Congressional
May - June 1981 [1]

# Congressional
# May-June 1981

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

June 29, 1981

PAUL A. VOLCKER
CHAIRMAN

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 June 16, regarding the Board's proposed interpretation concerning NOW accounts. The Board's proposal was intended to clarify the types of depositors that are eligible to maintain NOW accounts and to make the eligibility criteria more consistent and equitable.

During the last year, the Board had received numerous inquiries from the public requesting rulings on NOW account eligibility. Many of these requests expressed a desire for a comprehensive review by the Board of the eligibility criteria. In the course of considering these requests, the Board concluded that sole proprietorships may have been provided with what could be regarded as an unfair competitive advantage over similar businesses that are incorporated. Since the NOW account statute does not permit business organizations to maintain NOW accounts, it seemed appropriate to propose permitting individuals to maintain NOW accounts only for funds used primarily for personal rather than business purposes.

We have received several hundred comments on this proposal to date. Many of the comments from banks and thrifts echo your concerns with the possible restriction of NOW accounts to individuals in their personal capacity. The comment period has just ended and a summary of the views expressed by the public is being prepared. It is anticipated that the Board will review the public comments and will be considering this matter in the near future. I can assure you that your views on this matter will prove useful to the Board and will be given careful consideration when it takes up the issue of NOW account eligibility.

Thanks again for providing me with your insight and views on this proposal.

Sincerely,

S/ Paul

GTS:AFC:pjt (#V-165)
bcc: Gil Schwartz
Legal Records (2)
Mrs. Mallardi (2)

# U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
SUPERVISION, REGULATION AND INSURANCE
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
NINETY-SEVENTH CONGRESS

WASHINGTON, D.C. 20515

June 16, 1981 #165



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

Dear Mr. Chairman:

Unfortunately, proposed restrictive regulations of the Federal Reserve Board dealing with eligible NOW account depositors have only recently been brought to my attention. The Board's proposed regulations (Docket No. R-0356) would eliminate individuals acting as sole proprietors as eligible NOW account depositors. It is my understanding that the Board believes that Congress intended the adoption of a more restrictive policy relying upon remarks made by myself and other Members of Congress during floor debates leading up to enactment of Public Law 96-221, the Depository Institutions Deregulation and Monetary Control Act of 1980.

I wish to state clearly and unequivocally that at no time during consideration of this landmark legislation by the House of Representatives nor at any time during House-Senate conference activities, did the principal sponsors of the bill intend to delimit the scope of the so-called NOW account experiment. The subject, indeed, was never discussed. Our intent in extending the benefit of NOW accounts to consumers nationwide was precisely the opposite, i.e., to make this innovative consumer service available on equal terms to <u>all</u> individuals and otherwise eligble non-profit, eleemosynary and government entities.

At a time when depository institutions of all types are hard pressed to meet the competition posed by money market funds, I am absolutely astonished that the Board would suggest a course of action that would restrict a ready and willing source of account holders. The experiment in Rhode Island where sole proprietors may now qualify as NOW account depositors has been completely devoid of operational or other problems from the standpoint of both banks and thrift institutions. Since NOWs are of obvious benefit to consumers and other depositors there would appear to be no valid reason for the Board to go forward with the proposed interpretations to the extent that it would disqualify certain account holders.

Beginning as early as 1973 with the NOW account experiment in Massachusetts and New Hampshire our intent has been to authorize the widest possible use of NOW accounts by individuals while prohibiting corporate usage. My recent floor remarks must be reviewed in that context. It should also be pointed out that on each occasion extending NOW accounts, as floor manager, I made it clear that Congress was extending such accounts governed by the regulations in existence beginning with the Massachusetts/New Hampshire experiment. Sole proprietors throughout this entire period have, in fact, been considered eligible NOW account depositors.

I strongly urge the Board to withdraw its pending proposal since I strongly believe that its adoption would be clearly contrary to the public interest and completely inconsistent with the basic purposes of P. L. 96-221.

Sincerely,

Fernand J. St Germain
Chairman

FJStG:gSj

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

June 26, 1981

PAUL A. VOLCKER
CHAIRMAN

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

Dear Mr. Jones:

Thank you for giving me the opportunity to respond to the recent letter from your constituent, Mr. Charles Woods, President of WTVY-TV in Dothan, Alabama. Mr. Woods specifically asked why interest rates are so high and further questioned the autonomy of the Federal Reserve Board.

The Federal Reserve System was created by the Congress as an independent agency in order to insulate monetary policy decisions from political pressures. Members of the Board of Governors of the Federal Reserve System are appointed by the President, with the advice and consent of the Senate. Moreover, the general goals of the Federal Reserve have been set forth in the Full Employment and Balanced Growth Act of 1978, in which Congress laid out for the Federal Reserve, as well as for the President, the objectives of promoting full employment, balanced growth of real income, adequate productivity growth, and reasonable price stability. In attempting to achieve these goals, which tend to be longer-term in nature, the Federal Reserve establishes annual ranges for growth of monetary and bank credit aggregates. These ranges are presented in Monetary Reports to Congress each February and July, in which the Federal Reserve discusses how money and credit growth within these ranges will contribute to the achievement of longer-term goals. In addition, members of the Board make frequent appearances before Congress on related issues.

With regard to interest rates, high interest rates are commonly associated with high inflation, but it is high inflation that inevitably causes high interest rates rather than the reverse. In an inflationary period, lenders insist upon interest rates high enough to compensate them for the anticipated decline in the purchasing power of the dollars they are lending. Borrowers are willing to pay these high rates because they too anticipate repayment in cheaper dollars.

High interest rates tend to encourage the postponement of less promising investment projections and the deferral of consumption, thus reducing the demands in markets and easing upward pressure on prices. We realize that these favorable implications for prices are offset to the extent that interest rates themselves are a cost of production. However, the relative contribution of interest rates to the ever-rising costs of most products is small, and the overall effect of an increase in the real cost of credit--that is, interest rates adjusted for inflation--is to reduce generally upward pressure on prices.

The only effective way to reduce interest rates over the long run, and thereby provide a reasonably stable financial environment, is to curb the underlying inflationary pressures. There is, unfortunately, no simple way to do this. Only persistent application of non-inflationary policies over a long period of time will succeed in breaking the spiral of rapid price increases and intense inflationary expectations. It is widely agreed that the slow growth of money and credit over time is an essential element in succeeding without causing serious economic dislocations. However, in order to hasten progress against inflation, monetary restraint must be accompanied by prudent fiscal policies, which will reduce the federal government's demands for the economy's scarce savings, and by appropriate private sector restraint on wage and price decisions.

I hope these comments prove useful to you. Please let me know if I can be of further assistance.

Sincerely,

S/Paul A. Volcker

JLK:vcd (#V-169)

bcc: Mr. Kichline
Mrs. Mallardi (2)

Chmn. Volcker

Action assigned to Jim Kichline

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

COMMITTEE ON AGRICULTURE

CHAIRMAN: SUBCOMMITTEE ON CONSERVATION AND CREDIT

COMMITTEE ON HOUSE ADMINISTRATION

CHAIRMAN: SUBCOMMITTEE ON HOUSE SERVICES

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

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June 17, 1981

#169

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1981 JUN 18 AM 11: 18
RECEIVED
OFFICE OF THE CHAIRMAN

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

Dear Mr. Chairman:

Enclosed is a copy of a letter I recently received from Mr. Charles Woods, President of WTVY, Inc. in Dothan, Alabama. I would appreciate your consideration of his comments, and I will be looking forward to your reply.

With kindest regards and best wishes, I am

Sincerely yours,

Ed

ED JONES, M. C.

EJ/pl

Enc:

2049 FEET ASL

# WTVY-TV

MAY 11 1981

April 30, 1981

Dear Congressman:

Why are interest rates so high?

Our central banking system is not owned by the government but by the private banking sector. Our central banking system is separate from the Federal Government like General Motors. In 1913 Congress, without benefit of Constitutional amendment, turned over the responsibility to "create and regulate currency" to the Federal Reserve Board.

Once bankers got the Federal Reserve system, they began to regulate currency and interest rates, then greed entered in. They will say, we are going to raise interest rates to cure inflation, but that is one of the most inflationary things you can do. Interest exceeds even the cost of food--it is the biggest single expense in the country! The consumer loses two ways: (1) he has to pay the increased cost of the items he buys, and (2) he has to pay the increased interest costs when he borrows money. The Federal Reserve thus increases the cost of living. They keep raising interest rates until they are so high that people stop buying, unemployment soars, and everything suffers. Cost of living comes down because there are a lot of people out of work and they can no longer buy. When a person loses his job, he stops becoming a tax payer and becomes a tax recipient. Our city, county, state and federal revenues suffer. When a man has a job he can cope with rising prices but if you take his job away, he can cope with virtually nothing. A terrible tragedy.

I don't think we will ever achieve our maximum potential until we get interest rates and the control of currency back in the hands of Congress where it belongs. They are more responsive to the will of the people.

I believe that ample funds at reasonable rates would cure most of our economic problems.

Sincerely,

Chas Woods

Charles Woods
President
WTVY, INC.

CW/spe

POST OFFICE BOX 1089 · TELEPHONE 205/792-3195 · TWX 8107443070 · DOTHAN, AL. 36302

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

June 24, 1981

PAUL A. VOLCKER
CHAIRMAN

The Honorable Steve Symms
United States Senate
Washington, D.C. 20510

Dear Senator Symms:

Thank you for your letter of May 28 concerning correspondence I received from Mr. Tom Richards. I read Mr. Richards' letter urging an easing in monetary policy targets with great interest and appreciate the importance of the message Mr. Richards so aptly conveyed. While I do not agree with Mr. Richards' policy recommendation, I was impressed by his carefully thought out and well-reasoned line of argument.

Mr. Richards is correct that monetary restraint seems to be affecting a few credit sensitive industries most heavily while some sectors of the economy have continued to grow strongly. High interest rates have always had a disproportionate impact on construction, given the postponable nature of most expenditures in this sector and the heavy reliance on credit. Small businesses also have fewer resources to fall back on to weather cyclical pressures, and are limited in their ability to adapt credit-raising activities to an increased cost of funds.

The current level of interest rates primarily reflects both the level of inflation in our economy that, as Mr. Richards points out, has been building up over a number of years, and expectations by the public that inflation will continue to be quite rapid. It also reflects an excessive dependence over the years on monetary policy to curb inflation, with insufficient support from the government's budget policies.

As Mr. Richards notes, the primary issue for debate now is how vigorously monetary policy should proceed in attempting to bring inflation to heel. In my view we cannot afford to be any less vigorous. More rapid money growth might not reduce interest rates at all, and if it did, any such effect would likely be quite short-lived. This is because any indications that the Federal Reserve was backing away from its efforts to reduce the rate of price increase would worsen the public's inflationary expectations, which would encourage borrowing, discourage lending, and produce even higher interest rates. In any case, the monetary and fiscal authorities eventually will need to take the steps necessary to control inflation, and delaying those steps certainly will not make the task any easier or less painful.

The Honorable Steve Symms
Page Two

To some extent, the difficulties associated with high interest rates can be lessened if budgetary policy is also keyed to fighting inflation. In particular, smaller deficits will speed the response of the economy to our policy, take some pressures off credit markets and help bring about lower interest rates. In this regard, I am encouraged by the progress being made in reducing federal spending and the heightened level of concern in the Administration and Congress about the size of the deficit.

I know all of this may not offer much immediate consolation to someone in Mr. Richards' position. However, I do think we are beginning to see some evidence of progress in the fight against inflation and my hope is that before too long we can all look forward to lower inflation and interest rates.

Thanks again for taking the time to write.

Sincerely,

Paul A Volcker

P. S. I have written Mr Richards directly. I understand you have talked with Gov. Schultz.

PAV

(V-150)
bcc: Mrs. Mallardi (2)

STEVE SYMMS
IDAHO

Action assigned to Jim Kichline

Chrmn. Volcker

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1981 JUN -4 AM 9:18

RECEIVED
OFFICE OF THE CHAIRMAN

United States Senate
WASHINGTON, D.C. 20510

May 28, 1981

#150

The Honorable Paul Volcker, Chairman
Federal Reserve Board
Pennsylvania Ave. and 6th St. N.W.
Washington, D.C. 20551

Dear Paul,

I have just read a letter addressed to you from Tom Richards, who is President of the Idaho Forest Industries, dated May 26.

I would urge you to give this letter your upmost attention. It is my intention to stress upon you the grave importance of the message that Mr. Richards is trying to convey. In light of our present economic situation it is vitally important that we not allow any one segment of our economy to bear an unjustly harsh burden as we try to get our economic house in order.

I have taken the liberty of enclosing a copy of Mr. Richards' letter for your review and would again urge you to give it your careful consideration.

With warm regards, I am

Yours for a free society,

Steve Symms

Steve Symms
United States Senator

SS:jj

Enclosure

PLEASE REPLY TO:

| | | | | | | |
|---|---|---|---|---|---|---|
| ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |
| Idaho Falls Office<br>211 Federal Building<br>Idaho Falls 83401<br>(208) 522-9779 | Pocatello Office<br>207 Federal Building<br>Pocatello 83201<br>(208) 236-6775 | 1061 Blue Lakes Blvd.<br>(2) North, #3A<br>Twin Falls 83301<br>(208) 734-2515 | Boise Office<br>Box 1190<br>Boise 83701<br>(208) 334-1776 | Lewiston Office<br>Lewis-Clark Plaza<br>Lewiston 83501<br>(208) 743-1492 | Moscow Office<br>105 Federal Building<br>Moscow 83843<br>(208) 882-5560 | Coeur d'Alene Office<br>305 Federal Building<br>Coeur d'Alene 83814<br>(208) 664-5490 |

IDAHO FOREST INDUSTRIES, INC.

May 26, 1981

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

Dear Mr. Volcker:

I hope that you will take the time to read what I can only classify as a plea for assistance. My plea is on behalf of those parts of our economy that are bearing the brunt of the Federal Reserve Board's present monetary policies.

Our Company operates in Idaho and Oregon where we employ approximately 400 people in the manufacture and distribution of lumber and other forest products. I believe that we are very representative of the thousands of small and medium sized companies in the construction, homebuilding, forest products industries and related support groups that are the most affected by the extremely high interest rates and the investment uncertainties that have been created. We can obviously also add to this list small business in general and the severely damaged savings and loan industry.

I don't believe anyone in the above group quarrels with the objectives of either the Federal Reserve Board or the Reagan Administration. Clearly we must bring inflation under control and at the same time, return fiscal responsibility to the public sector. On the other hand, we must get this job done without inflicting severe and possibly incurable damage on a significant portion of those industries I have mentioned.

We have now had several months of attempts to control the growth of the money supply and the corresponding influence on interest rates. The results at the very best are mixed. It is now clear that high interest rates have minimal or no effect whatsoever on several key parts of our economy. Consumer spending is clearly the best example one can look at. Consumers continue to increase their spending regardless of what interest rates are doing. This attitude on the part of the consumers could change if we get beyond the "beat inflation by spending now" psychology, although I also doubt this is the case. Other sectors also continue unaffected by high interest rates. Oil, oil service, defense, and health, are typical examples. Strength in these sectors of the economy more than offsets the disastrous things happening in the construction,

P. O. BOX 1030 COEUR D'ALENE, IDAHO 83814 A. C. 208-667-9441

homebuilding, forest products and savings and loan industries and to small business in general. It is also clear that high interest rates themselves are very inflationary. No where is this clearer than the effects of present high mortgage rates on the Consumer Price Index.

Most companies in the forest products industry have curtailed or shut down for varying periods during the last 18 months. Our Company is no different, although we have made every effort to keep our plants operating, and, therefore, maintaining normal levels of employment. We are close to the point, however, where this will prove impossible. One of our three plants is operating with virtually no order file. At this time, we can accumulate inventory for another 4-6 weeks, but would then have to begin curtailment if there was no relief in sight.

The first sign of relief would naturally be a change in the posture of the Federal Reserve Board and lower interest rates. I know that this is not what the Board presently has in mind. I would ask, however, that your policies be reconsidered. I sincerely believe that your current course is going to inflict irrepairable damage on a substantial portion of our economy before the overall problem is solved.

We have unfortunately learned the hard way that it takes more than the efforts of the Federal Reserve Board on the monetary side to stop the deep-seated inflation our nation faces. It also takes the kinds of changes in fiscal policy now being proposed and made by the Reagan Administration. Unfortunately, these changes must take place in the political arena and, therefore, take time to accomplish. We are all aware that the predicament our economy finds itself in has taken years to create. It, therefore, seems nonsensical to believe that we can cure double-digit inflation and massive government deficits overnight. The price that parts of our economy and individual citizens are having to pay is proving too high.

Most of those affected by your present policies are not asking for government subsidies or assistance. The thousands of small companies that are in trouble do not ask for the kind of help that was given the Chrysler Corporation and New York City. Although our industry faces severe competition from imported lumber from Canada, we also do not ask for artifical restrictions such as the automobile industry has received. Nor do we want the reinstatement of federally subsidized housing programs that have been the instant panacea for the past several decades. We simply want an opportunity to produce and compete within our own industry and with our neighbors in Canada. This opportunity can only be present with the availability of mortgage money at reasonable rates.

We acknowledge that in order to do this your present targets for the growth of the money supply will have to be adjusted. This will most likely mean a delay in the victory over double-digit inflation. Such a delay clearly would seem to be preferable to the disastrous effects of your present policies. As I stated earlier, we are simply trying to cure years of built up inflation and government deficits far too quickly. As you stated before the House Committee on the budget in March, "The only issue for debate is how vigorously to proceed". I would submit that the Federal Reserve Board is being far too vigorous.

I hope that you will accept my letter in the constructive vein that it is written. I am not, nor do I pretend to be, an economist. I also do not pretend to know all the intricate details that you and the Board must take into account in setting your policies. I am simply a concerned member of the business community who feels very strongly that your present policies may eventually prove successful, but in the meantime they are going to prove fatal to certain parts of our economy.

It is unknown to me how much input your Board or the Reagan Administration seeks from America's small business community. I can say without equivocation, however, that we would be happy to assist and give input if we were given the opportunity. We do not want subsidies or handouts. We simply want a chance to compete in a free enterprise economy. Most of us do not or will not have this opportunity if your present policies persist.

Sincerely yours,

IDAHO FOREST INDUSTRIES, INC.

W T Richards

W. T. Richards
President

WTR/pab

cc: President Ronald W. Reagan
Senator James A. McClure
Senator Steven D. Symms
Representative Larry Craig

Action assigned to Ms. Hart.

KEN KRAMER
5TH DISTRICT, COLORADO

COMMITTEES:
ARMED SERVICES
EDUCATION AND LABOR

WASHINGTON OFFICE:
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WASHINGTON, D.C. 20515
(202) 225-4422

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

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(303) 779-6900



#179

June 23, 1981

The Honorable Paul Volcker
Chairman
Board of Governors
Federal Reserve System
Twentieth Street and Constitution Ave., S.W.
Washington, D.C. 20551

Dear Chairman Volcker:

Enclosed are copies of letters which I have received from several of my constituents regarding Regulation Z.

As you will read, my constituents state that the newly published "simplified" version of Regulation Z implemented pursuant to the Truth-in-Lending Simplification and Reform Act is actually quite complex and difficult to understand. While intended to be a simplification, several of my constituents feel that this version of Regulation Z is difficult to interpret, and therefore, difficult to comply with. My constituents also express their concern that federal banking regulations in general have become increasingly complex and burdensome.

Since one of the goals of the current Administration is to reduce the burden of excessive federal regulation, I would appreciate your addressing the concerns raised by my constituents. In addition, I would appreciate your sending me an even more simplified explanation of Regulation Z if one is available.

Many thanks for your cooperation.

Sincerely,

Ken

Ken Kramer

KK:mj
Encl.

*from*

**Geoffrey Postles**

June 10, 1981

Dear Congressman Kramer,

As a banker and private citizen I am concerned, as I know you are, about the burden some role government regulations play in our lives. This was never more apparent to me than when I recently received the government's "simplified" update of Regulation Z, Truth in Lending. This pamphlet is very difficult to read and understand.

I am aware that your schedule does not allow you the time to investigate every constituents' complaint. However, if you should find the time, I invite you to read and attempt to make any sense out of this booklet.

lar first period and irregular first payment)

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

*Example (ii):* Payments every four weeks (long first period and irregular first payment)

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

) *Single-advance transaction, with an odd final payment, with or without an odd first period, and otherwise regular.* The general equation in paragraph (b)(8) of this section can be put in the following special form for this type of transaction:

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

lar first period and irregular final payment)

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

*Example (ii):* Payments every two weeks (short first period and irregular final payment)

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

(4) *Single-advance transaction, with an odd first payment, odd final payment, with or without an odd first period, and otherwise regular.* The general equation in paragraph (b)(8) of this section can be put in the following special form for this type of transaction:

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

and irregular final payment)

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

*Example (ii):* Payments every two months (short first period, irregular first payment, and irregular final payment)

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

(5) *Single-advance, single-payment transaction.* The general equation in paragraph (b)(8) of this section can be put in the special forms below for single advance, single payment transactions. Forms 1 through 3 are for the direct determination of the annual percentage rate under special conditions. Form 4 requires the use of the iteration procedure of paragraph (b)(9) of this section and can be used for all single-advance, single-payment transactions regardless of term.

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

*Form 2—Term more than one year but than two years:*

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

*Form 3—Term equal to exactly a yea exact multiple of a year:*

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

*Form 4—Special form for iteration pr dure (no restriction on term):*

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

*Example (i):* Single-advance, single-p ment (term of less than one year, m sured in days)

- Amount advanced (A) = \$1000. P ment (P) = \$1080.
- Unit period = 255 days. Unit periods year (w) = 365/255.
- Advance, 1-3-78. Payment, 9-15-78.
- From 1-3-78 through 9-15-78 = days. (t = 1; f = 0)
- Annual percentage rate
  (I) = wi = .1145 = 11.45%. (Use form 1 or 4.)

*Example (ii):* Single-advance, single-pa ment (term of less than one year, m sured in exact calendar months)

- Amount advanced (A) = \$1000. Pa ment (P) = \$1044.

6-10-81

U S Senate
Washington D.C. 20510

JUN 17 1981

The Honorable Ken Kramer
U.S Senator (in D.C.)

Dear Senator Kramer:

Attached are two pages copied from the "simplified" Regulation Z Truth in Lending booklet.

I as a bank officer do not understand the confusing explanation and the booklet is filled with this type of confusing examples and regulations.

I do not believe that you as our Senator wants us to be burdened with regulations and laws such as are included in the booklet.

I am bringing this to your attention specifically so you are aware of some of the unworkable laws that we are burdened with that are coming out of Washington.

Respectfully yours

James C. G. Robinson

4107 Austin Circle
Colorado Springs Col. 80907

Dear Representative Kramer,

Today I received a copy of the new Regulation Z booklet. I have enclosed copies of several pages from the booklet. This is not a simplification as far as I am concerned. I do not understand the book and thought you as a law maker could interpret and send me your explanation

Thank you
Marge Davis

[redacted]

Senator Ken Kramer JUN 1 2 1981

I recently received a copy of the new Regulation & just looking through it, it seems very complex & complicated. If you could mail me a more condensed version I could understand, it would be most appreciated.

Sincerely
Vallie Naylor

June 10, 1981

JUN 12 1981

Dear Congressman Kramer,

We have received a copy of the revised Truth in Lending Regulation Z booklet, which is the new "simplified" version.

I have been a bank lending officer for many years. I find the regulations have become very difficult to interpret, as they have become so voluminous in number and length.

We receive changes and new regulations almost weekly. The complications of lending and bank operations and attempting to comply have become staggering.

I am enclosing just one page of the latest booklet as an illustration.

Is there any relief in sight?

Sincerely

Marylee Barnes

[redacted]

JUN 15 1981

6/10/81

U. S. Congressman
Honorable Ken Kramer
1724 Longworth Building
Washington, D.C. 20515

Dear Representative Kramer

I am in receipt of the new booklet on the simplification of Regulation Z - Truth In Lending. However, it is not very easily understood

Do you have a more simplified version than this one that you could send to me?

Sincerely,

Carol Hake
[redacted]

N K B

JUN 15 1981

Northern National Bank

June 10, 1981

U. S. Congressman
Honorable Ken Kramer
1724 Longworth Building
Washington, D. C. 20515

Dear Representative Kramer:

This morning I received an 88-page "simple explanation" of the revised "simplification of the Truth in Lending Law". I am enclosing a copy of one page.

Frankly, many of the explanations in this book would seem better suited to Einstein's theory of relativity.

I am at a loss to understand how we can have such federal laws and regulations.

Sincerely yours,

Norman M. Postles

Norman M. Postles
President

NMP:cjh
Enc.

3100 North Nevada Box 7268 Colorado Springs, Colorado 80933 Telephone (303) 473-2000

The Honorable Kenneth Kramer
United States House of Representatives
Washington, D.C. 20510

JUN 15 1981

6/10/81

Dear Congressman Kramer,

I am enclosing for your inspection, a copy of a page from the new Regulation Z which was developed by the Federal Reserve Board to implement the Truth in Lending Simplification and Reform Act.

As a bank lending officer in a small community bank, with many years of experience in my profession, I am finding it exceedingly difficult to imagine that our many regulators expect an average bank employee to understand their complex rules, much less comply with them, simplified or not.

Respectfully Yours,
Kenneth W. Moore
[redacted]

JUN 12

H2-179, ANNEX NO. 2
WASHINGTON, D.C. 20515
(202) 225-7315

U.S. HOUSE OF REPRESENTATIVES

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

June 19, 1981

#173

no reply

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

Dear Paul:

I just wanted to drop you this brief note to again express my appreciation for your willingness to join me and a number of Washington business leaders for an informal, off-the-record breakfast discussion of some of the pressing economic issues of our time. For your information, I have enclosed a copy of the letter which I have sent to those whom I have invited. If there are persons whom you would like to invite to join us, including some who may be on your staff, please let me know so that I can make adequate breakfast arrangements.

Additionally, I want to also thank you for working with my Subcommittee on establishing a time whereat you could testify on the impact that money market funds and related type instruments have on the conduct of monetary policy. I have enclosed the Committee Notice which is similar to that which was sent for the first hearing. An additional notice will be sent to remind Members just prior to the hearing. I have, for your information, extended a personal invitation to Freddie St Germain to join me and I hope that he will in light of the importance of your statement to both his as well as to my own subcommittee.

With every good wish, I am

Sincerely yours,

Walter E. Fauntroy
Chairman

Enclosures

WALTER E. FAUNTROY, D.C., CHAIRMAN

PARREN J. MITCHELL, MD.
STEPHEN L. NEAL, N.C.
DOUG BARNARD, JR., GA.
HENRY S. REUSS, WIS.
JAMES J. BLANCHARD, MICH.
CARROLL HUBBARD, JR., KY.
BILL PATMAN, TEX.

H2-179, ANNEX NO. 2
WASHINGTON, D.C. 20515
(202) 225-7315

GEORGE HANSEN, IDAHO
RON PAUL, TEX.
BILL McCOLLUM, FLA.
BILL LOWERY, CALIF.
ED WEBER, OHIO
JAMES K. COYNE, PA.

# U.S. HOUSE OF REPRESENTATIVES

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

As you probably know, my seniority in the Congress has now given me the opportunity to chair the Subcommittee on Domestic Monetary Policy of the House Committee on Banking, Finance and Urban Affairs. Even though the District of Columbia is without a vote on the Floor, our citizens do, through me, have a vote in committee and a voice on the Floor on some of the most important work in Congress.

Over the past six months, more and more attention has been focused on the Administration's efforts to stabilize the economy and the problems of inflation, unemployment, high interest rates, the money supply and the rapidly changing financial industry. These areas are the primary concerns of my subcommittee and it has given me the opportunity to know on a very personal basis many of the key architects of our nation's economic policies.

One of these persons is the Honorable Paul Volcker, Chairman of the Board of Governors of the Federal Reserve System, who has deeply impressed me with his understanding and sensitivity of the concerns that I and so many friends like you have of our present economic course. He has graciously agreed to join us at an informal, off-the-record breakfast meeting on Friday, June 26, 1981 at 7:45 A.M. in Room B-339 of the Rayburn House Office Building to give his views on the short and long term scenarios. I hope to conclude by 9:00 A.M. although I am sure that Paul would be willing to extend that time should the questions warrant it.

I know this invitation is extended on a somewhat short notice but I do hope that you will give this invitation your highest priority because of the importance of the work that Paul is trying to do at this most crucial time. If you would call Miss Jean Thomas or Mrs. Maryse Horblitt at 225-7315 to let them know whether or not you will be able to join Paul and myself, I would be most appreciative.

Sincerely yours,

Walter E. Fauntroy
Chairman

WALTER E. FAUNTROY, D.C., CHAIRMAN

PARREN J. MITCHELL, MD.
STEPHEN L. NEAL, N.C.
DOUG BARNARD, JR., GA.
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BILL LOWERY, CALIF.
ED WEBER, OHIO
JAMES K. COYNE, PA.

# U.S. HOUSE OF REPRESENTATIVES

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

June 11, 1981

## SUBCOMMITTEE NOTICE OF HEARING

To : Members, Subcommittee on Domestic Monetary Policy

From : Walter E. Fauntroy, Subcommittee Chairman

Re : Second Day of Hearings - Impact on the Conduct of Monetary Policy by New Forms of Investment and Transaction Mechanisms

Thursday

June 25th

10:30 a.m.

2128 Rayburn HOB

The Subcommittee on Domestic Monetary Policy will meet on Thursday, June 25, 1981, at 10:30 a.m. in Room 2128 of the Rayburn House Office Building to take further testimony on the impact of the conduct of monetary policy by new forms of investments and transaction mechanisms, including money market mutual funds.

The hearing will additionally cover the impact these new forms of investments and transaction mechanisms have on:

1. The safety and security of existing financial intermediaries;

2. The safety of the investments and deposits held by investors and depositors;

3. Their impact on community investment and credit needs and domestic credit needs generally; and

4. The differentiations which should be made between various forms of payments, types of accounts, and kinds of investments and deposits.

The witness will be The Honorable Paul A. Volcker, Chairman of the Board of Governors, Federal Reserve System.

An invitation is extended to all Members of the Full Committee to attend in light of the importance that this testimony is expected to have on this important subject.

Mrs. Malbrski

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

June 18, 1981

PAUL A. VOLCKER
CHAIRMAN

The Honorable Dennis DeConcini
United States Senate
Washington, D.C. 20510

Dear Senator DeConcini:

Thank you for your letter of June 3 in which you ask a series of questions relating to the prime rate. I shall try to answer them one at a time.

Many banks, particularly large ones, post a prime or--as it is sometimes called--a base rate of interest. The Federal Reserve monitors these rates and publishes a figure for the prevailing prime rate at 30 large banks located across the country. The media may report this rate or the prime rate of particular banks or groups of banks. While each bank establishes its own prime rate, normally the prime rates of the large banks tend to move together because of competitive pressures. From time to time, however, an individual bank may post a prime rate differing from those at other banks, owing to its desire to seek or deflect loan business or to its differing expectation about near-term money market developments.

The prime rate is generally used to refer to the rate of interest a bank has established as the rate it may charge its most creditworthy customers on short-term business credit under established credit lines. These loans typically carry maturities of around two or three months. Other terms and the rate itself on the loan may vary depending on the customer, but the loan agreements and the credit lines use the prime rate as a kind of index.

In the last several years, some banks also have begun to provide business credit based on rates other than the prime rate. Some banks make available to eligible customers loans based on the cost of short-term funds; such loans tend to be very large and have very short maturities, generally a few days to a few weeks. These loans are not directly comparable to traditional bank lending but are more similar to short-term money market transactions. The federal funds rate may, for example, provide the basis for pricing such a loan. The rates on this type of credit have in many instances been below the prime rate, especially during periods when money market rates are declining rapidly. The Board's staff has completed a study of this practice, which I have enclosed for your convenience.

Longer-term fixed-rate business credit will tend to be priced to reflect longer-term interest rates, particularly if banks are seeking to minimize their exposure to interest rate risk. However, longer-term floating rate loans are frequently tied to the prime rate.

Consumer loan rates do not in general bear a direct linkage to the prime rate. Nevertheless, they are--like the prime--influenced by developments affecting the general cost of credit. Rates on consumer loans typically have tended to adjust to changes in market conditions more slowly than rates attached to business credit, including the prime rate, although recently there are signs of some greater flexibility of consumer rates.

As far as we are aware, and apart from usury laws, a bank may set any rate of interest it wishes for any type of credit extended. However, competition acts to ensure a degree of uniformity among rates for credit having similar characteristics in terms of risk, collateral, maturity and overall relationships with a bank, including, for example, payments made through compensating balances or fees. We are aware of no inverse relation between the cost of credit to a firm and the length of time the firm has dealt with a bank, although the additional risk implicit in dealing with a new customer may be reflected in rates.

As for a preferential rate based on a personal relationship, this would not be prohibited by any federal statute unless the loan were to a bank insider. However, since such a practice would come at the expense of the bank's shareholders and other customers, it could be expected to be resisted by its board of directors.

I hope these comments prove useful to you.

Sincerely,

S/Paul A. Volcker

Enclosure (Study dated July 1980, "Short-Term Business Lending at Rates Below the Prime Rate")

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

PAV!
TDB/TDS/JLK:ved (V-~~151~~ 15)

Action assigned to Mr. Kichline.

United States Senate
COMMITTEE ON THE JUDICIARY
WASHINGTON, D.C. 20510

#151

June 3, 1981



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

Dear Mr. Volcker:

Would you or your staff be so kind as to answer a few very basic questions about the prime interest rate?

First, is there such a figure in a formal sense or is it merely what the media determines it is after consulting some of the major New York banks? Second, what does the prime rate really mean with regard to any particular institution? For example, does each bank have its own prime rate which may or may not be in line with the so-called national prime rate? If a bank does have a prime rate, does this mean that it is the rate charged to its very best customers---presumably large, credit-worthy corporations? Does the prime rate apply only to certain types of loans and not to others? Thus, does the prime rate vary within the same institution vis-a-vis the same customer on the basis of the nature of the loan? How are consumer purchase loans tied to the prime rate? How are individual personal loans tied to it? What latitude under the law do banks have to set different rates for different customers? For example, if a particular bank has a so-called prime rate of X for a particular category of loan, can it charge some special customer less than that rate, the specialness being based upon a long association or a personal relationship?

I would certainly appreciate any light you could shed on these questions. A number of acquaintances of mine in the banking industry have privately stated to me that the so-called prime rate is a sham. Inasmuch as interest rates figure so prominently in our national economy these days, I thought it would be useful to broaden my understanding of these matters.

Sincerely,

Dennis DeConcini

DENNIS DeCONCINI
United States Senator

DDC/rro

HARRY F. BYRD, JR.
VIRGINIA

United States Senate
WASHINGTON, D.C. 20510

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1981 JUN -3 AM 11: 34
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OFFICE OF THE CHAIRMAN

June 1, 1981 j

My dear Paul:-

I have been away during the Congressional Recess, so just today did I see your cordial letter of May 26.

My thanks for writing.

With every good wish, I am,

Sincerely,

Harry

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

June 23, 1981

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

Dear Mr. Bethune:

In Chairman Volcker's absence, I want to thank you for your recent letter recommending Mr. William Marion Hartz for appointment as a director of the Federal Reserve Bank of St. Louis. His willingness to offer his services to the public sector is commendable, and we appreciate knowing of his interest to serve with the Federal Reserve System.

The System maintains a constant search for talented individuals for possible service as directors of Reserve Banks and branches. In this regard, I have taken the liberty of sending a copy of Mr. Hartz' biographical information to Mr. Roos, the President of the Federal Reserve Bank of St. Louis, so that he will also be familiar with Mr. Hartz' background. You may be assured that his qualifications will be considered as future director vacancies occur within the St. Louis District.

Sincerely,

/s/

Frederick H. Schultz

JMB:vcd (#V-164)
cc: Mr. Roos (w/copy of bio)
bcc: Mr. Russell-St.Louis Fed (w/copy of bio)
Gov. Gramley
Mr. Wiles
Mr. Allison
Mr. Bischoff
Ms. Winkler
Mrs. Mallardi (2)

ED BETHUNE
2ND DISTRICT, ARKANSAS

WASHINGTON OFFICE:
1535 LONGWORTH
HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-2506

Action assigned to Mr. Allison.

COMMITTEES:
BUDGET
BANKING, FINANCE AND
URBAN AFFAIRS

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

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

#164

BOARD OF GOVERNORS FEDERAL RESERVE SYSTEM 1981 JUN 11 ... OFFICE

June 11, 1981

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

Dear Mr. Volcker:

My good friend, Mr. Marion Hartz, of Stuttgart, Arkansas, has indicated to me his interest in being appointed to the Board of Directors for the Federal Reserve Bank in St. Louis, Missouri.

I have known Marion for many years and have been associated with him in different ways over a period of time. He is a good businessman, a sincere and capable individual. His high moral and business standards are well recognized and my feeling is that you could not find a more qualified person to fill the position.

Your time and consideration of this matter would be greatly appreciated.

Sincerely,

Ed

Ed Bethune
Member of Congress

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1981 JUN 16 AM 11:29
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OFFICE OF THE CHAIRMAN

EB/pc

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## Citation Information

**Document Type:** Resume

**Number of Pages Removed:** 7

**Citations:** Resume, William Marion Hartz, 1981.

June 22, 1981

The Honorable Benjamin S. Rosenthal
Chairman
Subcommittee on Commerce, Consumer
and Monetary Affairs
Committee on Government Operations
House of Representatives
Washington, D.C. 20515

Dear Chairman Rosenthal:

In Chairman Volcker's absence, I would like to acknowledge your letter of June 16 requesting that certain data on OPEC holdings, reserves, and deposits, furnished by the Federal Reserve to your Subcommittee in July and August of 1979, be updated.

We are in the process of compiling this information and shall submit it to you by July 2.

Sincerely,

/S/

Frederick H. Schultz

VCD:pjt (#V-168)
bcc: Mr. Terrell
Mr. Truman
Gov. Schultz
Mrs. Mallardi

NINETY-SEVENTH CONGRESS

**Congress of the United States**

**House of Representatives**

COMMERCE, CONSUMER, AND MONETARY AFFAIRS
SUBCOMMITTEE
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS

RAYBURN HOUSE OFFICE BUILDING, ROOM B-377
WASHINGTON, D.C. 20515

#168

June 16, 1981

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

Dear Mr. Chairman:

In July 1979, the Subcommittee on Commerce, Consumer, and Monetary Affairs held five days of hearings on the adequacy of Federal agency efforts to monitor, analyze, and report on foreign, including OPEC country, investments in the United States. Our investigation is continuing, with hearings scheduled for late July. We require that certain data on OPEC holdings, reserves, and deposits, furnished by the Federal Reserve to the subcommittee on July 19, 1979, be updated. (I am attaching copies of the data tables involved, taken from the hearing transcript.)

I request that the data be updated as follows, utilizing the same formats: (1) Table 1 should be updated for 1979, 1980 and 1981 to the present; (2) Table 2 should be updated by including data as of January (a) 1980 and (b) 1981; (3) Table 3 should be updated including the most recently available data and revising the listing of banks, as necessary; (4) Table 4 should be updated by dropping March 1979 and substituting, instead, data for December (a) 1979 and (b) 1980, and (5) the August 21, 1979, follow-up letter from Governor Coldwell to the subcommittee should be updated, including the most recently available data.

We would like this information by July 2, 1981. If your staff have any questions, they should contact subcommittee counsel, Stephen R. McSpadden.

Sincerely,

Benjamin S. Rosenthal
Chairman

Enclosure

BSR:mb

# THE OPERATIONS OF FEDERAL AGENCIES IN MONITORING, REPORTING ON, AND ANALYZING FOREIGN INVESTMENTS IN THE UNITED STATES
## (Part 2—OPEC Investment in the United States)

---

# HEARINGS
BEFORE A
## SUBCOMMITTEE OF THE COMMITTEE ON GOVERNMENT OPERATIONS HOUSE OF REPRESENTATIVES
NINETY-SIXTH CONGRESS

FIRST SESSION

---

JULY 16, 17, 18, AND 26, 1979

---

Printed for the use of the Committee on Government Operations

TABLE 1

FOREIGN OFFICIAL RESERVES OF FOREIGN EXCHANGE
(billions of dollars)

| | December 1970 | December 1973 | December 1977 | December 1978 | March 1979 |
|---|---|---|---|---|---|
| I. Total Holdings | 45.4 | 122.4 | 243.0 | 283.3 | 298.0 |
| A. OPEC countries | 3.6 | 12.6 | 67.9 | 53.0 1/ | 53.2 1/ |
| 1. Middle Eastern 2/ | 2.5 | 8.5 | 52.4 | 41.7 1/ | 42.2 1/ |
| 2. African 3/ | 0.3 | 1.3 | 5.3 | 3.2 | 3.4 |
| 3. Other 4/ | 0.7 | 2.6 | 9.6 | 8.1 | 7.6 |
| B. All other countries | 41.8 | 109.8 | 175.1 | 230.3 | 244.8 |
| II. Holdings in the United States | 23.8 | 66.9 | 131.1 | 162.4 | 153.3 |
| A. Treasury bills and certificates | 13.4 | 31.5 | 47.8 | 67.7 | 59.7 |
| 1. OPEC countries 5/ | n.a. | n.a. | 4.2 | 3.3 | 3.2 |
| 2. Other countries | n.a. | n.a. | 43.6 | 64.4 | 56.5 |
| B. Marketable Treasury bonds and notes | 0.3 | 5.7 | 32.2 | 35.9 | 36.0 |
| 1. OPEC countries 5/ (approximate) | n.a. | n.a. | 11.0 | 9.0 | 8.0 |
| 2. Other countries | n.a. | n.a. | 21.2 | 26.9 | 28.0 |
| C. Nonmarketable Treasury bonds and notes 6/ | 3.4 | 15.5 | 20.4 | 21.0 | 20.5 |
| D. Other U.S. securities | 0.7 | 1.7 | 12.7 | 14.7 | 14.9 |
| E. Banking and money market assets 7/ | 5.9 | 12.4 | 18.0 | 23.1 | 23.2 |
| 1. OPEC countries | n.a. | n.a. | 9.6 | 10.2 | 9.8 |
| 2. Other countries | n.a. | n.a. | 8.4 | 12.8 | 13.4 |
| III. Holdings at Foreign Branches of U.S. Banks | 4.2 | 10.3 | 28.1 | 31.9 | 34.1 |
| A. OPEC countries 5/ 8/ | n.a. | n.a. | 19.1 | 20.1 | 23.1 |
| B. Other countries | n.a. | n.a. | 9.0 | 11.8 | 11.0 |

1/ Beginning April 1978 data exclude Saudi Arabian foreign exchange cover against the note issue (amounting to about $5.3 billion in March 1978).
2/ Iran, Iraq, Kuwait, Libya, Qatar, Saudi Arabia, United Arab Emirates.
3/ Algeria, Gabon, Nigeria.
4/ Ecuador, Venezuela, Indonesia.
5/ Also includes Bahrain and Oman.
6/ None held by OPEC.
7/ Principally bank deposits, CDs, repurchase agreements, bankers acceptances, and commercial paper.
8/ Including some private holdings.

Sources: I.: International Monetary Fund, International Financial Statistics.
II.: U.S. Treasury.
III.: Federal Reserve System.



TABLE 2

FOREIGN OFFICIAL HOLDINGS OF MARKETABLE
U.S. TREASURY SECURITIES, SELECTED DATES

| | Amount ($ billions) Bills | Amount ($ billions) Bonds & Notes | Amount ($ billions) Total | Percentage of total outstanding Bills | Percentage of total outstanding Bonds & Notes | Percentage of total outstanding Total |
|---|---|---|---|---|---|---|
| 1968 - November | 6.5 | .5 | 7.0 | 8.9 | 0.3 | 3.0 |
| 1969 - June | 3.8 | .5 | 4.3 | 5.6 | 0.3 | 1.9 |
| 1973 - March | 37.6 | 6.9 | 44.5 | 35.8 | 4.2 | 16.5 |
| 1974 - January | 29.2 | 5.2 | 34.4 | 27.1 | 3.2 | 12.7 |
| 1979 - January | 68.4 | 36.0 | 104.4 | 42.1 | 10.8 | 21.0 |
| - April | 51.3 | 36.3 | 87.6 | 31.3 | 10.7 | 17.4 |

TABLE 3

DEPOSITS OF MIDDLE EAST OIL PRODUCING COUNTRIES
IN FOREIGN BRANCHES OF LARGE U.S. BANKS
(billions of dollars)

| | December 1975 | | | March 1979 | | |
|---|---|---|---|---|---|---|
| | Six Largest Banks | Second Largest Six Banks | Next Nine Banks | Six Largest Banks | Second Largest Six Banks | Next Nine Banks |
| (1) Total deposits (consolidated) | 197.5 | 76.3 | 49.9 | 273.8 1/ | 99.9 1/ | 68.4 1/ |
| (2) Deposits of Middle East Oil Producing Countries 2/ | 9.8 | 1.2 | 0.7 | 15.3 | 1.7 | 0.5 |
| (3) Line (2) as percent of Line (1) | 5.0 | 1.6 | 1.4 | 6.0 | 1.7 | 0.7 |

Note: Deposits in foreign branches represent more than 70 percent of total deposits of Middle East oil producers in all U.S. banks.

1/ Deposits as of Dec. 1978.
2/ Includes Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

| Six largest banks | Second largest | Next nine |
|---|---|---|
| Bank of America | Bankers Trust | European American Bank & Trust |
| Chase Manhattan | Continental Illinois | First National Bank of Boston |
| Chemical Bank | Crocker National Bank | First National Bank of Dallas |
| Citibank | First National Bank of Chicago | First National Bank of Detroit |
| Manufacturers Hanover | Security Pacific | Irving Trust |
| Morgan Guaranty | Wells Fargo | Marine Midland |
| | | Mellon |
| | | Republic National Bank, Dallas |
| | | United California Bank |



TABLE 4

NUMBER OF U.S.-CHARTERED BANKS REPORTING LIABILITIES TO
OPEC COUNTRIES AT FOREIGN BRANCHES

| | Dec. 1975 | Dec. 1976 | Dec. 1977 | Dec. 1978 | Mar. 1979 |
|---|---|---|---|---|---|
| Ecuador | 31 | 36 | 46 | 45 | 39 |
| Venezuela | 80 | 82 | 89 | 81 | 88 |
| Indonesia | 48 | 52 | 50 | 43 | 45 |
| Iran | 40 | 50 | 53 | 50 | 49 |
| Iraq | 11 | 23 | 24 | 13 | 13 |
| Kuwait | 28 | 30 | 33 | 29 | 32 |
| Qatar | 17 | 8 | 15 | 17 | 16 |
| Saudi Arabia | 18 | 30 | 31 | 33 | 34 |
| United Arab Emirates | 19 | 24 | 34 | 38 | 37 |
| Algeria | 36 | 44 | 45 | 51 | 51 |
| Gabon | 16 | 19 | 26 | 19 | 19 |
| Libya | 9 | 15 | 14 | 12 | 11 |
| Nigeria | 11 | 14 | 13 | 19 | 19 |

deposits from Middle
? In foreign branches?
the total for foreign
nony has that in their
r. Chairman. My as-
ws:]



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

PHILIP E. COLDWELL
MEMBER OF THE BOARD

August 21, 1979

The Honorable Benjamin S. Rosenthal
Chairman
Subcommittee on Commerce, Consumer
and Monetary Affairs
Committee on Government Operations
House of Representatives
Washington, D.C. 20515

Dear Chairman Rosenthal:

During my testimony on July 18, you asked me to provide information on the total deposits of Middle East oil producing countries in the U.S. offices and foreign branches of 21 large U.S. banks. The figures as of March 1979 are as follows:

| | |
|---|---|
| Six largest U.S. banks | $19.4 billion |
| Second largest six | 2.1 |
| Next nine banks | 0.8 |

These figures include the deposits in foreign branches as reported in Table 3 of my testimony. The estimate supplied during the hearing of the share of total deposits represented by deposits in foreign branches was based on data that inadvertently included some U.S. government securities that banks were holding in custody for customers. These custody holdings are not liabilities of the banks themselves, and counting only deposits, foreign branch figures represent more than 80 percent of the total.

Sincerely yours,

P. E. Coldwell

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

June 19, 1981

PAUL A. VOLCKER
CHAIRMAN

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

Dear Mr. Emerson:

Thank you for giving me the opportunity to comment on your views regarding high interest rates, particularly as they affect the housing industry.

I understand your concern about the current level of interest rates. However, these rates are largely a reflection of the rapid rate of inflation we are experiencing and the deeply embedded expectation that prices will continue to climb. As a result, lenders are reluctant to commit their funds without being compensated for the declining value of the dollars they will receive in payment. The only way we are likely to achieve a lasting decline in interest rates, therefore, is through a lowering of inflation and inflationary expectations. Since maintenance of control over money and credit is an essential ingredient in the fight against inflation, the Federal Reserve has little choice but to continue to pursue a policy of restraint.

There is no doubt that the effects of monetary restraint are uneven and that the housing industry suffers disproportionately from high interest rates. Nevertheless, we cannot escape that problem by simply creating more money. In the end, such a course could only aggravate inflation. Indeed, if the Federal Reserve were perceived to be validating the inflationary process, inflationary expectations would surge and lead to still higher interest rates. Rather than helping industries such as housing that are particularly vulnerable to high interest rates, more rapid money creation would worsen their position over time.

I have long stressed the importance of a broadly based approach to solving our inflation problem. I am encouraged by Congress' actions to bring federal spending under control and by the recognition of the need for monetary and fiscal policies to work together in an effective overall economic program. A policy of curtailed public spending in conjunction with disciplined monetary policy will entail some risks and strains in the short run. But both aspects of this policy stance are essential in order to achieve the basis for lower interest rates and sustained economic growth over the longer term.

We welcome the counsel of the members of Congress and efforts to work together to halt inflation. In that spirit let me express again my thanks to you for writing.

Sincerely,

S/Paul A. Volcker

AK:LS:JLK:DJW:vcd (V-161)

bcc: Mr. Kichline
Mr. Slifman
Ms. Kusko
Mrs. Mallardi (2)

Action assigned to Mr. Kichline.

BILL EMERSON
MEMBER OF CONGRESS
10TH DISTRICT, MISSOURI

AGRICULTURE COMMITTEE
SUBCOMMITTEES:
COTTON, RICE AND SUGAR
WHEAT, SOYBEANS AND FEED GRAINS
DEPARTMENT OPERATIONS,
RESEARCH AND FOREIGN AGRICULTURE

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

OFFICES:
SUITE 418
CANNON BUILDING
WASHINGTON, D.C. 20515
202/225-4404

THE FEDERAL BUILDING
339 BROADWAY
CAPE GIRARDEAU, MISSOURI 63701
314/335-0101

P.O. BOX 128
HILLSBORO, MISSOURI 63050
314/789-3561

June 10, 1981

#161

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1981 JUN 12 AM 11:09
RECEIVED
OFFICE OF THE CHAIRMAN

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

Dear Chairman Volcker:

This communication is to express my deep concern regarding the meteoric rise of the prime rate. The jump to twenty percent in the last few weeks ties the record set last December. I fear that strong business loan demand will push it up even higher, thus further damaging the already reeling housing industry.

Allow me to briefly outline how this problem has affected the State of Missouri. For the three years of 1978, 1979, and 1980 housing starts in Missouri were 38,500, 31,000, and 17,000 respectively. Taken together, these yearly starts indicate that an average year would be about 34,000 starts. However, in 1981 housing starts will be down to about 13,000 or off 24% from last year. Further, with an average interest rate of 15% only 6% of the citizens of this country can qualify for a mortgage loan.

The homebuilding industry offers an excellent example of the bankruptcy of the Federal Reserve Board's policy of recession to stop inflation. By virtually halting housing construction, current policies simply bottle up demand for housing and spur greater inflation in the future.

Being fully aware that the Federal Reserve alone cannot halt spiraling inflation, I am prepared to exercise my responsibility as a Member of Congress to more effectively control Federal expenditures. The Federal Reserve Board and the Legislative Branch must begin to work in concert to smother the fires of inflation and curb wayward deficit spending.

Therefore, I respectfully request the Federal Reserve Board to review its present policy of recession to end inflation.

With best wishes, I remain

Sincerely,

Bill Emerson

BILL EMERSON, M.C.

BE/jbb

June 19, 1981

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

Dear Chairman English:

Thank you for your letter of June 3 requesting a list of audio-visual materials that have been budgeted or that the Federal Reserve System plans to produce and distribute in fiscal year 1982.

We are in the process of compiling this information and shall submit it to you before July 15.

Sincerely,

S/Paul A. Volcker

DJW:pjt (#V-157)

bcc: Mr. Coyne
Mrs. Mallardi (2)

June 19, 1981

The Honorable David W. Evans
House of Representatives
Washington, D.C. 20515

Dear Mr. Evans:

Earlier this year you introduced H. Con. Res. 82, which called for the Federal bank supervisory agencies to decrease the existing disparity in capital requirements among commercial banks of different size. Shortly thereafter, together with Representatives D'Amours, Mattox, Shumway and Watkins, you wrote to me asking the Federal Reserve to analyze a study entitled Bank Capital Adequacy, Size and Risk. Your letter also asked us to update the data contained in that study and to discuss current Federal Reserve policy with respect to bank capital.

I am pleased to enclose for your review a paper entitled Current Supervisory Policy Regarding Bank Capital, which discusses recent trends in the capital ratios of both large and small banks, the primary reasons for those trends, and current Federal Reserve supervisory policy regarding bank capital. As you requested, I am also forwarding a Board staff analysis of the study Bank Capital Adequacy, Size and Risk, and I am enclosing extensive data that updates that study.

If we can be of further assistance to you, please let me know.

Sincerely,

S/Paul A. Volcker

Enclosures

SHT:DJW:pjt (#V-68)
bcc: Mr. Talley
Gloria Blessing
Mrs. Mallardi (2)

Identical letters also sent to: Congressmen D'Amours, Mattox, Shumway and Watkins.

Action assigned Jack Ryan

BANKING, FINANCE AND URBAN AFFAIRS COMMITTEE

GOVERNMENT OPERATIONS COMMITTEE

SELECT COMMITTEE ON AGING

STEERING COMMITTEE: MIDWEST-NORTHEAST ECONOMIC ADVANCEMENT COALITION

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

## DAVE EVANS
6TH DISTRICT, INDIANA

DISTRICT OFFICE:
4TH FLOOR ADMINISTRATION BUILDING
INDIANAPOLIS INTERNATIONAL AIRPORT
INDIANAPOLIS, INDIANA 46241
TELEPHONE: (317) 269-7364
TOLL FREE NUMBER:
OPERATOR-ENTERPRISE 7364

WASHINGTON OFFICE:
438 CANNON OFFICE BUILDING
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-2276

March 5, 1981

A 68

Mr. Paul Volcker
Federal Reserve System
20th & Constitution Ave., N.W.
Washington, D.C. 20551

Dear Mr. Chairman:

On March 2nd, we introduced H. Con. Res. 82 calling for the Federal bank regulators to diminish the inequitable capital requirements among commercial banks. Our interest in this issue was sparked by data contained in a study prepared for the Independent Bankers Association of Texas, a copy of which is attached for your review.

Upon reviewing this report, we would appreciate your written analysis of this report, an update on the data which the report contains, and a statement of your current policy with respect to bank capital of small- and medium- sized banks. In addition, we would appreciate advice on the current status of any studies being conducted on the issue and the possible recommendations that are under consideration.

The evidence is clear to us that there is an inequity in the capital requirements on certain banks imposed by the Federal regulators. Unless there are clear and compelling reasons for such discrepancies, it would seem to us that all commercial banks should be able to function effectively with lower requirement of capital or its equivalent.

We are interested in resolving this issue as expeditiously as possible and your addressing of our questions will greatly assist in that task. Thank you for your help and we look forward to your early reply.

Sincerely,

Wes Watkins, M.C.  Dave Evans, M.C.

Norman D. Shumway, M.C.  Jim Mattox

Norman D'Amours

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## Citation Information

**Document Type:** Research paper

**Number of Pages Removed:** 42

**Citations:** Fraser, Donald R. "Bank Capital Adequacy, Size, and Risk." August 1, 1980.

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

June 19, 1981

PAUL A. VOLCKER
CHAIRMAN

The Honorable Ernest F. Hollings
United States Senate
Washington, D.C. 20510

Dear Senator Hollings:

The material you recently sent me, including your comments on the Senate floor regarding a recent resolution concerning Federal Reserve policy and your testimony before the Finance Committee, provided interesting reading, indeed. I very much appreciated your remarks on the Senate floor in opposition to the resolution.

Of course, we all hope that tax reduction will stimulate the productive capabilities of the economy while the prospects for tighter budgetary control and the other elements of the President's economic program will reduce inflation and inflationary expectations. This would permit both faster growth of real output and lower interest rates. The experience of the last decade suggests that turning inflation and inflationary expectations around may be a difficult process. Until that is accomplished, interest rates are likely to remain much higher than any of us desire and be pushed higher yet in the event that heavy Treasury borrowing needs compete for funds with the private sector. And for that reason, we seem to be on entirely common ground in our concerns about the budget.

From the perspective of credit markets, I am very sympathetic with your concern that tax cuts not vastly expand and perpetuate federal deficits. You have made a very important point in noting that tax reductions aimed at spurring investment will be at least partially self-defeating if the combination of tax and spending decisions results in large deficits. I also recognize the force of the Administration's argument that, politically, higher taxes may encourage some to accept higher spending, and we end up with the deficit and high taxes, which are themselves damaging. That is why your leadership in ensuring the implementation of spending cuts is particularly important.

I could not agree more strongly that accelerating growth in the money supply in an effort to lower interest rates would ultimately prove counterproductive; it would signal a capitulation in the fight against inflation. The Federal Reserve is determined to hold the growth of the money supply on a reasonable trend. We welcome all the assistance that can be provided in damping federal credit demands and removing cost-raising regulations in order that monetary restraint can unwind inflation as rapidly and with as little pain as possible. Thank you for your support.

Sincerely,

S/ Paul

PAV.
SL:MFMS:JSZ:pjt (#V-139)
bcc: Mr. Kichline
Mr. Struble
Ms. Lepper
Mrs. Mallardi (2)

Action assigned to Mr. Kichline.



**United States Senate**

COMMITTEE ON THE BUDGET
WASHINGTON, D.C. 20510

#139

May 20, 1981



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

Dear Mr. Chairman:

I have attached a copy of some of my recent remarks in debate on the Senate floor as well as a copy of my testimony to the Committee on Finance on the tax cut. These remarks indicate my concern over the current directions of fiscal policy, insufficient spending cuts combined with excessive personal tax cuts, as well as support for the Federal Reserve's policies to restrain the growth in the monetary aggregates.

I hope that both fiscal and monetary policy will work more closely together in an effort to reduce the rate of inflation.

Sincerely,

Fritz Hollings

Ernest F. Hollings

United States of America

# Congressional Record

PROCEEDINGS AND DEBATES OF THE 97th CONGRESS, FIRST SESSION

Vol. 127 WASHINGTON, WEDNESDAY, MAY 13, 1981 No. 73

# Senate

*(Legislative day of Monday, April 27, 1981)*

Mr. HOLLINGS. I thank the distinguished chairman of our Banking Committee.

Mr. President, let me bring this debate into sharp focus. The distinguished Senator from Virginia and I agree most of the time. He asks whether or not President Reagan's program can work. We hope that the Reagan-Kemp-Roth across-the-board tax cut with a substantial loss of revenues does not work, because that is really what is bringing about the inflation and the high interest rates. It has not been the Congress for the past 15 years.

Everybody likes to talk about the last 15 years. Let us talk about now. President Reagan came, President Reagan saw, and he conquered. He got his spending cuts. He has been cutting regulations. Increases in defense are provided for. Those interest rates were coming down.

But what caused rates to rise in the last 2 weeks is the success of the President. On this score, Mr. President, this amendment shows a complete misunderstanding of the workings of the Federal Reserve, financial markets, and the reasons why we have high interest rates.

It is the Federal Reserve's announced policy of trying to keep the growth of the money supply to less than 7.5 percent. When you have deficit spending, and admittedly you are going to have a high deficit, the Government, as the Senators have pointed out, must go into the capital market to borrow the money. The Government now spends nearly $100 billion of a $700 billion budget on interest, and could easily spend a lot more if deficit spending is not removed. Such borrowing will crowd other borrowers out of the market.

The Federal Reserve can monetize part of the debt. It can buy some of that debt, but this increases the money supply, and you have added to inflation and reduced the value of the dollar, that is the very same dollar you or I have in the savings account, and on the other hand the Federal Reserve could hold tight to that goal of 7.5-percent growth in the money supply. I can tell you right here and now that interest rates must go up significantly to make it attractive enough for the public to come in and buy that extra Government debt after the administration of Congress grants that large Roth-Kemp tax cut.

Either the Fed will monetize the debt and inflate the currency, or the Federal Reserve will try not to inflate the currency. That latter course will require a high enough interest rate to attract people to come in and buy that debt.

That is the way it works.

But the beginning of that inflation and that high interest rate is in the resolution adopted yesterday evening. That is why I resisted this amendment being put on the very end of the resolution. The real kicker is after you have already created the extra debt by the choice of fiscal policy, after you have unbalanced the budget, after you have at least a $50 billion deficit in 1984, we engage in this political rhetoric saying, "The Congress should implement a fiscal policy which will permit a balanced budget as soon as possible but in no case later than 1984."

That is what they were doing in passing that resolution by an overwhelming majority on last evening.

We now have a high rate of inflation and could add to that by throwing fire on it with a higher deficit for next year. We do not head it in the right direction to bring down the deficit. The Congressional Budget Office has projected not the $50 billion deficit that the resolution states, but a $70 billion deficit for next year. That is a higher deficit in fiscal year 1982 under President Reagan's policy as adopted yesterday evening in Senate Concurrent Resolution No. 19 than for fiscal 1981. It will be higher than President Carter's. This amendment is just like taking a raging fire and throwing gasoline on the fire and then saying, "By the way, let us investigate the fire department."

The Federal Reserve has been, as the Senator from Virginia said, the only act in town trying to keep the fires out, trying to moderate the growth in the money supply. It certainly was not fiscal policy. Fiscal policy set us in the other direction.

I agree that that was the message on November of last year, to balance the budget and not to cause more inflation and higher interest rates. That is why I did not vote for the resolution.

I certainly do not want this copout to blame higher interest rates on the Federal Reserve. This is what you might call the Volcker ouster resolution. We are going to get rid of the head of the Federal Reserve. Everybody says the administration's program will not reduce inflation and give balanced budgets. It will not work. But when the Congress votes for it and it does not work, then it is the Federal Reserve that is not cooperating with the President, not working with the Government. This is something more than laying the groundwork to blame Volcker and the Federal Reserve. That is exactly what it is.

This amendment shows no understanding whatever for the working of the Federal Reserve, nor an appreciation for their attempts to restrict the growth of money and arrest inflation in this country.

I cosponsored with Senator DOMENICI $3 billion more in spending cuts than recommended by President Reagan. But spending cuts alone of only $36.9 billion will not yield a balanced budget if you are going to increase defense spending by nearly an equal amount for next year and reduce revenues with an across the board tax cut of some $54 billion.

This is a demand side tax cut. I hope private citizens will buy some of the additional Federal debt, rather than buying a new car, a refrigerator, or other consumer goods. However, the only thing that would attract the public into buying some of the debt we are creating is a higher interest rate.

The Federal Reserve either has to monetize the debt and then inflate the currency, or they have to slow the growth in the money supply and let the interest rates go up so the public will come in and buy the debt that you and I created last evening with that fiscal policy.

This amendment wants to engage the Congress even more into private credit markets by advocating a two-tiered or dual prime rate. Rather than the free market determining the flow of capital, we are going to politically determine in Washington what you can get credit for and what you cannot get credit for. That is pure political financial monkeyshines. There is no better description for it.

Mr. President, I hope we defeat this resolution and get back to the fundamentals, that is, the fiscal policy as enunciated in the resolution of last evening.

That resolution made good provision for defense. It also included other spending cuts. But it also included a revenue cut of some $54 billion. And ask, where did the deficit come from? Those deficits will cause increased Federal borrowing and higher interest rates.

Do not vote for that resolution of last evening and then blame the Federal Reserve in the resolution here today.

I thank the distinguished Senator from Utah.

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

June 16, 1981

PAUL A. VOLCKER
CHAIRMAN

The Honorable Lee H. Hamilton
Chairman
Subcommittee on Economic Goals
and Intergovernmental Affairs
Joint Economic Committee
Washington, D.C. 20510

Dear Chairman Hamilton:

Thank you for the suggestion in your May 7 letter regarding the Board's proposed revisions to Regulation C, implementing the Home Mortgage Disclosure Act. Please be assured that I share your concern about the crucial need to trim regulatory costs. When we consider final adoption of the revised regulation, we will give careful attention to your suggestion that we reduce, from five to four, the number of reporting categories.

Our preliminary thinking, however, is that the category breakdown in the proposal would ease, not worsen, the reporting burden. The extra category to which you refer results from the separate treatment of data on multi-family dwellings. That is, the regulation requires lenders to categorize data on one-to-four family dwellings by the four categories which, as noted in your March 24 letter, are specified by the statute. With regard to multi-family dwellings, on the other hand, the proposed regulation mandates that the data all be reported in one category--whether the loans represent home purchase or home improvement, owner or non-owner occupied property, and conventional or government financing. If institutions were not reporting loans on multi-family dwellings as one category, they would have to subdivide them into the categories that are now required for one-to-four family dwellings.

It is arguable, of course, that the Board might (as an alternative to categorization of multi-family loan data) exclude such data from HMDA disclosure. This result, however, would not appear to be in keeping with the statute, which requires depository institutions to disclose "all" mortgage and home improvement loans, not just loans on single-family or one-to-four family dwellings.

The Honorable Lee H. Hamilton
Page Two

I appreciate receiving your comment and expression of concern, and want to reiterate again my own personal commitment to the reduction of regulatory burden.

Sincerely,

S/Paul A. Volcker

DSS:pjt (#V-142)
bcc: Dolores Smith
Mrs. Mallardi (2)

HENRY S. REUSS, WIS., CHAIRMAN
RICHARD BOLLING, MO.
LEE H. HAMILTON, IND.
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JOHN H. ROUSSELOT, CALIF.
CHALMERS P. WYLIE, OHIO

JAMES K. GALBRAITH,
EXECUTIVE DIRECTOR

Action assigned to Ms. Hart.

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PAUL S. SARBANES, MD.

# Congress of the United States

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

May 7, 1981

#142

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1981 MAY 22 AM 10: 35
RECEIVED
OFFICE OF THE CHAIRMAN

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

Dear Mr. Chairman:

Thank you for responding to my comment letter of March 24 regarding the Federal Reserve Board's proposed regulations implementing the Home Mortgage Disclosure Act (HMDA) Amendments of 1980. I want to reiterate one of the points raised in that letter.

In crafting HMDA, the Congress explicitly required that four categories of loan data be provided by mortgage lenders. In the past, your regulations required lenders to report loan data in six categories. And your proposed regulations would still require lenders to provide loan data in five categories. I am frankly puzzled that the Board insists on going beyond the law and imposing excessive reporting requirements under HMDA. You are not carrying out Congressional intent in doing so, and I encourage the Board to comply with the provisions of HMDA. You and the Board should be seeking ways to trim regulatory costs imposed by law rather than gratuitously creating such costs by going beyond the mandates of the law.

Please give this issue your personal attention.

Thank you.

Sincerely,

Lee H. Hamilton
Chairman
Subcommittee on Economic Goals
and Intergovernmental Affairs

June 19, 1981

The Honorable Alfonse M. D'Amato
United States Senate
Washington, D.C. 20510

Dear Senator D'Amato:

I am pleased to respond to your request for comment on an amendment you intend to offer to the bill drafted by the Federal regulatory agencies. Under the draft bill, prior to the conversion of a mutual savings bank to stock form, the FDIC and FSLIC are to agree to reasonable indemnification for a period of up to five years for losses that may be incurred by the FSLIC as a result of the transfer of insurance liability from the FDIC. Your amendment would permit the FDIC to agree to indemnify the FSLIC for a somewhat longer period than that provided for in the draft and would permit the GAO to arbitrate a resolution if the agencies are unable to reach an indemnification agreement.

Based upon the discussions between the agencies during the course of preparation of the bill, I am confident that the agencies would be able to achieve an equitable indemnification agreement between themselves in a timely fashion if the need arises. Consequently, I believe that there is little need to require the GAO to resolve any differences that may arise between the agencies. While the bill is not scheduled for Congressional action, I continue to believe it is a very important and well balanced piece of legislation. I hope the Congress will consider it later this year and, at that time, it may be desirable to indicate in the legislative history that issues relating to indemnification should not hamper a conversion to stock form that may be necessary to resolve a supervisory problem.

Thank you for the opportunity to comment.

Sincerely,

S/Paul A. Volcker

GTS:AFC:DJW:DS:pjt (#V-147)
bcc: Gil Schwartz
Legal Records (2)
G.C. Log (#186)
Mrs. Mallardi (2)

United States Senate

COMMITTEE ON APPROPRIATIONS
WASHINGTON, D.C. 20510

May 28, 1981 #147

The Honorable Paul A. Volcker
Chairman
Federal Reserve System
20th Street and Constitution Ave, NW
Washington, DC 20551

Dear Mr. Chairman:

As you and your organization are taking an active lead in the development of important legislation on Federal assistance to troubled thrifts I thought you might appreciate a copy of the enclosed amendment to the "Bank Regulator's" bill which I am considering introducing.

I have circulated copies to Messrs. Sprague, Pratt and Isaac for their comments. I would be grateful if you would share with me any thoughts you have on this matter.

Sincerely,

Al D'Amato

Alfonse M. D'Amato
United States Senator

AMD/phm
Enclosure

AMENDMENT

May 11, 1981

Special Provision on Transition from FDIC to FSLIC

Sec. Section 26 of the Federal Deposit Insurance Act is amended as follows:

Conversion of Savings Banks

"Sec. 26. With respect to any State-chartered insured mutual savings bank which converts into a Federal mutual savings bank or a Federal stock savings bank, or merges or consolidates into a Federal mutual savings bank or a Federal stock savings bank, the Corporation shall indemnify the Federal Savings and Loan Insurance Corporation against any losses incurred by it which arise out of losses incurred by the converting bank as follows: one hundred per centum for such losses incurred by the Federal Savings and Loan Insurance Corporation during the first three years after conversion, 75 per centum during the fourth year, 50 per centum during the fifth year, and 25 per centum during the sixth year. The Corporation, at its discretion, may provide a greater degree of indemnification where circumstances warrant. The Corporation and the Federal Savings and Loan Insurance Corporation shall within two months from the date of enactment of this Act mutually agree on what shall be treated as 'losses incurred by it which arise out of losses incurred by the converting bank' for purposes hereof and, failing such agreement, the General Accounting Office shall prescribe the meaning of those terms. The General Accounting Office shall also have the authority to arbitrate and its decision shall be final and binding as to any dispute between the Corporations relative to this section. Any conversion, merger, or consolidation covered by this section shall not be deemed a termination of insured status under section 8(a) of this Act."

## Explanation

This amendment would amend the Federal Deposit Insurance Act to provide that state-chartered, Federal Deposit Insurance Corporation (FDIC), insured mutual savings banks that become Federal mutual savings banks (FMSB's), chartered by the Federal Home Loan Bank Board (FHLBB) and insured by the Federal Savings and Loan Insurance Corporation (FSLIC), will have the FDIC indemnify the FSLIC if a FMSB becomes insolvent or its financial status requires losses to be paid out of the FSLIC's insurance funds. This concept was originally provided for in section 1201 of the Financial Institutions Regulatory and Interest Rate Control Act of 1978 (P.L. 95-640). That amendment provides for indemnification only for potential losses identified prior to conversion, for a five year period, and for a decreasing proportion of indemnification over that five year period. This amendment broadens that provision. This amendment is necessary to protect the FSLIC from unnecessary loss expenditures at a time when the fund is under stress. In addition, it will facilitate the conversion to Federal charters for mutual savings banks which are suffering from the present problems in the nation's economy and which can best prosper and grow under the more flexible and far-reaching statute that govern federal associations. That statute (The Home Owner's Loan Act), when combined with grand-fathered state law powers under the 1978 Act, would provide these institutions with the best chance of survivial and prosperity. The amendment is fair and just because: it recognizes the responsibility of the FDIC for the previous management of these converting savings banks; it eases potential stress on the FSLIC; it gives converting institutions the best chance for growth and survival, and it recognizes that until insurance premiums paid by these institutions are actually proportionate to the risk to the FSLIC, the FDIC should indemnify the FSLIC.

The present law makes the institution the victim of the failure of the FDIC and the FSLIC to reach an agreement on indemnification. If conversions of state-insured mutual savings banks to Federally-chartered mutual savings banks are to be made on a fair basis the "Regulator's Bill" should include an amendment to Section 26 enacted along the lines outlined. This was the FHLBB's position. However, the FDIC as manifested by its' testimony before the Senate Banking Committee sees no need for any legislative change. A converting mutual savings bank under the present law could be delayed indefinitely. This would make it impossible for an institution to be able to best plan for its future to survive the deregulation transition.

This amendment recognizes that the FDIC, much as any insurance company, has received premiums over a long period of years from savings banks. It recognizes their responsibility for financial indemnification. No assurance is necessary from the FHLBB or FSLIC that they will take all necessary steps to prevent the need for indemnification. The proposal does not go so far as to suggest a transfer of pre-paid premiums, but only indemnification if their is the unlikely prospect of losses. In addition, the size and strength of the FDIC fund make it much more able to cope than the FSLIC. This amendment makes sure that the public and the institutions are served at the expense of bureaucratic jealousies. It assures the FSLIC of indemnification. It protects the FSLIC. Otherwise, the FSLIC would have to take additional risks with no concrete assurances from the FDIC.

June 19, 1981

The Honorable Don Nickles
United States Senate
Washington, D. C. 20510

Dear Senator Nickles:

Thank you for your recent letter recommending Mr. Hal K. Bird for a summer internship with the Board of Governors of the Federal Reserve System.

Our Division of Personnel will contact Mr. Bird directly about our summer application process. You may be assured that he will receive full consideration.

Your interest in the Board's employment program is appreciated.

Sincerely,

S/Paul A. Volcker

KW:vcd (#V-159)

bcc: Ms. Warehime
Mrs. Mallardi (2)

Chrmn. Volcker

Action assigned to Mr. Shannon


DON NICKLES
OKLAHOMA


**United States Senate**

WASHINGTON, D.C. 20510

COMMITTEES:
ENERGY AND NATURAL RESOURCES
LABOR AND HUMAN RESOURCES
SMALL BUSINESS

June 9, 1981

#159

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1981 JUN 11 AM 11: 19
RECEIVED
OFFICE OF THE CHAIRMAN

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

Dear Paul:

Enclosed are a resume and letters of recommendation for Hal K. Bird, who wishes to be considered for an internship at the Federal Reserve Board for the summer of 1982.

Hal has been highly recommended to me by a number of Oklahomans. He plans to pursue a career in international finance, and I believe he would find an internship with the Federal Reserve Board to be extremely rewarding.

Your consideration of Hal Bird is sincerely appreciated.

Best regards,

Don Nickles

Don Nickles
U.S. Senator

DN/lw

enclosures


820 Old Post Office Bldg.
214 N.W. 3rd
Oklahoma City, OK 73102
#405, 231-4941

3003 Federal Bldg.
333 W. 4th
Tulsa, OK 74103
#918, 581-7651

1916 Lake Road
Ponca City, OK 74601
#405, 767-1270

May 18, 1981

The Honorable Don Nickles
Senate Office Building
Washington, D.C. 205010

RE: Federal Reserve Board Internship

Dear Senator Nickles:

I have just finished my junior year in the college of finance at Oklahoma State University and am now spending my second summer as an intern for Rotan Mosle in Houston. Rotan Mosle is a regional investment banking firm that is based here in Houston.

This letter concerns my efforts towards securing an internship at the Federal Reserve Board for the summer of 1982. There is a lady in Houston who is helping me to secure the position and she has advised me that a letter of recommendation from you would be of great help. My grandparents, Lloyd and Louise Bird, have also suggested that I seek your recommendation. It is something that I would truly value.

This position at the Federal Reserve Board is very important to me as I intend to obtain my masters degree in International Finance and it would give me great insight into my field.

Thank you very much for your consideration and any help that you can give me.

Sincerely,

Hal K. Bird

Hal K. Bird

HKB:bo

encl.

[redacted]

April 18, 1981

The Honorable Don Nickles
Senate Office Building
Washington, D. C. 20510

Dear Don:

We are writing in regard to our grandson, Hal Bird. First off, you will understand that we are biased but would like to add some pertinent facts to this young man's resume.

Hal has worked every summer since the age of ten. He started out mowing lawns then progressed to summer time work plus holding down a winter job. He has worked in fast food places and gourmet restaurants and as stock boy, construction worker or any other opportunity that offered a chance to make a buck. He went to O. S. U. and became a member of the Betas because that was what his Dad had done.

We have been surprised at this young man's devotion to, and understanding of, the free enterprise system and his dedication to Conservatism. He recently attended the Oklahoma Conservative Reception and Banquet at Oklahoma City and was pleasantly amazed at the conservative and flag waving approach which Bob Dornan took in his address. He was also intrigued by the Y. A. F. and was very much impressed by the enthusiasm and dedication expressed by those he talked with - such as Dennis Bechtel, a Y A F National Director, Pete Flaherty, Clarence and Jan Warner, the Mattoons, etc.

Hal joined R. O. T. C. after school had started this last year and has now advanced to Staff Sergeant. We heard his R O T C instructor, Colonel Dick Moore, in an interview with Doctor Banowsky last Sunday in which Colonel Moore said he looked with extreme pleasure on these young people every day because at O. S. U. they were the "doers and the achievers". Hal turned down his R O T C scholarship for this year because he wants to go into pilot training in the Air Force. For this, he will have to go to College an extra year but that is his desire.

We have been extremely pleased and gratified by the attitude of this young man that knows at the age of 21 exactly where he wants to go and how he wants to get there and is looking forward to the hard work and sweat along the way.

Any help that you can give him will be greatly appreciated.

We have also been highly pleased with the fact that you and President Reagan are attempting to do exactly what you said you would do and were elected to do. Hal was active in your campaign on campus.

If we can be of any service, please call on us.

Best Wishes.

Louise Bird

Louise Bird

Lloyd R. Bird

Lloyd R. Bird

ROGER L. McMILLIAN
*Attorney-At-Law*
703 SOUTH HUSBAND STREET
405/624-0783

ROGER L. McMILLIAN

Post Office Box 1243
Stillwater, Oklahoma 74074

March 17, 1981

The Honorable Don Nickles
Senate Office Building
Washington, D.C. 20510

In Re: HAL KENTON BIRD

Dear Senator Nickels:

Hal Bird has asked that I write you concerning his efforts to secure employment with the Federal Reserve Board for 1982. Mr. Bird is currently classified as a junior at Oklahoma State University. I have become acquainted with him at the Beta House where he is truly one of our finer undergraduates. Any help you could give us from your end, would certainly be appreciated.

With every good wish, I am,

Sincerely yours,

Roger L. McMillian

ROGER L. McMILLIAN
Attorney At Law

RLM/ksr

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## Citation Information

**Document Type:** Resume

**Number of Pages Removed:** 3

**Citations:** Resume, Hal Kenton Bird, 1981.

WILLIAM W. SHERRILL

April 10, 1981

To Whom It May Concern:

It is a pleasure to provide a recommendation for Mr. Hal Bird. I am acquainted with this young man through his work for Portfolio Management of Texas, Inc., Houston, Texas.

Mr. Bird is an outstanding individual with an excellent aptitude for economic, financial and business research. He exhibits in all areas of his work performance a dependable and highly cooperative attitude.

I highly recommend Hal both professionally and personally. He will contribute significantly to any organization that can utilize his talents.

Sincerely,

William W. Sherrill

William W. Sherrill
Chairman
Dasa Corporation

WWS:bo

Rotan Mosle Inc.
1500 South Tower Pennzoil Place
Houston, Texas 77002
713/236-3000

**ROTAN MOSLE**
Investment Services

June 2, 1980

TO WHOM IT MAY CONCERN:

Hal Bird worked for the Compliance Department for the past two weeks under the Rotan Mosle Internship Program. He handled a variety of projects, from doing research which enabled us to respond to SEC inquiries to helping us analyze the department budget.

We have found him an intelligent and capable young man who grasps concepts and instructions quickly and then works steadily until his job is completed. He speaks well and conducts himself in a professional manner.

We would recommend him highly for further work at Rotan Mosle Inc. or at any other company of his choice.

Sincerely,

Michael J. Kavalewitz

Michael J. Kavalewitz
Vice President
Director of Compliance

MJK:sl

P O R T F O L I O   M A N A G E M E N T *of Texas, Inc.*

PAUL M. OAKES
Vice President
Marketing and Development

September 15, 1979

To Whom It May Concern:

Hal Bird worked for me in a summer training program Portfolio Management sponsors each year.

Mr. Bird proved to be an intelligent, dependable and cooperative individual with an ambition for business.

I would not hesitate to recommend him to any company that might require his services.

Sincerely,

Paul Oakes

Paul M. Oakes

2929 Buffalo Speedway  Houston, Texas 77098  (713) 622-2900

June 16, 1981

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

Dear Mr. D'Amours:

Thank you for your letter of June 8 concerning the Board's proposal to modify the categories of depositors eligible to maintain NOW accounts.

We have received numerous comments to date on the Board's proposal, many of which express views similar to yours and President Cole's concerning the eligibility of sole proprietorships to maintain NOW accounts. I can assure you that the Board will carefully consider your comments when final action on the proposal is taken.

Sincerely,

S/Paul A. Volcker

(GTS):AFC:clc (#V-160)
bcc: Mr. Schwartz (w/copy of incoming)
Legal Records (2) (w/copy of incoming)
Mrs. Mallardi (2)

NORM D'AMOURS
1st District, New Hampshire

COMMITTEE ON
BANKING, FINANCE
AND URBAN AFFAIRS

MERCHANT MARINE AND
FISHERIES COMMITTEE
CHAIRMAN:
SUBCOMMITTEE ON OCEANOGRAPHY

Washington Office:
2242 Rayburn House Office Building
Washington, D.C. 20515
(202) 225-5456

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

District Offices:
Manchester, New Hampshire 03105
720 Norris Cotton Federal Building
275 Chestnut Street
(603) 668-6800
(603) 666-7526
Toll Free: 1-800-562-3802

Portsmouth, New Hampshire 03801
425 and 426 Federal Building
80 Daniel Street
(603) 431-8749
(603) 436-7720, Ext. 707

Laconia, New Hampshire 03246
128 Federal Building
719 Main Street
(603) 524-7185

June 8, 1981

#160

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

Dear Chairman Volcker:

In light of the Fed's continuing deliberations on the eligibility for NOW accounts, I want to share with you correspondence I have just received from the Mascoma Savings Bank. Although the Mascoma Savings Bank's letter is directed to the FDIC, it covers material which the Fed is also considering.

President Cole makes a very persuasive case against further restrictions on NOW accounts. Further restrictions in this area will only accelerate the development of alternative investment opportunities such as Money Market Mutual Funds. I hope the Fed will take this into consideration during its deliberations on this issue, and will act to expand, rather than restrict, NOW account eligibility.

Sincerely,

Norm D'Amours

Norman E. D'Amours
Member of Congress

NED/mr
Enclosure

MASCOMA SAVINGS BANK

LEBANON, NEW HAMPSHIRE 03766 · TELEPHONE 603 448-3650

INCORPORATED 1899

REUBEN D COLE, PRESIDENT

May 26, 1981

Mr. Hoyle L. Robinson, Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, D.C. 20429

Dear Sir:

This letter is written to register my strongest opposition to the Proposed Interpretation of NOW Account Eligibility Requirements to the extent that sole proprietorship depositors would be denied the benefits of having a NOW account in our bank.

We are the only bank for many of our customers of modest means. They have their savings account, home mortgage loan (possibly a mortgage on their commercial or rental property), auto loan, safe deposit box, personal NOW account, and in many instances, a NOW account maintained to conduct a small business such as a "Mom & Pop" store; a tupperware sales agency; a real estate investment, etc.

One of our branches is located in a community (Canaan, NH) where there is no other bank. The community supports a couple of small markets, a couple of filling station/garages, two or three home industries and perhaps several other sole proprietorships.

One of our motives in establishing branches in outlying communities was the realization that people can no longer afford to drive 30 miles round trip to conduct a banking transaction. Both the Mascoma Savings Bank and these customers would suffer substantial inconvenience if they were denied the benefits of their NOW accounts.

Our main office caters to many small business people (sole proprietors) although a commercial banking facility exists nearby. These customers prefer our service. I realize, however, that our national bank competition has a following that wouldn't be caught dead in our lobby. The fact is that both groups have a choice, which will not be the case if they are denied a NOW account in our bank.

Mascoma Savings Bank doesn't have demand deposit authority. We have attempted to fill the gap somewhat with a NINOW account but this hasn't been entirely satisfactory.

I think it is fair observation to say that the significant commercial community has been excluded from the NOW account from day one. The volume of commercial activity conducted through NOW accounts is really negligible in terms of dollar amount and national policy, but the NOW account is ever so important to a multitude of individuals.

I would plead that the rules of eligibility not be changed. I cannot understand the need to our national welfare to do so. The thrift industry in its present depressed state doesn't need further deterioration of image via the withdrawal of service from its customers. I am reluctant to suggest that present accounts be "Grandfathered", but of course such concession would be preferable to the dislocation which will result from the absolute denial of sole proprietorships to have a NOW account.

Please recall that most of the nation has had the NOW account for a relatively short time. New Hampshire savings banks have been offering NOW accounts for nearly ten years. We have long-standing, mutually beneficial relationships which will suffer severe disruption if the proposed interpretation is adopted.

I plead for the Status Quo.

Very truly yours,

Reuben D. Cole
President

RDC:sep

cc to: Congressman Judd Gregg

Congressman Norman D'Amours

Senator Gordon J. Humphrey

Senator Warren Rudman

National Association of Mutual Savings Banks

New Hampshire Association of Savings Banks

June 16, 1981

The Honorable Carl Levin
United States Senate
Washington, D.C. 20510

Dear Senator Levin:

Thanks for your letter about a possible return to the gold standard.

With respect to the precise question you asked, the Federal Reserve Board has never taken a position in favor of a return to the gold standard or in support of S. 6, the Gold Reserve Act of 1981. In testimony before the Senate last July, I expressed my own opinion that I don't see any circumstances arising in which it would be either feasible or desirable to go back to anything that could be called a full gold standard.

As you know, the Congress has really established the Gold Commission to examine many of the issues you raised. Three members of the Federal Reserve Board of Governors will be on that body, and we hope there will be a full examination of the questions involved in having gold play a more prominent role in our monetary system.

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

Sincerely,

S/Paul A. Volcker

DS:pjt (#V-136)
bcc: Mr. Karcz
Mr. Adams
Mr. Henry
Mrs. Mallardi (2)

June 16, 1981

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

The Honorable James M. Jeffords
Ranking Minority Member
Subcommittee on Conservation, Credit, and
Rural Development
Committee on Agriculture
House of Representatives
Washington, D. C. 20515

Dear Chairman Jones and Mr. Jeffords:

Thank you for your letter of June 4 inviting the Board to appear before your Subcommittee to discuss the impact of credit policies on American agriculture.

Vice Chairman Frederick H. Schultz is looking forward to appearing on Tuesday, June 23.

Sincerely,

S/Paul A. Volcker

vcd (V-156)

bcc: Vice Chairman Schultz
Mr. Kichline
Mrs. Mallardi (2)

Chrmn. Volcker

Action assigned to Jim Kichline (Gov. Schultz will testify)

ED JONES, TENN., CHAIRMAN
BERKLEY BEDELL, IOWA
DAN GLICKMAN, KANS.
TOM DASCHLE S. DAK.
BYRON L. DORGAN N. DAK.
DAVID R. BOWEN MISS.
TOM HARKIN, IOWA
GLENN ENGLISH OKLA.
FLOYD J. FITHIAN, IND.
LEON E. PANETTA, CALIF.
BERYL ANTHONY, JR., ARK.
FREDERICK W. RICHMOND, N.Y.

E (KIKA) DE LA GARZA, TEX., EX OFFICIO MEMBER

ROBERT A. CASHDOLLAR, STAFF DIRECTOR

# U.S. House of Representatives

## Committee on Agriculture

### Subcommittee on Conservation, Credit, and Rural Development

Room 1301, Longworth House Office Building
Washington, D.C. 20515

JAMES M. JEFFORDS, VT., RANKING MINORITY MEMBER
E. THOMAS COLEMAN, MO.
PAT ROBERTS, KANS.
JOHN L. NAPIER, S.C.
JOE SKEEN, N. MEX.
SID MORRISON, WASH.
CLINT ROBERTS, S. DAK.
STEVE GUNDERSON, WIS.
COOPER EVANS, IOWA

WILLIAM C. WAMPLER, VA., EX OFFICIO MEMBER

ROGER ALLBEE, MINORITY CONSULTANT

June 4, 1981

#156

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1981 JUN -8 AM 9:46
RECEIVED
OFFICE OF THE CHAIRMAN

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 House Subcommittee on Conservation, Credit, and Rural Development will hold public hearings on June 23, 1981, at 9:30 A.M. in Room 1301, Longworth House Office Building, on the topic of the impact of credit policies on American agriculture. We very much would appreciate your appearance as our leadoff witness for those hearings.

Generally, we would like you to explain current Federal Reserve credit and monetary policies, advise us of Federal Reserve projections on interest rates and credit availability for the agriculture sector and respond to questions of the Subcommittee Members.

Robert Cashdollar, Subcommittee Staff Director, will work with your staff on further arrangements.

With kindest regards and best wishes, I am

Sincerely,

James M. Jeffords
James M. Jeffords
Ranking Minority Member

Ed Jones
Ed Jones
Chairman

V-158

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

June 16, 1981

PAUL A. VOLCKER
CHAIRMAN

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

Dear Mr. Rhodes:

Thank you for your letter of June 9 requesting comment on correspondence you received from Mr. and Mrs. Roy Bodine concerning the authority of the Federal Reserve to purchase securities. While we have not seen the Patterson news letter nor the reference to Polish debt and various New York banks, this issue is the same one raised by passage of a provision in the Monetary Control Act of 1980 (P.L. 96-221).

The original Federal Reserve Act, enacted in 1913, permitted the Federal Reserve to purchase various types of securities in the open market. At that time we were permitted to purchase U.S. Government and agency securities, bankers' acceptances, bills of exchange, and certain short-term State and local government securities. The purpose of this authority originally was to provide Reserve Banks with the opportunity to earn a return on their funds. There was never any indication that the authority was to be used to "monetize" the debts of private organizations and State and local governments, and we can assure you that we have no intention of doing so. Indeed, virtually all of our securities holdings consist of U.S. Government and agency obligations ($124 billion) purchased in conjunction with open market operations and in the course of issuing Federal Reserve notes.

The Monetary Control Act of 1980 did amend the open market authority of the Federal Reserve to permit us also to purchase obligations of foreign governments and their agencies. The legislative history of the Act indicates that Congress intended this authority to be used only in conjunction with the Federal Reserve's normal activities in the foreign exchange market.

In the course of foreign exchange operations, the Federal Reserve from time to time acquires balances in foreign currencies. Prior to the passage of the Monetary Control Act, there was no convenient way in which foreign currencies held by the Federal Reserve could be invested to earn interest. As indicated by Senator Proxmire on the floor of the Senate on March 27, 1980, during the Senate's consideration of the Monetary Control Act, the purpose of this provision is "to provide a vehicle whereby such foreign currency holdings could be invested in obligations of foreign governments and thereby earn interest. This authority would be used only to purchase such obligations with foreign currencies balances acquired by the Federal Reserve in the normal course of business" (126 Cong. Rec. S 3168). In my testimony before the Senate Banking Committee on September 26, 1979, I indicated that the purpose of the provision was to add to the present list of assets, currently eligible for purchase by the Federal Reserve, short-term government securities so as to enable the Federal Reserve to invest its non-interest bearing foreign currencies in interest bearing obligations. (These earnings are ultimately paid over by the Federal Reserve to the U.S. Treasury.) It was never the intent of the Federal Reserve to use this provision to "bail out" foreign governments that may be in danger of defaulting on their debts. We believe it is clear that the authority is to be used only in conjunction with the Federal Reserve's normal foreign exchange operations.

With respect to purchasing obligations of Eastern bloc countries such as Poland, the Federal Reserve has not purchased and has no plans to purchase obligations of such countries. As noted above, the Federal Reserve would only buy short-term liquid obligations of foreign governments with currency balances of those foreign countries acquired in connection with foreign exchange operations in order to earn a return on what would otherwise be non-interest bearing currency holdings. As indicated in the Board's Annual Report, reciprocal currency arrangements exist with the following countries only: Austria, Belgium, Canada, Denmark, England, France, Germany, Italy, Japan, Mexico, the Netherlands, Norway, Sweden, and Switzerland.

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

Sincerely,

S/Paul A. Volcker

(GTS:)AFC:pjt (#V-158)
bcc: Mrs. Mallardi (2)

JOHN J. RHODES
1ST DISTRICT, ARIZONA

Action assigned to Tony Cole

Chrmn. Volcker

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

#158

June 9, 1981

Mr. Paul Volcker
Chairman, Federal Reserve System
20th St. and Constitution Ave., N.W.
Washington, DC 20551

Dear Mr. Volcker:

Enclosed is a letter I received from my constituents, Mr. and Mrs. Roy Bodine. Their question concerns the Reserve's purchasing of some debts of Poland, and I would appreciate any information you could share with me to answer them.

Thank you for your cooperation.

Yours sincerely,

John J. Rhodes

CWS

Attn:Don Winn

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1981 JUN 11 AM 11:18
RECEIVED
OFFICE OF THE CHAIRMAN

Re: Funding Debts of Poland, et al

DR. ROY L. BODINE
[redacted]

May 25, 1981

To: Congressman John Rhoades, Arizona
Rayburn House Office Bldg
Washington, DC 20515

Dear Congressman Rhoades:

Mr L T Patterson has informed us through his news letter, that Douglas Lamont, in a signed article in the Chicago Sun Times on March 9 1981, reported the details of how our Federal Reserve Bank intends to purchase the debts of Poland and other East Block countries from the major New York Banks. This will releave the Banks of their responsibility for the unsound loans they made which have gone sour and now can never be repaid.

I understand that Congressman Ron Paul had this article inserted in the Congressional Record. Please familiarize yourself with the facts in this important matter, and stop this action from taking place. There is no reason for our government (thus the people of the United States) to assume this tremendous unsound liability to bail out Dave Rockfeller and the Trilateral bands from the problems they created for themselves!

Your action is URGENTLY requester to STOP this unsound action cold!

Respectfully,

Roy & Monica Bodine

Roy & Monica Bodine

June 11, 1981

The Honorable Carroll Hubbard
House of Representatives
Washington, D.C. 20515

Dear Mr. Hubbard:

Thank you for your letter of June 4 requesting comment on correspondence you received from Dr. Jerry B. McKenney expressing concern about high interest rates and addressing other matters relating to monetary policy.

High interest rates are commonly associated with high inflation, but it is high inflation rates that inevitably cause high interest rates rather than the other way around. In a period of rapid inflation, lenders insist upon interest rates high enough to compensate them for the anticipated decline in the purchasing power of the dollars they are lending. Borrowers are willing to pay these high rates because they too anticipate that both interest and principal will be repaid in cheaper dollars.

High interest rates tend to encourage the postponement of less promising investment projects and the deferral of consumption, thus reducing demands in markets and easing upward pressures on prices. As Dr. McKenney points out, these favorable implications for prices are offset to the extent that interest rates themselves, like the price of oil, are a cost of production. However, the relative contribution of interest rates to final costs of most products is small, and the overall effect of an increase in the real cost of credit--that is, interest rates adjusted for inflation--is to reduce upward pressure on prices generally.

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

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn
Assistant to the Board

(DG:JZ:JLK:)AFC:pjt (#V-155)
bcc: Mrs. Mallardi

Chrmn. Volcker

Action assigned to Cong. L. Office (reply previously prepared by Kichline et al)

CARROLL HUBBARD
CONGRESSMAN
1ST DISTRICT, KENTUCKY

2244 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-3115

AT LARGE MAJORITY WHIP

COMMITTEES:
BANKING, FINANCE AND URBAN AFFAIRS
MERCHANT MARINE AND FISHERIES
CHAIRMAN, SUBCOMMITTEE ON PANAMA CANAL/OUTER CONTINENTAL SHELF

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

June 4, 1981

#155

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1981 JUN -8 AM 9:46
RECEIVED
OFFICE OF THE CHAIRMAN

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

Dear Mr. Chairman:

I am writing on behalf of one of my constituents, Dr. Jerry B. McKinney of Sturgis, Kentucky. Dr. McKinney has requested my assistance with obtaining an answer to questions regarding interest rates and inflation.

Enclosed is a copy of his letter to me, for your information and review. I would be most appreciative if you would provide me with information, so that I may properly respond to Dr. McKinney's quite timely and complex questions.

Thank you for your assistance with this matter. I look forward to hearing from you soon.

With best wishes for you, I am

Sincerely yours,

Carroll Hubbard

Carroll Hubbard
Member of Congress

CH/mms

Enclosure

JERRY B. McKENNEY, M.D.
HUMPHREY BUILDING
STURGIS, KENTUCKY 42459
TELEPHONE 333-5521

COPY

May 7, 1981

MAY 15 1981

Carroll Hubbard
Member of Congress
423 Cannon Building
Washington, D.C. 20515

Dear Sir:

I need your help in securing an answer to the following fairly simple question. If increases in the price of commodities, for instance oil, which has a broad impact on various sectors of our economy, seriously worsen inflation; how can increasing interest, which is increasing the cost of the commodity, money, which touches every facet and sector of our economy do anything other than also severely increase inflation? We hear from all levels of Government, that the Federal Reserve increases in interest cost is a painful step necessary to reduce inflation. I feel that simple common sense indicates that these steps to increase interest have the opposite effect. It seems obvious that these steps increase, not decrease, inflation and at the same time punish the economy further by producing recession.

I would appreciate it, if you ask your staff to supply me with the names and addresses of responsible individuals in the Federal Reserve, in the Congress, or in any sector of our government or people responsible for economic policy. It is my intention to write these individuals asking for an answer to the question I outlined above.

I would also appreciate it if you personally would ask these individuals the same question, and exercise the influence of your office in urging these people to give you, themselves, and the country an honest answer to the question.

Your cooperation and assistance in this matter will be greatly appreciated.

Sincerely,

J. B. McKenney, M.D.
JBMCK/mcw

BILL GRADISON
1ST DISTRICT, OHIO

RON ROBERTS
ADMINISTRATIVE ASSISTANT

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

WASHINGTON OFFICE:
1117 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-3164

DISTRICT OFFICE:
FEDERAL OFFICE BUILDING
550 MAIN STREET
CINCINNATI, OHIO 45202
TELEPHONE: (513) 684-2456



June 10, 1981

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

Dear Mr. Chairman:

I am delighted that you will be our guest speaker at the SOS and C & M breakfast meeting on Wednesday, September 16.

We meet at 8:00 a.m. in the Members Private Dining Room, H130 of the Capitol, and end promptly at 9:00. Our session is informal and strictly off-the-record. You can say whatever is on your mind for five or ten minutes, or longer if you wish. We then go around the room with questions.

I have enclosed a list of SOS and C & M members who are invited to the breakfast each week. We usually average about 30 in attendance.

I'm looking forward to seeing you and will meet you a few minutes before 8:00 by the elevators on the first floor of the House side of the Capitol. Please let me know if I can be of any assistance in the meantime.

Sincerely,

Bill Gradison

Bill Gradison
Representative in Congress

BG/b
Enclosure

SOS/C & M BREAKFAST ATTENDANCE LIST

DATE ______ ROOM ______ SPEAKER ______

| SOS MEMBERS | SCHEDULER | PHONE | YES | NO |
|---|---|---|---|---|
| Armstrong, Bill | Patti | 45941 | | |
| Beard, Robin | P.K. | 52811 | | |
| Bereuter, Doug | Nancy | 54806 | | |
| Broyhill, Jim | Lyn | 52576 | | |
| Cheney, Dick | Kathy | 52311 | | |
| Cochran, Thad | Doris | 45054 | | |
| Conable, Barber | Linda | 53615 | | |
| Corcoran, Tom | Mary | 52976 | | |
| Coughlin, Larry | Debbie | 56111 | X | |
| DeNardis, Larry | Betty Nygen | 53661 | | |
| Edwards, Jack | Charlotte | 54931 | | |
| Erlenborn, John | Glenda | 53515 | | |
| Fields, Jack | Barbara | 54901 | | |
| Frenzel, Bill | Pat | 52871 | | |
| Gingrich, Newt | Laurie | 54501 | | |
| Gradison, Bill | Becky | 53164 | X | |
| Gregg, Judd | Mary Colby | 55206 | | |
| Hiler, Jack | Susan | 53915 | | |
| Leach, Jim | Lee | 56576 | | |
| Lee, Gary | Margaret | 53333 | X | |
| Lewis, Jerry | Judy Miller | 55861 | X | |
| Madigan, Ed | Diane | 52371 | | |
| McCollum, Bill | Fran | 52176 | | |
| Moore, Henson | Cheryl | 53901 | | |
| Morrison, Sid | Marlene | 55816 | | |
| Regula, Ralph | Sylvia | 53876 | | |
| Rhodes, John | Marie | 52635 | | |
| Schulze, Richard | Sharon Borg | 55761 | | |
| Smith, Denny | John Heubush | 55711 | | |
| Stafford, Robert | Jean | 45141 | Do Not Call | |
| Stanton, Bill | Shirley | 55306 | | |
| Thomas, Bill | Lee Ann | 52915 | | |
| Trible, Paul | Beverly | 54261 | Do Not Call | |
| Vander Jagt, Guy | Margaret | 53511 | | |
| Weicker, Lowell | Cindy | 44041 | Do Not Call | |
| Anderson, John | Jane Fowler | 775-2000 | | X |
| Bush, George (WH-Jennifer Fitzgerald-456-7123, Dirksen-Bob, 42424) | | | | |
| Cederberg, Elford | | 683-4744 | X | |
| Dellenback, John | John Novotny | 293-6177 | | |
| Frey, Lou | Mary | 626-7200 | | |
| Hosmer, Craig | | 467-6460 | X | |
| Laird, Melvin | Laurie Holly/Kathy Weaver | 223-1642 | | |
| MacGregor, Clark | Ruth Weldon | 785-7400 | | |
| McCollister, John T. | (H-402-391-0132,O-712-322-4038) | | Do Not Call | |
| Minshall, William | Bobbi | 452-0888 | | |
| Pollock, Howard | Cathy | 659-1867 | | |
| Sarasin, Ron | | 544-4503 | | |
| Stockman, Dave | Diana Rice | 395-6816 | | |
| Wilson, Bob | Cathy | 484-2970 | | |
| Callaway, Howard "Bo" | Linda Hall | (303-349-6611 or 5411) | Do Not Call | |
| Keating, William | | (513-721-2700) | Do Not Call | |

SOS/C & M BREAKFAST ATTENDANCE LIST

DATE_______________ ROOM_______________ SPEAKER_______________

| C & M MEMBERS | SCHEDULER | PHONE | YES | NO |
|---|---|---|---|---|
| Archer, Bill | Donna | 52571 | Do Not Call | |
| Badham, Robert | Louise | 55611 | | |
| Bethune, Ed | Marlene | 52506 | | |
| Brown, Clarence | Kathy | 54324 | | |
| Brown, Hank | Rita | 54676 | | |
| Burgener, Clair | Jayne | 53906 | | |
| Campbell, Carroll | Sally | 56030 | | |
| Coleman, Thomas | Suzy Edwards | 57041 | | |
| Courter, James | Valerie | 55801 | | |
| Dickinson, William | Susie | 52901 | | |
| Evans, Thomas | Rosalee | 54165 | | |
| Hagedorn, Tom | Jean | 52472 | Doesn't Eat | |
| Kemp, Jack | Sharon | 55265 | " - Do Not Call | |
| Kindness, Tom | Jane | 56205 | | |
| Loeffler, Tom | Nancy | 54236 | | |
| Lott, Trent | Susan Wells | 55772 | | |
| Martin, Dave | Donna | 54611 | | |
| Martin, James G. | Karen Roberts | 51976 | | |
| McClure, James | Nell | 42752 | Do Not Call | |
| X McEwen, Bob | Marti | 55705 | | |
| Michel, Robert | Sharon | 50600 | | |
| Quayle, Dan | Cynthia | 45623 | | |
| Railsback, Tom | Margaret | 55905 | | |
| Rogers, Hal | Judy | 54601 | | |
| Shuster, Bud | Virginia | 52431 | Doesn't Eat | |
| | | | | |
| Ayres, Bill | | | | |
| Brock, Bill | Carol Browning | 395-3204 | | |
| | | | | |
| Byrnes, John W. | | 862-5334 | | |
| Davis, Glenn | | 293-1833 | | |
| Devine, Sam | Sally | 393-0044 | | |
| Hillings, Pat | DO NOT CALL | | | |

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

June 5, 1981

FREDERICK H. SCHULTZ
VICE CHAIRMAN

The Honorable Lee H. Hamilton
Chairman
Subcommittee on Economic Goals and
Intergovernmental Affairs
Joint Economic Committee
Washington, D. C. 20510

Dear Chairman Hamilton:

In Chairman Volcker's absence, I want to thank you for your letter of May 6.

Although the Board has approved a voluntary survey for obtaining information from financial institutions on the costs and benefits of compliance with Regulations B, E, and Z, it does not appear advisable at this time to ask banks and other financial institutions for information on incremental costs of complying with HMDA and RESPA.

We are breaking new ground with the survey of Regulations B, E, and Z. Consequently, it will be important to gain experience with this survey before we embark on additional surveys of other regulations. We hope to learn better ways of framing questions, as well as to uncover technical problems with surveys of this type. Experience with editing and reviewing reported data of this kind is also necessary to ensure that the data are meaningful and capable of being interpreted.

Since all regulations cannot be reviewed immediately, the Board selected Regulations B, E, and Z, the consumer regulations for which the Board has primary rule-writing authority, for review at this time for several important reasons. The ongoing costs of Regulation Z are likely to be the most significant among the consumer regulations. Since some of the provisions of Regulation B are related to Regulation Z, the Board's staff and the institutions participating in the survey believe that it is cost effective to handle both at the same time. With reference to Regulation E, the start-up costs will still be available and recollections fresh.

As burdensome as some believe HMDA to be, a joint FHLBB-FDIC study indicates that HMDA compliance costs are not on the same order of magnitude as the costs of complying with

Regulations B, E, and Z. Moreover, as noted in Chairman Volcker's letter of April 29, the Board in adopting the new Regulation Z addressed the issue of duplicative or similar disclosures under RESPA and Truth in Lending.

Needless to say, we are pleased that you share our concerns about the cost effectiveness of certain regulations. I trust that our efforts will address some of the problems you perceive.

Sincerely,

/s/

Frederick H. Schultz

BRL:AFC:vcd (V-141)

bcc: Ms. Lowrey
Ms. Winkler
Mrs. Mallardi (2)

Action assigned to Ms. Hart.



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



May 6, 1981

#141



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

Dear Mr. Volcker:

Thank you for replying so promptly to my letter of March 25, 1981. You recall that I requested data on the cost which institutions subject to your regulations incur in complying with RESPA and HMDA. You indicated that requiring lending institutions subject to your regulations to submit such cost information would be expensive and burdensome. I agree.

In addition, I requested information on the extent to which such institutions were required to provide duplicative or similar information under provisions of RESPA and the revised Truth-in-Lending Act Regulation Z. You suggested that data would be difficult to obtain.

Let me propose that you request data on compliance cost and duplicative reporting requirements on a voluntary basis. I expect that some institutions subject to your authority may be well able to voluntarily provide such information in an accurate and speedy fashion. You should give them that opportunity.

Alternatively, you could enlarge the scheduled survey concerning Regulations E and Z to solicit compliance cost data for HMDA and RESPA. It would be a good vehicle, as well, to solicit lenders' comments on the extent to which RESPA and Truth-in-Lending reporting requirements are duplicative or similar. How quickly could either of these steps be taken?

Best wishes.

Sincerely,

Lee H. Hamilton

Lee H. Hamilton
Chairman
Subcommittee on Economic Goals
and Intergovernmental Affairs

Mrs. Mallardi

June 10, 1981

The Honorable Richard G. Lugar
United States Senate
Washington, D.C. 20510

Dear Senator Lugar:

I welcome the opportunity to respond to your request for comments regarding state interest rate ceilings on consumer credit transactions, and specifically on H.R. 2501, a bill recently introduced to remove rate ceilings on business, agricultural, and consumer loans.

Bills have been offered on several occasions in recent years that have sought to eliminate ceilings on interest rates charged consumers or to replace state limitations with a federal standard. The Board, too, has long been concerned about the adverse impact that usury ceilings can have on the availability of funds in local markets and has encouraged the states to remove these barriers to the flow of credit.

The Depository Institutions Deregulation and Monetary Control Act of 1980, of course, provided for some loosening of rate constraints on the assets of financial institutions, as well as on their liabilities. On the asset side, the Act eliminated all state rate ceilings on most conventional first mortgage loans and provided that business and agricultural loans could be made at 5 percentage points above the discount rate. Consumer lending was affected by a general provision authorizing depository institutions to make any loan at one percentage point above the discount rate. H.R. 2501 would broaden the preemption for business, agricultural, and consumer loans by suspending ceilings entirely and would extend coverage for consumer loans to non-depository creditors, such as finance companies and retail stores.

Although the Board favors termination of artificial constraints on interest rates, we continue to have reservations about federal preemption of long-standing state regulatory responsibilities. The Board prefers that the counter-productive effects of usury ceilings be addressed by corrective action at the state level. If the Congress chooses to take further preemptive measures on state interest rate ceilings, therefore, the Board would strongly endorse the provisions in H.R. 2501 authorizing the states to reestablish their own rate regulations by acting within a certain period of time.

I hope that these comments will be helpful in your deliberations.

Sincerely,

S/Paul A. Volcker

CAL:RMF:JLK:pjt (#V-127)
bcc: Mr. Luckett
Mr. Fisher
Mr. Kichline
Mrs. Mallardi (2)

V. C. Schultz testifying today, 4/28, and then it will be decided whether written report necessary.

RICHARD G. LUGAR
INDIANA

5107 DIRKSEN OFFICE BUILDING
WASHINGTON, D.C. 20510

INDIANA OFFICE:
46 EAST OHIO STREET, ROOM 447
INDIANAPOLIS, INDIANA 46204

United States Senate
WASHINGTON, D.C. 20510

COMMITTEES:
AGRICULTURE, NUTRITION, AND FORESTRY
BANKING, HOUSING, AND URBAN AFFAIRS
FOREIGN RELATIONS
SELECT COMMITTEE ON INTELLIGENCE

April 27, 1981

#127

Paul Volker, Chairman
Federal Reserve Board

Dear Chairman Volker:

During the upcoming Senate Banking, Housing and Urban Affairs Committee oversight hearings on major banking issues, I request that you, as well as all other witnesses, address the issue of state interest rate ceilings on consumer credit transactions. Last year, Congress overrode state interest rate ceilings on mortgages and on certain business and agricultural loans, subject to the right of states to reimpose them within specified time periods. Consumer credit ceilings were not addressed in last year's legislation.

Industries critical to the economic well-being of Indiana have advised me of the significant problems posed for them recently by consumer credit interest rate ceilings in certain areas of the nation. Specifically, consumers desiring to purchase automobiles, mobile homes, recreational vehicles and other expensive consumer goods have been unable in some states to obtain adequate financing because of interest rate ceiling restrictions even though they were willing to pay higher rates.

I would like to be advised of your thoughts concerning interest rate ceilings on consumer credit and whether Congress should take any action relative to this issue.

In addition, I enclose a copy of H.R. 2501, a bill introduced by Congressman John LaFalce to deregulate interest rate ceilings on business, agricultural and consumer credit transactions. H.R. 2501 represents a particular approach to addressing this issue. I also request your specific comments regarding the approach used in H.R. 2501. Separately, I would appreciate any comments you might have concerning technical aspects of this bill.

I thank you in advance for your attention to this request. I regret the short notice of this request, and that your prepared statement may already have been completed. If that is the case, I would appreciate your written response subsequent to the hearing.

Sincerely,

Dick Lugar

Richard G. Lugar

RGL:bkf

I

97TH CONGRESS
1ST SESSION

# H. R. 2501

To deregulate interest rate ceilings on business, agricultural, and consumer credit transactions, and for other purposes.

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IN THE HOUSE OF REPRESENTATIVES

MARCH 12, 1981

Mr. LAFALCE introduced the following bill; which was referred to the Committee on Banking, Finance and Urban Affairs

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# A BILL

To deregulate interest rate ceilings on business, agricultural, and consumer credit transactions, and for other purposes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That this Act may be cited as the "Interest Rate Deregulation Act of 1981".

## TITLE I—BUSINESS AND AGRICULTURAL LOAN

SEC. 101. Section 511 of the Depository Institutions Deregulations and Monetary Control Act of 1980 (94 Stat. 161; Public Law 96–221) is amended to read as follows:

"SEC. 511. The provisions of the constitutions or the laws of any State expressly limiting the rate or amount of interest, discount, points, finance charges or other charges which may be charged, taken, received, or reserved shall not apply in the case of a business or agricultural loan.".

SEC. 102. Section 512 of the Depository Institutions Deregulation and Monetary Control Act of 1980 is amended to read as follows:

"SEC. 512. (a) Except as provided in subsection (b) of this section, the provisions of this part shall apply with respect to business and agricultural loans made on or after April 1, 1980.

"(b) The provision of this part shall not apply to any business or agricultural loan made in any State after the date (on or after April 1, 1980, and prior to April 1, 1983), on which such State adopts a law or certifies that the voters of such State have voted in favor of any provision, constitutional or otherwise, which states explicitly and by its terms that such State does not want the provisions of this part to apply with respect to loans made in such State, except that such provision shall apply to any loan made on or after such date pursuant to a commitment to make such loan which was entered into on or after April 1, 1980, and prior to such date.

"(c) A loan shall be deemed to be made on or after April 1, 1980, if such loan—

"(1)(A) is funded or made in whole or in part during such period, regardless of whether pursuant to a commitment or other agreement therefor made prior to April 1, 1980;

"(B) was made prior to or on April 1, 1980, and bears or provides for interest during a period after April 1, 1980, on the outstanding amount thereof of a variable or fluctuating rate; or

"(C) is a renewal, extension, or other modification of a loan made prior to April 1, 1980, and such renewal or extension or other modification is made with the written consent of any person obligated to repay such loan; and

"(2)(A) is an original principal amount of $25,000 or more ($1,000 or more on or after the date of enactment of the Housing and Community Development Act of 1980 or any amount on or after the date of enactment of the Interest Rate Deregulation Act of 1981); or

"(B) is part of a series of advances if the aggregate of all sums advanced or agreed or contemplated to be advanced pursuant to a commitment or other agreement therefor is $25,000 or more ($1,000 or more on or after the date of enactment of the Housing and Community Development Act of 1980 or any amount on or after the dates of enactment of the Interest Rate Deregulation Act of 1981).".

## TITLE II—CONSUMER LOANS

SEC. 201. Title V of the Depository Institution Deregulation and Monetary Control Act of 1980 is amended by adding at the end thereof the following new subpart:

### "PART D—CONSUMER LOANS

"SEC. 531. (a) The provisions of the constitution or the laws of any State expressly limiting the nature, rate, amount of, or manner in which interest, finance charges or other charges or fee, including the imposition by a creditor of transaction fees and access fees pursuant to an open-end credit plan, which may be charged, taken, received, or reserved shall not apply to an extension of consumer credit.

"(b) Notwithstanding subsection (a), the consumer protection and regulatory provisions of the constitution or the laws of any State shall remain in full force and affect.

"SEC. 532. The term 'extension of consumer credit' means credit made available by a creditor to a natural person, primarily for personal, family, household, investment, home-acquisition, or home improvement purposes, whether secured or unsecured and without regard to the nature of the property securing the indebtedness including the refinancing of credit made available for such purposes, but excluding credit subject to the provisions of section 501 of this title.

"Sec. 533. (a) Except as provided in subsection (b) of this section, the provision of section 531 shall apply with respect to any extension of consumer credit made on or after the effective date of the Interest Rate Deregulation Act of 1981.

"(b) The provisions of section 531 shall not apply to any extension of consumer credit in any State made on or after a date (on or after the effective date of the Interest Rate Deregulation Act of 1981 and prior to a date three years after such effective date) on which such State adopts a law or certifies that the voters of such State have voted in favor of any provision, constitutional or otherwise, which states explicitly and by its terms that such State does not want the provisions of this part to apply with respect to loans made in such State, except that such provisions shall apply to any loan made on or after such date pursuant to a commitment to make such loan which was entered into on or after the effective date of the Interest Rate Deregulation Act of 1981.

"(c) Any law or certification adopted by a State or its voters pursuant to subsection (b) of this section may specify that portion of the extensions of consumer credit made in such State to which the provisions of section 531 will not apply.

"Sec. 534. The Board of Governors of the Federal Reserve System is authorized to issue rules and regulations and to publish interpretations governing the implementation of this part.".

SEC. 202. Section 528 of the Depository Institutions Deregulation and Monetary Control Act of 1980 is amended by inserting "Section 107(5)(A)(vi) of the Federal Credit Union Act" after the words "National Housing Act,".

## TITLE III—EFFECTIVE DATE

SEC. 301. The effective date of this Act shall be the date of enactment of this Act.

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

June 8, 1981

PAUL A. VOLCKER
CHAIRMAN

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

Dear Mr. Jones:

Thank you for your letter of May 18 requesting comment on correspondence you received from Mr. Billy B. Tines, in which he expresses concern about the high level of interest rates and also raises questions about loan demand, lending activity of New York City banks, and the composition of assets of money market mutual funds.

High interest rates are commonly associated with high inflation, but it is high inflation rates that inevitably cause high interest rates rather than the other way around. In a period of rapid inflation, lenders insist upon interest rates high enough to compensate them for the anticipated decline in the purchasing power of the dollars they are lending. Borrowers are willing to pay these high rates because they too anticipate that both interest and principal will be repaid in cheaper dollars. Moreover, when interest rates advance relative to expectations of inflation, businesses are encouraged to postpone less promising investment projects and households are encouraged to defer consumption, thus reducing demands in markets and easing upward pressures on prices.

Total loans at all commercial banks are estimated to have grown at a seasonally adjusted annual rate of 7 percent in the first four months of this year. Virtually all of this expansion occurred at small- and medium-sized banks. Nevertheless, there may be considerable geographic variation in loan demand and this growth may not correctly describe loan developments in your constituent's area. Loan data by state of booking are not available on a timely basis.

The issue of domestically issued funds being loaned abroad is a rather complex one. U. S. banks make loans to foreign residents from offices in the United States. For example, in a recent week, large domestically chartered banks in New York City--mentioned by Mr. Tines--had about $2-1/2 billion in business loans to non-U. S.

addresses and $4 billion in loans to banks in foreign countries, out of $102 billion in total loans outstanding. In addition, U. S. banks advance funds to their foreign branches--which are available for lending to both U. S. and foreign residents--and they attract funds from their foreign branches for lending in the United States. Recently, large domestically chartered banks in New York have tended to advance a moderately larger amount of funds to their foreign branches than they have received. This margin, however, is more than offset by foreign banks with offices in New York, as they attract a considerably larger amount from their offices outside the United States than they advance to those offices.

With respect to Mr. Tines' question about money market mutual funds, The Investment Company Institute reports fund assets as of April to have been as follows: U. S. Treasury securities, $11.2 billion; other obligations of the federal government, $6.1 billion; certificates of deposit and repurchase agreements issued by commercial banks and other domestic financial institutions, $36.6 billion; Eurodollar deposits, $12.6 billion; commercial paper, $39.9 billion; and bankers' acceptances, $11.0 billion.

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

Sincerely,

S/Paul A. Volcker

TB:TDS:JLK:vcd (V-138)

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

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

COMMITTEE ON AGRICULTURE

CHAIRMAN
SUBCOMMITTEE ON CONSERVATION AND CREDIT

COMMITTEE ON HOUSE ADMINISTRATION

CHAIRMAN
SUBCOMMITTEE ON HOUSE SERVICES

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

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

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

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

May 18, 1981

#138



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

Dear Mr. Chairman:

Enclosed is a copy of the letter that I received from Mr. Billy Tines regarding several issues of interest to him. I believe you will find the enclosure self explanatory.

I am confident that the arguments of this citizen will be given every consideration that they merit.

May I please be provided information to use in response to this constituent.

Thanking you for your kind and prompt attention, I am

Sincerely,

ED JONES, M. C.

EJ/cac

Enclosure

Bank of McLemoresville

HUNTINGDON, TENNESSEE
38344

BILLY B TINES
EXECUTIVE VICE PRESIDENT

April 30, 1981

MAY 1 1 1981

Congressman Ed Jones
United States Congress
Washington, D. C. 20013

Dear Congressman Jones:

I know that we are all concerned with the high interest rates now facing us. In small communities like ours, the problem has reached a very devastating point. I understand that inflation is a problem and monetary restraint needs daily attention.

As I have talked to bankers throughout our entire state including the large metropolitian areas, they all tell me they have little loan demand. The thing I do not understand is "who are the borrowers"? I believe it might be quite interesting if we knew where the funds held by large money market mutual funds were being loaned. I also think it might be interesting to know where the large New York banks are making loans. If these funds are being gathered up throughout our country and being loaned to foreign countries at astronomical rates, I think this makes for a bad situation and one that Congress needs to investigate immediately.

I would appreciate hearing from you and if you have any information concerning this matter, I would be most pleased to receive it.

Sincerely yours,

Billy B. Tines

Billy B. Tines
Executive Vice President

BBT:je

June 5, 1981

The Honorable Ted Stevens
Assistant Majority Leader
United States Senate
Washington, D. C. 20510

Dear Senator Stevens:

In Chairman Volcker's absence, I want to thank you for your letter of May 27 concerning the Board's proposal to modify the categories of depositors eligible to maintain NOW accounts.

We have received numerous comments to date on the Board's proposal, many of which express views similar to yours concerning the eligibility of sole proprietorships to maintain NOW accounts. I can assure you that the Board will carefully consider your comments when final action on the proposal is taken.

Sincerely,

/S/

Frederick H. Schultz

GTS:AFC:vcd (#V-148)
bcc: Mr. Schwartz
Ms. Mekosh (G.C. Log #187)
Legal Records (2)
Mrs. Mallardi (2)
Ms. Winkler

TED STEVENS
ALASKA

Action assigned to Mr. Mannion.

# United States Senate

OFFICE OF
THE ASSISTANT MAJORITY LEADER
WASHINGTON, D.C. 20510

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1981 JUN -2 AM 11:58

RECEIVED
OFFICE OF THE CHAIRMAN

May 27, 1981

#148

Mr. Paul A. Volcker
Chairman
Board of Governors of the
Federal Reserve System
Constitution Avenue, N.W.
Federal Reserve Building
Washington, D. C. 20551

Dear Chairman Volcker:

My staff has informed me that it is possibly the intent of the Board of Governors to change the roles of eligibility on NOW accounts concerning proprietorships.

As you know, it was the intent of Congress to offer this new banking service to the widest spectrum of the non-commercial public. Proprietorships fall into the murky area between commercial and personal activities. Many proprietorships in my home state of Alaska consist of farmers and fishermen. Often it is impossible, both legally and practically, for a bank to determine the uses of a checking account by such proprietorships.

While the proposed change in the rules of qualification might better assist those concerned in meeting the Congressional intent of excluding commercial uses, I believe such a change would not be in the public interest. The new regulation would work a substantial burden to banks and consumers alike, and seems to be clearly contrary to the Congressional spirit of not requiring the free enterprise system to jump through unnecessary bureaucratic hoops.

Please inform me of any further action by the Board on this matter.

With best wishes,

Cordially,

TED STEVENS
Assistant Majority Leader

June 5, 1981

The Honorable Charles E. Grassley
United States Senate
Washington, D.C. 20510

Dear Senator Grassley:

In Chairman Volcker's absence, I want to thank you for your letter of May 18 requesting comment on correspondence from Mr. J. A. Fordyce concerning Federal Reserve System procedures for collecting municipal and corporate bonds and coupons.

As you are aware, Mr. Fordyce had written directly to Chairman Volcker, and I am pleased to enclose a copy of his reply.

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

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn
Assistant to the Board

Enclosure (Ltr. to Mr. Fordyce from Chairman Volcker dtd. 3/31/81.)

VCD:pjt (#V-149)
bcc: Mrs. Mallardi

United States Senate

WASHINGTON, D.C. 20510

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1981 JUN -3 AM 11: 34

RECEIVED
OFFICE OF THE CHAIRMAN

May 18, 1981

#149

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

Dear Mr. Volcker:

Enclosed please find a letter from Mr. J. A. Fordyce regarding regulatory reform and the seemingly unnecessary paper work resulting in time delays and excess charges which does not seem justified.

I would appreciate any information you could send me regarding this matter. Please mark the envelope to the attention of Susan Hollywood when responding to this office.

Thank you for your attention to my request.

Sincerely,

CHARLES E. GRASSLEY
United States Senator

CEG/shc
Enclosure

MOUNT VERNON BANK and Trust Company '81 FEB 24 AM 10

P.O. BOX 188
MOUNT VERNON, IOWA 52314

February 20, 1981

Mr. Paul A. Volcker, Chairman
Federal Reserve Board of Governors
Federal Reserve Building
Washington, D. C. 20505

Dear Mr. Volcker,

It is my desire to call attention to the current procedure utilized for the collection of municipal and corporate bonds and coupons.

By virtue of some ill advised recommendation, these items have been routed through the Federal Reserve Bank system for the past year or two, in contrast to direct routing, which has been the practice for at least the previous 30 or 40 years.

I cannot visualize the prudence of this indirect routing. However, by current practice, many of the banks handling these items, from midwest location such as Chicago, are now sending them to some other correspondent bank in the eastern area, such as New York. They, in turn, have to process them and route them to the New York Fed, there to be processed and routed back to the Chicago Fed, subsequently to be processed and forwarded to final destinationfor payment.

Example: If the destination is Mount Vernon, Iowa, direct routing is approximately 200 miles. The indirect a few thousand miles, multiple processing and unreasonable expense of multiple registered insured mailings and a radical waste of time and labor.

The time element? They are arriving two to three months late---after due date. The solution? There is now a request for authorization of automatic charge, at present for the coupons. AUTOMATIC CHARGE for something unseen and that won't appear for some months later? Not very desirable. In fact, it is unacceptable.

This is one of the silliest, if not the silliest, rulings and utilization of the Federal Reserve system since it came into existence. The only accomplishment has been to create a bottleneck.

Simplification? All such items could, as previously handled be sent direct to destination by the holder and arrive and be settled within one weeks time.

There is room for a little sensible and prudent thought and policy revision to resolve this awkward and inefficient collection program.

Very truly yours,

J. A. Fordyce

J. A. Fordyce
President

June 5, 1981

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

Dear Senator Williams:

In Chairman Volcker's absence, I want to thank you for your letter of May 6 enclosing correspondence from Mr. Monte Seewald who expresses concern about disparate regulation requirements when a customer's securities are sold. Mr. Seewald's letter states that an investor must deposit full payment for his stock purchase within seven business days under the Board's Regulation T, but a broker is under no corresponding time requirement to pay the customer for a stock sale.

As you know, the requirements as to payment for securities purchased through broker-dealer firms are set by the Board's Regulation T, pursuant to the Congressional directive contained in section 7 of the Securities Exchange Act of 1934. In that statute, Congress directed the Board to issue regulations for the purpose of preventing the excessive use of credit to purchase or carry securities. However, section 7 does not provide the authority for the Board to require a broker to promptly forward payment to a customer after a stock sale has settled.

Board staff has reviewed Mr. Seewald's letter and finds it to be similar to past complaints regarding delay of payment by brokers and dealers to customers. We have been informed that the Securities and Exchange Commission is considering revising its Rule 15c3-2 which deals with customer free credit balances. It is our understanding that these revisions will encompass the concerns of Mr. Seewald, and that the revisions should be out for public comment in the near future. If adopted, these amendments would accomplish the desired result of prompt payment to customers.

In the event you feel that additional legislation is needed, however, staff of the Board would be available to provide technical assistance.

Sincerely,

/S/

Frederick H. Schultz

BB:DJW:pjt (#V-135)
bcc: Bruce Brett
Gov. Schultz
Mrs. Mallardi ✓

Action assigned to Mr. Ryan.



United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WASHINGTON, D.C. 20510

#135

May 6, 1981

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

Dear Mr. Chairman:

I am attaching recent correspondence from Mr. Monte Seewald concerning an apparent loophole in Reg. T which works to the disadvantage of the small investor.

As a result of previous communications with the Federal Reserve Board, as well as the SEC, Mr. Seewald has demonstrated that Reg. T is a one way street for the small investor. While it requires that he promptly pay his broker in connection with the purchase of a stock, there is no corresponding requirement on the other side of the transaction. In other words, when stock is sold, the broker is under no requirement to promptly forward payment to the customer. Whether any abuses have occurred as a result of this program is a difficult judgment to make in the absence of any empirical data. In any event, it does seem to present an opportunity for brokerage firms to take advantage of small investors by delaying payment to suit the convenience of the brokerage firm.

I would like you to reevaluate Mr. Seewald's findings, and upon completion of the review, to prepare the necessary legislation to provide more complete protection for investors in connection with the purchase and sale of securities under Reg. T and its statutory base.

With every good wish, I am

Sincerely,

Harrison A. Williams, Jr.

HW/hmp
Enclosure

H 53

H. Mitchell [redacted]

March 30, 1981

Dear Sen. Williams,

Some time Ago (1979) I wrote to you concerning a loophole in Reg. T and how it works unfairly against the small investor.

On 1/25/80 you sent me A copy of your letter to Harold M. Williams - CHairman of the S.E.C.

You correctly noted in your letter to Mr. Harold M. Williams " As A result of Reg. T of the Fed. Res. Bd., A customer is required to pay his broker in connection with A stock purchase w/i A definite period of time. As Mr. Seewald points out, there is no corollary regarding the duty of A broker to forward payment to A customer in A timely manner."

On 8/29/79 Mr. Paul Volcker in A

letter to me stated "Reg. T cannot be amended AS you suggest w/o Action on the part of congress."

Everyone I've contacted has agreed the loophole in Reg. T is costing the small investor unfairly.

On 9/25/79 Congressmen Frank Thompson in a letter to Robert Eckhardt notes "I would hope that in its forthcoming hearings the subcommittee will address itself to the matter brought to our attention by Mr. Seewald."

As of this date little investors are losing many millions of dollars in Lost interest -

When I started this "campaign" to correct the situation I was told "they [whoever "they" is] will let the slow machinery of the government kill it.

~~Whatever happened to your ...~~ Respectfully,

P.S. WAS your letter to the S.E.C ignored? Monte Seewald

June 3, 1981

The Honorable Paul N. McCloskey, Jr.
House of Representatives
Washington, D. C. 20515

Dear Mr. McCloskey:

In Chairman Volcker's absence, I want to thank you for your recent letter recommending Mr. Harold R. Walt for appointment as a director of the Federal Reserve Bank of San Francisco. His willingness to offer his services again to the public sector is commendable, and we appreciate knowing of his interest to serve with the Federal Reserve System.

The System maintains a constant search for talented individuals for possible service as directors of Reserve Banks and branches. You may be assured that Mr. Walt's biographical information and his qualifications will be considered as future director vacancies occur within the San Francisco District.

Sincerely,

/s/

Frederick H. Schultz

MB:vcd (#V-143)

bcc: Mr. Allison
Mr. Bischoff
Ms. Winkler
Mrs. Mallardi

Chairman Volcker

PAUL N. McCLOSKEY, JR.
12TH DISTRICT, CALIFORNIA

COMMITTEE ON
GOVERNMENT OPERATIONS
AND
COMMITTEE ON
MERCHANT MARINE
AND FISHERIES

Action assigned to Ted Allison

205 CANNON BUILDING
WASHINGTON, D.C. 20515
(202) 225-5411

DISTRICT OFFICE:
305 GRANT AVENUE
PALO ALTO, CALIFORNIA 94306
(415) 326-7383

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



May 15, 1981 #143

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

Dear Chairman Volcker:

Enclosed is a letter I wrote to E. Pendleton James regarding the desire of Harold Richard Walt of Woodside, California to be nominated for a public interest seat (Class C) on the Board of Directors of the San Francisco Federal Reserve Bank (Region 12).

Mr. Walts's business, government and collegiate experience is extensive and, I think, well demonstrates his ability to make a substantial contribution to this Administration. I must say that in my review of Mr. Walt's credentials, it was my impression that you will not be able to find a more experienced or qualified person.

Enclosed is a copy of Mr. Walt's resume. I would appreciate hearing from you after you have had the opportunity of reviewing it.

With best regards,

Sincerely,

Pete McCloskey

PAUL N. MC CLOSKEY, JR.

PNMcC:ASm
Enclosure

PAUL N. McCLOSKEY, JR.
12TH DISTRICT, CALIFORNIA

COMMITTEE ON
GOVERNMENT OPERATIONS
AND
COMMITTEE ON
MERCHANT MARINE
AND FISHERIES

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

205 CANNON BUILDING
WASHINGTON, D.C. 20515
(202) 225-5411

DISTRICT OFFICE:
305 GRANT AVENUE
PALO ALTO, CALIFORNIA 94306
(415) 326-7383

May 15, 1981

The Honorable E. Pendleton James
Assistant to the President
for Personnel
The White House
Washington, D.C.

Dear ~~Mr. James~~ Pen:

Several weeks ago, I wrote on behalf of Harold Richard Walt who was being considered for an appointment to the Federal Savings and Loan Advisory Council. Since that time, I understand the Chairman of the Federal Home Loan Bank Board, Dr. Richard Pratt, has decided to appoint another to the position Mr. Walt was seeking.

Mr. Walt has indicated his willingness to offer his service to the Federal Reserve System and would like to be considered for a public interest seat (Class C) on the Board of Directors of the San Francisco Federal Reserve Bank (Region 12).

Mr. Walt recently completed a four-year term as a public interest director on the board of the Federal Home Loan Bank of San Francisco. His career in the business field was culminated by his presidency of his corporation, a leading firm in architecture, planning and engineering. Since his retirement, he has served as a Professor of management, Dean of the College of Business Administration and Acting Provost at the University of San Francisco. Obviously, Mr. Walt's credentials are extensive and substantial and I don't believe you will find many candidates as well qualified as Mr. Walt to serve on the Board of Directors.

With best regards,

Sincerely,

Pete

PAUL N. MC CLOSKEY, JR.

PNMcC:ASm

THIS STATIONERY PRINTED ON PAPER MADE WITH RECYCLED FIBERS

# HAROLD RICHARD WALT

**Present Occupation:** Professor of Management, University of San Francisco.
Have served USF additionally as Dean of the College of Business Administration (1974-77), Acting Provost of the University, and member of the Trustees' Finance Committee.

**Personal Background:** Reside at 18033 Skyline Boulevard, Woodside, CA 94062.
Age 57. Born (1923) in Berkeley. Married; six children.
Hobbies are gardening, swimming, reading and horsemanship.
Phone: 666-6771 (Business); 851-2073 (Home).
Details provided by *Who's Who in America*.

**Education:**

| | | |
|---|---|---|
| U.C. Berkeley, B.S.F. | 1948. | Forestry/Ag Economics. |
| U.C. Berkeley, B.S. | 1950. | Business Administration. |
| U.C. Berkeley, M.B.A. | 1953. | Corporate Finance. |

**Business Experience:** President of William L. Pereira Associates, an international firm of planners, architects, and engineers.
Bay Area projects include the Transamerica Pyramid, St. Francis Hotel Tower, Fort Miley V.A. Hospital, Social Security Administration Processing Center, and the Stanford Research Institute.

Previously Assistant Budget Director of Kaiser Industries; Director of Civil Systems for Aerojet-General Corporation; and founder-director of several small firms.

**Government Experience:** Deputy Director of Finance for the State of California.

**Collegiate Experience:** University of California, Berkeley, in various positions from Assistant Dean of Men to Vice Chancellor—Finance, including an academic appointment as Lecturer in the School of Business Administration.

**Military Experience:** Amphibian Tractor Officer, U.S. Marine Corps during World War II with 18 months active duty in the Pacific Area.

**National Academic Honoraries:** Beta Gamma Sigma (Business Administration), Pi Sigma Alpha (Political Science), Alpha Zeta (Agriculture), Xi Sigma Pi (Forestry), and Beta Alpha Psi (Accounting).

**Other Affiliations:** Board of Directors, Federal Home Loan Bank of San Francisco (1977-80); Board of Directors, ISU Companies, Inc.; Bohemian Club; Chairman of the Board, Children's Hospital at Stanford; Financial Executives Institute; Security Analysts of San Francisco.

**Career Chronology:**

| | |
|---|---|
| 1942-47 | U.S. Marine Corps |
| 1948-60 | University of California |
| 1961-64 | Kaiser Industries Corporation |
| 1965-66 | State of California |
| 1967-68 | Aerojet-General Corporation |
| 1969-71 | SysteMed Corporation |
| 1972-74 | William L. Pereira Associates |
| 1974- | University of San Francisco |
| 1978- | Visiting Professor of Business, San Francisco State University, Summer Session |
| 1978- | Expert witness for economic/business testimony |

HRW 5/1/80

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

June 1, 1981

FREDERICK H. SCHULTZ
VICE CHAIRMAN

The Honorable Dan Daniel
House of Representatives
Washington, D. C. 20515

Dear Mr. Daniel:

In Chairman Volcker's absence, I want to thank you for your letter of May 19 requesting comment on correspondence you received from Mr. H. R. Legg concerning the possible purchase of foreign debt obligations by the Federal Reserve and the Board's request for public comment on the desirability of continuing to report money supply data on a weekly basis.

With reference to the possible purchase by the Federal Reserve of Polish debt held by New York banks, the Monetary Control Act of 1980 (P.L. 96-221) did amend the open market authority of the Federal Reserve to permit us to purchase obligations of foreign governments and their agencies. The legislative history of the Act, however, indicates that Congress intended this authority to be used only in conjunction with the Federal Reserve's normal activities in the foreign exchange market.

In the course of foreign exchange operations, the Federal Reserve from time to time acquires balances in foreign currencies. Prior to the passage of the Monetary Control Act, there was no convenient way in which foreign currencies held by the Federal Reserve could be invested to earn interest. As indicated by Senator Proxmire on the floor of the Senate on March 27, 1980, during the Senate's consideration of the Monetary Control Act, the purpose of this provision is "to provide a vehicle whereby such foreign currency holdings could be invested in obligations of foreign governments and thereby earn interest. This authority would be used only to purchase such obligations with foreign currencies balances acquired by the Federal Reserve in the normal course of business" (126 Cong. Rec. S 3168). In Chairman Volcker's testimony before the Senate Banking Committee on September 26, 1979, he indicated that the purpose of the provision was to add to the present list of assets, currently eligible for purchase by the Federal Reserve, short-term government securities so as to enable the Federal Reserve to invest its non-interest bearing foreign currencies in interest bearing obligations. (These earnings are ultimately paid over by the Federal Reserve to the

U. S. Treasury.) It was never the intent of the Federal Reserve to use this provision to "bail out" foreign governments that may be in danger of defaulting on their debts. We believe it is clear that the authority is to be used only in conjunction with the Federal Reserve's normal foreign exchange operations.

With respect to purchasing foreign obligations of developing countries, the Federal Reserve has not purchased and has no plans to purchase obligations of developing countries. As noted above, the Federal Reserve would only buy short-term liquid obligations of foreign governments with currency balances of those foreign countries acquired in connection with foreign exchange operations in order to earn a return on what would otherwise be non-interest bearing currency holdings. As indicated in the Board's Annual Report, reciprocal currency arrangements exist with the following countries only: Austria, Belgium, Canada, Denmark, England, France, Germany, Italy, Japan, Mexico, the Netherlands, Norway, Sweden, and Switzerland.

With reference to the publication of weekly money supply data, no decision has as yet been made regarding changing the publication schedule for these data. As stated in the enclosed press release and attached letter from Chairman Volcker, there is concern about occasional financial market over-reaction to weekly money supply data that contain a large amount of "noise". As a result, the Board has invited public comment on the desirability of alternative schedules for publication. The options to the current schedule include publishing weekly data with an additional week's delay, publishing only not seasonally adjusted data, or publishing only monthly data (or a moving average of weekly data). The Board in making its decision on the publication of money supply data will give very careful consideration to public comment.

I hope that these comments are helpful to you. Please let me know if I can be of further assistance.

Sincerely,

/S/

Frederick H. Schultz

Enclosure (4/2/81 P.R.)
(GTS):AFC:TDS:LW:JLK:vcd (#V-140)
bcc: Mr. Kichline
Mr. Simpson
Ms. Wing
Ms. Winkler
Mrs. Mallardi (2) ✓

DAN DANIEL
5TH DISTRICT, VIRGINIA

COMMITTEES:
ARMED SERVICES
SUBCOMMITTEES:
MILITARY READINESS, CHAIRMAN
INVESTIGATIONS
NONAPPROPRIATED FUND
CHAIRMAN

Action assigned to Mr. Kichline.

2368 RAYBURN BUILDING
WASHINGTON, D.C. 20515
(202) 225-4711

ADMINISTRATIVE ASSISTANT
W. FRED FLETCHER

315 POST OFFICE BUILDING
DANVILLE, VIRGINIA 24541
TELEPHONE: 792-1280

ABBITT FEDERAL BUILDING
103 S. MAIN STREET
FARMVILLE, VIRGINIA 23901
TELEPHONE: 392-6644

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

May 19, 1981

#140

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1981 MAY 21 AM 9:55
RECEIVED
OFFICE OF THE CHAIRMAN

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

Dear Mr. Chairman:

Enclosed is copy of a letter dated May 1st from Mr. H. R. Legg, P. O. Box 359, South Hill, Virginia 23970, which appears to be self-explanatory.

Your comments will be very much appreciated.

With kind regards and best wishes,

Very sincerely,

Dan Daniel

Dan Daniel

DD:jw

Enclosure

HOMECRAFT®
CORPORATION
P. O. BOX 359 INTERSTATE 85 AND U. S. 58
SOUTH HILL, VIRGINIA 23970

P. O. Box 359
South Hill, Virginia 23970
May 1, 1981

Honorable W. C. "Dan" Daniel
Congress of the United States
House of Representatives
Washington, D. C. 20515

Dear Dan: H. R.

The Patterson Strategy Letter informs that The Federal Reserve System may purchase Poland's debt from the New York banks. This is reportedly authorized by Public Law 96.221, the Monetary Control Act of 1980, Title 1, Section 105(b) (1) (2).

This is only further evidence of the tremendous power being wielded by the International banks most of whom have aided and abetted communism since its' inception.

It was also reported that Paul Volcker has suggested termination of the publication of the money supply statistics. Needless to say, this would permit the Fed to inflate the money supply without limit and only bankers would have knowledge of what the money supply actually was.

Also, this authority is supposed to be effective as of June 1, 1981.

I know you will use your influence to prevent this disaster and hope you will contact The House and Senate Committees who supposedly over-sees the Fed.

Very truly yours,

H R Legg

H. R. Legg

HRL/bpc
cc: Senator Harry F. Byrd
Senator John Warner
Patterson Strategy Letter

June 1, 1981

The Honorable Toby Roth
Member of Congress
126 North Oneida Street
Appleton, Wisconsin 54911

Dear Mr. Roth:

In Chairman Volcker's absence, I want to thank you for your letter of May 20 requesting comment on correspondence you received from Mr. Donald H. Hietpas concerning the burden that high interest rates have placed on his automobile dealership. You also expressed your own concern about the effect of high interest rates on small businesses and the economy generally.

We at the Federal Reserve also share in your constituent's concern about the burden that high interest rates impose on small businesses. We redognize that the heavy dependence of small enterprises on short-term bank credit makes them vulnerable to increases in interest rates, especially since their access to alternative sources of funds generally is limited. High interest rates are primarily a result of the rapid rate of inflation we have experienced and of expectations by the public that price increases will continue.

Consequently, the only effective way to reduce interest rates over the long run--and thereby provide a reasonably stable financial environment for small and large firms--is to curb underlying inflationary pressures. Maintenance of reasonable control over growth of money and credit is an essential ingredient in the fight against inflation. However, progress against inflation will be hastened by actions complementing monetary restraint, such as prompt steps toward prudent fiscal policies that reduce the Federal Government's demands for the economy's scarce savings and by appropriate private sector restraint on wage and price decisions.

I hope this information is helpful to you.

Sincerely,

/S/

Frederick H. Schultz

TB:TDS:JLK:vcd (#V-144)
bcc: Messrs. Kichline,
Simpson, Brady
Ms. Winkler
Mrs. Mallardi (2)

Action assigned to Jim Kichline

Chairman Volcker

TOBY ROTH
EIGHTH DISTRICT
WISCONSIN

FOREIGN AFFAIRS COMMITTEE

SUBCOMMITTEES:
EUROPE AND THE MIDDLE EAST
INTERNATIONAL OPERATIONS

RURAL CAUCUS
TRAVEL AND TOURISM CAUCUS

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1981 MAY 26 AM 10: 16
RECEIVED OFFICE OF THE CHAIRMAN

# United States House of Representatives

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

DISTRICT OFFICES:
** 126 NORTH ONEIDA STREET **
APPLETON, WISCONSIN 54911

207 FEDERAL BUILDING
325 EAST WALNUT STREET
GREEN BAY, WISCONSIN 54301

101 NORTHERN BUILDING
844 PIERCE AVENUE
MARINETTE, WISCONSIN 54143

May 20, 1981

#144

Mr. Paul A. Volcker
Chairman
Federal Reserve System
20th & Constitution Ave., N.W.
Washington, D.C. 20551

Dear Mr. Volcker:

Please find enclosed a self-explanatory letter from Donald H. Hietpas who runs a car dealership in my Eighth Congressional District.

I share Mr. Hietpas' concern over the high prime rate and what it is doing to the small businessman as well as the Country as a whole. How much longer must the public put up with these excessive prime rates?

I would appreciate your comments on Mr. Hietpas' letter, specifically addressing the problem of when we can expect the prime rate to come down to a more realistic figure.

Thank you for your attention to this matter.

Best regards,

Toby Roth

TOBY ROTH
Member of Congress
126 N. Oneida St.
Appleton, Wis. 54911
FTS 362-6220

TR/jpf
Enc.

HIETPAS MOTORS INC.
514 DRAPER ST. KAUKAUNA, WIS. 54130 TELEPHONE 766-4244

CHRYSLER
Plymouth

May 19, 1981

Dear Mr. Roth;

How long do you think we can survive in business while paying out 25¢ of every dollar for interest alone? Our interest expense increased $7100 in 1980 from the previous year on the same number of vehicles. Already this year we have surpassed interest paid compared to all of last year. We need a definite cut in the prime rate.

We have been in the car business since 1966 selling on the average 200 new and used cars per year. Our gross sales increased last year $300,000 to an all time high of $1,420,000 . Yet, we lost $6534.00 compared to a profit of $6100.00 in 1979. A lot of the blame has to do with the excessive high prime rate. Then this year another increase in FICA taxes has increased our payroll taxes by $100 per month.

We can be a healthy business with a prime rate at 13%, could live with 15%, but the current rates are disastrous.

Sincerely,

Donald H Hietpas

Donald H. Hietpas
Exc. Vice-President

P.S. Put yourself in our place!

May 29, 1981

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

Dear Mr. Seiberling:

Thank you for your letter of May 12 enclosing correspondence from your constituent, T.D. Calvin, regarding the effects of current monetary policy on exchange rates. That letter contains a misperception of the objectives of Federal Reserve policy, and I, therefore, thought it would be desirable to set the record straight.

Mr. Calvin asserts incorrectly that there is "manipulation of (the foreign) currency value in this country through the increase in interest rates." The Federal Reserve does not have as an objective of monetary policy the level of the international value of the dollar. Although the recent appreciation of the dollar has in part reflected an increase in U.S. interest rates relative to those in other financial centers, it is simply not the case that the Federal Reserve tries to achieve a particular level of the exchange value of the dollar through the conduct of monetary policy.

The Federal Reserve is committed to reducing inflation in this country. To achieve this objective we are pursuing a policy of monetary and credit restraint. To the extent that the demand for money and credit in the economy increases, dollar interest rates rise in reflection of that restraint. Depending on financial conditions abroad, pursuit of our basic objective may at times cause the dollar to appreciate, as we have seen recently. Such an appreciation will assist us in the effort to reduce inflation, but it is not the intention of our policy to bring about a higher exchange value for the dollar. While I recognize that the effort to reduce inflation imposes burdens on many sectors of the economy, including those competing with imports, I believe, it is essential to the longer run health of our economy that we eliminate inflation and, thus, strengthen our competitive position in the world economy.

I have enclosed a copy of a recent speech in which I elaborate on the need to bring down inflation and restore price stability.

Sincerely,

S/Paul A. Volcker

PC:EMT:pjt (#V-137)
bcc: Peter Clark
Ted Truman
Mrs. Mallardi (2)
Enclosure (Speech dtd. 4/15/81 entitled "Dealing with Inflation: Obstacles and Opportunities."

JOHN F. SEIBERLING
14TH DISTRICT, OHIO

COMMITTEES:
JUDICIARY
INTERIOR AND
INSULAR AFFAIRS

Action assigned to Mr. Kichline.

WASHINGTON OFFICE:
1225 LONGWORTH HOUSE OFFICE BUILDING
TELEPHONE (202) 225-5231

DISTRICT OFFICE:
FEDERAL BUILDING
AKRON, OHIO 44308
TELEPHONE: (216) 375-5710

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

May 12, 1981

#137

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1981 MAY 14 AM 8:55
RECEIVED
OFFICE OF THE CHAIRMAN

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

Dear Chairman Volcker:

I though you might be interested in the enclosed letter from my constituent, T.D. Calvin, concerning the Fed's current high interest rate policy.

Thank you for your courtesy. No response is required.

Sincerely,

John Seiberling

John F. Seiberling
Member of Congress

JFS:nm
Enclosure

BEARFOOT CORPORATION
WADSWORTH, OHIO 44281/TELEPHONE (216) 335-2581

May 4, 1981

Honorable John Seiberling
House of Representatives
Washington, D. C. 20515

Dear John:

I urge you again to use your good offices to influence by your contacts and pressure, if you will, the Federal Reserve Board and its Chairman, Mr. Volcker, to renounce its position in pressing and supporting high interest rates. The raising of the rediscount rate last Fall by Mr. Volcker was a very damaging act from the standpoint of correcting our balance of payments and the potential improvement of our automotive industry and its employment.

Mr. Volcker reacted in this way immediately following the commencement of the decline of the dollar against the Japanese yen. This decline was exactly the automotive price increase for Japanese cars that our American industry needs. The Japanese government had anticipated that the dollar would decline to below 190 yen, but through the stimulation of the Fed interest policy, the dollar has now risen again to 218 yen and, of course, the higher interest rates in the United States are increasing the flow of dollars into American banks from abroad.

Ostensively, this policy was intended to try to "choke" inflation, which is more like trying to cure a headache with a tourniquet around the neck. This external action against inflation, we think, has turned out to be futile and we continue with the extreme damage to American manufacturers and their employees.

There can be no argument really with the fact that an increasingly free trading world will be better for all of us; however, we must have free trade not only in the merchandise through the reduction of tariff and non-tariff barriers, but we must also have the necessary balancing and correcting activities that come about with fluctuating currency values.

The manipulation of currency value in this country through the increase in interest rates is virtually the same as a non-tariff barrier as far as trade is concerned.

Free traders in this country have been looking at trade only from the standpoint of the "free flow of goods". They seem to forget that trade is the exchange of goods for consideration and sometime the balance of payments must balance by changing the value of the currency, if in fact there is not a balance of the exchange of goods at the existing currency levels.

It is extremely hard to understand how they properly can preach on behalf of the desirability of export, which requires our importing of goods, and then stand silent when the balance of trade goes into a deficit position and there is less money here to use for imported goods. I don't understand why we pursue a high price "sound" dollar. A cheap dollar would be much more "sound" from the standpoint of selling more goods abroad and employing more people here.

I think that if the American worker were as well informed about the consequences of this currency manipulation as he is about other matters of free trade and fully understood how his interests were severely undercut by Chairman Volcker, we would have a march on Washington which would make the farmers' or the veterans' marches look insignificant.

As you know, the company has been deeply hurt for many years by imports of footwear and more recently the imports of automobiles. Our customers have been hurt and our employees have been hurt. We look forward to the necessary corrections in the monetary sense that are going to make it possible for us to participate in foreign trade. I ask you sincerely to look into this matter for us.

Very truly yours,

BEARFOOT CORPORATION

Tim

T. D. Calvin
President

TDC/k

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

PAUL A. VOLCKER
CHAIRMAN

May 28, 1981

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

Dear Mr. Shumway:

This is in further response to your letter of April 28 enclosing suggested language to be incorporated into regulations issued by the Department of the Treasury and the Federal Reserve governing recordkeeping by commercial banks for customer safekeeping of book-entry Treasury securities. In your letter you indicated that a number of purchasers of book-entry Treasury securities were concerned about the security of such instruments in the event of the failure of the commercial bank holding book-entry Treasury bills on behalf of the customer.

As you know, the book-entry procedure for U. S. Government securities was first introduced in 1968 in order to help the Treasury Department and the Federal Reserve Banks, acting as fiscal agents for the Treasury, to handle a large volume of such securities through the use of computerized information. One of the major advantages of the book-entry procedures has been to reduce the opportunity for theft of government securities, since the engraved physical evidences of the obligation have been eliminated. It should be noted that no losses have been incurred by securities holders since the book-entry system was initiated by the Treasury.

The regulatory amendment that you suggest specifies the recordkeeping requirements that an institution should follow when holding securities of customers in safekeeping, including such information as customer name, address, and taxpayer identifying number, amount, maturity date, and CUSIP number. The current Treasury regulations on this point (31 C.F.R. 350.6) already contain a recommendation that such information be maintained by commercial banks holding book-entry securities for their customers. As such, we believe that adoption of the language you have suggested would be unnecessary at this time since the requirements it calls for are already provided for on a voluntary basis in the current Treasury regulations.

It should be noted that internal and external bank auditors review bank records and procedures regularly to insure that banks are not misusing customer securities. As a result, if a bank fails while holding securities for a customer, its records should clearly reflect the extent of the customer's holdings, and the customer should have little problem obtaining his holdings from the bank's receivers.

For your information, I am enclosing a copy of a "Memorandum Reviewing Principles of Book-Entry Procedure for Government Securities" that was prepared by the Subcommittee of Counsel of Fiscal Agency Operations, a subcommittee of the Conference of First Vice Presidents of the Federal Reserve Banks. This memorandum analyzes some of the risks and responsibilities arising out of the book-entry procedure.

Thank you for advising me of your views on this matter. If I can be of further assistance, please do not hesitate to let me know.

Sincerely,

S/Paul A. Volcker

Enclosure

NPW:vcd (#V-128)

bcc: Ms. Toomer
Mr. Schwartz
Ms. Winebarger
Mr. Petersen
Ms. Hubbs
Legal Files (2)
Mrs. Mallardi (2) ✓

NORMAN D. SHUMWAY
14TH DISTRICT, CALIFORNIA

COMMITTEES:
COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS
SELECT COMMITTEE ON AGING

Action assigned Mr. Allison

~~#127~~ #128

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

1228 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-2511
CHRISTOPHER C. SEEGER
ADMINISTRATIVE ASSISTANT

1045 NORTH EL DORADO, ROOM 5
STOCKTON, CALIFORNIA 95202
(209) 464-7612
MARK A. DENERO
DISTRICT REPRESENTATIVE

April 28, 1981

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1981 APR 29 AM 11:49
RECEIVED
OFFICE OF THE CHAIRMAN

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

Dear Mr. Chairman:

I have recently become aware of a concern which many purchasers of book-entry Treasury bills have concerning the security of those instruments in the event of the bankruptcy of the federal or state bank holding the book-entry bill for an individual's account. Let me explain the problem as I understand it.

Until recently, the purchaser of a Treasury bill received an actual engraved certificate. Of course, such a bill in bearer form was readily negotiable at face value. As of December 31, 1978, engraved Treasury bills were no longer issued and the book-entry system of bill purchase became standard. Under the book-entry system of purchase, the buyer has no physical instrument to look to should the federal or state bank holding the book entry go bankrupt. By contrast, the purchaser of a Treasury note can still look to the actual negotiable instrument. Present purchasers of bills are thus concerned that their book-entry investments are not as secure or as immediately negotiable, due to a change in the purchase method.

Importantly, it is clear that the secured status of Treasury bills was never intended to be altered as a result of the Treasury's move from engraved certificates to the book-entry purchase method. That this change should not alter the holder's protection is codified at 31 C.F.R. Section 350.3(6):

> The maintenance by a Reserve Bank of book-entry Treasury bills under this paragraph shall not derogate from or adversely affect the relationships that would otherwise exist between a Reserve Bank in its individual capacity and the entities for which accounts are maintained. The Reserve Bank is authorized to take all action necessary in respect of book-entry Treasury bills to enable such Reserve Bank in its individual capacity to perform its obligations as a depositary with respect to such bills.

In addition, applicable Reserve Board and Treasury regulations on this matter make it clear that a book-entry bill used for purposes of a pledge to a Reserve Bank or to an account of a customer of the Bank is perfected and is "deemed to be maintained in a bearer definitive form" (31 C.F.R. Section 350.4(b)). Thus, as to a pledge to a bank or to an individual customer's account at the bank, the book-entry Treasury bill is secure.

Finally, Securities and Exchange Commission regulations require a broker or dealer to maintain a separate, segregated account for all fully paid securities and excess margin securities carried by that broker or dealer for the account of the customer (17 C.F.R. Sections 240.15c2-1, 240.15c3-3(b), 240.8(c)-1). Many banks already employ a similar safekeeping requirement for Treasury debt instruments which were purchased by individual account holders with the bank.

While federal regulations on the scope and effect of Treasury bill accounts do not mandate specific recordkeeping procedures from member banks, book-entry Treasury bills should be treated identically to the previously issued engraved Treasury certificates.

I would very much appreciate your help in doing whatever is necessary to assure that purchasers of book-entry Treasury bills have the same protection as if the actual engraved certificate were held by the bearer in a safekeeping, segregated account by the bank. To that end, I am enclosing a suggested clarification to existing Federal Reserve Board regulations.

I look forward to and appreciate your advice on this matter.

Sincerely,

Norman D. Shumway

NORMAN D. SHUMWAY
Member of Congress

NDS:aec
Enclosure

PROPOSED LEGISLATIVE OR REGULATORY CLARIFICATION

All United States Treasury bills held in book-entry form by a federal bank, or a state bank which is a member of the Federal Reserve system, for the account of a customer shall be deemed to be maintained in a bearer definitive form for the individual as if the individual held the actual Treasury certificate. Such United States Treasury securities purchased by an individual through the book-entry method via a federal or state bank shall be kept separate from the general assets of the bank, shall be adequately identified as the property of the individual or entity they were purchased for or by, and shall be held in segregated safekeeping form, which shall include data to permit both customer identification by name, address and taxpayer identifying number, as well as a determination of the Treasury securities being held in such account by amount, maturity date and CUSIP number, and of the transactions relating thereto.

May 26, 1981

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

Dear Chairman Garn:

I very much appreciate your leadership on the Senate floor in opposition to the Sasser Resolution.

As you well know, we at the Federal Reserve take no pleasure in high interest rates and I am grateful for your remarks that put the problem of high rates in the broader context of government spending and budget deficits. I also appreciated your statements against politicizing the Federal Reserve.

Sincerely,

S/ Paul

DJW:pjt
bcc: Mrs. Mallardi (2)

May 26, 1981

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

Dear Senator Stennis:

I want to thank you for your comments on the Senate floor in opposition to the Sasser Resolution.

We at the Federal Reserve take no pleasure in high interest rates and fully understand the severe problems caused by high rates. Only when inflation is significantly reduced, however, will interest rates fall to permanently lower levels. Along with the efforts of monetary policy, prudent fiscal policies will hasten progress against inflation and consequent downward adjustments to interest rates. I very much appreciated your remarks supporting the independence of the Federal Reserve during this period when we are trying to do our part in the fight against inflation.

Sincerely,

S/Paul A. Volcker

DJW:pjt
bcc: Mrs. Mallardi (2)

May 26, 1981

The Honorable Harry F. Byrd, Jr.
United States Senate
Washington, D.C. 20510

Dear Senator Byrd:

I want to thank you for your leadership on the Senate floor in opposition to the Sasser Resolution.

As you well know, we at the Federal Reserve take no pleasure in high interest rates and I am grateful for your remarks that put the problem of high rates in the broader context of government spending and budget deficits. I also very much appreciated your statements supporting the independence of the Federal Reserve.

Sincerely,

S/ Paul

DJW:pjt
bcc: Mrs. Mallardi (2)

May 26, 1981

The Honorable Ernest F. Hollings
United States Senate
Washington, D.C. 20510

Dear Senator Hollings:

I want to thank you for your comments on the Senate floor in opposition to the Sasser Resolution.

As you well know, we at the Federal Reserve take no pleasure in high interest rates and I very much appreciated your placing the problem of high rates in the broader context of government spending and budget considerations. I am grateful for your statements pointing out the difficulties the Federal Reserve faces in trying to slow monetary growth and deal with inflation when government deficit spending remains high.

Sincerely,

S/ Paul

DJW:pjt
bcc: Mrs. Mallardi (2)

JOHN F. SEIBERLING
14TH DISTRICT, OHIO

COMMITTEES:
JUDICIARY
INTERIOR AND
INSULAR AFFAIRS

Chairman Volcker

No response necessary

WASHINGTON OFFICE:
1225 LONGWORTH HOUSE OFFICE BUILDING
TELEPHONE (202) 225-5231

DISTRICT OFFICE:
FEDERAL BUILDING
AKRON, OHIO 44308
TELEPHONE: (216) 375-5710

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

#146

May 26, 1981

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1981 MAY 29 AM 9:53
RECEIVED
OFFICE OF THE CHAIRMAN

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

Dear Chairman Volcker:

I recently sent you a letter from T. D. Calvin concerning the Fed's high interest rate policy. I am enclosing a letter from Peter Bommarito, President of the URW, who wishes to add his voice to Mr. Calvin's.

Thank you for your courtesy. No response is required.

Sincerely,

John Seiberling

John F. Seiberling
Member of Congress

JFS:nm

Enclosure

PETER BOMMARITO, President

MILAN STONE, Vice President

DONALD C. TUCKER, Secretary-Treasurer

UNITED RUBBER, CORK, LINOLEUM AND PLASTIC WORKERS OF AMERICA

AFL-CIO, CLC

87 SOUTH HIGH STREET

AKRON, OHIO 44308

Area Code 216

376-6181

376-6182

376-6183

376-6184

May 14, 1981

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

Dear Mr. Seiberling:

Recently you received a letter from the President of Bearfoot Corporation, T. D. Calvin, making a case for a retreat from our federal government's ill-advised economic policies of high interest rates and tight money. The URW represents the hourly employees at Bearfoot's Wadsworth, Ohio plant and Mr. Calvin asked if we would add our voice to the fight against the adverse effects of our high interest rate policy. We do this not just on behalf of our members at Bearfoot, but on behalf of all of the members in the United States. This kind of economic policy is causing many more problems than it is solving.

A lack of world confidence in the United States' ability to deal with inflation and the subsequent desire to strengthen the dollar in relation to other currencies is at the heart of the restrictive monetary policy of the Federal Reserve Board. High interest rates and resultant tight money are supposed to reduce demand and thus inflation. The rate of inflation is slowing somewhat, but it still remains at double-digit levels and may jump again largely because the government's tight money policy doesn't properly address the major factors in the current inflation - inflation in the necessities, some of which is primarily due to external influences such as OPEC. In fact, to a degree, the Fed's monetary policies fuel inflation by adding to the cost of doing business and thus to the price level.

Not only is the Fed ineffective in its efforts to slow inflation, but its policies may permanently damage the American industrial base.

This nation is in need of reindustrialization if we are to compete effectively in the new and more competitive world economy that we helped to build but now find threatening the existence of some of our basic industries.

By strengthening the dollar, the Fed has made our exports more expensive and imports less costly, and our nation is artificially made less competitive. This policy must be turned around. Inflation is certainly not a desirable economic factor; it is a burdensome cost. However, the price we are paying to fight it through some of the most restrictive monetary policies in our history could become more expensive in the long run if the Fed's policies continue to hinder the recovery of the domestic automotive industry.

The revival of our automotive industry is necessary to rebuild America's prosperity. Tight money will only hinder that recovery to the detriment of the automobile assembly industry and its suppliers, dealers, etc. The rubber industry is part of this process. It is unnecessary for me to go into detail on what has happened in the rubber industry in the recent past. The problems of this industry are many and they have been exacerbated by the Fed's policies both directly and indirectly. A move to a more reasonable monetary policy is imperative to help U. S. industries recover, return to prosperity and provide jobs for the seven million people who are currently looking for work and unable to find it.

I appreciate your consideration of this very important matter.

Sincerely,

P Bommarito

Peter Bommarito
URW International President

PB:pkb
opeiu 339

May 26, 1981

The Honorable Joseph G. Minish
Chairman
Subcommittee on General Oversight
  and Renegotiation
Committee on Banking, Finance
  and Urban Affairs
House of Representatives
Washington, D.C.   20515

Dear Chairman Minish:

Thank you for your letter of May 7 inviting the Board to appear before your Subcommittee to discuss the regulatory and examination process of the various Federal financial institutions' regulators.

Governor J. Charles Partee is looking forward to appearing on Thursday, June 4.

Sincerely,

S/Paul A. Volcker

pjt (#V-132)
bcc: Gov. Partee
Mr. Ryan
Mr. Talley
Mrs. Mallardi (2)

JOSEPH G. MINISH, N.J., CHAIRMAN
HENRY B. GONZALEZ, TEX.
FRANK ANNUNZIO, ILL.
PARREN J. MITCHELL, MD.
DOUG BARNARD, JR., GA.
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BOB LOFTUS, STAFF DIRECTOR

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# U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON GENERAL OVERSIGHT
AND RENEGOTIATION
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
NINETY-SEVENTH CONGRESS

WASHINGTON, D.C. 20515

#132

May 7, 1981

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

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1981 MAY -8 AM 10: 19
RECEIVED
OFFICE OF THE CHAIRMAN

Dear Chairman Volcker:

The Subcommittee on General Oversight and Renegotiation will be conducting oversight hearings next month on the regulatory and examination process of the various Federal financial institutions' regulators.

The hearings will focus specifically on uniformity in the examination process and overlap and duplication of the activities of the various agencies.

We would appreciate your testimony on this subject before the Subcommittee on Wednesday, June 3rd, at 10 a.m. in Room 2128 of the Rayburn House Office Building.

Sincerely yours,

Joe Minish

Joseph G. Minish,
Chairman.

May 19, 1981

The Honorable Dale Bumpers
United States Senate
Washington, D. C. 20510

Dear Dale:

I read your letter about the savings and loan industry with interest; I share the concern you express. As you note, the current high interest rate environment places any institution with a large portfolio of fixed rate long-term assets in a very difficult position. The only really satisfactory solution is to have our efforts--in the Fed and elsewhere--to reduce inflation become effective, for that will produce the environment for a sustained reduction in interest rates. However, there is no avoiding the fact that until that happens many thrift institutions will be under severe pressure. We have been working with the other regulatory agencies on legislation to enhance the ability of the FDIC and FSLIC to provide transitional assistance to thrift institutions in order to help them to better weather the period until interest rates come down. I hope this legislation will be introduced within the next few weeks and can be acted upon quickly.

Sincerely,

S/Paul A. Volcker

RFS:vcd (#V-134)

bcc: Mr. Syron
Mrs. Mallardi (2)

Action assigned to Mr. Ettin.

United States Senate

COMMITTEE ON APPROPRIATIONS
WASHINGTON, D.C. 20510

May 5, 1981

#134

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

Dear Paul:

It was reported last week that customers of savings and loan associations withdrew a record high $2.3 billion more than they deposited during March. The report from the Federal Home Loan Bank Board said that this withdrawal of $2.3 billion broke the previous record of $1.5 billion reported for July 1966 and April 1979.

These latest withdrawal figures combined with the operating losses experienced by many savings and loan associations in 1980 and the first quarter of this year raise serious questions about the solvency of the savings and loan industry.

Last year was the least profitable for savings institutions since World War II. Net returns on assets declined to 0.1% in the 1980's last half, by far the worst showing in the four decades the Federal Home Loan Bank Board has collected the data.

The Board reports that 35% of federally-insured associations had operating losses during the last half of 1980, compared with 31% in the first half. Board officials estimate that more than 60% of the associations now are operating in the red.

The depressed earnings are attributed to a sharp downturn in the volume of new home loans, which dropped from $108 billion in 1978 to $70 billion in 1980, and the severe rise over the last 18 months in the interest rates savings associations must pay for money market certificates and other forms of deposits.

The industry is in serious trouble principally because it is being squeezed by interest rates. Institutions must pay high rates to attract cash. Yet much of their income comes from decade-old low-interest mortgages.

At the same time, many would-be savers have taken their money out of savings and loans and put it into more lucrative investments, particularly money market mutual funds, as reflected by the March withdrawal figures.

The savings and loan business had its worst earnings ever in 1980. The cumulative net income of the savings and loan industry was $800 million. The figure reflects a stunning drop in earnings from the industry's $3.7 billion in 1979 and $3.9 billion in 1978. The last time the business made less than $1 billion was in 1970 when its total assets were less than one-third of today's total of more than $600 billion.

The earnings situation has worsened in 1981. Over the first two months of the year, the business lost approximately $400 million.

The United States League of Savings Associations reported that there were 5,669 savings associations in 1970, 4,821 in 1975, 4,61 last year, and each intervening year showed a steady reduction.

Although you are familiar with these statistics, I am writing to stress the need for immediate administrative and legislative action to provide relief for the savings and loan industry. Restoring the financial strength of the savings and loan industry should be one of the cornerstones of the economic recovery program.

Salomon Brothers economist, Henry Kaufman, recently stated:

> "Among financial institutions, including commercial banks and thrift institutions, a number of distinctive and disturbing developments stand out at the present time. Our savings banks and savings and loan associations, the traditional source of most housing credit, are significantly immobilized -- an unprecedented development for the early stages of business recovery. In the past, this would have been the time when these institutions were experiencing large savings inflows, repaying loans which they had received from the Federal Home Loan Banks, and making huge lending commitments. Currently, however, these deposit type institutions are receiving marginal savings inflows (when not actually negative), making modest financing commitments, and have, on balance, added to borrowings in the current expansion. Moreover, their capital positions, in some instances, have been impaired significantly by operating losses and by the large market discounts on their assets. These institutions can be quickly resuscitated only by a sharp decline in interest rates -- which I feel is highly unlikely."

I am concerned that deregulation combined with the depressed conditions faced by savings associations will result in a sharp decline in their numbers and a loss of public confidence in these financial institutions.

I would appreciate having your recommendations about possible solutions to this financial crisis. I look forward to hearing from you at your earliest convenience.

Sincerely,

Dale Bumpers

Dale Bumpers

DB:amk

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

May 19, 1981

PAUL A. VOLCKER
CHAIRMAN

The Honorable Henry S. Reuss
Chairman
Joint Economic Committee
Washington, D.C. 20510

Dear Chairman Reuss:

Thank you for the recent letter sent from yourself and Vice Chairman Jepsen commenting on the schedule for publication of money supply statistics. You cite several reasons in favor of publishing new money supply information promptly and suggest the possibility of releasing money supply figures on a daily basis if that could be done without added cost. If such a modification is not feasible, you recommend that the Federal Reserve should not change the present reporting procedures.

I appreciate having your comments on releasing the money supply information and I can assure you they will be given careful consideration by the Board.

Sincerely,

Paul

P.S. You are right - we do not get daily figures on a daily basis!

PAV

TS:DJW:pjt (#V-126)
bcc: Tom Simpson
Mrs. Mallardi (2)

Identical letter also sent to Vice Chairman Jepsen (without the postscript).

Action assigned Mr. Kichline



# Congress of the United States

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

April 15, 1981

#126



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

Dear Mr. Chairman:

We are pleased to respond to the Federal Reserve Board's request of April 2 for public comment on possible changes in the procedures for weekly reporting of money supply figures.

The weekly money supply numbers by themselves probably contain no significant amount of useful information, except insofar as they augment the data available from previous weeks. But since such numbers will in any event be available to the Federal Reserve, we believe that the only defensible policy is to make them available to the public as soon as they are available.

If credit and capital markets are, as some believe, rational and efficient users of information, market participants can and must be trusted to read the careful fine print which the Federal Reserve includes on its weekly releases. They also must understand the implications of the estimated weekly standard deviation in the noise factors for M1A and M1B (which is $3.3 billion), and discount accordingly. No social harm can be done by providing efficient markets with more information.

If, on the other hand, markets are not efficient users of the weekly money supply information, but instead react irrationally to random blips in the money supply numbers, the case for prompt publication is even stronger. For a demand for weekly estimates will be met, if not by the Federal Reserve then by "Fed watchers" and private crystal ball gazers. An industry will spring up, dedicated to guessing what the weekly numbers would have been if only the Federal Reserve had released them.

As you point out in your letter of March 24 to Senator Garn, all of the intermediate proposals for modifying the published data are subject to the same objection: they would induce efforts by market participants to "glean the weekly number" from whatever data were published, or leaked. And such guesses would be subject inevitably to more error than the numbers available to the Federal Reserve.

The ideal, and foolproof, solution would be to publish money supply figures on a daily basis. (If daily changes are truly random, as would appear likely, no market participant could conceivably hope to profit from betting on day-to-day movements.) If this solution is costless, we recommend it. However, if as we suspect, such action would not be costless, we recommend that the Federal Reserve not change its present money supply reporting procedures.

Sincerely,

Roger

Roger W. Jepsen
Vice Chairman

Henry S. Reuss
Chairman

May 18, 1981

The Honorable Benjamin S. Rosenthal
Chairman
Subcommittee on Commerce, Consumer
and Monetary Affairs
Committee on Government Operations
House of Representatives
Washington, D.C. 20515

Dear Chairman Rosenthal:

I am following up on my letter of November 14, 1980, that responded to your suggestion that the Federal Reserve Board undertake studies or analyses of several aspects relating to conversions of multifamily properties to condominium or cooperative status, in connection with the provisions of Section 603 of the Housing and Community Development Act of 1980.

In my letter of last November, I indicated that the matter had been referred to the Federal Financial Institutions Examination Council (FFIEC) for interagency review, particularly because other federal supervisory agencies had received similar suggestions. I also promised to notify you about the Federal Reserve's action once the FFIEC review had been completed and considered by the Board.

After having discussed the matter, the FFIEC referred the suggestion to the Federal Home Loan Bank Board which had already assigned a Bank Board working group to consult with your Subcommittee about it. Since then, I understand that FHLBB staff members have met with staff of your Subcommittee on several occasions to clarify the issues, and that John Dalton has written you to indicate that FHLBB will review the results of the studies being undertaken by HUD before determining whether additional FHLBB action may be necessary. In this regard, I understand that the HUD study is nearing completion and may be released shortly.

Sincerely,

S/Paul A. Volcker

RMF:AFC:pjt (#V-405 from 1980)
bcc: Mr. Fisher
Mrs. Mallardi (2)
Mr. Kichline
Ms. Hart

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

May 18, 1981

PAUL A. VOLCKER
CHAIRMAN

The Honorable David Durenberger
United States Senate
Washington, D.C. 20510

Dear Senator Durenberger:

This is in response to your inquiry concerning the authority of the Federal Reserve to purchase securities. The original Federal Reserve Act, enacted in 1913, permitted the Federal Reserve to purchase various types of securities in the open market. At that time we were permitted to purchase U.S. Government and agency securities, bankers' acceptances, bills of exchange, and certain short-term State and local government securities. The purpose of this authority originally was to provide Reserve Banks with the opportunity to earn a return on their funds. There was never any indication that the authority was to be used to "monetize" the debts of private organizations and State and local governments, and we can assure you that we have no intention of doing so. Indeed, virtually all of our securities holdings consist of U.S. Government and agency obligations ($124 billion) purchased in conjunction with open market operations and in the course of issuing Federal Reserve notes.

The Monetary Control Act of 1980 (P.L. 96-221) did amend the open market authority of the Federal Reserve to permit us also to purchase obligations of foreign governments and their agencies. The legislative history of the Act indicates that Congress intended this authority to be used only in conjunction with the Federal Reserve's normal activities in the foreign exchange market.

In the course of foreign exchange operations, the Federal Reserve from time to time acquires balances in foreign currencies. Prior to the passage of the Monetary Control Act, there was no convenient way in which foreign currencies held by the Federal Reserve could be invested to earn interest. As indicated by Senator Proxmire on the floor of the Senate on March 27, 1980, during the Senate's consideration of the Monetary Control Act, the purpose of this provision is "to provide a vehicle whereby such foreign currency holdings could be invested in obligations of foreign governments and thereby earn interest. This authority would be used only to purchase such obligations with foreign currencies balances acquired by the Federal Reserve in the normal course of business" (126 <u>Cong</u>. <u>Rec</u>. S 3168). In my testimony before the Senate Banking Committee on September 26, 1979, I indicated that the purpose of the provision was to add to the present list of assets, currently eligible for purchase by the Federal Reserve, short-term government securities so as to enable the Federal Reserve to invest its non-interest bearing foreign currencies in interest bearing obligations. (These earnings are ultimately paid over by the Federal Reserve to the U.S. Treasury.) It was never the intent of the Federal Reserve to use this provision to "bail out" foreign governments that may be in danger of defaulting on their debts. We believe it is clear that the authority is to be used only in conjunction with the Federal Reserve's normal foreign exchange operations.

With respect to purchasing foreign obligations of developing countries, the Federal Reserve has not purchased and has no plans to purchase obligations of developing countries. As noted above, the Federal Reserve would only buy short-term liquid obligations of foreign governments with currency balances of those foreign countries acquired in connection with foreign exbhange operations in order to earn a return on what would otherwise be non-interest bearing currency holdings. As indicated in the Board's Annual Report, reciprocal currency arrangements exist with the following countries only: Austria, Belgium, Canada, Denmark, England, France, Germany, Italy, Japan, Mexico, the Netherlands, Norway, Sweden, and Switzerland.

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

Sincerely,

S/ Paul

GTS:pjt (per telephone request)
bcc: Mrs. Mallardi (2)

May 15, 1981

The Honorable Benjamin S. Rosenthal
Chairman
Subcommittee on Commerce, Consumer
and Monetary Affairs
Committee on Government Operations
House of Representatives
Washington, D. C. 20515

Dear Chairman Rosenthal:

Thank you for your April 13 letter asking whether consumers must be notified of rate increases that occur in variable rate open-end credit plans before they occur.

Our staff has discussed this matter at some length with Mr. Tucker of your staff. In this regard, under the recently revised Regulation Z, a creditor must disclose in writing before the consumer uses the variable rate account that the rate on the open-end credit plan is subject to change, and the circumstances under which the rate may increase. With this disclosure, the consumer can decide whether or not to participate in the plan (or to continue to participate in the plan, if the variable rate feature is added later on) given the possibility that the rate may vary from time to time.

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

Sincerely,

S/Paul A. Volcker

MPE:CO:vcd (#V-119)

bcc: Ms. English
Mrs. Mallardi (2)

Action assigned Janet Hart

NINETY-SEVENTH CONGRESS

# Congress of the United States

## House of Representatives

COMMERCE, CONSUMER, AND MONETARY AFFAIRS SUBCOMMITTEE
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS

RAYBURN HOUSE OFFICE BUILDING, ROOM B-377
WASHINGTON, D.C. 20515

#119

April 13, 1981

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

Dear Mr. Chairman:

I am writing to request a clarification concerning the application of the Truth-in-Lending notice requirements to interest rate changes on credit card and other open-end credit accounts. My concern arises in particular because of the potentially significant development of variable-rate credit card operations in Delaware under that state's newly-enacted Financial Center Development Act.

Section 944 of this Delaware law allows credit card plans with floating interest rates that are adjusted automatically according to some schedule or formula. The language of that section is as follows:

> 944. Variable Rates
>
> If the agreement governing the revolving credit plan so provides, the periodic percentage rate or rates of interest under such plan may vary in accordance with a schedule or formula. Such periodic percentage rate or rates may vary from time to time as the rate determined in accordance with such schedule or formula varies and such periodic percentage rate or rates, as so varied, may be made applicable to all outstanding unpaid indebtedness under the plan on or after the effective date of such variation including any such indebtedness arising out of purchases made or loans obtained prior to such variation in the periodic percentage rate or rates.

The Federal Reserve's newly revised Regulation Z provides, in section 226.9, for advance written notice to credit card holders of changes in the terms of their credit, "unless the change has been agreed to by the consumer...." Under credit card contracts that explicitly contemplate a varying interest rate, such as are authorized under the above section of the new Delaware law, how does this exception in the language of section 226.9 apply? More specifically, my questions are:

1. When a change in the interest rate is to be made, pursuant to the existing variable-rate provision of the contract, is any written notice required by Regulation Z?

2. Must this notice, if required, be given in advance of implementation of the rate change?

3. If advance notice is not required, is this section of the regulation satisfied by a notice distributed <u>subsequent to</u> the effective date of the adjustment?

4. If notice subsequent to the rate change is satisfactory, how much time lag is permissible before notice is given?

5. If no notice of the rate change is required, or if notice subsequent to the rate change is sufficient to meet the requirement of 226.9, how is this regulatory provision reconciled with the general disclosure objective of the Truth in Lending Act for "meaningful disclosure of credit terms" to facilitate credit shopping and enable consumers to "avoid the uninformed use of credit"?

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:tb

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

PAUL A. VOLCKER
CHAIRMAN

May 12, 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:

Please find enclosed the draft bill we have been discussing to enhance the ability of the regulatory agencies to deal effectively and flexibly with possible problems among thrift institutions during this high interest rate period. I am also enclosing answers to the questions you raised in your letter of April 30, 1981, drafted by the relevant agencies.

I would, however, particularly note a new provision which has been added to the end of the bill, which would enable the FDIC to sell a large failing bank to an out-of-state bank or bank holding company. The provision would require that the FDIC make extensive attempts to sell the failed bank to another institution first within State and after that in an adjacent State. You will recognize this reflects a long-standing concern of the bank regulators, all of whom would support this provision. However, I recognize we have not discussed its inclusion in this vehicle at any length, and I would like to know whether you think it appropriate to include, or whether it would jeopardize the remainder of the bill.

I and the other regulators stand ready to testify or take whatever other steps you feel should happen next, and I hope we can be in contact shortly.

Sincerely,

Paul

Enclosures

Identical letter to Cong. J. William Stanton

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

PAUL A. VOLCKER
CHAIRMAN

May 12, 1981

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

Dear Chairman Garn:

Please find enclosed the draft bill we have been discussing to enhance the ability of the regulatory agencies to deal effectively and flexibly with possible problems among thrift institutions during this high interest rate period.

I would, however, particularly note a new provision which has been added to the end of the bill, which would enable the FDIC to sell a large failing bank to an out-of-state bank or bank holding company. The provision would require that the FDIC make extensive attempts to sell the failed bank to another institution first within State and after that in an adjacent State. You will recognize this reflects a long-standing concern of the bank regulators, all of whom would support this provision. However, I recognize we have not discussed its inclusion in this vehicle at any length, and I would like to know whether you think it appropriate to include, or whether it would jeopardize the remainder of the bill.

I and the other regulators stand ready to testify or take whatever other steps you feel should happen next, and I hope we can be in contact shortly.

Sincerely,

Paul

Enclosure

Identical letters to Sen. Harrison A. Williams, Jr. and
Sen. Alan Cranston

V-130
Chairman
Volcker

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

May 11, 1981

The Honorable Joe Skeen
House of Representatives
Washington, D.C. 20515

Dear Mr. Skeen:

On behalf of the Members of the Board, I want to thank you for your letter of April 30 expressing your support for the application of El Pueblo Bancorporation, Espanola, New Mexico, to become a bank holding company by acquiring El Pueblo State Bank, Espanola, New Mexico.

Views similar to those you set forth were considered by the Board in acting upon this application. On April 1 the Board determined that approval of the application was not warranted for financial reasons and denied the application. El Pueblo Bancorporation petitioned the Board for reconsideration of its decision, and on April 30, 1981, the Board's General Counsel, acting pursuant to delegated authority, concluded that the petition presented no facts that for good cause shown were not previously presented to the Board and denied the petition.

Copies of the Board's denial Order and the letter denying the petition for reconsideration are enclosed for your convenience.

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

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn
Assistant to the Board

Enclosures

1508 Longworth House Office Building
Washington, D.C. 20515
202-225-2365

Committees:
Agriculture
Science and Technology

Suzanne Eisold
Administrative Assistant

# Congress of the United States
## House of Representatives

Joe Skeen
2nd District, New Mexico

District Offices:
Federal Building
Roswell, New Mexico 88201
Federal Building
Las Cruces, New Mexico 88001
300 W. Arrington
Farmington, New Mexico 87401

April 30, 1981

#130



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

Dear Mr. Volcker:

This is to ask that you consider the El Pueblo State Bank of Espanola, New Mexico, in its effort to apply for a One-Bank-Holding Company.

The directors of El Pueblo assure me that a favorable ruling would enable them to expand operations, create competition in the industry, and continue to provide for the needs and convenience of its patrons.

Thank you for your consideration in this matter.

Kind regards.

Sincerely,

Joe

JOE SKEEN
Member of Congress

JS/bl

May 8, 1981

The Honorable Henry S. Reuss
Chairman
Joint Economic Committee
Washington, D.C. 20510

Dear Chairman Reuss:

In accordance with arrangements that have been made with your Committee, enclosed is a staff report covering financial developments in the first quarter of 1981.

Sincerely,

S/Paul A. Volcker

Enclosure

cc: JEC (along with 30 copies of ltr. & rept.)
Vice Chairman Jepsen
Dan Wall, Howard Menell (Senate Bkg.)
Paul Nelson, Jim Sivon, Graham Northup (House Bkg.)
Howard Lee (Domestic Monetary Policy Subcmte. of House Bkg.)
~~Lewisx8axpaxx(~~
Greg Wilson (House Bkg.)

PB:pjt
bcc: Paul Boltz
Mrs. Mallardi (2)

Mrs. Mallardi
(V-131)

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

May 7, 1981

PAUL A. VOLCKER
CHAIRMAN

The Honorable Charles W. Stenholm
House of Representatives
Washington, D.C. 20515

Dear Mr. Stenholm:

Thank you for your letter of April 27 requesting comment on correspondence you received from your constituent, Mrs. J. C. Dudley of Abilene, Texas, regarding the Monetary Control Act.

It is important to understand that the original Federal Reserve Act, enacted in 1913, permitted the Federal Reserve to purchase various types of securities in the open market. At that time we were permitted to purchase U. S. Government and agency securities, bankers' acceptances, bills of exchange, and certain short-term State and local government securities. The purpose of this authority originally was to provide Reserve Banks with the opportunity to earn a return on their funds. There was never any indication that the authority was to be used to "monetize" the debts of private organizations and State and local governments, and we can assure you that we have no intention of doing so. Indeed, virtually all of our securities holdings consist of U. S. Government and agency obligations ($124 billion) purchased in conjunction with open market operations and in the course of issuing Federal Reserve notes.

The Monetary Control Act of 1980 (P.L. 96-221) did amend the open market authority of the Federal Reserve to permit us also to purchase obligations of foreign governments and their agencies. The legislative history of the Act indicates that Congress intended this authority to be used only in conjunction with the Federal Reserve's normal activities in the foreign exchange market.

In the course of foreign exchange operations, the Federal Reserve from time to time acquires balances in foreign currencies. Prior to the passage of the Monetary Control Act, there was no convenient way in which foreign currencies held by the Federal Reserve could be invested to earn interest. As indicated by Senator Proxmire on the floor of the Senate on March 27, 1980, during the Senate's consideration of the Monetary Control Act, the purpose of this provision is "to provide a vehicle whereby such foreign currency holdings could be invested in obligations of foreign governments and thereby earn interest. This authority would be used only to purchase such obligations with foreign currencies balances acquired by the Federal Reserve in the normal course of business" (126 Cong. Rec. S 3168). In my testimony before the Senate Banking Committee on September 26, 1979, I indicated that the purpose of the provision was to add to the present list of assets, currently eligible for purchase by the Federal Reserve, short-term government securities so as to enable the Federal Reserve to invest its non-interest bearing foreign currencies in interest bearing obligations. (These earnings are ultimately paid over by the Federal Reserve to the U. S. Treasury.) It was never the intent of the Federal Reserve to use this provision to "bail out" foreign governments that may be in danger of defaulting on their debts. We believe it is clear that the authority is to be used only in conjunction with the Federal Reserve's normal foreign exchange operations.

With respect to purchasing foreign obligations of developing countries, the Federal Reserve has not purchased and has no plans to purchase obligations of developing countries. As noted above, the Federal Reserve would only buy short-term liquid obligations of foreign governments with currency balances of those foreign countries acquired in connection with foreign exchange operations in order to earn a return on what would otherwise be non-interest bearing currency holdings. As indicated in the Board's Annual Report, reciprocal currency arrangements exist with the following countries: Austria, Belgium, Canada, Denmark, England, France, Germany, Italy, Japan, Mexico, the Netherlands, Norway, Sweden, and Switzerland.

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

Sincerely,

S/Paul A. Volcker

(GTS:)CO:pjt (#131)
bcc: Mrs. Mallardi (2)

CHARLES W. STENHOLM
17TH DISTRICT
TEXAS

WASHINGTON OFFICE:
1232 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-6605

COMMITTEES:
AGRICULTURE
SMALL BUSINESS

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

DISTRICT OFFICES:
P.O. BOX 1237
STAMFORD, TEXAS 79553
(915) 773-3623

P.O. BOX 1101
ABILENE, TEXAS 79604
(915) 673-7221

#131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1981 MAY -6 AM 8:05
RECEIVED
OFFICE OF THE CHAIRMAN

April 27, 1981

Mr. Paul A. Volcker
Chairman
Board of Governors of
the Federal Reserve System
Federal Reserve Building
Constitution Avenue
Washington, DC 20551

Dear Mr. Chairman:

Enclosed please find a letter from a constituent of mine, Mrs. J. C. Dudley of Abilene, Texas, addressing some concerns that she has about Monetary Control Act. I would appreciate having your analysis of this portion of the Act and your response to her concerns.

Thank you for your attention to this matter and I look forward to hearing from you. With warm regards, I remain

Sincerely yours,

Charlie

Charles W. Stenholm
Member of Congress

CWS:sbb
Enclosure

Congressman Charles Stenholm

17th District.Texas

House offices

Washington,

D.C.

Dear Congressman Stenholm,

If I understand it correctly,the Monetary Control Bill 1980 permits the Federal Reserve to monetize any debt they decide to.

This would be super inflationary,has potential for selling us to the international bankers and in short is such a potentially disasterous act I simply can not understand why you let it pass in the first place.

Needless to say,I urge you to act to repeal that act before any great harm can be done.I strongly believe in Murpheys Law and especially where government is concerned.

Sincerely,

Mrs J.C. Dudley

Mrs J.C.Dudley

[redacted]

May 7, 1981

The Honorable Tom Daschle
House of Representatives
Washington, D.C. 20515

Dear Mr. Daschle:

Thank you for your letter of April 14, concerning the continued deferral of reserve requirements for small depository institutions. On April 24, 1981, the Board agreed to continue this deferral for another six months. A copy of the Board's announcement is enclosed for your information. While we believe that continued deferral is desirable in order to ease the burdens placed on these institutions as well as Federal Reserve Banks, it is our view that legislation is necessary in order to make this deferral permanent. The Board believes that Congress should give serious consideration to a permanent exemption for small institutions since monetary control would not be appreciably improved by subjecting them to the reporting and reserve requirement provisions of the Monetary Control Act.

I appreciate your expression of support for the Board's efforts to reduce the regulatory burden imposed on depository institutions.

Sincerely,

S/Paul A. Volcker

Enclosure (p.r. dtd. 4/24/81)
GTS:pjt (#V-125)
bcc: Gil Schwartz
G.C. #150
Mrs. Mallardi (2)
Legal Records (2)

Action assigned Mr. Petersen

TOM DASCHLE
1st District, South Dakota

COMMITTEES:
AGRICULTURE
VETERANS' AFFAIRS

439 Cannon Office Building
Washington, D.C. 20515
(202) 225-2801

Toll-Free 1-800-424-9094

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

DISTRICT OFFICES:
800 South Cliff
Box 1274
Sioux Falls, South Dakota 57101
(605) 334-9596

310 South Lincoln
Aberdeen, South Dakota 57401
(605) 225-8823

April 14, 1981

#125



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

Dear Chairman Volcker:

I am writing to recommend favorable consideration by the Board of Governors during the upcoming ~~April 23rd~~ meeting of the continued deferral of the effective date for compliance with the requirements of Regulation D for federal credit unions with deposits of less than $2,000,000. It is my understanding the effective date for compliance with Regulation D requirements has previously been deferred until May 1, 1981. This was, I believe, a prudent decision and inasmuch as the underlying conditions which prompted deferral previously are essentially unchanged, I believe continued deferral at this time is both appropriate and desirable.

If, however, the Board of Governors believes continued deferral for all such institutions is not possible, I recommend the Board consider further delineation on the basis of total deposits among such institutions with deposits of less than $2,000,000. With further delineation, the Board could continue deferral of the effective date of compliance for those institutions which are least able and which will be most burdened by compliance at this time.

Additionally, I urge the Board to continue its efforts to insure the objectives of the Financial Regulation Simplification Act of 1980, particularly the specific objectives of Section 803.

With best regards, I am

Sincerely,

Tom

Tom Daschle
Member of Congress

~~Miss Wolfe~~
Mrs. Mallardi
(V-112)

May 7, 1981

Hon. John D. Dingell
Chairman
Committee on Energy and Commerce
U. S. House of Representatives
Rayburn House Office Building
Washington, D. C. 20515

Dear Chairman Dingell:

This is in response to your request for the Board's views on H.R. 2879, a bill to provide uniform margin requirements to the acquisition of securities of U. S. corporations by foreign persons using credit obtained from foreign lenders.

On February 26, 1981 Governor Partee testified on behalf of the Board on H.R. 1294, a similar bill that would make it unlawful for a foreign lender to extend credit and for a foreign national to obtain credit in excess of the Board's margin requirements when that credit would finance certain acquisitions of U. S. securities -- specifically when a section 13(d) or 14(d) statement is required to be filed under the Securities Exchange Act in connection with the acquisition of 5 percent or more of the equity securities of a publicly-held company. At that time, the Board voiced concern as to the effect of the proposed bill on U. S. relations with foreign governments and foreign financial institutions and suggested deletion of the provision that would make it unlawful for a foreign bank or other lender to lend on terms different from United States margin requirements. The Board is gratified that this provision has been omitted from H. R. 2879.

H.R. 2879 would amend section 7(f) of the Securities Exchange Act by enlarging the categories of persons covered by the prohibitions of section 7 to include all foreign persons who obtain credit to purchase or carry any United States securities anywhere in the world. The legislation would also broaden the Board's authority to exempt any class of persons from its margin requirements.

The present legislation is directed to remedy a perceived inequity between domestic and foreign borrowers who are purchasing U. S. securities. Although we sympathize with this goal, we believe it would be unrealistic to assume that the Board's margin regulations could be applied to every security transaction occurring abroad that involves a purchase of U. S. securities. For example, in the usual situation it is doubtful that we would even know if a foreign national borrowed from a foreign bank to purchase a nominal amount of the securities of a U. S. corporation. In the Board's opinion, a significant U. S. nexus must be present in order to apply its regulations. In this respect, H.R. 1294 would specifically provide such a nexus -- that is, the Board's credit limitations would only apply where a section 13(d) or 14(d) statement is required to be filed. If H.R. 2879 is enacted in its present form the Board would consider using its exemptive authority to adopt the same or a similar test.

In addition, as indicated in Governor Partee's letter of March 13, 1981 to Congressman Wirth, Chairman of the Subcommittee on Telecommunications, Consumer Protection and Finance, the Congress may wish to reconsider that section of the bill that provides for a private right of action. As drafted, the bill would appear to provide a private right of action for target companies or those injured by corporate takeover bids involving foreign buyers. Since the basic thrust of H.R. 2879 is to provide equal treatment between foreign borrowers and U. S. borrowers, the Congress might also want to help assure this result by making the private cause of action provision applicable to the entire section instead of just subsection (f). The Congress would thereby clarify its intent as to access to the courts by any person to seek redress for injuries suffered as a result of violations of the margin regulations by foreign or domestic persons.

We hope the above comments will be helpful to the Committee's consideration of this bill.

Sincerely,

S/Paul A. Volcker

RSP:gt - #112

Action assigned Mr. Plotkin



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



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

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

(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 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.

○

April 17, 1981

The Honorable Daniel K. Inouye
United States Senate
Washington, D. C. 20510

Dear Senator Inouye:

Recently a group of Hawaiian thrift institutions requested that the Board extend a waiver, granted originally in October 1980, from certain reserve requirements of the Monetary Control Act of 1980. The Board has determined to extend the waiver of reserve requirements granted in October until December 30, 1981, in order to provide a full legislative session for the matter to be considered by Congress.

The Board appreciates your interest in this matter and having received the benefit of your views.

Sincerely,

S/Paul A. Volcker

PSP:WRM:vcd (#V-73)

bcc: Mr. Schwartz
Mr. Pilecki
Legal Records (2)
Mrs. Mallardi (2)

DANIEL K. INOUYE
HAWAII

Action assigned Mr. Petersen

PRINCE KUHIO FEDERAL BUILDING
ROOM 6104, 300 ALA MOANA BOULEVARD
HONOLULU, HAWAII 96850
(808) 546-7550

United States Senate

ROOM 105, RUSSELL SENATE BUILDING
WASHINGTON, D.C. 20510
(202) 224-3934

March 11, 1981

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

Dear Chairman Volcker:

I again most respectfully urge that the Federal Reserve give its serious consideration to the recent request by Hawaii's savings and loan associations for an additional exemption from holding reserve requirements under the Monetary Control Act of 1980.

As you know, the Monetary Control Act provides a special five-year delay for Hawaiian state-chartered institutions prior to the start of an eight-year phase-in of reserve requirements for non-member institutions of the Federal Reserve System. This special transition rule was designed to alleviate the capital shortage problem in Hawaii and to minimize the impact of delays in bank services resulting from Hawaii's vast distance from the rest of the Federal Reserve System.

The initial Monetary Control Act reserve requirement legislation was drafted to apply only to commercial banks. However, during the final stages of this legislation, the Conference Committee added reserve requirements to the Monetary Control Act and extended the reserve requirements and transition rules to all financial institutions. Unfortunately, there was very little time to review this action before final passage of the Monetary Control Act, and thus six of Hawaii's largest savings and loan associations were required to hold reserves contrary to the legislative history and the initial intent of the Act.

As a result of these reserve requirements, Hawaii's six largest savings and loan associations will be holding approximately $44,820,000 in reserves by the end of the five-year transition period. This reserve requirement rule would remove $33,580,000 from Hawaii's economy.

Given the relatively small size of Hawaii's economy and the fact that Hawaii remains a capital-short area, withdrawal of such a large amount of money, especially when the reverse multiplier effect is taken into account, will have a significant negative impact on the economy of Hawaii.

The exclusion of Hawaii's largest savings and loans from the five-year delay extended to Hawaii's largest banks creates the same problem that the special transition rule was designed to avoid. Not only would the immediate phase-in of reserve requirements for these savings and loan associations freeze needed capital in the State of Hawaii, but it would also place six of Hawaii's savings and loan associations at a competitive disadvantage with state-chartered thrifts and state-chartered banks that qualify for the five-year delay in reserve requirements.

Fortunately, the Board of Governors of the Federal Reserve System in late October 1980 granted Hawaii's six largest savings and loan associations a six-month exemption from holding reserve requirements. I, as well as Hawaii's thrift institutions, am extremely grateful for this action on the part of the Federal Reserve Board.

As you may know, the members of Hawaii's Congressional delegation and the House and Senate Banking Committees have explored the feasibility of remedial legislation in both the past and present Congress. It is the view of Hawaii's Congressional delegation that the special transition rule, with the five-year delay period, should apply equally to all thrift institutions in Hawaii. However, on each attempt to resolve this matter, we have been advised against seeking legislative remedy for fear that remedial legislation for Hawaii's financial institutions would serve as a vehicle for amendments curbing or repealing the general reserve requirements. Hawaii's Congressional delegation has been reluctant to precipitate legislation that would undermine the reserve requirement provisions of the Monetary Control Act of 1980. Thus, up until the present time, we have refrained from introducing and pressing for legislation to correct the unintended and disadvantageous effect currently faced by most of Hawaii's thrift institutions.

We will continue to seek legislative relief to this problem. However, it will take a great deal more time than the initial six-month exemption to successfully resolve this matter.

In the meantime, I request your favorable consideration of a request by six of Hawaii's savings and loan associations for an additional, and if possible longer, extension from holding reserve requirements under the Monetary Control Act of 1980. Favorable action on the part of the Federal Reserve Board will provide Hawaii's delegation with the necessary time to successfully implement legislation to alleviate this problem.

Thank you for your consideration of this matter.

Aloha,

DANIEL K. INOUYE
United States Senator

DKI:vqbf