending Rates Below the Prime Rate.

I assure you I will forward the survey as promptly as possible. However, a substantial amount of staff time is necessary to edit and complete the analysis of approximately 20,000 loans reported. And, while I am aware of the need for expeditiousness and the work you are involved in at this time, it will be around the middle of March before the necessary editing and analysis can be completed.

Sincerely,

S/ Paul

LW:JLK:AFC:vcd (V-46)

bcc: Mr. Simpson (for follow-up)
Mr. Kichline
Ms. Wing
Mr. Brady
Mrs. Mallardi (2)

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Bob Plotkin will testify

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M. DANNY WALL, STAFF DIRECTOR
HOWARD A. MENELL, MINORITY STAFF DIRECTOR AND COUNSEL

United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WASHINGTON, D.C. 20510

March 24, 1981

4/01

Cancelled

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1981 MAR 26 AM 11:01
RECEIVED
OFFICE OF THE CHAIRMAN

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

Dear Chairman Volcker:

As chairman of the Subcommittee on Securities, I am writing to confirm the Subcommittee's invitation to the Federal Reserve Board to tesitfy on S.289 at our hearing on March 31, 1981. The hearing will be held in Room 5302 of the Dirksen Senate Office Building, beginning at 9:30 a.m. A copy of S.289 is enclosed for your reference.

The rules of the Banking Committee require all witnesses to submit at least seventy-five (75) copies of written statements at least 24 hours prior to the hearing. Therefore, we would appreciate your delivering at least 75 copies of your statement to the Committee's office not later than 9:30 a.m. on March 30, 1981. Strict adherence to this rule is essential. In addition, the enclosed card should be completed and returned before the hearing.

While your complete statement will be printed in the hearing record, the length of oral presentations will be limited at the hearing.

I appreciate your willingness to give the Subcommittee the benefit of your views on S.289, and I look forward to your testimony.

Sincerely,

Al D'Amato

Alfonse M. D'Amato
Chairman
Subcommittee on Securities

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Federal Reserve Bank of St. Louis

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

March 24, 1981

PAUL A. VOLCKER
CHAIRMAN

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

Dear Mr. D'Amours:

Thank you for your recent letter concerning the availability of NOW accounts to governmental units. As you are aware, the Consumer Checking Account Equity Act of 1980 (P.L. 96-221) provides that depository institutions may offer interest-bearing checking accounts to individuals and non-profit organizations organized primarily for religious, philanthropic, charitable, educational, and other similar purposes. The objective of the Consumer Checking Account Equity Act of 1980 is to permit depository institutions throughout the nation to offer NOW accounts by extending NOW account authority beyond New England, New York, and New Jersey. The statutory language adopted by Congress parallels the regulations previously adopted by the Board and the Federal Deposit Insurance Corporation concerning NOW account eligibility.

Based upon this statutory background, the Board's staff prepared a compilation of the numerous determinations previously made by the Board concerning what entities are operated primarily for educational and charitable purposes. I have enclosed a copy of this announcement for your information. Separately constituted governmental entities such as school districts and educational institutions have always been eligible for NOW accounts since they are operated primarily for educational purposes. However, State and local governmental bodies have never been regarded as eligible for NOW accounts since they are organized primarily for governmental purposes.

The Board's staff has been asked to prepare a comprehensive study of the NOW account eligibility criteria in order to provide greater consistency among the categories

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of eligible depositors. This study will include possible extension of NOW account eligibility generally to all Section 501(c)(3) non-profit organizations. We anticipate that the Board will be considering staff recommendations within the next few weeks. I would be happy to keep you advised of this matter.

Sincerely,

S/Paul A. Volcker

Enclosure (10/20/80 press release)

GTS:vcd (#V-61)

bcc: Mrs. Mallardi (2)
Mr. Schwartz
G.C. Log # 96
Legal Records (2)

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Mrs. Mallardi
(V-89 & V. 107)

April 1, 1981

The Honorable Harrison Schmitt
United States Senate
Washington, D.C. 20510

Dear Senator Schmitt:

After consideration of all comments received, the Board today denied the application of El Pueblo Bancorporation, Espanola, New Mexico, to become a bank holding company by acquiring El Pueblo State Bank, Espanola, New Mexico. A copy of the order, which summarizes the reasons for the denial, is enclosed for your information.

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn
Assistant to the Board

Enclosure (p.r. dtd. 4/1/81)
CO:AFC:pjt (#182)

Identical letters also sent to Cong. Lujan (V-89)
Sen. Domenici (V-107)

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PETE V. DOMENICI
NEW MEXICO

Identical letter received by each member of the Board;
Don Winn will acknowledge receipt of letters on
behalf of Board members

United States Senate

WASHINGTON, D.C. 20510

107

March 26, 1981

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

Dear Mr. Volcker:

The El Pueblo State Bank, Espanola, New Mexico, has pending before the Federal Reserve Board of Governors a one-bank holding company application.

The applicants are a reputable New Mexico bank which enjoys high standing in the community. The granting of the application will have important business and community meaning to the bank and the city of Espanola. I support the application and am confident the Federal Reserve will give it due consideration.

Sincerely,

Pete V. Domenici

Pete V. Domenici
United States Senator

PVD:asaj

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April 1, 1981

The Honorable E (Kika) de la Garza
Chairman
Committee on Agriculture
House of Representatives
Washington, D.C. 20515

Dear Chairman de la Garza:

Thank you for your letter concerning the timely completion of the report of the Commodity Futures Trading Commission, in cooperation with the Federal Reserve and other agencies, on silver market developments during late 1979 and early 1980. I fully understand your interest in the silver market incident and appreciate the need for prompt completion of the report.

The staff of the CFTC has prepared a draft of the report and sent it to the Federal Reserve staff for their comments. We expect to respond to the CFTC very shortly and from our perspective it should be possible to meet the June 1 deadline. I assure you that this matter has my full attention and that adequate resources will be devoted to complete our responsibilities in this effort.

Sincerely,

S/Paul A. Volcker

RS:KS:pjt (#V-63)
bcc: Mrs. Mallardi (2)

Identical letters also sent to: Chrmn. Ed Jones, Cong. Wampler & Jeffords.

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

April 1, 1981

PAUL A. VOLCKER
CHAIRMAN

The Honorable Arlen Erdahl
House of Representatives
Washington, D. C. 20515

Dear Mr. Erdahl:

Thank you for your letter of March 10 requesting comment on an inquiry from the City Administrator of Mahtomedi, Minnesota, concerning the eligibility criteria for NOW accounts. As you are aware, until December 31, 1980, only depository institutions in New England, New York, and New Jersey could offer NOW accounts. The Consumer Checking Account Equity Act of 1980 provides that beginning December 31, depository institutions throughout the nation may offer NOW accounts to individuals and nonprofit organizations operated primarily for religious, educational, charitable, philanthropic and other similar purposes.

In enacting this statute to extend the benefits of NOW accounts nationwide, Congress chose the language that had previously been adopted by the Federal Reserve and the Federal Deposit Insurance Corporation concerning the types of depositors already eligible to maintain NOW accounts. The regulations of the agencies have always permitted certain governmental entities such as housing authorities and school districts to maintain NOW accounts since such governmental entities are separately constituted and are operated primarily for educational, charitable or philanthropic purposes. However, entities such as municipal governments and other public units that perform general governmental duties have never been permitted to maintain NOW accounts since they are operated primarily for governmental purposes, which is not included in the statutory list of permissible purposes.

The Board recognizes that the current NOW account eligibility list can result in apparent inconsistencies between the types of organizations that may maintain NOW accounts. As a result, the Board has asked the staff to review this matter in order to determine whether the NOW account eligibility standards should be modified. Consideration of the staff recommendations is scheduled for April 8.

I will be pleased to keep you advised of the Board's actions in this matter.

Sincerely,

S/Paul A. Volcker

GTS:AFC:vcd (V-74)
bcc: Mr. Schwartz
G.C. Log #109
Legal Records (2)
Mrs. Mallardi (2)

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GREGORY W. CARMAN
3D DISTRICT, NEW YORK

Action assigned Mr. Ettin

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1981 MAR 30 AM 9: 27
RECEIVED
OFFICE OF THE CHAIRMAN

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

March 25, 1981

#109

The Honorable
Paul A. Volcker, Chairman
Federal Reserve
20th Street and Constitution Ave., N.W.
Washington, D.C. 20051

Dear Mr. Chairman:

Please be advised that many of the thrift institutions in my district and indeed throughout New York State have indicated to me through their representatives that they are concerned about short term liquidity problems. It is my understanding that many money market certificates will become due in April. This may precipitate very serious cash reserve problems for the thrift institutions.

I would appreciate if you would advise my office about detailed plans and procedures the Federal Reserve has in place and ready for implementation to meet these serious problems.

Your prompt attention to this matter would be greatly appreciated.

Respectfully,

Gregory W. Carman
Member of Congress

GWC:nkw

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Federal Reserve Bank of St. Louis

April 3, 1981

The Honorable Cleve Benedict
Member of Congress
116 North Court Street
Lewisburg, West Virginia 24901

Dear Mr. Benedict:

Thank you for your letter of March 25 requesting comment on correspondence you received from Mr. Jack Masella. Mr. Masella had corresponded previously with the Board concerning the return of checks unpaid drawn on the Chemical Bank. For your information, enclosed is a copy of a letter sent to Mr. Masella.

As indicated in the letter to Mr. Masella, the Federal Reserve Bank of New York's extensive review of this matter disclosed no evidence that the actions and policies of Chemical Bank violated any laws or regulations within the jurisdiction of the Federal Reserve.

I regret that we cannot be of more assistance in this matter.

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn
Assistant to the Board

Enclosure (3/19/81 ltr.)

CO:vcd (V-104)

bcc: Mrs. Mallardi

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Federal Reserve Bank of St. Louis

CLEVE BENEDICT
2D DISTRICT, WEST VIRGINIA

HOUSE COMMITTEE ON ENERGY
AND COMMERCE

Will be handled by Cong. Liaison Office; we've had previous correspondence from constituent

WASHINGTON OFFICE:
1229 LONGWORTH BUILDING
TELEPHONE: 202-225-4331

DISTRICT OFFICES:
P.O. BOX 47
MORGANTOWN, WEST VIRGINIA 26505
304-292-3005

116 NORTH COURT STREET
LEWISBURG, WEST VIRGINIA 24901
304-645-6028

P.O. BOX 884
MARTINSBURG, WEST VIRGINIA 25401
304-263-6679

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

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1981 MAR 27 AM 8:42
RECEIVED
OFFICE OF THE CHAIRMAN

PLEASE RESPOND TO:

Honorable Cleve Benedict
116 N. Court Street
Lewisburg, W.Va. 24901

March 25, 1981

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

Dear Mr. Volcker:

Enclosed is a copy of the letter which I recently received from a constituent Mr. Jack Masella concerning the difficulties which he is presently experiencing. I would appreciate you checking into this situation and advising me of any comments which you may have in this regard.

Thank you for your attention to this matter. If I can be of any assistance to you, please do not hesitate to contact me.

Kind regards,

Cleve Benedict

Cleve Benedict
Member of Congress

CKB:jlw

MAR 2 3 1981

March 21, 1981

Dear Mr. Benedict,

I would like to make an appointment to see you as soon as possible.

On Oct. 10, 1978 I opened a garment factory in Alderson, W. Va.

In the month of March I made 2200 garments for a man. I shipped the worke, he sent me a check for 5818.50 that was never honored.

I tried to get him extradited, but the Judge in New York let him go. The Judge saying it wasn't a crime, and Dan had money in the account when he wrote the check, at least this is what Jon Duncan told me, the prosecuting attorney in Monroe County at that time.

But the oddity of the whole situation is that Chemical had many irregularties in processing the check. Chemical stamped the check paid on the back apr. 3, 1979. Then put stamped paid in Error on the front, authorized signature, with a line for authorized signature, but nobody put their signature down.

It took my check 14 days from day of deposit to day of return. Chemical acted as a factoring agent for Dantastiks Inc.

I had a Mr. Boss of N.Y. for the Federal reserve system investigate Chemical. And he said all these errors were a common practice. I also had N.Y. State banking investigate, and ~~M~~ Mr. Boss told me Chemical had not got all of Dan's Novicks banking account statements off the microfilm that I received. Another words the N.Y. State banking comm. investigation showed a [redacted] plus and Mr. Bosses transcript showed a [redacted] minus. Another mistake by Chemical.

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By the way, on April 4, 1979, a complete new banking day at Chemical, they stamped my brother Bart's check paid for [redacted] (Never Honored)

On Jan. 23, I talked to Mr. Boss over the phone. And he said he would imediately send me a letter confirming his investigation was over and Chemical was clear of any irregular acts. Mr. Staggers wrote to the Federal reserve system and they never replyed to him. (for me)

By the way Mr. Printz, (Richard Lawrence Printz) asst. Dist. attorney of the County of New York 155 Leonard St. ((212) 553-9000.) Phone

Mr. Printz had the case for W. Va. in N.Y. where Dan's Lawyer proved to the Judge there was money in the bank when Dan wrote the check, that is why he was let go.

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Mr. Boss concludes after his investigation of Chemical bank, that Dan Novich never had a balance in his account, it was always in minus. Now someone is lying, and getting away with it. Mr. Boss also concluded, that Chemical was honoring Checks with a minus balance. Mr. Boss Phone no. is 212-791-5356. He worked under and concluded the investigation for Mr. George R. Juncker, Manager Consumer affairs and Regulation Dept. Federal Reserve Bank of New York. Phone (212) 791-5000

You know its funny, We know Dan Novich paid me with a bad Check, and somewhere my 2200 garments have been sold to make someone about [redacted] Chemical makes its own banking code. And we get grief.

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P.S. Mr. Boss never sent me the letter concluding his investigation of Chemical, which he said he would.

I have letters, the original checks, and papers that show the lies of two guilty parties protected by bureaucratic systems. Someone out there has to help me and my family, we aren't the crooks.

Sincerely yours,
Jack Masella
[redacted]

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Federal Reserve Bank of St. Louis

NINETY-SEVENTH CONGRESS

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JAMES H. SCHEUER, N.Y.
RICHARD L. OTTINGER, N.Y.
HENRY A. WAXMAN, CALIF.
TIMOTHY E. WIRTH, COLO.
PHILIP R. SHARP, IND.
JAMES J. FLORIO, N.J.
ANTHONY TOBY MOFFETT, CONN.
JIM SANTINI, NEV.
EDWARD J. MARKEY, MASS.
THOMAS A. LUKEN, OHIO
DOUG WALGREN, PA.
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BARBARA A. MIKULSKI, MD.
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AL SWIFT, WASH.
MICKEY LELAND, TEX.
RICHARD C. SHELBY, ALA.
CARDISS COLLINS, ILL.
MIKE SYNAR, OKLA.
W. J. "BILLY" TAUZIN, LA.
RON WYDEN, OREG.
RALPH M. HALL, TEX.
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BOB WHITTAKER, KANS.
THOMAS J. TAUKE, IOWA
DON RITTER, PA.
HAROLD ROGERS, KY.
CLEVE BENEDICT, W. VA.
DANIEL R. COATS, IND.
THOMAS J. BLILEY, JR., VA.

FRANK M. POTTER, JR.
CHIEF COUNSEL AND STAFF DIRECTOR

U.S. House of Representatives
Committee on Energy and Commerce
Room 2125, Rayburn House Office Building
Washington, D.C. 20515

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1981 APR -2 AM 10: 49
RECEIVED
OFFICE OF THE CHAIRMAN

March 31, 1981

#112

TO: Office of Management and Budget
Securities and Exchange Commission
Federal Reserve Board ✓

FROM: JOHN D. DINGELL
CHAIRMAN

Your views are requested on the enclosed bill, H. R. 2879, to amend the Securities Exchange Act of 1934 to provide uniform margin requirements in transactions involving the acquisition of securities of certain United States corporations by foreign persons where such acquisition is financed by a foreign lender.

The Subcommittee on Telecommunications, Consumer Protection, and Finance will hold a second day of hearings (April 2, 1981) on similar legislation.

Accordingly, your expeditious attention to this request and your reply in triplicate will be appreciated.

JDD:jmcl

Enclosures

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Federal Reserve Bank of St. Louis

I

97TH CONGRESS
1ST SESSION

H. R. 2879

To amend the Securities Exchange Act of 1934 to provide uniform margin requirements in transactions involving the acquisition of securities of certain United States corporations by foreign persons where such acquisition is financed by a foreign lender.

IN THE HOUSE OF REPRESENTATIVES

MARCH 26, 1981

Mr. COLLINS of Texas introduced the following bill; which was referred to the Committee on Energy and Commerce

---

A BILL

To amend the Securities Exchange Act of 1934 to provide uniform margin requirements in transactions involving the acquisition of securities of certain United States corporations by foreign persons where such acquisition is financed by a foreign lender.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) Section 7(f) of the Securities Exchange Act of 1934 (15 U.S.C. 78g(f)) is amended—

(1) by redesignating paragraphs (2) and (3) as paragraphs (3) and (4), respectively; and

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(2) by inserting after paragraph (1) the following new paragraph:

"(2)(A) It is unlawful for any person not subject to paragraph (1) of this subsection to obtain, receive, or use the proceeds of a loan or other extension of credit from any lender (without regard to whether the lender's office or place of business is in a State or the transaction occurred in whole or in part within a State) for the purpose of (i) purchasing or carrying United States securities, or (ii) purchasing or carrying within the United States of any other securities, if under this section or rules and regulations prescribed thereunder, the loan or other credit transaction is prohibited or would be prohibited if it had been made or the transaction had otherwise occurred in a lender's office or other place of business in a State.

"(B) Any United States person injured or threatened with injury by reason of a violation of this paragraph and any person whose securities are being purchased or carried may bring an action in the appropriate district court of the United States, or in the appropriate United States court of any territory or other place subject to the jurisdiction of the United States, to recover damages for such injury or to enjoin such a violation.".

(b) Paragraph (4) of section 7(f) of the Securities Exchange Act of 1934, as redesignated by subsection (a) of this

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section, is amended by striking out "United States persons or foreign persons controlled by a United States person" and inserting in lieu thereof "persons".

SEC. 2. The amendments made by this Act take effect on March , 1981, and the provisions of paragraph (2) of section 7(f) of the Securities Exchange Act of 1934, as so amended, shall apply to any purchase of securities occurring on or after such date and to the carrying of such securities on or after such date, if the loan or extension of credit therefor originated on or after such date or if the loan proceeds used to purchase or carry such securities were disbursed on or after such date.

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I

97TH CONGRESS
1ST SESSION

H. R. 2879

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"(B) Any United States person injured or threatened with injury by reason of a violation of this paragraph and any person whose securities are being purchased or carried may bring an action in the appropriate district court of the United States, or in the appropriate United States court of any territory or other place subject to the jurisdiction of the United States, to recover damages for such injury or to enjoin such a violation.".

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I

97TH CONGRESS
1ST SESSION

H. R. 2879

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Congressional Research Service
The Library of Congress

Washington, D.C. 20540

September 8, 1980

TO : The Honorable S. William Green
Attention: Nancy Hunt

FROM : Dr. William Jackson
Analyst in Money and Banking
Economics Division

SUBJECT : Effects of a Government Program to Supplement Savings by Targeted Income Groups

Introduction

You have asked for an assessment of German savings incentive plans as they might be applied in the United States. The assessment of the potential impact of one such bonus program in America presented below is tentative, and is presented primarily on a conceptual basis. It is not possible to provide a reliable quantitative analysis because of data limitations, primarily the lack of knowledge of the saving behavior of groups of households classified by their income levels.

For the purposes of analysis, we have drawn on elements of the German plans, largely those of the Savings Premium program, as were outlined in our memorandum to you of July 30, 1980. These elements include a bonus paid by the Federal Government on selected forms of savings up to a certain amount, held for a specified time by individuals and married couples in targeted income classes. We are also attaching supplementary materials including:

-- a description of selected existing American programs that encourage individual savings by providing tax incentives (Appendix A)

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-- a CRS Report that includes a survey of the impact of changes in rates of return on the volume of aggregate personal savings in the economy (Attachment 1)

-- Internal Revenue Service Statistics of Income that provide the most current data on the distribution of income (Attachment 2).

Dimensions of a Savings Bonus Plan

The effects of specific proposals to supplement savings cannot be determined without knowledge of the measures themselves, and especially of the psychology of saving. 1/ Nonetheless, several assumptions based on the German measures may allow the approximation of the dimensions of a hypothetical American savings plan.

To start, let the Government credit earmarked savings limited to $500 per savings unit yearly with a 14 percent tax-free bonus. Savings units eligible to receive the bonus are individual tax return filers with adjusted gross income below $15,000 and jointly filing married couples with adjusted gross incomes below $30,000--who may earmark $1,000 of savings. 2/ To qualify for the bonus, savings must be held for six years. As is indicated in Attachement 2 (pp. 13, 16) there were 39.21 million individual and 36.76 million joint returns in these

---

1/ The last time that U.S. saving rates classed by income were surveyed was 1963. Virtually all consumer analysts have relied on the results of that survey, despite the many socioeconomic changes in the years since then. The 1963 figures showed that the saving rate rose with family income, especially when family size was held constant. Projector, Dorothy S., et al. Survey of Changes in Family Finances. Washington, Board of Governors of the Federal Reserve System, 1968. p. 9.

2/ The corresponding German values, computed using a foreign exchange rate of 1.79 DM = $1.00, are $447 of savings for individuals earning up to $13,407 of taxable income, and generally twice these amounts for married couples. As is indicated in Attachment 2, adjusted gross income is a value from which deductions and exemptions are subtracted to arrive at taxable income.

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income classes filed for 1978. (Income recipients with limited means and whose earnings are so low that they need not file Federal tax returns are unlikely to have significant savings.) Based on 1978 data, if all eligible income units in a given year were to set aside the maximum permissible sums either from existing savings or current income, the Government credits on the resulting $56.37 billion of covered savings would be $7.89 billion.

It is unlikely that 100 percent participation in the plan would occur even if the rate of bonus were to far exceed 14 percent. Many retirees receive low taxable incomes, but have financial assets and other income such as pensions and Social Security. If their prospective consumption period is short, they may not wish to shift existing savings to a program requiring retention for as long as six years, unless their intention is to build estates for their heirs. Very low-income persons without significant financial assets or income from trusts or pensions frequently find it hard to maintain subsistence standards of living and often are not able to accumulate savings. Even moderate-income households may exhibit life-cycle patterns or personal preferences favoring spending that make them borrowers rather than savers.

A more realistic upper-bound assumption thus might be that 40 percent of eligible participants would set aside the maximum amount eligible for bonuses, distributed proportionally among single and joint tax filers. (In a survey taken in 1969, before eligibility criteria for German savings bonus plans had been restricted, 39 percent of that nation's households participated in supplemented savings programs.) 3/ If so, then $22.55 billion in the special accounts would require credits from the Treasury of $3.16 billion.

3/ Byrne, William J. Fiscal Incentives for Household Saving. International Monetary Fund Staff Papers, July 1976, p. 473.

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Other figures can be substituted into calculations of this nature, by varying assumptions of income eligibility cutoffs, participation rates, maximum supplemented savings, and rates of bonus. As another hypothetical example, if eligibility for such a program were limited to income units filing tax returns showing adjusted gross income of less than $15,000 without regard to marital status--or otherwise restricted to a maximum 55.67 million savings units who could set aside $500 yearly--then a 40 percent participation rate would result in the Treasury's annual credits falling in half to $1.56 billion.

Effects of a Supplemented Savings Plan

According to Attachment 1 (pp. 51-59), the impact of increasing rates of return available to savers for the savings of the economy may be indeterminate. 4/ This finding, together with lack of knowledge of the savings behavior of groups of households classified by their income levels, makes it impossible to know to what extent the program outlined would attract new savings as contrasted with funds shifted from other forms of savings. Impacts in addition to that on aggregate savings are discussed below.

Financial Market Impacts

The impact of choices made by participants and the Government as to what fiduciary institutions would receive supplemented funds is somewhat clearer. Funds would flow into various investment vehicles of fiduciary institutions according to the assessment of returns and risks by savers. (A later section shows

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4/ Inflation complicates the analysis of this--as well as almost any socioeconomic--relationship. See Wachtel, Paul. Inflation and the Saving Behavior of Households: A Survey. New York, New York University, Graduate School of Business Administration, June 1979. Salomon Brothers Center for the Study of Financial Institutions Working Paper No. 172, pp. 12-15.

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the sensitivity of time and savings deposits to changes in rates of return available at depository financial institutions, for example.) Differences in returns might result from competition among classes of institutions offering accounts eligible for bonuses; they would presumably pay some return independent of the bonuses. Bonus rates could also be set by the Government, varying across classes of eligible fiduciary institutions based on social criteria for the priorities of end-uses of the funds. There would be both quantity effects, as savings flows to eligible accounts would increase and diversion of funds would occur away from ineligible forms of savings, and maturity effects, as fiduciaries would seek to match the payment periods of their new assets and liabilities somewhat. By analogy with the German experience, the following classes of institutions could receive supplemented savings.

If targeted savings were to flow into savings and loan associations and mutual savings banks, then housing would be greatly stimulated. (The deposit of $500 by 100 account holders can fund the average-sized mortgage extended by savings and loan associations.) If funds were to flow into commercial banks, then the banks might increase their investments in "term" loans to prime businesses, private and government bonds, and commercial and residential mortgages. The proportion of short-term consumer and business loans in bank portfolios could then fall. Life insurance companies, already the fiduciaries for long-term funds, would tend to invest supplemented savings in much the same vehicles as they do now: the investments mentioned for banks plus common stock and real estate to a certain extent. If credit unions were to receive such funds, they might increase their currently negligible mortgage lending.

If savers were to invest their special deposits in the debt or equity of corporations, then the savings would flow directly into business investment, bypassing the intermediation of financial institutions. The risk to employees

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of investing in the obligations of their employers suggests that mutual funds--perhaps limited to the purchase of securities newly issued for the purpose of acquiring capital assets--might represent a preferred industrial investment option for supplemented savings. (Mutual funds are eligible investments for many individuals' tax-sheltered savings, as are described in a later section.)

Impacts on the Economy at Large

The tendency for household savings and financial assets to be shifted toward longer-maturity holdings could have important implications for capital investment. As was indicated above, the fiduciaries for the special accounts would probably invest the funds covered in the program in long-maturity assets themselves. Even if these fiduciaries would receive only inflows of funds entirely diverted from ineligible savings vehicles, this maturity effect would tend to stimulate long-payoff-period fixed investment (perhaps including residential investment).

In particular, financing by long-term obligations allows businesses to undertake longer-term or "riskier" projects than can be safely funded by an equal volume of short-term debt since longer-dated liabilities do not require early repayment or "rollover" and generally carry fixed interest costs. Increasing the availability of six-year funds thus could stimulate capital spending--perhaps more on machinery and equipment than on very-long-lived buildings. 5/

5/ Hendershott, Patric H. Understanding Capital Markets, Volume I: A Flow-of-Funds Financial Model. Lexington, Mass., Lexington Books, 1977. pp. 97-115. His findings have been summarized as: "...long-term or permanent uses of funds (for example, plant and equipment) are financed with long-term security issues; while short-term or temporary uses of funds (for example, for inventories) are financed by short-term borrowing or by selling off financial assets." Sametz, Arnold W. Financing the Business Sector, 1976-1985. In Sametz, Arnold W., and Paul Wachtel, eds. Understanding Capital Markets, Volume II: The Financial Environment and the Flow of Funds in the Next Decade. Lexington, Mass., Lexington Books, 1977. p. 130.

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To the extent that longer-term investment would thus be increased, the composition of GNP might shift away from consumption, a development that many observers believe would boost economic growth and dampen inflation over the long run, if not immediately. The perceived improvement in the (lower) dependence of business on short-term financing would also tend to raise financial confidence and provide some incentive to bear the risk of capital investing. 6/ Also, if national income were to respond more to an injection of investment than to an equal amount of consumption over the long term (a matter for empirical verification), then the resulting higher output would encourage further investment and higher saving itself.

Additional Effects on the Government Budget

Supplementing savings would also affect the Federal budget in ways going beyond the direct credits from the Treasury discussed earlier. For example, if national income were to grow, the net cost of supplemented savings would fall as tax collections increased. Some other factors for which the dollar value of impact cannot be determined are considered below.

Without taking into account any feedback effects, financing the bonuses would increase the Federal deficit and Treasury borrowing, a factor that by itself raises interest rates and thus Government borrowing costs somewhat. 7/

6/ Much of the debate concerning any "capital shortage" centers around such psychological incentives or disincentives to invest, with many observers viewing the ratio of long to short-dated corporate debt (as well as the ratio of equity to debt of all kinds) as indicators of business financial health and determinants of willingness to invest. A recent example is: Kaufman, Henry, James McKeon, and David Foster. Restoring Corporate Balance Sheets: An Urgent Challenge. New York, Salomon Brothers, July 21, 1980. 21 p.

7/ Jackson, William. Federal Deficits, Inflation, and Monetary Growth: Can They Predict Interest Rates? Federal Reserve Bank of Richmond, Economic Review, September-October 1976, pp. 13-25.

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If the plan were to increase savings by more than the associated deficit plus investment-oriented borrowing directly attributable to it, then Treasury borrowing costs might decline. Government borrowing rates might also decline if financial markets were to view the plan as anti-inflationary in nature. If market participants were more concerned over the nominal cost to the Treasury of the bonuses, the reverse could occur.

The tax receipts of the Government could change if the interest rate and financial flow adjustments across classes of fiduciary institutions described above were to occur. For example, tax collections from individuals would be affected by a shift of savings from instruments whose yields are fully taxable to covered savings which earn the tax-free bonus and a lower taxable yield. Any change in total personal savings would also be unlikely to leave tax collections from individuals unchanged. Meanwhile, the changes in flows of funds through fiduciary institutions and yields that they would receive and pay would alter their taxable incomes. This development, combined with variations in the tax brackets of fiduciary institutions--which vary from zero for credit unions and most mutual funds up to high nonfinancial corporate rates--would alter the taxes received from the business sector.

If we can be of further assistance, please let us know on 287-7593.

Attachments:

1. Gravelle, Jane G. The Capital Cost Recovery System and the Corporate Income Tax. Washington, 1979. 163 p. CRS Report No. 79-230 E.

2. U.S. Department of the Treasury. Internal Revenue Service. 1978 Statistics of Income, Preliminary. Individual Income Tax Returns. Washington, U.S. Govt. Print. Off., 1980. 52 p.

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ECONOMETRIC ANALYSIS OF THE INTEREST SENSITIVITY OF TIME AND SAVINGS DEPOSITS AT DEPOSITORY INSTITUTIONS*

The purpose of this Section is to provide a quantitative estimate of the extent to which variations in interest rates paid on time and savings deposits influence changes in these deposits. Since depository institutions are not homogeneous, it may be useful to examine differences in responsiveness that exist across classes of institutions. By examining the responsiveness of each class individually, we may establish whether analogous responses exist for all classes of these institutions.

For simplicity only, it is assumed that time and savings deposits at depository institutions are directly related to (a) the own rate of interest paid on these deposits, (b) the previous period's level of deposits, (c) the yield differential between the own rate paid on the deposits and the rate of interest paid on competing instruments, and (d) the level of disposable personal income. 1/

Under the simplifying assumptions, the functional form for time and savings deposits at depository institutions is represented by the following equation:

$$SD_t = f(INT_t , SPREAD_t , SD_{t-1} , YD_t) \quad . \; . \; . \; . \; . \; . \; . \; . \; . \quad (1)$$

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* Prepared by Everson W. Hull, Specialist in Macroeconomics, Economics Division. These estimates are based on the preliminary results of a forthcoming CRS study that examines the interest sensitivity of savings deposits at depository institutions.

1/ The analysis below excludes quantities of and rates for time certificates of deposit for $100,000 or more at large weekly reporting banks. All variables analyzed are those in the U.S. Model data base maintained by Data Resources, Inc.

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In this equation,

SD_t = time and savings deposits at depository institutions (billions of dollars)

INT_t = the rate of interest paid on time and savings deposits

$SPREAD_t$ = the rate of interest paid on relevant time and savings deposits less the open market rate of interest on a competing instrument

SD_{t-1} = the previous period's level of time and savings deposits (billions of dollars)

YD_t = personal disposable income (billions of dollars)

The four major types of depository institutions under consideration are commercial banks, savings and loan associations, mutual savings banks, and credit unions. For each of the types of institutions an equation is estimated that attempts to show the quantitative importance of the variables considered.

The underlying theory that lends support to the choice of the variables selected for examination follows. The quantities supplied of time and savings deposits at depository institutions, like the quantities supplied of any other commodity or service, are fundamentally determined by the own price (i.e. the own rate of interest paid on the supply of deposits). Other factors are important in determining these deposits; however, these serve only as shift parameters that alter the horizontal position of the supply curve but not its slope.

One of the most important of these shift parameters is the price offered for substitute instruments that are available to the prospective depositor. The rate paid on a competing instrument relative to the own rate paid on deposits by the depository institutions is a critical consideration. In this study, this differential is measured by the own rate of interest on these time and savings deposits less the average market yield on U.S. Government 3 to 5 year bonds.

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The choice of a representative competing instrument is complicated by the numerous options for investment available to depositors as well as the several deposit options that are offered at deposit institutions.

The yield on U.S. Government 3 to 5 year bonds, which are considered good substitutes for time and savings deposits, is sufficiently volatile and tends to reflect general movements in open market interest rates reasonably well. The 3 to 5 year Government bond rate offers a useful comparison to the representative rate for time and savings deposits where the representative rate is defined as the average weighted yield on the relevant time and savings deposits.

The crucial hypothesis of the above analysis is that if the yield SPREAD is positive, an increase in time and savings deposits is likely to occur at depository institutions. The greater the yield SPREAD, other things equal, the more likely it becomes that the institutions will experience an increase in net inflows. Conversely, when the yield SPREAD is falling and/or negative, the prospective investor has less incentive to seek time deposits or savings shares than to buy, say, U.S. Government securities whose rates are relatively higher.

The source of the problem is that under inflationary conditions, monetary policy has frequently become restrictive driving up interest rates. Open market rates rise at a faster rate, and often exceed, yields on deposits. Under these circumstances, individuals withdraw their savings to invest directly in higher-yielding market instruments.

We may review recent behavior of the SPREAD variable. It appears to have a direct relationship to changes in time and savings deposits. Table A1 and Charts A1 to A4 show a high degree of association between movements in the SPREAD variable and changes in deposit growth. Moreover, since 1966 the differential between interest rates paid by depository institutions and competing open market

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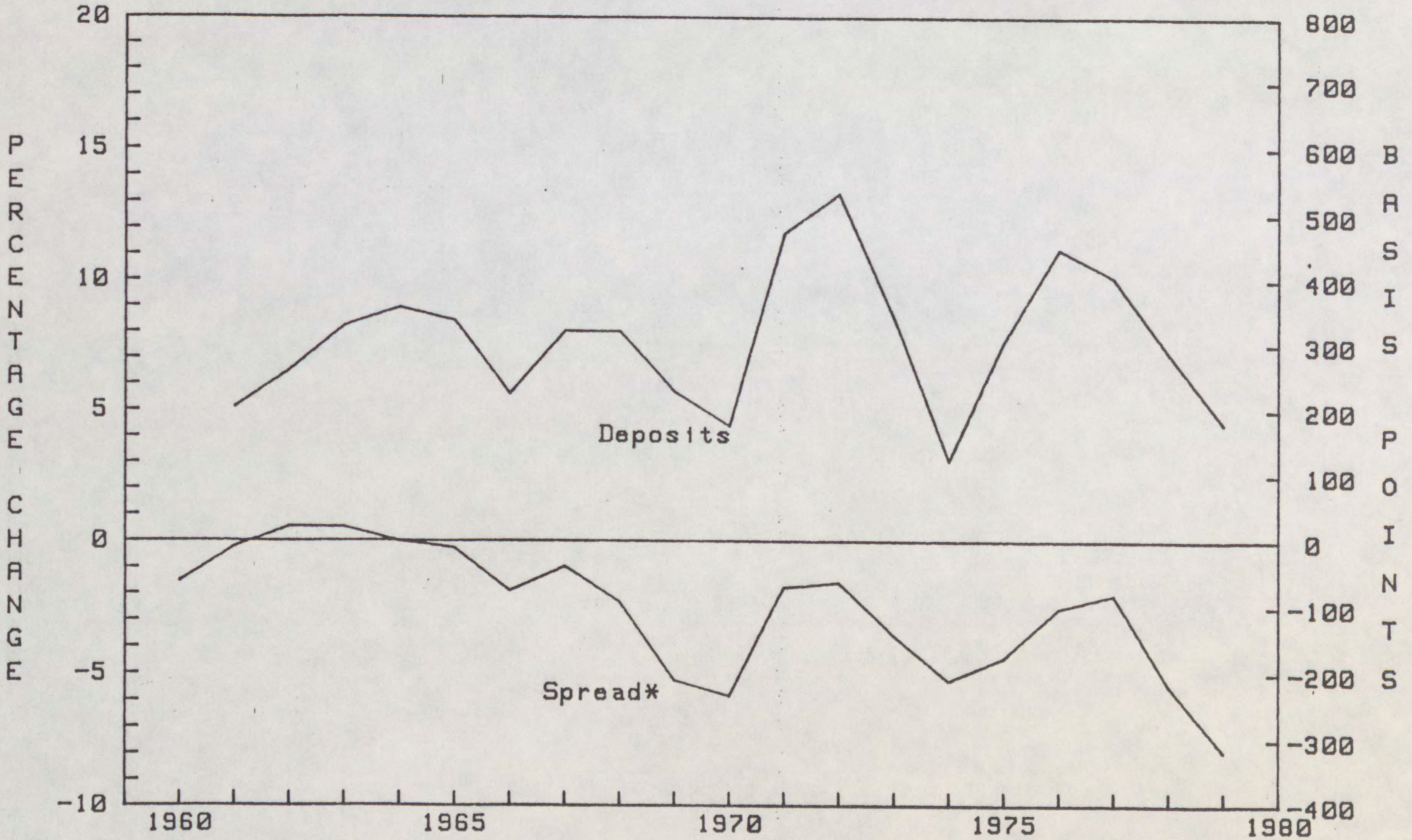
PERCENTAGE INCREASE IN NON-CD TIME AND SAVINGS DEPOSITS AT COMMERCIAL BANKS AND YIELD SPREADS, 1961 TO 1979



CRS-12

*Average rate paid on non-CD time and savings deposits at Commercial Banks less average yield on 3 to 5 year U.S. Government bonds.

Data Source: Figures accessed from the files of Data Resources, Inc.

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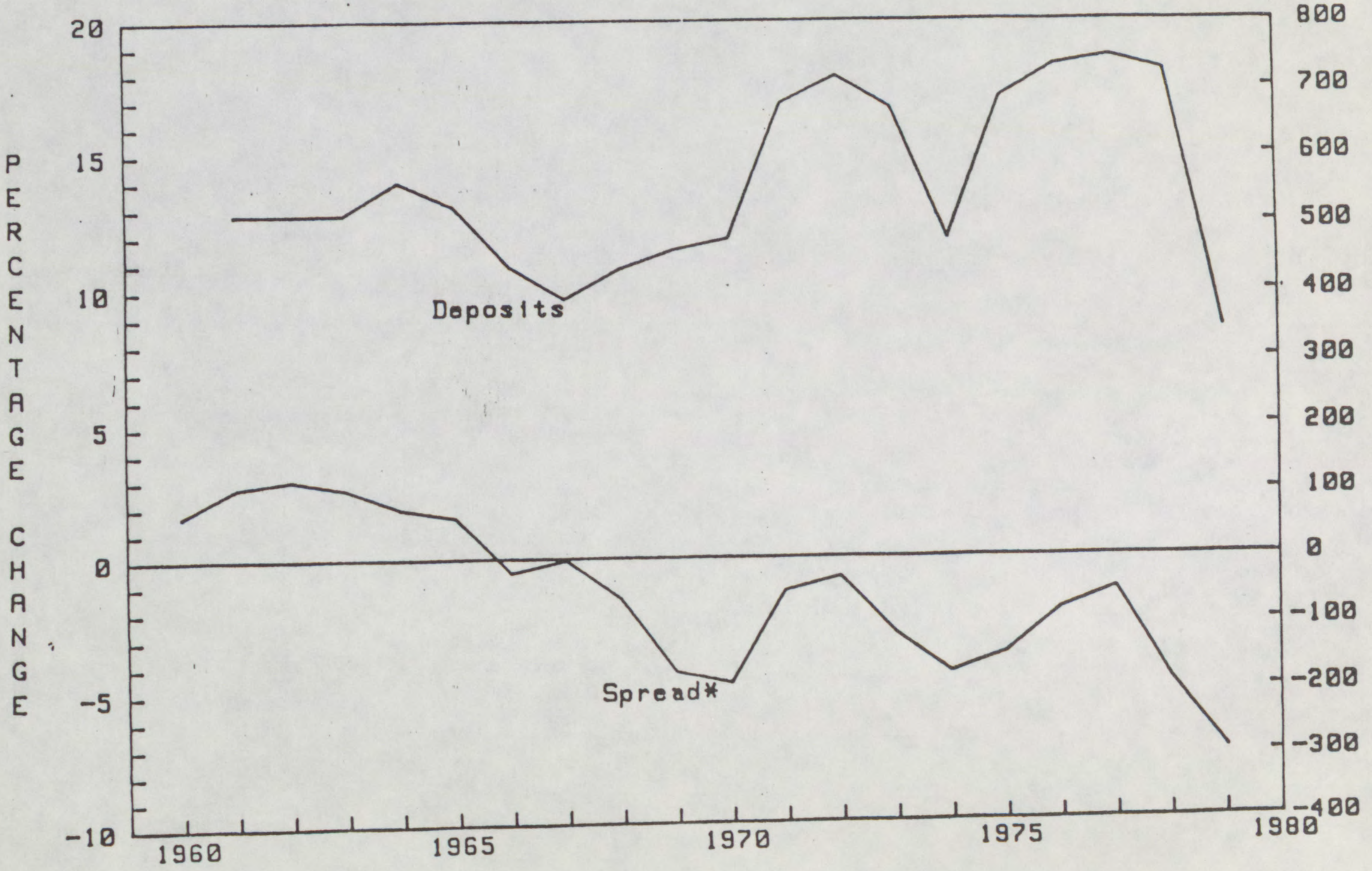
PERCENTAGE INCREASE IN DEPOSITS AT SAVINGS AND LOAN ASSOCIATIONS AND YIELD SPREADS, 1961 TO 1979



CRS-13

*Average effective interest rate paid by insured Savings and Loans less average market yield on 3 to 5 year U.S. Government bonds.

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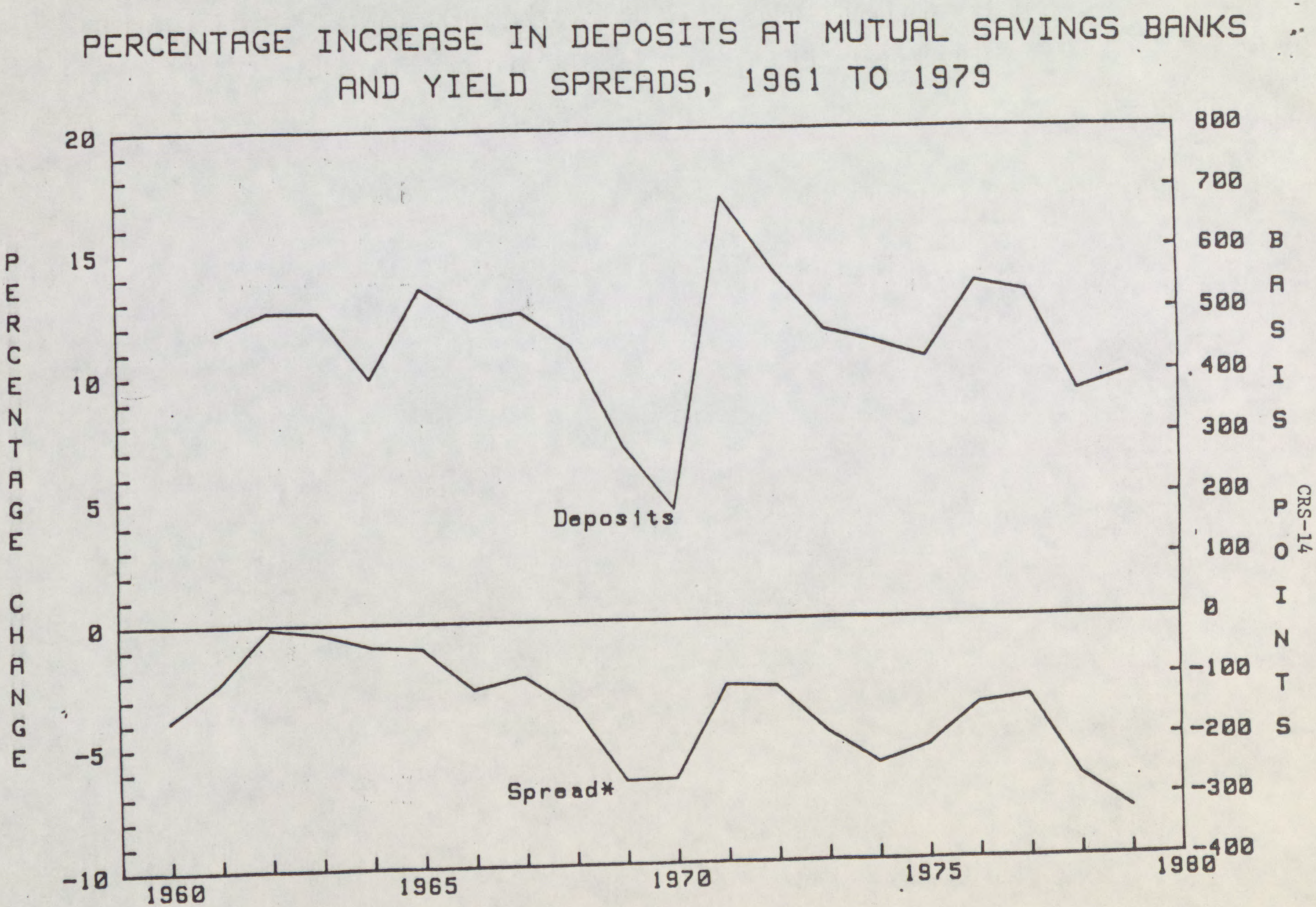

*Average interest rate on all savings deposits at Mutual Savings Banks less average yield on 3 to 5 year U.S. Government bonds.

Data Source: Figures accessed from the files of Data Resources, Inc.

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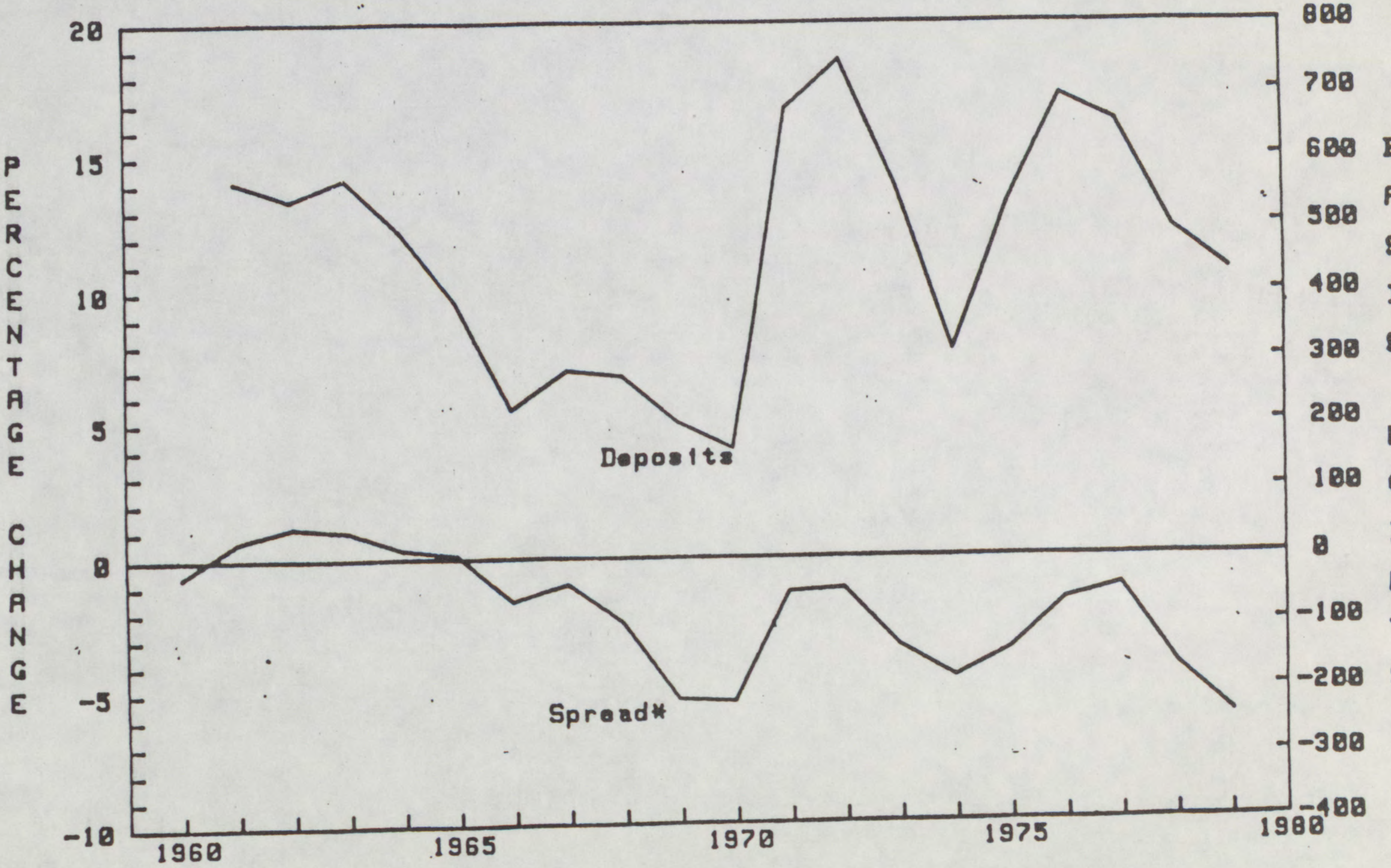
PERCENTAGE INCREASE IN DEPOSITS AT CREDIT UNIONS AND YIELD SPREADS, 1961 TO 1979



*Average effective interest rate paid on savings shares at credit unions less average market yield on 3 to 5 year U.S. Government bonds.

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TABLE A1. Percentage Increase in Time and Savings Deposits and Yield Differentials, 1961 to 1979.

Year	Commercial Banks		Savings and Loan Associations		Mutual Savings Banks		Credit Unions	
	Deposits	Spread a/	Deposits	Spread b/	Deposits	Spread c/	Deposits	Spread d/
1961	11.8	-0.93	14.1	0.26	5.1	-0.09	12.8	1.10
1962	12.6	-0.06	13.4	0.47	6.5	0.22	12.8	1.21
1963	12.6	-0.15	14.2	0.40	8.2	0.20	12.8	1.06
1964	9.9	-0.37	12.2	0.13	8.9	-0.00	14.0	0.77
1965	13.5	-0.42	9.6	0.06	8.4	-0.11	13.1	0.63
1966	12.2	-1.09	5.5	-0.65	5.6	-0.76	10.9	-0.22
1967	12.5	-0.90	7.0	-0.39	8.0	-0.39	9.7	-0.03
1968	11.1	-1.44	6.8	-0.98	8.0	-0.93	10.8	-0.63
1969	7.1	-2.64	5.0	-2.14	5.7	-2.10	11.5	-1.73
1970	4.5	-2.62	4.0	-2.17	4.4	-2.34	11.9	-1.89
1971	17.1	-1.09	16.8	-0.52	11.8	-0.70	16.9	-0.52
1972	14.1	-1.11	18.6	-0.47	13.3	-0.63	17.9	-0.31
1973	11.7	-1.88	13.8	-1.36	8.6	-1.48	16.7	-1.17
1974	11.2	-2.41	7.8	-1.83	3.1	-2.10	11.9	-1.76
1975	10.6	-2.12	13.2	-1.41	7.6	-1.76	17.1	-1.48
1976	13.6	-1.44	17.3	-0.66	11.2	-1.01	18.3	-0.83
1977	13.2	-1.32	16.3	-0.44	10.1	-0.81	18.6	-0.51
1978	9.2	-2.66	12.3	-1.67	7.2	-2.17	18.1	-1.88
1979	9.9	-3.23	10.8	-2.39	4.5	-3.17	8.6	-2.95

a/ Average rate paid on non-CD time and savings deposits at commercial banks less average yield on 3 to 5 year U.S. Government bonds.

b/ Average effective interest rate paid by insured savings and loans less average yield on 3 to 5 year U.S. Government bonds.

c/ Average interest rate on savings deposits at mutual savings banks less average yield on 3 to 5 year U.S. Government bonds.

d/ Average effective interest rate paid on savings shares at credit unions less average yield on 3 to 5 year U.S. Government bonds.

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instruments has been persistently in favor of the open market instruments. During 1979, for example, many nominal interest rates achieved record high levels that resulted also in record high yield differentials. During the same year growth rates for these time and savings deposits also approached record low levels. (See Table A1.)

In addition to the SPREAD variable, the other shift parameters that influence the supply of these deposits are the previous period's deposits SD_{t-1} and the level of disposable personal income YD_t. We may consider these two variables as having an effect on the "climate" for deposits. The previous period's deposits capture some of the inertia in the system and the overall level of activity within markets for deposits. By contrast, the level of disposable income YD attempts to reflect the performance of the economy at large and the effect of changes in income on the propensity to save.

ESTIMATION TECHNIQUES

To estimate the quantitative impact of the hypothesized determinants of these deposits, the own rate of interest paid on them by depository institutions (INT_t), the yield differential between the own rate and that of a competing instrument ($SPREAD_t$), the previous period's level of savings deposits (SD_{t-1}) and the level of personal disposable income (YD_t) were regressed on the levels of deposits (SD_t).

The method of ordinary least squares is applied to a log-linear form of the functional formulation presented in Equation 1. 2/ In addition, because

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2/ The necessarily technical terms used in the text are explained in: Kane, Edward J. Economic Statistics and Econometrics. New York, Harper, 1968, 437 p., and Murphy, James L. Introductory Econometrics. Homewood, Ill., Irwin, 1973, 511 p. The general reader may proceed to the section headed "Empirical Results" without losing the results of the analysis.

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prior lagged values of the SPREAD variable are likely to exert a significant though diminishing effect on the level of deposits, a polynomial distributed lag formulation (constrained at the far end) was used for this variable in an attempt to improve the statistical fit. This approach reduces substantially the problems of multicollinearity frequently encountered in an equation in which there are several lagged explanatory variables.

However, serious estimation problems exist if the error term u_t follows a first-order Markov scheme with a parameter ρ.

$$u_t - \rho u_{t-1} = \epsilon_t$$

This situation is likely to occur when dealing with financial variables, particularly interest rates and deposits which are typically serially dependent. As a consequence residuals obtained from these equations may be highly correlated between successive disturbances. Projections based on such a formulation would tend to show unduly large sampling variances that lead to sequences of over or under-prediction.

Examination of Durbin Watson statistics showed evidence of serially correlated error terms when the straightforward least squares estimation procedure was applied. Thus for each equation an appropriate first or second order autoregressive scheme is applied for transforming the variables. Table 2 reports the final equations adopted with appropriate transformations.

EMPIRICAL RESULTS

For the sample periods considered, the elasticity of deposits with respect to a change in the rate of interest is small, and on average, about 0.03 across intermediaries. Thus, on average, each 1 percentage point rise in the own rate

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TABLE 2. Ordinary Least Squares Equations for Savings Deposits at Depository Institutions.

Commercial Banks (period 1956:II to 1980:II)

$$\ln(SD_t) = \underset{(0.116)}{-0.409} + \underset{(0.015)}{0.037}\ln(INT_t) + \underset{(0.036)}{0.878}\ln(SD_{t-1}) + \underset{(0.044)}{0.159}\ln(YD_t) + \sum_{i=0}^{2} a_{t-i}SPREAD_t$$

$$a_t = \underset{(0.001)}{0.009} \qquad a_{t-1} = \underset{(0.001)}{0.003} \qquad a_{t-2} = \underset{(0.000)}{0.000} \qquad \sum_{i=0}^{2} a_{t-i} = \underset{(0.002)}{0.012}$$

$$\rho = \underset{(0.095)}{0.632} \qquad D.W. = 1.97 \qquad \bar{R}^2 = 0.99 \qquad S.E. = 0.006$$

Savings and Loan Associations (period 1957:II to 1980:II)

$$\ln(SD_t) = \underset{(0.071)}{-0.315} + \underset{(0.057)}{0.072}\ln(INT_t) + \underset{(0.024)}{0.909}\ln(SD_{t-1}) + \underset{(0.023)}{0.106}\ln(YD_t) + \sum_{i=0}^{3} a_{t-i}SPREAD$$

$$a_t = \underset{(0.001)}{0.005} \qquad a_{t-1} = \underset{(0.001)}{0.005} \qquad a_{t-2} = \underset{(0.001)}{0.002} \qquad a_{t-3} = \underset{(0.001)}{-0.000} \qquad \sum_{i=0}^{3} a_{t-i} = \underset{(0.002)}{0.012}$$

$$\rho_1 = \underset{(0.106)}{1.036} \qquad \rho_2 = \underset{(0.107)}{-0.298} \qquad D.W. = 1.99 \qquad \bar{R}^2 = 0.99 \qquad S.E. = 0.004$$

Mutual Savings Banks (period 1957:II to 1980:II)

$$\ln(SD_t) = \underset{(0.121)}{-0.385} + \underset{(0.047)}{0.074}\ln(INT_t) + \underset{(0.074)}{0.780}\ln(SD_{t-1}) + \underset{(0.060)}{0.188}\ln(YD_t) + \sum_{i=0}^{3} a_{t-i}SPREAD$$

$$a_t = \underset{(0.001)}{0.006} \qquad a_{t-1} = \underset{(0.001)}{0.003} \qquad a_{t-2} = \underset{(0.001)}{0.002} \qquad a_{t-3} = \underset{(0.001)}{0.001} \qquad \sum_{i=0}^{3} a_{t-i} = \underset{(0.003)}{0.012}$$

$$\rho = \underset{(0.093)}{0.789} \qquad D.W. = 2.46 \qquad \bar{R}^2 = 0.99 \qquad S.E. = 0.005$$

Credit Unions (period 1960:II to 1980:II)

$$\ln(SD_t) = \underset{(0.390)}{-0.559} - \underset{(0.066)}{0.060}\ln(INT_t) + \underset{(0.048)}{0.938}\ln(SD_{t-1}) + \underset{(0.080)}{0.132}\ln(YD_t) + \sum_{i=0}^{3} a_{t-i}SPREAD$$

$$a_t = \underset{(0.001)}{0.006} \qquad a_{t-1} = \underset{(0.001)}{0.003} \qquad a_{t-2} = \underset{(0.001)}{0.001} \qquad a_{t-3} = \underset{(0.002)}{0.000} \qquad \sum_{i=0}^{3} a_{t-i} = \underset{(0.003)}{0.010}$$

$$\rho = \underset{(0.095)}{0.715} \qquad D.W. = 2.16 \qquad \bar{R}^2 = 0.99 \qquad S.E. = 0.006$$

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of interest at financial institutions is associated with a modest gain in deposits of only 0.03 percent. Deposits at savings and loan associations and mutual savings banks each show elasticities of about 0.07 with respect to a change in the own rate of interest on deposits, while commercial banks have an elasticity of about 0.04.

For credit unions, the elasticity of savings shares with respect to a change in the rate of interest is negative. However, this relationship is not significant in a statistical sense. It is entirely possible that for another sample period this relationship would have the expected positive sign, though not necessarily significant.

More important than the own rate of interest, however, is the difference between this rate and that of rates paid on competing investments. The SPREAD appears to be a very important determinant of the deposits. Not only is the SPREAD of the current period a significant determinant of these deposits; but the yield SPREAD of previous periods also exerts an important though declining influence on the deposits.

The positive coefficients associated with the SPREAD variable are highly significant and lend support to the hypothesis that 3 to 5 year U.S. Government bonds are effective competitors for time and savings deposits. Not only is the SPREAD of the current quarter significant, but the SPREAD of the past quarters also exerts a significant though declining influence on the level of these deposits. Thus the competitive position of depository institutions as reflected in the own rate of interest versus rates paid on alternative open market investments over the past two quarters exerts a powerful influence on the current period's level of deposits.

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During the current quarter a 100 basis point increase in the yield differential tends on average to raise deposits at depository institutions by about \$1.9 billion, ceteris paribus. Similarly, a 100 basis point increase in the yield differential for the previous period's yield differential, $SPREAD_{t-1}$, is associated on average with an increase in these deposits during the current quarter of \$1.5 billion. The $SPREAD_{t-2}$ tends to be associated with a rise in the deposits during the current quarter of \$1.1 billion.

Across classes of institutions, the aggregate contribution of current and past yield differentials to explaining changes in deposits appears to be quite similar. For example, an increase of 100 basis points in the current period's yield differential at commercial banks is associated with an increase in the bank deposits of \$2.46 billion. Other institutions show an average increase of only \$1.65 billion for the same increase in yield differential. By contrast, a 100 basis point increase in the previous period's yield differential tends to be associated with an increase in deposits at savings and loan associations of \$1.65 billion. For other classes of institutions, the average increase in deposits is \$1.35 billion for a 100 basis point increase in the previous period's yield differential.

In general, the remaining variables--the previous periods' level of deposits and the current level of personal disposable income--both conform to expectations. The coefficients for the previous quarter's deposits are larger and close to 0.9 for commercial banks, savings and loan associations, and credit unions. For mutual savings banks the regression coefficient for the previous period's level of deposits is 0.8. This variable, which serves as a proxy for activity at depository institutions, performs well and contributes by significantly improving the goodness of fit.

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Also noteworthy is the performance of disposable personal income which is used here as a proxy measure of general economic conditions. This measure is significant at the 5 percent confidence level in each of the equations with the exception of that for credit unions.

CONCLUSION

In this analysis we sought to conduct an econometric investigation into the interest sensitivity of time and savings deposits at depository institutions. The statistical and economic significance of the results lend support to the hypothesis that increases in interest rates paid by depository institutions lead to higher time and savings deposits at these institutions. The results do not indicate a tendency for any one class of institution to benefit relatively more than others from a given interest rate increase.

Depositors appear to be very sensitive to competing rates paid on other forms of investments. In this context the partial effect of the own rate of interest appears to be small. Notwithstanding, the relative difference between the own rate and its substitute appears to exert a significant influence on changes in these deposits.

The coefficient of determination for each equation is large, suggesting that the hypothesized variables, taken together, may be a possible explanation of nearly all of the observed variation in these deposits. After the application of an appropriate autoregression transformation of the residuals, all of the equations pass the Durbin Watson test. Thus the estimates reported are considered to be consistent.

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APPENDIX A. SELECTED AMERICAN INCENTIVES TO SAVE*

This Nation has provided some incentives to save that are channeled through the private sector. For example, Congress has sought to encourage higher rates of return on small savers' deposits (P.L.96-221), and has granted tax exemptions for small amounts of interest and dividends (P.L.96-223). It has also provided, through laws affecting the Internal Revenue Code, for employment-related tax-privileged long-term savings plans. Selected plans are described below.

Employee Savings, Thrift, and Stock Ownership Plans

Individual corporations have instituted tax-favored savings plans that resemble in many ways the German Wealth Formation by Employees program prior to 1970. 1/ In most of these plans, employees typically contribute up to 6 percent of their salaries on a voluntary basis to special accounts. Employers add a bonus, often half of employee payments up to a limited percentage of salary, to these funds. The employers deduct their payments as a business expense, while the employees pay no taxes on their bonuses or the total earnings of the funds until they actually receive the payments. Many plans are invested in company stock--often the sole form of corporate contributions--while others offer participants a choice of investment media (stock, mutual funds, or Government securities) for at least the employee contributions. Rather stringent "vesting" criteria, plus penalties for early withdrawals, make these plans long-term accumulation vehicles. 2/

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* Prepared by William Jackson, Analyst in Money and Banking, Economics Division.

1/ Byrne, pp. 471-472.

2/ This paragraph is based on: Bankers Trust Company, Bankers Trust 1977 Study of Employee Savings and Thrift Plans, New York, 1977. p. 9-37.

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In a related vein, the Tax Reduction Act of 1975 (P.L. 94-12) and the Tax Reform Act of 1976 (P.L. 94-455) provide for "Tax Reduction Act Stock Ownership Plans," which are the equivalent of employer-paid thrift plans. Corporations that purchase capital assets eligible for investment tax credits can claim an extra credit of one percentage point, if they contribute that value of stock to their TRASOP. The TRASOPs hold the stock for the benefit of employees, who must usually wait seven or more years to receive the stock. Beginning in 1977, corporations can claim an additional one-half percentage point investment tax credit, if they also contribute this amount of their stock to their TRASOPs and employees match this extra payment. Thus, the Federal Government pays for the employer contributions and employees ultimately receive free and sometimes half-price stock, plus dividends (if any) earned during the seven years. 3/

Theoretically, most employees of sponsoring corporations can benefit from such employer generosity. In practice, many plans make effective returns to employees depend on such factors as total compensation, minimum service periods for qualification, and length of service thereafter, thereby ensuring that most of their payments are received by higher-income long-term employees. In contrast to their favorable treatment of executive and managerial personnel, the plans thus provide low absolute benefits to many workers of low incomes, especially those in job categories categorized by "turnover." 4/ Data published in 1977 suggest that these plans and TRASOPs are rather popular among employees eligible

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3/ This paragraph is based on Bankers Trust Company, p. 38, and Henle, Peter and Jane G. Gravelle. Employee Stock Ownership Plans, Including Recent Legislation and Selected References. Washington, 1977. CRS Report No. 77-189E. p. 27-28.

4/ Henle and Gravelle, p. 10-12, 18-21.

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to participate in them. The degree of participation in them increases with the rewards offered by their corporate sponsors. 5/

Tax-Deductible Saving for Retirement

Self-employed individuals and workers not covered under standard "qualified" retirement plans may deduct specified sums from their taxable incomes, to be set aside in trusteed retirement funds whose principal and earnings are not taxed until then. The Internal Revenue Code encourages the deduction of up to 15 percent of earned income or a maximum of $1,500 (Individual Retirement Accounts) or $7,500 (Self-Employed Retirement or "Keogh" Plans) yearly this way. 6/ Because

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5/ "About half the plans in the Study. . . have an enrollment of over 70 percent of eligible employees. The median participation rate is 72 percent in the Study. . . the median rate of participation of those plans which are more liberal. . . is generally higher than the median rate of those plans which have more restictive provisions:

Plan Provision	Median Participation Rate
Company contributions	
25% or less	52%
50%	73%
100% or more	86%
Vesting	
Class system vesting	70%
Membership vesting	75%
Immediate vesting	82%
Investment of contributions	
No employee choice	67%
Some employee choice	72%
Investment options	
Company stock only	67%
1 or 2 other funds	70%
3 or more other funds	81%

Bankers Trust Company, p. 14-15. The data include several TRASOPs.

6/ Commerce Clearing House, Inc. 1980 U.S. Master Tax Guide. Chicago, 1979. p. 206-212.

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of the sharply progressive structure of the Federal income tax, and the expenses of administering such accounts, these tax deductions are most attractive to high-bracket income-earners; such individuals are also more likely to work for themselves than the population at large. Consequently, in 1978, 71 percent of the amounts contributed to Individual Retirement Accounts and 92 percent of the amounts contributed to Keogh Plans were set aside by taxpaying units whose adjusted gross income exceeded $20,000; these units represented 1.68 and 0.54 percent of total returns filed, repectively. 7/

7/ Computed from: U.S. Department of the Treasury. 1978 Statistics of Income, Preliminary. Individual Income Tax Returns. Washington, U.S. Gov. Print. Off., 1980. p. 22, 25.

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