

Congressional Correspondence  
July - October 1981 [1]

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**Congressional  
Correspondence  
July-October 1981**

October 30, 1981

The Honorable Delbert L. Latta  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Latta:

Thank you for your letter of October 27 on behalf of your constituent, Mr. Austin M. Eisaman, questioning what the government charges the Federal Reserve System for printing our paper currency.

The Federal Reserve System pays the Treasury Department \$20.60 per thousand notes--a little over 2¢ each--without regard to the face value of the note. Federal Reserve notes, incidentally, are the only type of currency now produced for circulation. They are printed exclusively by the Treasury's Bureau of Engraving and Printing, and the \$20.60-per-thousand price reflects the Bureau's full cost of production. Federal Reserve notes are printed in \$1, \$2, \$5, \$10, \$20, \$50, and \$100 denominations only; notes of \$500, \$1000, \$5000, and \$10,000 denominations were last printed in 1945.

As further background on Federal Reserve notes, I am enclosing a pamphlet entitled "U. S. Currency", which may be of interest to Mr. Eisaman.

I hope this information is helpful 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

CO:vcd (V-316)

bcc: Mrs. Mallardi ✓

DELBERT L. LATTA  
5TH DISTRICT, OHIO

Cong. Liaison Office will prepare reply

COMMITTEES:  
RULES  
BUDGET

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

October 27, 1981

#316

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

Dear Chairman Volcker:

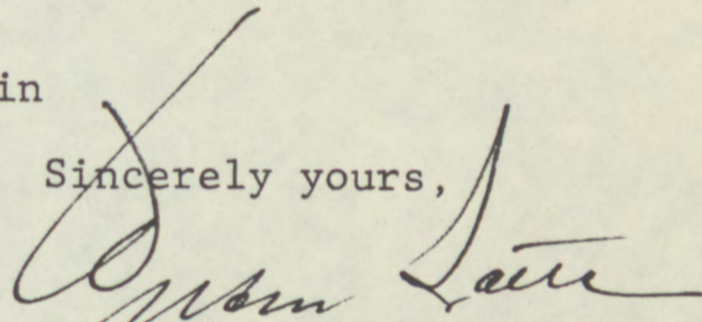
I have been contacted by my constituent, Mr. Austin M. Eisaman of Napoleon, Ohio. Mr. Eisaman would like to know what the government charges the Federal Reserve System for printing our paper money.

I would greatly appreciate any assistance you would be able to provide me in fulfilling Mr. Eisaman's request for information.

Thank you in advance for your cooperation, and I will look forward to hearing from you.

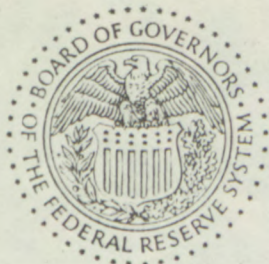
With all best wishes, I remain

Sincerely yours,



DELBERT L. LATTA  
Representative to Congress

DLL:lt



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

Mrs. Malladi  
(V-299)

October 29, 1981

The Honorable Robert A. Young  
Member of Congress  
4154 Cypress Road  
St. Ann, Missouri 63074

Dear Mr. Young:

Thank you for your letter of October 8 requesting comment on correspondence you received from Mr. Lawrence A. Kiefer. Mr. Kiefer states that his social security check and his civil service annuity are directly deposited into his account at the Gateway Federal Employees Credit Union. In the past, Mr. Kiefer received a deposit notice indicating that the deposit had taken place. The bank, however, has discontinued this service. Consequently, Mr. Kiefer does not receive written notification of the deposit until he receives his account statement several days or several weeks after the transfers have been made. Mr. Kiefer believes this policy is not in keeping with the intent of the Electronic Funds Transfer Act.

The Act and the Board's implementing Regulation E are designed to protect consumers in their EFT transactions. EFT permits consumers and others to transfer funds electronically without the use of checks. Consumers may use EFT to authorize the direct deposit of payments due to them, such as wages, social security benefits, dividends, and other similar repetitive deposits.

Under Regulation E, an institution is allowed to choose among three alternative methods of providing notices to consumers regarding their deposits. First, a depository institution may choose to notify consumers in each instance that the pre-authorized credit has been made. Second, to help reduce costs, the regulation permits institutions to provide notice only when a scheduled transfer is not made. Third, as a further cost-reducing alternative, the regulation permits the institution to supply consumers with a telephone number that they may use to verify whether or not a transfer has been made. The Board believes that supplying these alternatives provides essential consumer protection and, at the same time, enables financial institutions to establish systems that meet the needs of their customers in the most cost-effective way.

The Honorable Robert A. Young  
Page Two

I cannot determine from Mr. Kiefer's correspondence whether the credit union now meets any of these notice requirements. The Federal Reserve has supervisory authority only for State banks that are members of the Federal Reserve System. Gateway Federal Employees Credit Union is subject to the supervisory authority of the National Credit Union Administration. Accordingly, I have forwarded your letter to that agency for further comment.

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

cc: Office of Consumer Affairs  
National Credit Union Administration  
1776 G Street, N. W.  
Washington, D. C. 20456

SJP:AFC:vcd (#V-299)

bcc: Ms. Potkai  
Mrs. Mallardi

ROBERT A. YOUNG  
SECOND DISTRICT  
MISSOURI

1317 LONGWORTH BUILDING  
WASHINGTON, D.C. 20515  
(202) 225-2561

COMMITTEES:  
PUBLIC WORKS AND  
TRANSPORTATION  
SCIENCE AND TECHNOLOGY

Action assigned Janet Hart

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

October 8, 1981

WALTER L. MEYER  
DISTRICT ADMINISTRATOR  
4154 CYPRESS ROAD  
ST. ANN, MISSOURI 63074  
(314) 425-7200  
12325 MANCHESTER ROAD  
DES PERES, MISSOURI 63131  
(314) 965-8800

#299

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

Dear Mr. Volcker,

The attached correspondence is sent for your review. According to my constituent, Mr. Lawrence A. Kiefer, his credit union is not notifying him as required under The Electronic Fund Transfers Act, Regulation E.

Please advise if in your opinion there is a violation of the Act.

Thanking you in advance for your kind assistance to my request and looking forward to your reply addressed to my district office in St. Ann, Missouri, I remain,

Sincerely,

*Robert A. Young*  
Robert A. Young  
Member of Congress

RAY:ev  
Enclosure

RECEIVED  
OFFICE OF THE CHAIRMAN  
1981 OCT 13 AM 10:21  
BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM



OCT 08 1981

October 1, 1981

Representative Robert A. Young  
4154 Cypress Road  
St. Ann, Missouri 63074

Subject: Electronic Fund Transfers (EFT)

Dear Congressman Young:

On September<sup>22nd</sup> I wrote a letter to the Gateway Federal Employees Credit Union on the above subject and I gave your office a copy.

I received their answer in a letter dated September 23rd and hand carried a copy to Mr. Gary Elmestad of your office.

Mr. Elmestad advised me to talk again with Mr. Ed Heinrichs of the Credit Union. I did this and so advised Mr. Elmestad of our conversation. Mr. Heinrichs was firm in stating that the receipt acknowledgement and the monthly statement were duplications of each other. Mr. Heinrichs is correct in his statement, however, my Civil Service annuity for say September is received by ETF at the end of August and is posted on my August statement which I receive from the Credit Union about the tenth of the month following. My Social Security check is received by ETF on the second or third of the month (~~NOVEMBER~~<sup>SEPTEMBER</sup>) and will not be shown <sup>UNTIL</sup> on my statement which I will receive about the tenth of October. I feel that I should be sent a receipt within a day or two after the Credit Union receives my money by ETF. I thought that was the intent of the regulation.

If I had my Civil Service Annuity and my Social Security checks mailed to my home AND I send them to the Credit Union they would be acknowledged with a receipt from the Credit Union so I cannot accept their rationale as being too costly.

Please follow through on this and keep me advised.

Sincerely yours,

*Lawrence A. Kiefer*  
Lawrence A. Kiefer

SEP 23 1981

September 22, 1981

Gateway Federal Employees Credit Union  
P. O. Box 26007  
St. Louis, Mo. 63136  
Attention: Mr. Ed Heinrichs

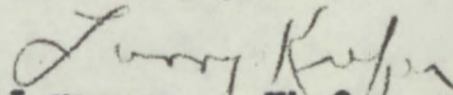
Dear Mr. Heinrichs:

According to information which your office sent me concerning Electronic Fund Transfers (EFT) you agreed to notify me when a deposit had been received.

My Federal Civil Service Annuity and my Social Security checks are being sent directly to you. Up until this month (September) I have been receiving a deposit notice. When I didn't receive my notices this month I contacted Rick from your office and was advised that this service was being discontinued.

I cannot understand your rationale for this change. If these checks were mailed directly to my home and I deposited them by mail or in person I would be given a deposit slip wouldn't I? I believe this to be a disservice to retired people and would like for you to explain your reasoning and consider changing back to your original commitment.

Sincerely yours,

  
Lawrence A. Kiefer

cc: John Shipman, Chairman of the Board

Congressman Robert A. Young



Gateway Federal Employees Credit Union

P.O. Box 26369 6401 Stratford  
St. Louis, Missouri 63136  
(314) 385-8800

September 23, 1981

Lawrence Kiefer  
[REDACTED]  
[REDACTED]

Dear Mr. Kiefer;

The receipts was eliminated because of cost and increase in direct deposits.

The receipt and monthly statements showing these deposits were duplications of each other.

Sincerely,

Edwin S. Hinrichs  
Manager

cc: John L. Shipman, Chairman of the Board



October 28, 1981

The Honorable Sam M. Gibbons  
Chairman  
Subcommittee on Trade  
Committee on Ways and Means  
House of Representatives  
Washington, D.C. 20515

Dear Chairman Gibbons:

Thank you for your recent letter inviting the Board to testify before your Subcommittee's hearing on U.S. trade policy and the impact of monetary and fiscal policies.

Governor Henry C. Wallich is looking forward to appearing on behalf of the Board on November 3.

Sincerely,

S/Paul A. Volcker

CO:pjt (#V-291 & 702)  
bcc: Gov. Wallich  
Ted Truman  
Mrs. Mallardi (2) ✓

SAM M. GIBBONS, FLA., CHAIRMAN  
SUBCOMMITTEE ON TRADE

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JAMES R. JONES, OKLA.  
ED JENKINS, GA.  
THOMAS J. DOWNEY, N.Y.  
FRANK J. GUARINI, N.J.  
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BILL ARCHER, TEX.  
BILL FRENZEL, MINN.  
L. A. (SKIP) BAFALIS, FLA.  
RICHARD T. SCHULZE, PA.

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BARBER B. CONABLE, JR., N.Y.

NINETY-SEVENTH CONGRESS

DAN ROSTENKOWSKI, ILL., CHAIRMAN  
COMMITTEE ON WAYS AND MEANS

JOHN J. SALMON, CHIEF COUNSEL  
A. L. SINGLETON, MINORITY CHIEF OF STAFF

DAVID B. ROHR, STAFF DIRECTOR

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

WASHINGTON, D.C. 20515

SUBCOMMITTEE ON TRADE

October 5, 1981

Honorable Paul A. Volcker  
Chairman, Board of Governors  
Federal Reserve System  
20th & Constitution Avenues, N.W.  
Washington, DC 20551

Dear Mr. Chairman:

The purpose of this letter is to formally invite you to testify before the Subcommittee on Trade of the House Committee on Ways and Means during a major comprehensive oversight hearing this fall on U.S. trade policy. For your information, I am enclosing a copy of the press release announcing the subject matter of the hearing.

As your agency has been advised, the hearing will begin on Wednesday, October 28, and continue through Tuesday, November 3, as necessary. During this period the Subcommittee will receive testimony only from Administration and other public witnesses. Witnesses will be scheduled for morning appearances, continuing in the afternoon as necessary to complete discussion. The second phase of the hearing will consist of testimony from invited private sector witnesses, to be held at a later date as the full Committee's schedule permits.

The basic framework of the hearing will be to determine, first, what U.S. trade policy is, what U.S. trade interests and objectives are, and how U.S. trade policy is made and implemented; second, what are the trade problems and the international trade environment we face in the 1980's and beyond, and how might they be influenced by the United States or resolved; and, third, whether existing U.S. policies and legislative tools and their administration and international trade institutions are adequate to meet the challenge, and what changes may be necessary or desirable. Within this context, the hearing will focus in-depth on specific trade issues and policies and on the administration of U.S. trade laws.

Honorable Paul A. Volcker  
October 5, 1981  
Page Two

Within this framework, the following subjects will be among the areas of major focus:

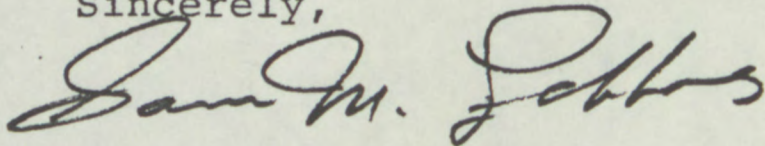
-- The near and long-term outlook for the U.S. balance of trade and payments, particularly in relation to exchange rate changes and the impact of Administration monetary, fiscal, and other domestic economic policies; the impact of international bank lending policies on U.S. exports.

-- The role of inflation and budget considerations in determining trade policy; the extent trade implications are considered in the development of U.S. monetary and other economic policies; the role of trade policy in addressing balance of trade and payments deficits.

-- The nature and adequacy of Administration economic policies to maintain and restore U.S. domestic and export competitiveness and to deal with structural adjustment problems, particularly in high technology sectors, including the roles of the free market and of industrial policies.

Your participation in a panel on these subjects with representatives from USTR, the Department of the Treasury, and the Council of Economic Advisers at a mutually convenient date between October 29 and November 3 would make a valuable contribution to Congressional understanding of the U.S. international trade position and the Administration's policy response.

Sincerely,



Sam M. Gibbons  
Chairman

SMG/MJWc  
Enclosure

FOR THE PRESS  
FOR IMMEDIATE RELEASE  
AUGUST 7, 1981

SUBCOMMITTEE ON TRADE PR#10  
COMMITTEE ON WAYS AND MEANS  
U.S. HOUSE OF REPRESENTATIVES  
WASHINGTON, DC 20515

CHAIRMAN SAM M. GIBBONS (D-FLA.), SUBCOMMITTEE ON TRADE  
COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES  
ANNOUNCES OVERSIGHT HEARINGS ON U.S. TRADE POLICY

Representative Sam M. Gibbons (D-Fla.), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee will hold oversight hearings in late September or in October on U.S. trade policy, including policy objectives, development, coordination and administration; administration and adequacy of U.S. trade laws; trade agreements policy, implementation, and enforcement; and specific trade policy issues.

Specific dates, times, location, and format of the hearings will be announced as soon as possible.

The hearings will be limited to testimony from invited witnesses representing the Administration and the interested public on the following illustrative list. The Subcommittee will welcome suggestions or proposals regarding policies or programs in addition to the topics listed.

1. U.S. trade policy framework, development, coordination, and administration.

-- Elements and objectives of United States trade policy, and their relationship to policy goals of major foreign trading partners;

-- U.S. competitive position overall and for major sectors in the near and long-term;

-- Role and functions of the U.S. Trade Representative and of other Executive branch agencies in trade policy development and administration, interagency trade policy coordination;

-- Role of non-trade agencies and of the private sector in developing trade policy;

-- Relationship of trade policy goals to non-trade considerations (e.g., national security, foreign policy, inflation, employment, budget).

2. Multilateral and bilateral trade agreement policy, issues, and implementation.

-- Multilateral Trade Negotiations agreements, in particular the agreements on government procurement (including NTT agreement with Japan), subsidies/countervailing duties (including U.S. subsidy commitment and countervailing duty policy toward developing countries), antidumping, customs valuation, product standards, and civil aircraft: Implementation, monitoring and enforcement by Executive branch agencies (including the Foreign Commercial Service); foreign government compliance; GATT dispute settlement;

-- GATT and OECD issues and work programs on remaining trade barriers and international trading rules (trade in services, international safeguards agreement, counterfeiting code, rules of origin, international fair labor standards, agriculture, steel, export financing, etc.);

(MORE)

-- Bilateral trade objectives and issues (e.g., Japan, European Communities, Canada, Mexico); relationship of bilateral arrangements to a multilateral trading system.

3. Domestic trade policy, including administration and adequacy of U.S. trade laws and industry competitiveness policies; specific international trade policy goals and issues.

-- Administration and adequacy of U.S. trade laws, in particular, import relief, section 337, section 301, antidumping (including steel trigger price mechanism), countervailing duties, customs, agricultural laws;

-- Industrial policy and analysis, including trade monitoring; productivity and technology improvement for domestic and export competitiveness; structural adjustment measures; developments in major industry sectors (e.g., aircraft, electronics and telecommunications, steel, automotive, textiles, including renewal of the Multifiber Arrangement);

-- Export policy and administration, including legislation on trade disincentives; export promotion efforts, export financing, and export controls;

-- Investment policy and issues, including trade distorting incentives and disincentives (e.g., foreign-domestic content and performance requirements);

-- Developing country policy and issues, including Caribbean Basin policy, Generalized System of Preferences, North/South issues, and commodity agreements; East/West trade policy.

Testimony will be received by the Subcommittee from invited public witnesses following appearances by officials from the Executive branch. Any interested person or organization may file a written statement for inclusion in the printed record.

Further details will be announced in a future press release.

\*\*\*\*\*



October 28, 1981

The Honorable Albert Lee Smith  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Smith:

Thank you for your letter of October 1 concerning the treatment of real estate brokers under the revised Regulation Z (Truth in Lending). You are concerned that real estate brokers will be considered to be arranging credit in seller-financed transactions and therefore required to give Truth in Lending disclosures.

The Board recently considered the issue of what "arranging credit" means and has issued a proposal that deals with determining what activities constitute arranging credit. In the proposal (a copy of which is enclosed) the Board requests comment on a number of possible factors that might be considered in determining what it means to arrange credit. Some of these factors include: involvement in developing or negotiating credit terms and helping to complete credit documents; transmitting or conveying the terms of the offer; procuring or soliciting a credit extender; advising the credit extender or consumer about the financing terms; and whether or not a fee is involved.

In the proposal the Board specifically requests comment on whether real estate brokers who assist in seller financing should be considered arrangers of credit and subject to Truth in Lending disclosure responsibilities. As I am sure you are aware, Senator Garn has introduced a bill, S. 1720, that would exclude arrangers of credit from the Truth in Lending Act. This would serve to relieve real estate brokers involved in seller-financed transactions from disclosure responsibility under the Act.

We look forward to receiving any comments that you or your constituents may have on the Board's proposal.

Sincerely,

S/Paul A. Volcker

MPE:CO:pjt (#V-283)  
bcc: Maureen English  
Mrs. Mallardi (2)

Enclosure (p.r. dtd. 10/20/81)

Subject to be considered at Board Meeting 10/2

ALBERT LEE SMITH, JR.  
6TH DISTRICT, ALABAMA

1723 LONGWORTH HOUSE OFFICE BUILDING  
WASHINGTON, D.C. 20515  
(202) 225-4921

R. T. GREGG  
ADMINISTRATIVE ASSISTANT

1800 FIFTH AVENUE NORTH  
BIRMINGHAM, ALABAMA 35203  
(205) 254-1525

COMMITTEES:

BUDGET

VETERANS' AFFAIRS



# Congress of the United States

## House of Representatives

### Washington, D.C. 20515

October 1, 1981

#283

BOARD OF GOVERNORS  
FEDERAL RESERVE SYSTEM  
1981 OCT - 1 PM 11:27  
OFFICE OF THE CHAIRMAN

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

Dear Mr. Chairman:

The housing industry, as you well know, is suffering from a malaise caused by high interest rates. No longer can the average American family afford to buy a home. Every industry associated with housing is severely depressed. At a time when the policy of the U. S. Government is to stimulate the economy with a comprehensive package of tax cuts and budget reductions as well as to reduce the regulatory burden which has choked American business, it seems inappropriate that a regulation proposing to define real estate brokers as "arrangers of credit" (which makes them obligated to provide all truth in lending disclosures in seller-financed transactions) is under serious consideration at this time. I do not take issue with the purposes of truth in lending legislation. I believe its impact will continue to be generally positive, especially with the passage in 1980 of amendments simplifying the Truth In Lending Act. And as you know, Senator Garn, Chairman of the Senate Banking Committee, has stated this result was clearly not the focus of the Senate Banking Committee when it began the task of simplifying truth in lending in 1977, nor when it discussed the specific problem of "multiple creditors."

The implications for the real estate industry, especially at this time, ought to be seriously considered with regard to costs and potential liability produced by unavoidable compliance errors. Also of great concern to me is the costs of administering this program.

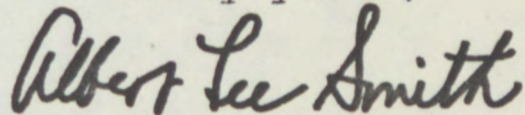
The National Board of Realtors has proposed delaying implementation of the effective date of the revised Regulation Z until April 1, 1983. This seems to be the most sensible solution, especially in light of current market conditions. It would give

The Honorable Paul A. Volcker  
Page Two  
October 1, 1981

the real estate industry time to fully investigate and resolve potential problems associated with the "arranger of credit" issue. I, therefore, respectfully request you to consider delaying implementation of the revised Regulation Z, especially since there is no widespread evidence of consumer deception with regard to seller-financed transactions.

With best wishes, I am

Sincerely yours,



ALBERT LEE SMITH, JR.  
Member of Congress

ALS/ro

October 26, 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:

I am writing to express strong support for H.R. 4603, the Deposit Insurance Flexibility Act. As we know, the thrift industry is undergoing substantial strain, and this bill would enhance the powers of the supervisory authorities to deal with problem situations as they may arise.

Essentially, the bill augments the existing powers of the regulatory agencies in two ways. First, it extends the capital infusion authority of the insurance agencies. Second, it clarifies and broadens the merger and acquisition arrangements available to the regulators. These provisions are important for providing assistance to thrift institutions and for managing the resources of the insurance funds.

This is a limited bill that is modest in scope and temporary in duration. It is not designed to bring about fundamental change or reform in the financial system. However, it is needed at the present time to arm the supervisory agencies with necessary tools and flexibility in a period of severe stress and strain on our financial institutions. I would hope that Congress would act promptly to enact this legislation. Such action would not and should not prejudice or eliminate the need for subsequent consideration in the near term of fundamental issues relating to structural changes in the financial system.

Sincerely,

S/ Paul A. Volcker

DS:DJW:pjt  
bcc: Mrs. Mallardi (2) ✓



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

OCT 26 1981

PAUL A. VOLCKER  
CHAIRMAN

*Chairman Volcker*  
**V-258**

The Honorable Benjamin S. Rosenthal, Chairman  
Commerce, Consumer, and Monetary Affairs  
Subcommittee  
Committee on Government Operations  
Rayburn House Office Building, Room B-377  
Washington, D.C. 20515

Dear Chairman Rosenthal:

I am pleased to respond to your recent request for information for use by the Commerce, Consumer and Monetary Affairs Subcommittee in connection with its inquiry into federal regulatory agency enforcement of the Community Reinvestment Act.

In your letter of September 15, 1981, you requested the CRA portions of the most recent two examinations conducted by the Board with respect to Chemical Bank, Manufacturers Hanover Trust Company and Bankers Trust Company, all of New York City; copies of all comments received by the Board and by the three above-mentioned institutions regarding CRA statements or the performance of these institutions in helping to meet credit needs of their communities for the period covered by the past two examinations; and a list of all applications by these institutions for new branches, acquisitions or mergers, together with any determinations made by the Board based on CRA considerations for the period covered by the past two examinations, including comments made upon these applications by the Board's staff.

The list you requested of applications by the three institutions is enclosed. No applications from Bankers Trust Company were acted on in the period specified in your letter. Only three applications raised CRA issues. We will provide you with copies of the Board and Reserve Bank orders in these cases, and the one other in which the Board issued an order, those portions of the staff and Reserve Bank memoranda that discuss CRA issues, as well as public and other comment letters associated with the applications that are in our files. For reasons set forth more fully below, the staff has deleted the few references to confidential examination report information from the memoranda being provided to you.

The Honorable Benjamin S. Rosenthal, -2-  
Chairman

Letters submitted directly to the three named banks, by members of the public for inclusion in their CRA files, are not routinely copied to the Board or to the Federal Reserve Bank of New York. Accordingly, the public comment letters we are also providing to you--consisting of all that we have, including letters relating to the four referenced applications--may not include all letters submitted directly to the banks by members of the public. Such documents are on public file in each of the banks. If you wish, my staff will assist in any way it can in the event the Subcommittee's staff encounters difficulty obtaining these documents from the banks.

The above represents most of the information contained in Board files that is responsive to your request. I believe, however, that it would be inappropriate for me to transmit CRA portions of the two most recent consumer affairs reports of examination of the three banks in response to the request contained in your September 15 letter. This judgment is based upon longstanding Board practice and policy regarding the confidentiality of examination report information.

The effectiveness of the examination process requires that examinations be conducted under circumstances that promote the greatest possible freedom of communication between bank officials and examiners, as well as the greatest freedom of expression by the examiners themselves. We strongly believe that these objectives can be accomplished only by preserving rigid confidentiality as to reports of examination. If bank officials have cause to believe that information they provide may be exposed to others outside the examining agency, or if examiners believe that their analyses and judgments will be subject to outside scrutiny, inhibitions and distortions of expression will inevitably be created, with the likely result that the effectiveness of the examination process will be impaired.

I hope that the enclosed materials will be helpful to your Subcommittee.

Sincerely,

bcc: Messrs. Bradfield  
Bleier  
Siciliano  
Winn  
Ms. Gadziala

SLS:blchase

BENJAMIN S. ROSENTHAL, N.Y., CHAIRMAN  
JOHN CONYERS, JR., MICH.  
EUGENE V. ATKINSON, PA.  
STEPHEN L. NEAL, N.C.  
DOUG BARNARD, JR., GA.  
PETER A. PEYSER, N.Y.

Action copies sent to Mr. Bradfield and Miss Hart  
for coordination of reply  
NINETY-SEVENTH CONGRESS

LYLE WILLIAMS, OHIO  
HAL DAUB, NEBR.  
WILLIAM F. CLINGER, JR., PA.  
JOHN HILER, IND.

MAJORITY—(202) 225-4407

# 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

#258

RECEIVED  
OFFICE OF THE CHAIRMAN  
1981 SEP 16 AM 11:40  
BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

September 15, 1981

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

Dear Mr. Volcker:

The Commerce, Consumer and Monetary Affairs Subcommittee is conducting an inquiry into federal regulatory agency enforcement of the Community Reinvestment Act (CRA). In this connection, please make available to the subcommittee the CRA portions of the most recent two examinations conducted by your agency for the following institutions: Chemical Bank, Manufacturers Hanover Trust Co. and Bankers Trust Co., all located in New York City.

Also, please supply copies of all written comments received by your agency and by these institutions about the CRA statements or the performance of these institutions in helping to meet credit needs of their communities for the period covered by the past two examinations.

Finally, please supply a list of all applications by these institutions for new branches, acquisitions or mergers together with any determination made by your agency based on CRA considerations for the period covered by the past two examinations; including comments made upon these applications by your field office staffs.

Please have your staff contact Theodore J. Jacobs of the subcommittee staff.

Sincerely,

Benjamin S. Rosenthal  
Chairman

BSR:jv

October 26, 1981

The Honorable Mark O. Hatfield  
United States Senate  
Washington, D. C. 20510

Dear Senator Hatfield:

Thank you for your letter of September 30 requesting comment on the enclosed correspondence from your constituent, Ms. Nancy L. Cole, regarding the cost of producing United States currency and coin.

The Federal Reserve System pays the Treasury Department \$20.60 per thousand notes--a little over 2¢ each--without regard to the face value of the note. Federal Reserve notes, incidentally, are the only type of currency now produced for circulation. They are printed exclusively by the Treasury's Bureau of Engraving and Printing, and the \$20.60-per-thousand price reflects the Bureau's full cost of production. Federal Reserve notes are printed in \$1, \$2, \$5, \$10, \$20, \$50, and \$100 denominations only; notes of \$500, \$1000, \$5000, and \$10,000 denominations were last printed in 1945.

Coins are produced by the Treasury's Bureau of the Mint, and its costs in fiscal year 1980 were as follows:

Pennies	-	\$7.00 per thousand
Nickels	-	\$19.00 per thousand
Dimes	-	\$9.55 per thousand
Quarters	-	\$21.71 per thousand
Halves	-	\$40.41 per thousand
Anthony Dollar	-	\$30.94 per thousand

The Eisenhower Dollars were last minted in 1979 at a cost of \$83.13 per thousand.

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

Sincerely,

(Signed) Donald J. Winn

JHE:TEA:CO:vcd (#V-287)  
bcc: Mr. Epps  
Mr. Allison  
Mrs. Mallardi ✓

Donald J. Winn  
Assistant to the Board

Enclosure



MARK O. HATFIELD

Action assigned Mr. Allison  
BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

OREGON

1981 OCT - 21 1981  
United States Senate

RECEIVED  
OFFICE OF THE CHAIRMAN

WASHINGTON, D.C. 20510

September 30, 1981

#287

Mr. Paul Volker  
Federal Reserve System  
21st Street & Constitution Avenue  
Washington, D.C. 20551

Dear Mr. Volker:

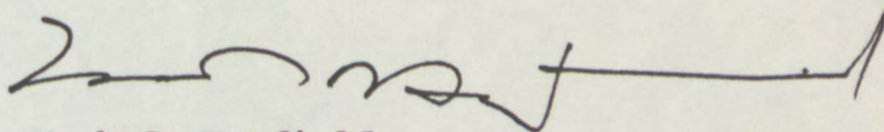
Enclosed please find a copy of the communication I have received from Ms. Cole. Your comments on this matter would be appreciated.

So that I may furnish this individual with an appropriate response, please return the enclosed correspondence with your reply.

Thank you for your attention to this inquiry.

Kind regards.

Sincerely,



Mark O. Hatfield  
United States Senator

MOH/rsc  
Enclosure  
22064

September 22, 1981

Senator Mark O. Hatfield  
United States Senate  
Committee on Appropriations  
Washington, D. C. 20510

Dear Senator Hatfield:

How much does each denomination of money listed below cost the Federal Reserve to make?

1. One dollar bill
2. Two dollar bill
3. Five dollar bill
4. Ten dollar bill
5. Twenty dollar bill
6. Fifty dollar bill
7. One-hundred dollar bill
8. One-thousand dollar bill
9. Ten-thousand dollar bill
10. All Federal Reserve Notes
11. Penny
12. Nickel
13. Dime
14. Quarter
15. Fifty cent piece
16. Susan B. Anthony Dollar
17. Eisenhower Dollar

If the Federal Reserve does not make all of these, who does?

If you can not answer these questions, please forward this letter to the person or persons who can.

Thanking you in advance.

*Nancy L. Cole*  
RS

Nancy L. Cole  
12 S. E. 196th  
Portland, Oregon 97233



**BOB DOLE**  
**UNITED STATES SENATE**



October 23, 1981

Dear Paul:

I am delighted that you were able to come for breakfast this morning with members of the Senate Finance Committee.

The breakfast was both productive and enjoyable. I believe a great deal of useful information is gained by such informal get togethers.

Sincerely yours,

BOB DOLE

*Very good  
to have!*

The Honorable Paul A. Volcker  
Chairman  
Federal Reserve System  
Washington, D.C. 20051

1981 OCT 28 09:11-25

Chmn

October 23, 1981

The Honorable George E. Danielson  
Chairman, Subcommittee on Administrative  
Law & Governmental Relations  
Committee on the Judiciary  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Mr. Chairman:

I am pleased to submit views responding to the Executive override of "major rules" provision contained in H.R. 746, as amended by your subcommittee. On several occasions in the past the Board has expressed to the Congress and the Administration consistently strong support for efforts to improve the regulatory process and to enhance public participation in regulatory proceedings. I am pleased to do so once again.

H.R. 746, as amended, contains a provision which would allow the President to designate a proposed agency action as a "major rule" thus triggering very complex procedures, such as a series of detailed and complex cost benefit analyses. I am very concerned that these new requirements would result in a substantial increase in paperwork, additional costly informational burdens on both the agency involved and the public, judicial challenges, and, most important, lengthy delays in administrative action. It is my judgment that the objectives of regulatory simplification and avoidance of unnecessary regulation would not be accomplished by an additional layer of administrative requirements. Executive override, as applied in the "major rule" concept, would only add still another and unnecessary complexity at a time when we are working towards simplification and streamlining of regulatory rulemaking.

However, there is an additional reason to be concerned about Executive override in the rulemaking process, particularly with respect to the operations of the Federal Reserve System. As I know you are aware, the Congress created the Federal Reserve System in 1913 as an independent entity in order to emphasize the insulation of the credit regulation process from the function of financing the government. Long experience demonstrates that the separation of these two functions can make a vital contribution to a more stable and effective domestic monetary system. Therefore, I would be particularly concerned about Executive override as applied to the functions of the Federal Reserve System.

This is not only true because of the broad policy considerations I have just outlined, but also because of the fact that this would run

FOR FILES  
Mark

The Honorable George E. Danielson  
Page Two

directly counter to one of the major objectives that Congress sought to achieve in creating specialized agencies. The significant mandate that the Executive would receive under the override concept to interfere in the regulatory process could significantly defeat the purpose of assuring regulation based on expert judgment on the merits of both general policy and particular cases.

Because of the significance of the Executive override provisions I have limited my comments in this letter to this provision. Additional comments on other aspects of the bill will be submitted separately.

Sincerely,

S/Paul A. Volcker

MB:MEABMmam  
10/23/81

October 23, 1981

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

Dear Chairman Annunzio:

Thank you for sending us your views on the proper treatment of cash discounts in the staff commentary on Regulation Z. I want to assure you that we both have the same objective in assuring that all consumers are treated equitably and fairly. Although the final commentary which has just been issued (a copy of which is enclosed) is somewhat different than what you suggested, I can assure you that we considered your concerns very carefully. In the end we felt compelled to adhere to the position that had been proposed for public comment.

So that you will have the benefit of the staff's thinking on this issue, I have asked that they prepare the enclosed discussion of the issue. Although in this case our views may differ, we always value your advice, and we hope that you will feel free to continue to provide us with the benefit of your insight.

Sincerely,

S/ Paul

**Enclosures**

GG:DS:pjt (#V-235)

bcc: Mr. Hurst

Mr. Garwood

Mrs. Mallardi (2) ✓

## "CASH CARD DISCOUNTS"

The cash discount amendments to the Truth in Lending Act provide that "any discount from the regular price offered by the seller for the purpose of inducing payment by cash, checks, or other means not involving the use of an open-end credit plan or a credit card shall not constitute a finance charge . . . if such discount is offered to all prospective buyers . . ." (§ 167(b)).

The suggestion has been made that merchants offering discounts under a "cash card" plan where only members of the plan get the discount must treat the amount of the discount as a finance charge to credit purchasers who pay full price. The Regulation Z commentary, on the other hand, states that merchants may offer special discounts to certain groups of customers (even if cash payment is also required to get the discount) without the discount becoming a finance charge to other purchasers. This position is based on the fact that there are cash customers (non "cash card" holders) who pay the same price as credit customers who are members of the special group ("cash card" holders). As a result, the discount cannot properly be considered a cost of credit, a basic test of what constitutes a finance charge, since the full price is paid both by cash purchasers who do not belong to the "cash card" plan and credit purchasers.

This position is consistent with the Cash Discount Act. The act allows discounts that would otherwise be finance charges to be excluded if certain conditions are met, including that they be made available to all prospective purchasers. However, it does not make finance charges of discounts that do not otherwise meet the definition. Discounts that are

based purely on whether cash or credit is used fit the definition of finance charge. On the other hand, the discount addressed in the commentary is a discount based upon other criteria -- membership in a particular club or organization -- that, in addition, requires cash payment. To the extent it is the intent of Congress to prohibit a merchant from offering a special club member discount that requires cash payment, a clear statutory provision to that effect is probably needed.

It should be noted that a position other than that reflected in the commentary could cause problems for merchants, consumers, and others involved in special discount programs, and would probably result in the discontinuation of the few discount plans of any kind currently available. This would appear to frustrate the overall objective of Congress to encourage discounts, and seems at odds with the general desire to reduce regulatory burden.



ction assigned Janet Hart

BANK ANTONIO, ILL., CHAIRMAN

FERNAND J. ST GERMAIN, P.I.  
HENRY B. GONZALEZ, TEX.  
JOSEPH G. MINISH, N.J.  
BILL PATMAN, TEX.

THOMAS B. EVANS, JR., DEL.  
CHALMERS P. WYLIE, OHIO  
GEORGE C. WORTLEY, N.Y.  
GREGORY W. CARMAN, N.Y.

# U.S. HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

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

ROOM 212 HOUSE OFFICE BUILDING ANNEX No. 1

WASHINGTON, D.C. 20515

August 20, 1981

#235

BOARD OF GOVERNORS  
FEDERAL RESERVE SYSTEM  
1981 AUG 20 PM 5:10  
OFFICE OF THE CHAIRMAN

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

Dear Mr. Chairman:

As you know, I am a strong supporter of discounts for consumers who pay by cash, and was the original sponsor of the recently enacted Cash Discount Act. It has come to my attention that the Board's proposed official staff commentary on Regulation Z would, by its interpretation of the term "finance charge", appear to permit and perhaps even encourage, circumvention of the Cash Discount Act.

A crucial purpose of the Cash Discount Act was to stop cash discount discrimination. It was to have cash discounts offered to every prospective customer, not to just a select few. If a merchant has a cash discount program and a customer pays cash, he should get the cash discount. The cash customer should not have to have a special card, be a member of a club or organization or have to meet any kind of condition to obtain a cash discount. Any conditions on a cash discount program besides cash payment, result in unfair discrimination against all cash customers who are refused the discount. Yet, the Board's proposed official staff commentary appears to permit cash discount discrimination.

Under the law, a seller who offers a cash discount that does not meet the requirements of the Cash Discount Act must treat the amount of the discount as a finance charge with respect to credit card customers and provide Truth in Lending disclosures. The Board's proposed official staff commentary interpretation of "finance charge" appears to hold that a cash discount offered to only a particular group of customers is not a finance charge with respect to a credit card customer, even though such a cash discount would violate the Cash Discount Act because it is not offered to all prospective customers. This would result in circumvention of the Cash Discount Act and the Truth in Lending Act. It would turn the Cash Discount law on its head.

Honorable Paul A. Volcker  
Page Two

An illustration of why such a cash discount is a finance charge is that, in a cash discount program such as several organizations have, a customer who is a member of the program, but pays by credit card must pay a higher amount (the amount of the discount) for an item than another member who pays by cash. This discount constitutes a finance charge because it is not a charge "of a type payable in a comparable cash transaction".

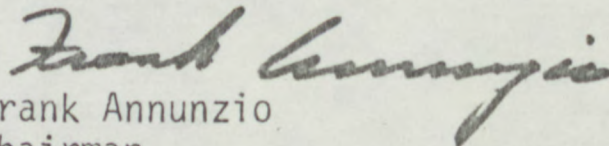
Any cash discount that for any reason is offered in a manner that is not in conformity with the Cash Discount Act is a finance charge imposed upon a credit card customer. Consequently, I believe the Board should withdraw this interpretation of finance charge from the official staff commentary to prevent circumvention of the Cash Discount Act and the Truth in Lending Act.

Furthermore, since the Cash Discount Act repealed any rule or regulation of the Board pursuant to section 167(b) of the Truth in Lending Act and regulatory authority previously in section 167(b), the proposed official commentary should not contain any language that interprets a cash discount.

I would appreciate your careful consideration of my comments.

With every best wish,

Sincerely,



Frank Annunzio  
Chairman



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

October 22, 1981

PAUL A. VOLCKER  
CHAIRMAN

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

Dear Senator D'Amato:

Thank you for your letter of September 23 requesting comment on S. 1508, which would exempt time deposits of international banking facilities (IBFs) from deposit insurance and insurance assessments under the Federal Deposit Insurance Act.

Before commenting on the specific provisions of S. 1508, I would like to reemphasize that the Board believes that the establishment of IBFs at United States banking offices will enhance the international competitive position of banking institutions located in the United States and in addition, hopefully, increase domestic employment in the financial sector of the economy. Accordingly, the Board takes a major interest in legislation, such as yours, aimed at improving the operating effectiveness of the IBFs.

Basic to our analysis of S. 1508 is the fact that IBFs are intended to operate in a similar manner to offshore branches currently employed by institutions operating in the United States. A natural and logical consequence of this concept is to approach the treatment of IBF deposits as foreign deposits for purposes of both deposit insurance and insurance assessments. Under present law, deposits at foreign branches of U.S. banks are not now subject to insurance or insurance assessment, accordingly, I feel that it is both appropriate and necessary that similar treatment should be accorded to IBF deposits. Should, in the future, a compelling case be made for the application of deposit insurance to overseas deposits of branches of U.S. banks, then it would follow that deposit insurance and insurance assessments should be applied to IBF deposits.

I would also point out two considerations which played a significant role in the Board's analysis of the proposal contained in S. 1508--the first relates to the need for deposit insurance and the second affects the competitive impact of insurance assessments. On the first point, I would note that IBF deposits must be in minimum denominations of \$100,000, and in almost all cases would be expected to exceed the maximum

The Honorable Alfonse D'Amato  
Page Two

level of deposit insurance. Also, depositors with resources of this magnitude are not generally in the class that needs the protection of deposit insurance, but are more in the category of the sophisticated investors able to protect their interests through knowledge of the marketplace.

On the second point, as you point out in your statement on the bill, the international financial marketplace is highly competitive and the imposition of insurance assessments on IBF deposits would put U.S. banks at a competitive disadvantage against their foreign counterparts who are not subject to this cost. This factor was also one of the reasons for the Board's decision to exempt IBF deposits from reserve requirements. As you again point out, the narrow margins in international markets make it all the more important to avoid putting the branches of U.S. banks at a competitive disadvantage, especially when the extra costs could impair their ability to compete.

Thus, I believe, it is both necessary and desirable to exclude IBF deposits from deposit insurance and assessment. However, to assure equality of treatment for both IBF and foreign deposits, it would be desirable to draft the proposed legislative action to provide the same treatment for IBF deposits as for the foreign deposits of the branches of United States banks.

I hope you will find these comments useful in your further consideration of this legislation.

Sincerely,

S/ Paul

MB:PSP:DS:pjt (#V-274)  
bcc: Mr. Bradfield  
Mr. Pilecki  
Mrs. Mallardi (2)  
Legal Records (2)

GEORGE HANSEN  
SECOND DISTRICT, IDAHO

1125 LONGWORTH BUILDING  
WASHINGTON, D.C. 20515  
TEL.: (202) 225-5531

COMMITTEES-SUBCOMMITTEES:

- AGRICULTURE
- FORESTS, FAMILY FARMS,  
AND ENERGY
- LIVESTOCK, DAIRY, AND POULTRY
- DOMESTIC MARKETING, CONSUMER  
RELATIONS, AND NUTRITION
- BANKING, FINANCE AND  
URBAN AFFAIRS
- DOMESTIC MONETARY POLICY  
(RANKING MEMBER)
- FINANCIAL INSTITUTIONS  
SUPERVISION,  
REGULATION AND INSURANCE
- INTERNATIONAL TRADE, INVESTMENT  
AND MONETARY POLICY



Congress of the United States  
House of Representatives

Washington, D.C. 20515

October 21, 1981

IDAHO DISTRICT OFFICES:  
UPPER SNAKE RIVER VALLEY  
Box 740, IDAHO FALLS, IDAHO 83401  
TEL.: 523-5341

SOUTHEASTERN IDAHO  
250 S. 4TH, SUITE 220  
POCATELLO, IDAHO 83201  
TEL.: 236-6980

MAGIC VALLEY  
1061 BLUE LAKES BOULEVARD NORTH  
TWIN FALLS, IDAHO 83301  
TEL.: 734-6466

WESTERN IDAHO  
442 BORAH FEDERAL BUILDING  
304 NORTH 8TH STREET  
BOISE, IDAHO 83701  
TEL.: 334-1876

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

Dear Mr. Chairman:

I would deeply appreciate having an autographed picture  
of you for my "good-guy" rogues gallery.

Many thanks in advance for your cooperation and assist-  
ance. It is a pleasure to be your colleague in govern-  
ment service.

Sincerely,

GEORGE HANSEN  
Member of Congress

GVH:gss

RECEIVED  
OFFICE OF THE CHAIRMAN

1981 OCT 22 AM 9:13

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

*sent  
10/23/81  
am*

RUDY BOSCHWITZ  
MINNESOTA

25 COTTON FIBER  
U.S.A.  
**United States Senate**

WASHINGTON, D.C. 20510

October 21, 1981

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

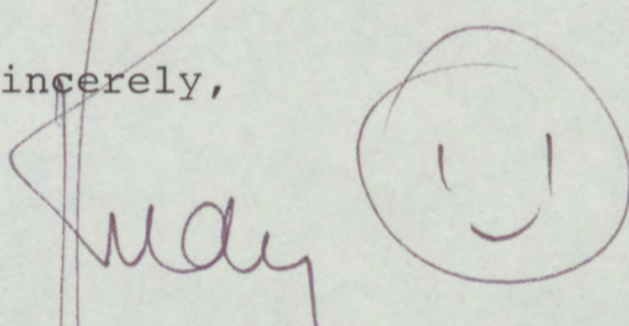
BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
1981 OCT 26 PM 10:55  
RECEIVED  
OFFICE OF THE CHAIRMAN

Dear Chairman Volcker:

I'd like to express my appreciation for your assistance on the radio interview. I know (from personal experience!) how difficult it is to set aside an hour in a day that is always too short to get everything done, and I thank you for taking that time to come up to the Hill.

It has indeed been a pleasure to get together with you and discuss issues in an informal fashion. It has helped me understand the difficult task you face, and I hope my support has been and will continue to be useful to you.

Sincerely,



Rudy Boschwitz  
United States Senator

Permanized

October 21, 1981

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

Dear Chairman Garn:

Thank you for your letter of September 14 concerning an inquiry you received from Mr. Ted Wetterau, Chairman of Wetterau Incorporated.

Chairman Volcker received a similar letter from Mr. Wetterau, and I am pleased to enclose a copy of the Chairman's response, along with the enclosure.

As you will see in Chairman Volcker's response, we have forwarded Mr. Wetterau's letter to the Chicago Regional Office of the Comptroller of the Currency since that office would have supervisory authority over the loan by Continental Illinois. I am also forwarding a copy of your letter to the Congressional Liaison Office at the Office of the Comptroller of the Currency here in Washington.

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

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn  
Assistant to the Board

Enclosures  
CO:AFC:DJW:pjt (#V-256)  
bcc: Congressional Liaison  
OCC

Mrs. Mallardi ✓

October 6, 1981

Mr. Ted C. Wetterau  
Chairman of the Board and  
Chief Executive Officer  
Wetterau Incorporated  
8920 Pershall Road  
Hazelwood, Missouri 63042

Dear Mr. Wetterau:

I have received your letter concerning the tender offer for the shares of Wetterau Incorporated by Empire Incorporated. As I understand it, Wetterau Incorporated appears on the current Board's list of OTC Margin Stocks. Bank credit to purchase Wetterau stock, therefore, is regulated under the Board's Regulation U (12 CFR 221) if a loan is made by a bank to purchase the shares and the loan is secured, directly or indirectly, by any stock.

We were unable to determine from the facts in your letter the applicability of Regulation U to the Continental Illinois loan you mentioned or whether the loan involves an unsafe or unsound lending practice. Accordingly, we are taking the liberty of forwarding a copy of your letter and this letter to the Chicago Regional Office of the Comptroller of the Currency as Continental Illinois is under that agency's supervisory jurisdiction. Additional inquiries should be addressed to that office.

For your information, I am enclosing a copy of a letter from our staff to a U.S. District Court in 1976 in a tender offer case which also involved Empire Corporation.

Sincerely,

Paul A. Volcker

Enclosure



*Mr. Shapiro*

May 28, 1976

The Honorable Frank A. Kaufman, Judge  
United States District Court for the  
District of Maryland  
United States Court House  
Baltimore, Maryland 21202

Dear Judge Kaufman:

Re: Pargas Inc. v. Empire Gas Corporation,  
et al; Civil Action No. K76-676, United  
States District Court for the District  
of Maryland

The Court has requested the views of the Office of the General Counsel on four questions relating to an issue raised in the above-captioned case. We have been asked by the Board's General Counsel to respond to this request as this Division has been assigned the responsibility for the administration and interpretation of the Board's regulations under section 7 of the Securities Exchange Act of 1934 ("Exchange Act").

A claim has been made by Pargas, Inc. ("Pargas"), in an action seeking injunctive and other relief, that a loan to finance a tender offer by Empire Gas Corporation ("Empire") for the stock of Pargas, a security listed on the New York Stock Exchange, was arranged by a broker-dealer in violation of the Board's margin regulations.

The Court has propounded four specific questions with respect to that claim and asked the Board's staff to aid its deliberations by responding to them. It should be noted that the following views are solely those of the Board's staff and that because of time constraints, it has

not been possible to present these questions to the Board for its consideration. The questions and our responses follow:

QUESTION NO. 1

Does Regulation T apply to tender offers in general?

RESPONSE TO QUESTION NO. 1

Yes. Except as provided in section 220.7(a) of the regulation, which is quoted below, Regulation T applies to credit extended, maintained or arranged by a broker or dealer for the purpose of purchasing or carrying any securities (other than exempted securities). Accordingly, it is our opinion that Regulation T applies to credit used to purchase securities pursuant to a tender offer.

QUESTION NO. 2

Does Regulation T apply to the tender offer by Empire in this case?

RESPONSE TO QUESTION NO. 2

Section 220.7(a) of Regulation T (12 CFR 220.7(a)) states:

Arranging for loans by others. A creditor may arrange for the extension or maintenance of credit to or for any customer of such creditor by any person upon the same terms and conditions as those upon which the creditor, under the provisions of this Part, may himself extend or maintain such credit to such customer, but only upon such terms and conditions, except that this limitation shall not apply to the arranging by a creditor:

- (1) for a bank subject to Part 221 of this Chapter (Regulation U) to extend or maintain credit on margin securities or exempted securities, or
- (2) for any person to extend or maintain credit for the purpose of purchasing or carrying a security (including sale of a security with instalment payments or other credit features) in a trans-

action which is exempt from the registration requirements of the Securities Act of 1933 by virtue of section 4(2) of that Act (15 U.S.C. 77d(2)) provided, That:

- (i) the credit to be extended or maintained will not violate the provisions of Parts 207 and 211 of this Chapter; and
- (ii) the credit will not be used to purchase or carry a security that is publicly-held. For the purpose of this paragraph, a security shall be deemed to be "publicly-held" if it is (a) a security of a class that is registered, or will be required to be registered (assuming existing circumstances requiring registration continue to prevail) within 120 days after the last day of the fiscal year of the issuer, under section 12 of the Act or would be required to be registered except for the exemptions provided by paragraphs (2)(E) and (C) of subsection 12(g), or (b) a security of a class any portion of which was registered under section 5 of the Securities Act of 1933 (15 U.S.C. 77e) and in connection with which the issuer is required to file periodic reports under section 15(d) of the Act.

From the information we have received, the following alleged facts are relevant to our consideration of this question. Flyth, Eastman, Dillon & Co., Inc. ("Flyth, Eastman"), a broker-dealer, placed a telephone call to Continental Illinois National Bank & Trust Co. of Chicago ("Continental") for the purpose of obtaining the financing for a cash tender offer by Empire for the stock of Fargas. Subsequently, a loan commitment of \$50,000,000, was made to Empire by Continental. (Flyth, Eastman may also have participated in other telephone conversations or meetings concerning the tender offer). Because a question was raised as to whether or not the telephone call by Flyth, Eastman to Continental might be viewed as in contravention of Regulation 1, it was decided that the loan commitment should be permitted to lapse. Empire then contacted

Mercantile Trust Company; N.A. ("Mercantile") of St. Louis, Missouri, one of the two banks with which it had regular banking relations and an outstanding loan. Empire's other bank, First National Bank of Chicago, had previously rejected Empire's request for the financing. Mercantile, however, was a much smaller bank than Continental and was limited in what it could lend under banking laws to a sum considerably less than the \$50,000,000 needed. Mercantile was advised of the prior Continental commitment and the circumstances which led to its lapse. Mercantile, after agreeing to act as agent bank in the loan, decided that its participation must be limited to \$5,000,000; it therefore contacted Continental, one its principal correspondent banks, and received their agreement to participate in the loan for a sum of \$45,000,000.

Blyth, Eastman, comes within the term "creditor" which is defined in section 220.2(b) of Regulation T as "any broker or dealer including every member of a national securities exchange."

The term "customer" is defined in section 220.2(c) of Regulation T to include "any person or group of persons acting jointly, (i) to or for whom a creditor is extending, arranging [emphasis supplied], or maintaining any credit. . ." Under this definition, Empire would be a customer of Blyth, Eastman if the loan was arranged by Blyth, Eastman.

Accordingly, it is our opinion that Regulation T applies to this tender offer if the Court finds (1) that the activities of Blyth, Eastman in seeking to secure financing for the tender offer by Empire constituted an "arranging" of credit within the meaning of the Exchange Act and Regulation T and (2) that the Mercantile loan with a 90 per cent participation

by Continental, is, in fact, substantially the same credit as that initially committed by Continental. We regret that we are unable to offer more definitive advice in this response. It is our view that the facts, as ultimately determined by the Court, are critical to the answer.

QUESTION NO. 3

If there is an arranging in violation of Regulation T, is the borrowing pursuant to the loan so arranged a violation of Regulation X?

RESPONSE TO QUESTION NO. 3

No. Regulation X (12 CFR 204) was adopted by the Board to be effective November 1, 1971 in order to carry out the provisions of Title III of the Foreign Bank Secrecy Act (Public Law 91-508 enacted October 26, 1970). That Act amended section 7 of the Securities Exchange Act of 1934 ("Exchange Act") by requiring, for the first time, that borrowers comply with the margin regulations applicable to the appropriate category of lenders when obtaining credit for the purpose of purchasing securities.

Section 224.2(a) of Regulation X provides:

Credit obtained from within the United States.  
A borrower shall not obtain any purpose credit from within the United States unless he does so in compliance with the following conditions.

\* \* \* \* \*

(2) Credit obtained from a broker/dealer shall conform to the provisions of Part 220 (Regulation T), which is hereby incorporated in this part (Regulation X). When the term "broker/dealer" is used in this part (Regulation X), it means a person who is a broker or dealer, including every member of a national securities exchange, and includes a foreign branch or subsidiary of a broker/dealer."

(3) Credit obtained from a bank shall conform to the provisions of Part 221 (Regulation U), except for section 221.2(i). Except for such section, Part 221 (Regulation U) is hereby incorporated in this part (Regulation X). When the term "bank" is used in this part (Regulation X), it means a bank that is subject to Part 221 (Regulation U).

This provision of Regulation X makes it illegal for a borrower to obtain credit from a broker-dealer in excess of what the broker-dealer can lend. It does not appear that the specific language of Regulation X makes it illegal for the borrower to obtain credit "arranged" by a broker-dealer in excess of what the broker-dealer could extend, provided the credit terms comply with the provision of the regulation applicable to the lender, which in this case, would be Regulation U. We note, however, that an illegally arranged loan, although it may not violate Regulation X (because it does not violate Regulation U), could possibly be actionable through other rules of law, such as those concerned with "aiding and abetting". As stated by the Court in Bronner v. Goldson, 301 F. 2d 759, 763 (1st Cir. 1966):

...the policy against broker arrangement of otherwise proper loans can be enforced through the various administrative disciplinary sanctions provided by the Act, or by injunctive relief or even criminal prosecution as such sanctions may be applicable in particular circumstances to a broker or anyone who aids and abets his misconduct."

17 See also: Federal Reserve Board Interpretation at 12 CFR 229.111; Lundy v. Chemical Bank, 601 Fed. Sec. L. Rep. ¶ 95,300 (S.D.N.Y. 1975).

QUESTION NO. 4

If there is a violation of either or both regulations, what are the possible effects of such a violation on the loan and on (a) the broker-dealer who arranged it, (b) the borrower, and (c) the lending banks?

RESPONSE TO QUESTION NO. 4

It is our view, as stated in response to Question No. 3, that there would be no violation of Regulation X if a credit which a bank would be allowed to extend under the terms of Regulation U, is arranged by a broker in violation of section 220.7(a) of Regulation T. Furthermore, the effect of any violation on the loan itself appears to us to be a question for the Court to decide as it will involve a determination of the rights of the various parties concerned. We wish to indicate, however, our agreement with the reasoning of the Court in Alaska Interstate Company v. McMillan, 402 F. Supp. 532, 556 (D. C. Del. 1975), which ascribed to the Board a regulatory concern with credit flowing into the market which is obtained for a customer through the efforts of a broker-dealer. Accordingly, our discussion will be confined to the possible effects of a Regulation T violation on the broker-dealer, the borrower and the lending bank.

Effect on the broker-dealer

A broker-dealer who has arranged a prohibited loan, of course, violates Regulation T. It is our opinion that such a violation could subject the person to possible action by the Securities and Exchange Commission ("SEC") under section 21 of the Exchange Act, (15 U.S.C. 78u(d)), to possible rescission of any relevant contract under section 29(b) of that Act (15 U.S.C. 78cc(b)), to possible disciplinary action by any self-regulatory agency of which the broker-dealer is a member pursuant to section 6(b)(6) of

the Act, (15 U.S.C. 78f(b)(6)) as well as to suits brought under the implied right of action which the Courts have consistently recognized in this area when initiated by an aggrieved person under basic tort law which allows recovery to a proper person injured by a violation of a statute intended for the protection of persons of that class.<sup>2/</sup>

Effect on the borrower

If a loan has been illegally arranged, the borrower for whom the loan was arranged could be found liable for aiding and abetting a violation of Regulation T. It is our opinion that the borrower could be subject to injunctive action by the SEC under section 21 of the Act (15 U.S.C. 78u(d)) and to suits by a proper party brought under the implied right of action mentioned above based on tort law.

Effect on lending banks

It is our view that a bank should not participate in a loan which has been arranged by a broker-dealer in violation of section 220.7(a) of Regulation T, even though the loan would be permitted under Regulation U, because such act or practice would aid and abet a violation of section 7(c) of the Exchange Act (15 U.S.C. 78g(c)) and section 220.7(a) of Regulation T. If the appropriate federal banking regulatory agency had reasonable cause to believe that such participation was an unsafe and unsound practice in conducting the business of such bank or constituted a violation of the law, the banking agency could institute cease-

<sup>2/</sup> See Goldenberg v. Bache & Co., 270 F. 2d 675, 680 (C.A. 5, 1959).



and-desist proceedings pursuant to section 8(b)(1) of the Federal Deposit Insurance Act (12 U.S.C. 1818(b)(1)). The bank possibly could also be subject to an action brought by the SEC in its discretion under section 21(d) of the Exchange Act (15 U.S.C. 78u(d)) or a private suit by a proper party in the same manner as explained above.

Additional Information

The following additional information which may aid the Court in its deliberation is attached:

- (1) Board press release dated November 13, 1975, which announced an amendment to section 220.7(a) of Regulation T.
- (2) Board letter dated February 27, 1974, relating to the refinancing of bank loans, the proceeds of which were used to purchase stock, in which the Board concluded that it would not regard section 220.7(a) of Regulation T as applicable if the broker-dealer withdrew from the transaction and limited his future relations with the issuer.
- (3) Board letter dated August 3, 1973, in which the board discussed permissible as well as prohibited activities of a broker-dealer in connection with a proposed financing of the purchase of securities involved in the El Paso Natural Gas Co. divestiture.

We hope the above comments will be helpful to the Court in its consideration of this case.

Very truly yours,

Robert S. Plotkin  
Assistant Director

Attachment

LR/RSP:is

cc: Skadden, Arps, Slate, Lechner & Flow  
Steptoe & Johnson

Office of the General Counsel, Securities and Exchange Commission

Action assigned Jack Ryan

JAKE GARN, UTAH, CHAIRMAN

JOHN TOWER, TEX.  
JOHN HEINZ, PA.  
WILLIAM L. ARMSTRONG, COLO.  
RICHARD G. LUGAR, IND.  
ALFONSE M. D'AMATO, N.Y.  
JOHN H. CHAFEE, R.I.  
HARRISON SCHMITT, N. MEX.

HARRISON A. WILLIAMS, JR., N.J.  
WILLIAM PROXMIRE, WIS.  
ALAN CRANSTON, CALIF.  
DONALD W. RIEGLE, JR., MICH.  
PAUL S. SARBANES, MD.  
CHRISTOPHER J. DODD, CONN.  
ALAN J. DIXON, ILL.

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

United States Senate

COMMITTEE ON BANKING, HOUSING, AND  
URBAN AFFAIRS

WASHINGTON, D.C. 20510

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

1981 SEP 16 AM 9:30

RECEIVED  
OFFICE OF THE CHAIRMAN

September 14, 1981

#256

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

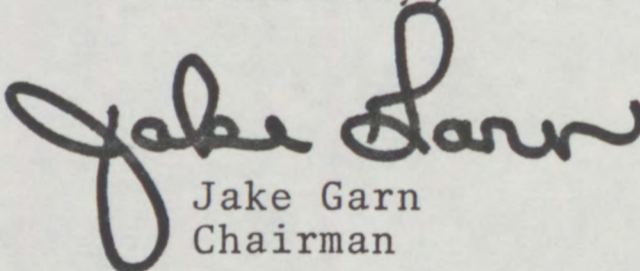
Dear Chairman Volcker:

Enclosed is a letter which I have received from Ted Wetterau, Chairman of Wetterau Incorporated concerning an attempted takeover of that company.

The letter suggests the possibility that federal margin requirements may be violated in connection with loans to finance this transaction and, further, that the loans involved are not consistent with sound lending practices.

I would appreciate your assistance in responding to Mr. Wetterau's inquiry.

Sincerely,

  
Jake Garn  
Chairman

JG/jda

Enclosure



## Wetterau Incorporated

September 4, 1981

Senator Jack Garn, Chairman  
Senate Banking Committee  
United States Senate  
Washington, D.C. 20510

Dear Senator Garn:

We need your help. As Chairman of the Board and Chief Executive Officer of Wetterau Incorporated, a \$2 billion food wholesaler headquartered in St. Louis, Missouri, I have a matter of utmost urgency to bring to your attention. A small propane gas company named Empire Incorporated, located in Lebanon, Missouri, has made an unfriendly tender for the common shares of our company. Empire has become notorious by initiating a number of unfriendly tenders in recent years and because of litigation, both civil and criminal, in which they have been involved. The initial tender would have brought their holdings to slightly over 20 percent. Subsequently, they have announced their intention to acquire tendered shares amounting to approximately one-third of the outstanding shares of our company. All of this stock is being acquired with borrowed money.

Empire is a company with \$40 million in net assets. Its most recently reported long-term debt was \$48 million. Some time ago, Empire negotiated a revolving line of credit of \$100 million with Continental Illinois of Chicago and the Security Pacific National Bank of Los Angeles. Prior to the unfriendly tender, it drew down \$15 million of this line which we presume was used both as working capital and to acquire 4.9 percent of Wetterau shares through blind holdings.

Since the tender offer was made, Empire has gone back to Continental Illinois, its lead bank, with a request to pull an additional \$45 million from its revolving line. The purpose of this additional credit is to buy tendered Wetterau shares. It is our understanding that Security Pacific, to their credit, backed away from the agreement because of the proposed use of the funds. Continental Illinois, however, apparently made a loan of some \$33,750,000 to Empire for the purpose of acquiring shares of Wetterau. In depositions taken from the loan officer of Continental Illinois, our attorneys were advised that not only did Continental plan to proceed with the loan, but also would grant the loan at bargain rates to a company with neither the balance sheet nor earnings to support the loan. Empire is late in reporting its final quarter's earnings, even on a preliminary basis, but indicated that there will be a substantial loss for the year. It was indicated that the loan Continental would grant Empire would have an 18-1/2 percent cap on it.

September 4, 1981

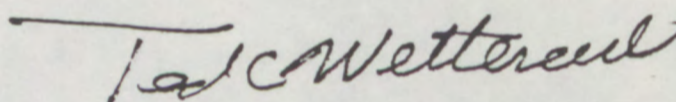
Page 2

Members of the banking community who are aware of the circumstances of this loan have indicated that their cash flow analyses support our contention that it cannot be repaid without stripping the assets of Wetterau Incorporated or by reselling the shares.

In a period when legitimate businesses are having difficulty in acquiring capital for expansion which would lead to additional employment and increased productivity, I cannot understand why abuses of the banking system are tolerated.

We are in the midst of this battle now. We need your help today.

Sincerely,



Ted C. Wetterau  
Chairman of the Board and  
Chief Executive Officer



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

CM

PAUL A. VOLCKER  
CHAIRMAN

October 16, 1981

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

Dear Chairman Brooks:

In accordance with Section 236 of the Legislative Reorganization Act of 1970, this letter outlines the response of the Federal Reserve to the GAO report (GGD-81-79) dated August 18, 1981, on the Federal Reserve's bank holding company supervision program. The GAO report raises a number of issues and makes a number of related recommendations concerning the frequency and scope of on-site holding company inspections and the role of off-premise surveillance activities. The Federal Reserve's detailed response to the conclusions and recommendations of the GAO are contained in a letter dated June 12, 1981, and included in Appendix II of the final report. This letter will address the specific recommendations made by the GAO and the actions taken by the Federal Reserve.

With respect to on-site inspections, the GAO recommends i) greater flexibility in scheduling inspections based upon nonbank risk, surveillance results and perceived need; ii) steps to increase examiner expertise in evaluating nonbank activities and to ensure that such activities are adequately considered in the inspection process; and iii) the limitation of on-site inspection tasks to only those which are needed in each case.

The Federal Reserve agrees with the spirit and intent of these recommendations and has taken a number of steps to enhance the flexibility of the inspection process and improve the allocation of inspection resources. In January of this year, the Federal Reserve revised its inspection frequency guidelines to extend the time between inspections of sound companies and to place greater emphasis on inspecting companies whose financial conditions suggest greater levels of risk. The Federal Reserve's revised inspection policy explicitly relates the frequency of on-site inspection to risk as reflected in the size of the holding company and its nonbank activities, the degree of holding company leverage, overall financial condition rating, and the results of on-going surveillance activities. In addition, the Board has reiterated that, when in conflict, special inspections of problem companies, regardless of size, should take precedence over the required periodic inspections of sound holding companies; and the System's operations review procedures will ensure that this policy is implemented. Indeed, the GAO notes on pages 32 and 33 of the report that recent Federal Reserve steps have clarified the flexibility of the System's frequency policy and have

demonstrated that the Federal Reserve is committed to implementing a flexible inspection approach. While the Federal Reserve has taken these steps to augment flexibility and focus greater attention on companies with financial weaknesses, the Board believes that continual periodic inspections of large holding companies is essential, given the importance of such organizations in regional and national banking markets and their role in the nation's financial system.

The evaluation of risk-taking and credit-extending nonbank subsidiaries of bank holding companies has long been an essential element of the Federal Reserve's holding company inspection program. The System's inspection report includes separate evaluations of significant credit-extending subsidiaries and classification of their assets. Moreover, the Federal Reserve's inspection manual contains numerous chapters devoted exclusively to specific nonbank activities. System schools also include sessions on nonbank activities, although the Federal Reserve is currently giving consideration to intensifying its instruction curriculum dealing with credit-extending nonbank subsidiaries. The Board believes that the Federal Reserve's past and current efforts with respect to the inspection of nonbank subsidiaries ensure that the risks posed by these companies and their potential impact on bank subsidiaries are thoroughly assessed and factored into the evaluation of the consolidated banking organization.

The Board endorses prudent efforts to limit on-site inspection activities to those tasks which can only be performed on the premises of the bank or holding company. With this in mind, the Federal Reserve has revised the chapter on surveillance in its supervision manual to place greater emphasis upon off-premise analysis of financial factors through use of the bank holding company performance reports. Examiners are also instructed to utilize judgment in the application of inspection procedures to holding companies with varying financial conditions and operating characteristics. While the Board supports these actions and the efficiencies they can produce, it believes that certain minimum procedures must be performed in all cases to ensure that relevant facts or conditions are not overlooked in an effort to streamline the inspection process. Such procedures are spelled out in the System's supervision manual.

Concerning surveillance activities, the GAO report calls for more definitive guidelines for directing and evaluating Reserve Bank efforts and for a reassessment of nonbank subsidiary reporting requirements. It should be noted that surveillance techniques have been developed relatively recently, and some differences among Reserve Banks are warranted due to regional differences in banking structure and the desirability of encouraging innovation. Nonetheless, the Federal Reserve has developed minimum guidelines with respect to the basic screening, analysis, and follow-up processes and, as the GAO points out, has taken a number of other positive steps in conjunction with Reserve Banks to improve the surveillance program and to facilitate the development and sharing among Reserve Banks of new methods of financial surveillance. The Board believes that its guidelines strike an appropriate balance between the need for central direction and the desirability of encouraging regional flexibility and innovation. In addition, the Federal Reserve has developed a bank holding company performance report that has assisted greatly in the on-going monitoring of holding company financial condition and in scheduling on-site inspections. These steps and other actions to more centrally direct and coordinate Systemwide surveillance projects will

strengthen the System's overall surveillance efforts.

The question of nonbank data raises a number of issues relating to regulatory burden and supervisory need. While the Federal Reserve could utilize additional information on nonbank subsidiaries and is contemplating requesting such data, the costs and benefits of imposing additional reporting burden on bank holding companies at this time will have to be carefully evaluated. As already noted, the Federal Reserve obtains information on nonbank subsidiaries during on-site inspections and receives nonbank information from the annual report that is required to be filed by each holding company with the Federal Reserve. In light of this, the Federal Reserve is undertaking numerous efforts to improve the utilization of the information it already receives, including computerization of data on small holding companies for monitoring and screening purposes, and better computer identification of the size and performance of credit-extending nonbank subsidiaries of the parent holding company.

The GAO recommends that the Federal Reserve explore the concept of having bank examiners from other Federal agencies conduct certain holding company inspection tasks in conjunction with their examination of the bank subsidiary. The report acknowledges the potential difficulties in scheduling and resource availability and suggests that such an approach may be most appropriate for one-bank holding companies that do not have nonbank subsidiaries.

The Federal banking agencies under the auspices of the Federal Financial Institutions Examination Council have made considerable progress in the last several years in coordinating the supervision of holding companies and their subsidiary banks. Formal policies have been adopted which call for interagency coordination with respect to examinations and corrective action for large companies and all problem companies. Moreover, interagency efforts are underway to strengthen coordination even further. In particular, the Federal Reserve is currently discussing with the Office of the Comptroller of the Currency the possibility of conducting concurrent examinations of certain holding companies and their bank subsidiaries in order to eliminate the possibility of supervisory duplication, overlap and inconsistency; to further improve interagency coordination; and to realize potential efficiencies in the use of examiner resources.

As part of a review of its holding company inspection program, the Federal Reserve intends to explore the idea of requesting that bank examiners obtain information on certain holding companies, as well as the possibility of greater reliance upon surveillance and on-going financial monitoring, off-premise analyses, limited scope examinations, and additional scheduling flexibility in the planning and conduct of on-site inspections. The purpose of this review will be to continue to make maximum efficient use of limited examiner resources and to direct these resources to companies whose financial condition and/or operating characteristics warrant increased supervisory attention. Any steps taken by the Federal Reserve, however, to introduce greater flexibility or to request the performance of certain inspection tasks by the other banking agencies will have to be implemented in a manner that is consistent with the agencies' resource availability and with the Federal Reserve's statutory responsibility for the safety and soundness of bank holding companies.

With respect to the interagency coordination of holding company and subsidiary bank supervision, the GAO has not found any cases in which banks have failed or have been threatened with failure due to inadequate interagency coordination. In addition, the Board notes that the GAO has not found evidence to justify a legislative restructuring of holding company supervision. The Board is committed to continue on-going efforts to ensure interagency coordination and efficiency in the supervision of bank holding companies.

Sincerely,

W. Paul A. Tucker





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

CM  
PAUL A. VOLCKER  
CHAIRMAN

October 16, 1981

The Honorable William V. Roth, Jr.  
Chairman  
Committee on Governmental Affairs  
United States Senate  
Washington, D.C. 20510

Dear Chairman Roth:

In accordance with Section 236 of the Legislative Reorganization Act of 1970, this letter outlines the response of the Federal Reserve to the GAO report (GGD-81-79) dated August 18, 1981, on the Federal Reserve's bank holding company supervision program. The GAO report raises a number of issues and makes a number of related recommendations concerning the frequency and scope of on-site holding company inspections and the role of off-premise surveillance activities. The Federal Reserve's detailed response to the conclusions and recommendations of the GAO are contained in a letter dated June 12, 1981, and included in Appendix II of the final report. This letter will address the specific recommendations made by the GAO and the actions taken by the Federal Reserve.

With respect to on-site inspections, the GAO recommends i) greater flexibility in scheduling inspections based upon nonbank risk, surveillance results and perceived need; ii) steps to increase examiner expertise in evaluating nonbank activities and to ensure that such activities are adequately considered in the inspection process; and iii) the limitation of on-site inspection tasks to only those which are needed in each case.

The Federal Reserve agrees with the spirit and intent of these recommendations and has taken a number of steps to enhance the flexibility of the inspection process and improve the allocation of inspection resources. In January of this year, the Federal Reserve revised its inspection frequency guidelines to extend the time between inspections of sound companies and to place greater emphasis on inspecting companies whose financial conditions suggest greater levels of risk. The Federal Reserve's revised inspection policy explicitly relates the frequency of on-site inspection to risk as reflected in the size of the holding company and its nonbank activities, the degree of holding company leverage, overall financial condition rating, and the results of on-going surveillance activities. In addition, the Board has reiterated that, when in conflict, special inspections of problem companies, regardless of size, should take precedence over the required periodic inspections of sound holding companies; and the System's operations review procedures will ensure that this policy is implemented. Indeed, the GAO notes on pages 32 and 33 of the report that recent Federal Reserve steps have clarified the flexibility of the System's frequency policy and have

demonstrated that the Federal Reserve is committed to implementing a flexible inspection approach. While the Federal Reserve has taken these steps to augment flexibility and focus greater attention on companies with financial weaknesses, the Board believes that continual periodic inspections of large holding companies is essential, given the importance of such organizations in regional and national banking markets and their role in the nation's financial system.

The evaluation of risk-taking and credit-extending nonbank subsidiaries of bank holding companies has long been an essential element of the Federal Reserve's holding company inspection program. The System's inspection report includes separate evaluations of significant credit-extending subsidiaries and classification of their assets. Moreover, the Federal Reserve's inspection manual contains numerous chapters devoted exclusively to specific nonbank activities. System schools also include sessions on nonbank activities, although the Federal Reserve is currently giving consideration to intensifying its instruction curriculum dealing with credit-extending nonbank subsidiaries. The Board believes that the Federal Reserve's past and current efforts with respect to the inspection of nonbank subsidiaries ensure that the risks posed by these companies and their potential impact on bank subsidiaries are thoroughly assessed and factored into the evaluation of the consolidated banking organization.

The Board endorses prudent efforts to limit on-site inspection activities to those tasks which can only be performed on the premises of the bank or holding company. With this in mind, the Federal Reserve has revised the chapter on surveillance in its supervision manual to place greater emphasis upon off-premise analysis of financial factors through use of the bank holding company performance reports. Examiners are also instructed to utilize judgment in the application of inspection procedures to holding companies with varying financial conditions and operating characteristics. While the Board supports these actions and the efficiencies they can produce, it believes that certain minimum procedures must be performed in all cases to ensure that relevant facts or conditions are not overlooked in an effort to streamline the inspection process. Such procedures are spelled out in the System's supervision manual.

Concerning surveillance activities, the GAO report calls for more definitive guidelines for directing and evaluating Reserve Bank efforts and for a reassessment of nonbank subsidiary reporting requirements. It should be noted that surveillance techniques have been developed relatively recently, and some differences among Reserve Banks are warranted due to regional differences in banking structure and the desirability of encouraging innovation. Nonetheless, the Federal Reserve has developed minimum guidelines with respect to the basic screening, analysis, and follow-up processes and, as the GAO points out, has taken a number of other positive steps in conjunction with Reserve Banks to improve the surveillance program and to facilitate the development and sharing among Reserve Banks of new methods of financial surveillance. The Board believes that its guidelines strike an appropriate balance between the need for central direction and the desirability of encouraging regional flexibility and innovation. In addition, the Federal Reserve has developed a bank holding company performance report that has assisted greatly in the on-going monitoring of holding company financial condition and in scheduling on-site inspections. These steps and other actions to more centrally direct and coordinate Systemwide surveillance projects will

strengthen the System's overall surveillance efforts.

The question of nonbank data raises a number of issues relating to regulatory burden and supervisory need. While the Federal Reserve could utilize additional information on nonbank subsidiaries and is contemplating requesting such data, the costs and benefits of imposing additional reporting burden on bank holding companies at this time will have to be carefully evaluated. As already noted, the Federal Reserve obtains information on nonbank subsidiaries during on-site inspections and receives nonbank information from the annual report that is required to be filed by each holding company with the Federal Reserve. In light of this, the Federal Reserve is undertaking numerous efforts to improve the utilization of the information it already receives, including computerization of data on small holding companies for monitoring and screening purposes, and better computer identification of the size and performance of credit-extending nonbank subsidiaries of the parent holding company.

The GAO recommends that the Federal Reserve explore the concept of having bank examiners from other Federal agencies conduct certain holding company inspection tasks in conjunction with their examination of the bank subsidiary. The report acknowledges the potential difficulties in scheduling and resource availability and suggests that such an approach may be most appropriate for one-bank holding companies that do not have nonbank subsidiaries.

The Federal banking agencies under the auspices of the Federal Financial Institutions Examination Council have made considerable progress in the last several years in coordinating the supervision of holding companies and their subsidiary banks. Formal policies have been adopted which call for interagency coordination with respect to examinations and corrective action for large companies and all problem companies. Moreover, interagency efforts are underway to strengthen coordination even further. In particular, the Federal Reserve is currently discussing with the Office of the Comptroller of the Currency the possibility of conducting concurrent examinations of certain holding companies and their bank subsidiaries in order to eliminate the possibility of supervisory duplication, overlap and inconsistency; to further improve interagency coordination; and to realize potential efficiencies in the use of examiner resources.

As part of a review of its holding company inspection program, the Federal Reserve intends to explore the idea of requesting that bank examiners obtain information on certain holding companies, as well as the possibility of greater reliance upon surveillance and on-going financial monitoring, off-premise analyses, limited scope examinations, and additional scheduling flexibility in the planning and conduct of on-site inspections. The purpose of this review will be to continue to make maximum efficient use of limited examiner resources and to direct these resources to companies whose financial condition and/or operating characteristics warrant increased supervisory attention. Any steps taken by the Federal Reserve, however, to introduce greater flexibility or to request the performance of certain inspection tasks by the other banking agencies will have to be implemented in a manner that is consistent with the agencies' resource availability and with the Federal Reserve's statutory responsibility for the safety and soundness of bank holding companies.

With respect to the interagency coordination of holding company and subsidiary bank supervision, the GAO has not found any cases in which banks have failed or have been threatened with failure due to inadequate interagency coordination. In addition, the Board notes that the GAO has not found evidence to justify a legislative restructuring of holding company supervision. The Board is committed to continue on-going efforts to ensure interagency coordination and efficiency in the supervision of bank holding companies.

Sincerely,

*Paul A. Walker*

October 15, 1981

The Honorable S. I. Hayakawa  
United States Senate  
Washington, D. C. 20510

Dear Senator Hayakawa:

Thank you for your recent letter on behalf of Mr. Angeles S. Anonuevo, Jr., who has expressed an interest in employment with the Federal Reserve System. I have forwarded Mr. Anonuevo's information to our Division of Personnel, and he will be hearing from them shortly.

We appreciate your interest in our employment program.

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn  
Assistant to the Board

KW:CO:vcd (V-286)

bcc: Ms. Warehime (for follow-up)  
Mrs. Mallardi ✓

Action assigned Mr. Shannon

S. I. HAYAKAWA  
CALIFORNIA

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE  
**United States Senate**  
WASHINGTON, D.C. 20510

COMMITTEES:  
AGRICULTURE, NUTRITION,  
AND FORESTRY  
FOREIGN RELATIONS  
SMALL BUSINESS

1981 OCT -2 PM 12: 10

RECEIVED  
OFFICE OF THE CHAIRMAN

September 23, 1981

#286

Governor Paul Volcker  
Board of Governors  
Federal Reserve System  
Washington, D.C.

Dear Governor Volcker:

I am herewith enclosing a resume from one of my constituents, whom I have already notified of this action. I would appreciate your reviewing the resume and contacting the applicant as to whether you feel his qualifications would be beneficial to the new Administration.

Realizing how busy you are at this time, I am most grateful for your attention to this matter.

Sincerely,

*Sam Hayakawa*

S. I. Hayakawa

SIH:pws  
Enclosure

[REDACTED]  
[REDACTED]

June 15, 1981

The Honorable S. I. Hayakawa  
Senator, United States of America  
Senate Office Building  
Washington, D. C. 20510

Dear Mr. Hayakawa:

I am interested in working for the Federal Government.

I am 31 years old of Filipino ancestry. I have 10 years of banking experience and at present work as Operations Officer.

I have been trying to get employment with the Federal Reserve Bank of San Francisco, Los Angeles Branch, and with the Comptroller of Currency, Los Angeles Office.

I would like to seek your help in getting employment with the Government. I would work for any branch of the government where my experience and education (B.A. in Economics from the University of St. Thomas, Philippines) would be most useful.

I hope to receive a reply from your office.

Sincerely,

  
Mr. Angeles S. Anonuevo, Jr.

October 15, 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 October 2 inviting the Board to appear before your Subcommittee's hearing on the plans and policies of the Federal Reserve for the provision of electronic fund transfer services.

I am pleased to inform you that Mr. Theodore E. Allison, Staff Director for Federal Reserve Bank Activities, will appear on behalf of the Board on October 22.

Sincerely,

*S/Paul A. Volcher*

CO:vcd (V-289)

bcc: Mr. Allison  
Mrs. Mallardi (2) ✓



Cong. Liaison Office will do memo to Chairman;  
Mr. Allison has been notified of hearing

GLENN ENGLISH, OKLA., CHAIRMAN  
TED WEISS, N.Y.  
HENRY A. WAXMAN, CALIF.  
JOHN L. BURTON, CALIF.  
JOHN CONYERS, JR., MICH.

THOMAS N. KINDNESS, OHIO  
JOHN N. ERLBORN, ILL.  
WENDELL BAILEY, MO.

225-3741

NINETY-SEVENTH CONGRESS  
**Congress of the United States**  
**House of Representatives**

GOVERNMENT INFORMATION AND INDIVIDUAL RIGHTS  
SUBCOMMITTEE

OF THE

COMMITTEE ON GOVERNMENT OPERATIONS

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

October 2, 1981

*4789*

RECEIVED  
OFFICE OF THE CHAIRMAN  
1981 OCT -5 PM 10:08  
BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

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

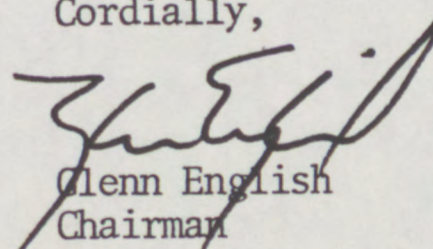
Dear Mr. Chairman:

I request your appearance before the Subcommittee on Government Information and Individual Rights on Thursday, October 22, 1981, to testify regarding the plans and policies of the Federal Reserve for the provision of electronic funds transfer (EFT) services.

The hearing should provide an opportunity for the subcommittee and the Federal Reserve Board to explore a variety of questions regarding the authority and resources of the Federal Reserve System in the delivery of EFT services. In particular, the subcommittee is interested in the current procurement of hardware and the operational design of the Federal Reserve Communications network under the FRCS '80 plan. We are also interested in what the Federal Reserve believes its appropriate role to be in the provision of telecommunications and related information services. As we prepare for the hearing, the staff may request copies of pertinent documents from the Board of Governors and the district banks.

The hearing will begin at 9:30 a.m. in Room 2203 Rayburn House Office Building. Fifty copies of your prepared testimony should be delivered to the subcommittee office 48 hours in advance of your appearance. If you or your staff have any questions, please contact Christopher Vizas, counsel to the subcommittee, at 225-3741.

Cordially,

  
Glenn English  
Chairman

GE:cv:bm

Mrs. Mallardi  
(V-298)



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

October 15, 1981

The Honorable Robert J. Lagomarsino  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Lagomarsino:

Thank you for your letter of October 7 on behalf of your constituent, Mr. Jim Jordan, who is interested in information about the Federal Reserve. I hope the following will be useful.

The Board of Governors is an agency of the Federal Government, and its seven members are appointed by the President with the advice and consent of the Senate. The Board is required by law to make an annual report to Congress, and members of the Board, especially the Chairman, are called upon frequently to testify before Congressional committees.

The Federal Reserve is not operated for a profit and returns substantial sums to the U.S. Treasury each year. The earnings of the Federal Reserve System are derived chiefly from interest on U.S. Government securities held in the System's Open Market Account, which are acquired as a part of the System's monetary policy actions. The System returns all earnings in excess of expenses to the U.S. Treasury; in calendar year 1980 payments to the Treasury by the Federal Reserve amounted to \$11.707 billion.

With respect to Mr. Jordan's question regarding stock ownership, as provided for by law, the stock of the Federal Reserve Banks is held entirely by commercial banks that are members of the Federal Reserve System. However, ownership of that stock is in the nature of an obligation incident to membership and does not carry with it the attributes of control and financial interest ordinarily attached to stock ownership in corporations that are operated for the purpose of making a profit. The amount of stock that member banks are required to own is specified by law. The stock may not be sold or pledged as security for loans, and dividends are limited by law to 6 per cent per year. If a Reserve Bank were liquidated, any surplus would go to the U.S. Government, not the stockholders.

The Honorable Robert J. Lagomarsino  
Page Two

As further background on the System, I am enclosing five pamphlets on the structure of the Federal Reserve System, which may be of interest to Mr. Jordan. Also enclosed are two publications; one describes the historical evolution of the Federal Reserve and the other the purposes and functions of the System.

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

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn  
Assistant to the Board

Enclosures  
CO:pjt (#V-298)  
bcc: Mrs. Mallardi

Will be handled by Cong. Liaison Office

ROBERT J. LAGOMARSINO  
19TH DISTRICT, CALIFORNIA

2332 RAYBURN BUILDING  
WASHINGTON, D.C. 20515  
202-225-3601

ASSISTANT REGIONAL WHIP, PLAINS AND  
WESTERN STATES

# Congress of the United States

## House of Representatives

Washington, D.C. 20515  
October 7, 1981

### COMMITTEE ON FOREIGN AFFAIRS

SUBCOMMITTEES:  
INTERNATIONAL ECONOMIC POLICY  
AND TRADE  
RANKING MINORITY MEMBER  
INTER-AMERICAN AFFAIRS

### COMMITTEE ON INTERIOR AND INSULAR AFFAIRS

SUBCOMMITTEES:  
INSULAR AFFAIRS  
RANKING MINORITY MEMBER  
PUBLIC LANDS AND NATIONAL PARKS

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
1981 OCT -8 AM 11:22  
RECEIVED  
OFFICE OF THE CHAIRMAN

#298

Hon. Paul Volcker  
Chairman  
Federal Reserve Board  
Federal Reserve Building  
Constitution Ave. between 20th and 21st streets  
Washington, D.C. 20551

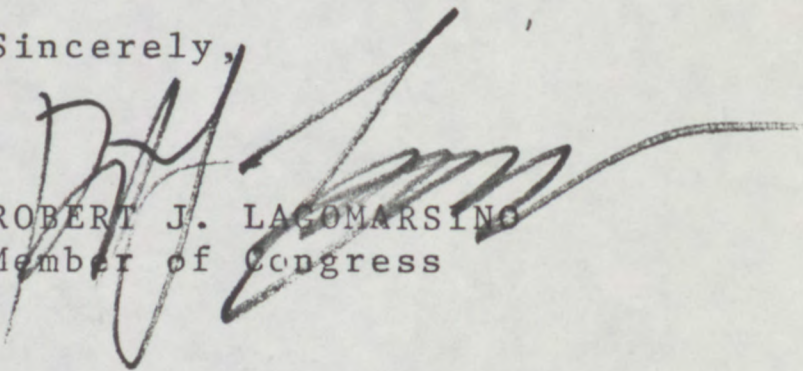
Dear Mr. Chairman:

Enclosed is a memorandum regarding my constituent,  
Jim Jordan, who is interested in information about the  
Federal Reserve.

I would appreciate your comments on behalf of Mr.  
Jordan.

Thank you.

Sincerely,



ROBERT J. LAGOMARSINO  
Member of Congress

RJL:klm  
enclosure

B: GENERAL INFORMATION REQUEST

OCT 7 1981

DATE: October 5, 1981

STAFF MEMBER June Porter PHONE XX VISIT        LETTER       

CONSTITUENT'S NAME: JIM JORDAN

ADDRESS: [REDACTED]

PHONE:        /         
          area code

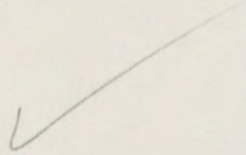
INFORMATION REQUESTED:

Wants information regarding the Federal Reserve System.  
Does the Federal Government own stock in it?  
Sent to Washington.

Catherine,

Don said no written response. I called Cong. Kindness office and said that the Chairman has his letter and he appreciates receiving it. The girl indicated she would pass this on to the Congressman.

Carol      10/21



THOMAS N. KINDNESS  
8TH DISTRICT, OHIO

2434 RAYBURN BUILDING  
WASHINGTON, D.C. 20515  
(202) 225-6205

CONGRESS OF THE UNITED STATES  
HOUSE OF REPRESENTATIVES

646 HIGH STREET  
HAMILTON, OHIO 45011  
(513) 895-5656  
TOLL FREE: 1-800-582-1001

234 EAST MAIN STREET  
GREENVILLE, OHIO 45331  
(513) 548-8817

October 14, 1981

#302

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

Dear Mr. Volcker:

Your letter of October 8, 1981, is very much appreciated.  
Thank you.

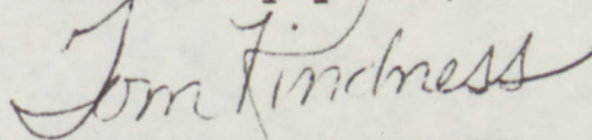
I do not intend to take up unnecessarily the time of you  
and your staff; and no response to this letter is necessary or  
expected.

It is my intention only to try to add to the information  
and "feel" of the circumstances noted in the economy which  
might be of value to you and the Board of Governors, since  
these are matters, in the end, of judgment, as you correctly  
stated in your very good letter. I will attempt to report to  
you such conditions as I find pertinent from time to time, in  
order to possibly enrich the basis for judgment.

Today's observation: farmers in our part of Ohio will be  
forced to reduce plantings of winter wheat this year, thus re-  
ducing next year's harvest of wheat, in the hope that they can  
do better by raising soybeans on the same land next year. If  
this judgment is widespread, wheat supplies will be down, prices  
up, soy beans will be abundant, prices down, farm bankruptcies up,  
all related to high interest rates influencing planting decisions.

Thank you for your patient consideration.

Sincerely yours,



THOMAS N. KINDNESS  
Member of Congress

TNK/jr

Mrs. Mallardi  
(V-277)



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

October 13, 1981

PAUL A. VOLCKER  
CHAIRMAN

The Honorable Jack Fields  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Fields:

Thank you for your letter of September 24 regarding Federal Reserve policy and the impact of high interest rates. I want to assure you that I and the other members of the Federal Reserve Board share your concern about the stresses being created in the economy by high interest rates. While some sectors of the economy have seemed to be quite resistant to the prevailing financial pressures, others clearly have been hit hard by the rising cost of credit.

First of all, let me point out that I do not like high interest rates any more than you do. It is important to note that Federal Reserve policy is not directed toward maintaining any particular level of interest rates but rather on promoting a rate of growth of money and credit that is consistent with reducing inflation and improving our long-term economic prospects. The current level of interest rates is a result of stubbornly high inflationary expectations and the application of the monetary restraint needed to reduce inflation in the face of continued strong private credit demands and the need to finance the large federal deficit.

As you know, there has been some reduction in short-term interest rates in recent weeks and the pressure on bank reserves has lessened. However, longer-term interest rates have remained high reflecting in part the continued skepticism about future price developments I referred to earlier. These developments point out the limits of the Federal Reserve's influence on market interest rates. If the Federal Reserve were to attempt to artificially reduce interest rates by pouring reserves into the banking system, such a shift in the direction of policy would serve only to heighten the already deep-seated fears--reflected in the very depressed bond markets--that the government is in fact not committed to seeing the fight against inflation through to a successful end. The added monetary stimulus would intensify price pressures in the economy, worsening the inflation problem that is at the root of today's high interest rates. The end result of the process would inevitably be higher not lower rates.



The Honorable Jack Fields  
Page Two

Some of the damage of severe financial stress can be averted, however, if less of the burden of restraint is placed on monetary policy. The credit-sensitive sectors of the economy would benefit greatly if, in particular, there were a less substantial federal government demand on the debt markets. Sustained, large budget deficits, which appear unavoidable unless there is further progress in cutting expenditures, can only tend to squeeze out private borrowers who do not have, in effect, first call on the nation's financial resources.

It is my hope that the public's recognition of the sincerity of the government in its commitment to anti-inflationary restraint will show through in wage and price decisions throughout the economy. There have been a few favorable signs this year on the inflation front, but I'm afraid that these signs have in considerable degree reflected the impacts of the very harsh direct effects of high interest rates on spending decisions. There has been little evidence of the kind of substantial change in psychology that can greatly ease the adjustment from an inflationary to a non-inflationary economy.

I am convinced that we are making progress. It is incumbent upon us in government to grasp the opportunity to pursue policies that will overcome the existing skepticism and move us more rapidly toward an environment of greater economic vitality and lower interest rates. That is what all of us want in the long run--even if there may be differences in opinion on how we can get there.

I do not underestimate the difficulties of the present situation. The threshold of patience and pain is and will be tested. I hope and trust we will also not underestimate the dangers of failing to turn inflation around--or to put it more positively, the enormous opportunity we have to change the debilitating economic trends of the past decade or more.

These are all matters, in the end, of judgment. I appreciate very much you taking the time to communicate your assessment of the situation.

Sincerely,  
S/Paul A. Volcker

(MJP:JLK:RS:)CO:pjt (#V-277)  
bcc: Mrs. Mallardi (2)

# Congress of United the States

House of Representatives • Washington, D.C. 20515

September 24, 1981

Mr. 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

#277

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
1981 SEP 28 PM 10:42  
RECEIVED  
OFFICE OF THE CHAIRMAN

Dear Mr. Volcker:

I am writing to express my deep concerns regarding the toll high interest rates are taking on our economy.

Throughout the August recess I became acutely aware of the disastrous effects high interest rates are having on small businesses and homeowners in my district. These individuals are desperately trying to salvage their concerns while interest rates remain prohibitively high.

I believe a change in the Federal Reserve's monetary policy is warranted to provide relief for the small businessman, the farmer, the unemployed, the young family and millions of others who are being severely hampered by high interest rates.

Mr. Volcker, I realize there is no easy solution to these harsh economic realities. It is the responsibility of the Congress to enact additional budget-cutting legislation in an attempt to eliminate the huge federal deficit and eventually balance the budget. I intend to support this legislation to cut federal spending further. However, I believe the Federal Reserve should play a more active role in the overall effort to improve the economy by easing the tight control over the money supply.

Mr. Chairman, I firmly believe we need greater cooperation between the Administration and the Federal Reserve to provide for a cohesive and consistent monetary policy. I implore you to consider a less stringent monetary policy with the ultimate goal of bringing the interest rates down.

Sincerely,

*Jack Fields*  
JACK FIELDS  
Member of Congress

PLEASE RESPOND TO: JF:ckr  
510 CANNON HOUSE OFFICE BUILDING  
WASHINGTON, D.C. 20515  
202/225-4901

12605 EAST FREEWAY, SUITE 320  
FIRST STATE BANK BUILDING  
HOUSTON, TEXAS 77015  
713/451-6334



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

October 13, 1981

PAUL A. VOLCKER  
CHAIRMAN

The Honorable Elwood H. (Bud) Hillis  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Hillis:

Thank you for your letter of September 24 regarding Federal Reserve policy and the impact of high interest rates. I want to assure you that I and the other members of the Federal Reserve Board share your concern about the stresses being created in the economy by high interest rates. While some sectors of the economy have seemed to be quite resistant to the prevailing financial pressures, others clearly have been hit hard by the rising cost of credit.

First of all, let me point out that I do not like high interest rates any more than you do. It is important to note that Federal Reserve policy is not directed toward maintaining any particular level of interest rates but rather on promoting a rate of growth of money and credit that is consistent with reducing inflation and improving our long-term economic prospects. The current level of interest rates is a result of stubbornly high inflationary expectations and the application of the monetary restraint needed to reduce inflation in the face of continued strong private credit demands and the need to finance the large federal deficit.

As you know, there has been some reduction in short-term interest rates in recent weeks and the pressure on bank reserves has lessened. However, longer-term interest rates have remained high reflecting in part the continued skepticism about future price developments I referred to earlier. These developments point out the limits of the Federal Reserve's influence on market interest rates. If the Federal Reserve were to attempt to artificially reduce interest rates by pouring reserves into the banking system, such a shift in the direction of policy would serve only to heighten the already deep-seated fears--reflected in the very depressed bond markets--that the government is in fact not committed to seeing the fight against inflation through to a successful end. The added monetary stimulus would intensify price pressures in the economy, worsening the inflation problem that is at the root of today's high interest rates. The end result of the process would inevitably be higher not lower rates.

The Honorable Elwood H. (Bud) Hillis  
Page Two

Some of the damage of severe financial stress can be averted, however, if less of the burden of restraint is placed on monetary policy. The credit-sensitive sectors of the economy would benefit greatly if, in particular, there were a less substantial federal government demand on the debt markets. Sustained, large budget deficits, which appear unavoidable unless there is further progress in cutting expenditures, can only tend to squeeze out private borrowers who do not have, in effect, first call on the nation's financial resources.

It is my hope that the public's recognition of the sincerity of the government in its commitment to anti-inflationary restraint will show through in wage and price decisions throughout the economy. There have been a few favorable signs this year on the inflation front, but I'm afraid that these signs have in considerable degree reflected the impacts of the very harsh direct effects of high interest rates on spending decisions. There has been little evidence of the kind of substantial change in psychology that can greatly ease the adjustment from an inflationary to a non-inflationary economy.

I am convinced that we are making progress. It is incumbent upon us in government to grasp the opportunity to pursue policies that will overcome the existing skepticism and move us more rapidly toward an environment of greater economic vitality and lower interest rates. That is what all of us want in the long run--even if there may be differences in opinion on how we can get there.

I do not underestimate the difficulties of the present situation. The threshold of patience and pain is and will be tested. I hope and trust we will also not underestimate the dangers of failing to turn inflation around--or to put it more positively, the enormous opportunity we have to change the debilitating economic trends of the past decade or more.

These are all matters, in the end, of judgment. I appreciate very much you taking the time to communicate your assessment of the situation.

Sincerely,

S/Paul A. Volpe

(MJP:JLK:RS:)CO:pjt (#V-280)  
bcc: Mrs. Mallardi (2)

ELWOOD H. "BUD" HILLIS  
5TH DISTRICT, INDIANA

COMMITTEES:

HOUSE COMMITTEE ON  
VETERANS' AFFAIRS

HOUSE ARMED SERVICES  
COMMITTEE

CHAIRMAN:

REPUBLICAN TASK FORCE  
ON ENERGY AND ENVIRONMENT

Congress of the United States

House of Representatives

Washington, D.C. 20515

September 24, 1981

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
SEP 28 AM 10:42  
RECEIVED  
OFFICE OF THE CHAIRMAN

WASHINGTON OFFICE:  
2429 RAYBURN BUILDING  
TELEPHONE: 202-225-5037

KOKOMO OFFICE:  
518 NORTH MAIN STREET  
TELEPHONE: 457-4411

ANDERSON OFFICE:  
25 WEST 7TH STREET  
TELEPHONE: 642-8023

MARION OFFICE:  
220 MARION P.O. BUILDING  
TELEPHONE: 662-7227

#280

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

Dear Chairman Volcker:

I read with interest reports of your recent testimony before the Senate Banking Committee in which you stated that lower interest rates will require an additional \$100 billion in budget cuts.

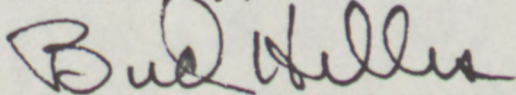
As a Member of Congress who strongly supported the budget cuts which passed the House and Senate this summer, I recognize that more cuts will be needed in order to bring us closer to our goal of a balanced federal budget. Political realities, though, will make these new cuts extremely difficult to accomplish in a timely fashion.

In the meantime, high interest rates continue to threaten the success of our economic recovery program. Farmers, realtors, home builders, the automobile industry and small businesses throughout our economy simply can not survive under conditions of prolonged high interest rates. I recognize that the Federal Reserve Board has unique responsibilities and must keep the nation's money supply in close check. However, I fear that current monetary policies have become so severe that they are creating as many economic problems as they are intended to solve.

The Administration is pledged to reduce budget deficits and I am convinced that Congress will ultimately take the necessary steps to bring the federal budget into balance. If that requires additional cuts of up to \$100 billion, I am prepared to support such cuts. But economic recovery is also dependent on the willingness of the Federal Reserve Board to recognize political realities and provide some measure of interest rate relief. Such action by the Board would actually help alleviate some of our budget deficit problems by decreasing the amount of money needed to pay the interest on the national debt.

It is clear that continued high interest rates will cause irreparable damage to many sectors of our economy. While I understand that the Federal Reserve Board is not a political institution, I nevertheless urge you to consider these factors when setting the monetary policy for our country.

Sincerely,



ELWOOD H. (BUD) HILLIS  
MEMBER OF CONGRESS



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

October 13, 1981

PAUL A. VOLCKER  
CHAIRMAN

The Honorable Gus Yatron  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Yatron:

Thank you for your letter of September 25 regarding Federal Reserve policy and the impact of high interest rates. I want to assure you that I and the other members of the Federal Reserve Board share your concern about the stresses being created in the economy by high interest rates. While some sectors of the economy have seemed to be quite resistant to the prevailing financial pressures, others clearly have been hit hard by the rising cost of credit.

First of all, let me point out that I do not like high interest rates any more than you do. It is important to note that Federal Reserve policy is not directed toward maintaining any particular level of interest rates but rather on promoting a rate of growth of money and credit that is consistent with reducing inflation and improving our long-term economic prospects. The current level of interest rates is a result of stubbornly high inflationary expectations and the application of the monetary restraint needed to reduce inflation in the face of continued strong private credit demands and the need to finance the large federal deficit.

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The Honorable Gus Yatron  
Page Two

Some of the damage of severe financial stress can be averted, however, if less of the burden of restraint is placed on monetary policy. The credit-sensitive sectors of the economy would benefit greatly if, in particular, there were a less substantial federal government demand on the debt markets. Sustained, large budget deficits, which appear unavoidable unless there is further progress in cutting expenditures, can only tend to squeeze out private borrowers who do not have, in effect, first call on the nation's financial resources.

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I am convinced that we are making progress. It is incumbent upon us in government to grasp the opportunity to pursue policies that will overcome the existing skepticism and move us more rapidly toward an environment of greater economic vitality and lower interest rates. That is what all of us want in the long run--even if there may be differences in opinion on how we can get there.

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These are all matters, in the end, of judgment. I appreciate very much you taking the time to communicate your assessment of the situation.

Sincerely,

S/Paul A. Volcker

(MJP:JLK:RS:)CO:pjt (#V-276)  
bcc: Mrs. Mallardi (2)

GUS YATRON  
6TH DISTRICT, PENNSYLVANIA

REPLY, IF ANY TO:

- 645 PENN STREET  
READING, PENNSYLVANIA 19601  
PHONE: (215) 375-4573
- AMERICAN BANK BUILDING  
POTTSVILLE, PENNSYLVANIA 17901  
PHONE: (717) 622-4212
- 2267 RAYBURN HOUSE OFFICE BUILDING  
WASHINGTON, D.C. 20515  
PHONE: (202) 225-5546

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

September 25, 1981

#276

MEMBER:  
COMMITTEE ON FOREIGN AFFAIRS  
SUBCOMMITTEE ON INTERNATIONAL OPERATIONS  
SUBCOMMITTEE ON INTER-AMERICAN AFFAIRS  
COMMITTEE ON POST OFFICE AND CIVIL SERVICE  
SUBCOMMITTEE ON CIVIL SERVICE  
SUBCOMMITTEE ON CENSUS AND POPULATION

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

Dear Mr. Chairman:

I am writing you to express my deep concerns over the continued tight money policy of the Federal Reserve System.

While I understand the need to restrict the money supply to bring inflation under control, I believe the current policy is excessive and is jeopardizing the economic renaissance Congress set into motion earlier this year.

Moreover, thousands of small businesses and farmers are faced with bankruptcy, the unemployment picture is being complicated, and homeownership is becoming increasingly less of a reality to the average American family.

I am appealing to you to review the policies of the Federal Reserve and to take actions which will ease interest rates.

With best regards,

Sincerely,

*Gus Yatron*  
GUS YATRON  
Member of Congress

GY/kdb

RECEIVED  
OFFICE OF THE CHAIRMAN  
1981 SEP 28 AM 10:42  
BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM



October 14, 1981

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

Dear Senator Hollings:

Thank you for your recent letter endorsing the invitation of Mr. Carpenter for me to speak at the Annual Economic Outlook Conference in Greenville.

As much as I would have liked to attend the Conference, I have been forced by my calendar to send regrets to Mr. Carpenter. I can never seem to find time to do all of the things that I should be doing.

A member of my staff, however, has been in contact with Mr. Carpenter and provided him with the names of several possible representatives from the Federal Reserve who might be available for the December conference.

With best regards.

Sincerely,

cc: Mrs. Mallardi  
#194, 197

JRC:tjf  
*JRC*

IDENTIAL LETTERS TO:

The Honorable Strom Thurmond  
United States Senate

The Honorable Carroll A. Campbell, Jr.  
Member of Congress

October 14, 1981

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

Dear Senator Hollings:

Thank you for your recent letter endorsing the invitation of Mr. Carpenter for me to speak at the Annual Economic Outlook Conference in Greenville.

As much as I would have liked to attend the Conference, I have been forced by my calendar to send regrets to Mr. Carpenter. I can never seem to find time to do all of the things that I should be doing.

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With best regards.

Sincerely,

cc: Mrs. Mallardi  
#194, 197

JRC:tjf

*JRC*

IDENTIAL LETTERS TO:

The Honorable Strom Thurmond  
United States Senate

The Honorable Carroll A. Campbell, Jr.  
Member of Congress

ERNEST F. HOLLINGS  
SOUTH CAROLINA

OFFICES:

1835 ASSEMBLY STREET  
COLUMBIA, SOUTH CAROLINA 29201  
803-765-5731

103 FEDERAL BUILDING  
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242 FEDERAL BUILDING  
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200 EAST BAY STREET  
CHARLESTON, SOUTH CAROLINA 29401  
803-724-4525

233 FEDERAL BUILDING  
FLORENCE, SOUTH CAROLINA 29503  
803-662-8135

# United States Senate

115 SENATE OFFICE BUILDING  
WASHINGTON, D.C. 20510  
202-224-6121

October 5, 1981

*me #194*

COMMITTEES:

BUDGET: RANKING DEMOCRAT

APPROPRIATIONS

STATE, JUSTICE, COMMERCE, AND  
THE JUDICIARY: RANKING DEMOCRAT  
DEFENSE  
LABOR, HEALTH AND HUMAN SERVICES,  
EDUCATION  
ENERGY AND WATER DEVELOPMENT  
LEGISLATIVE

COMMERCE, SCIENCE, AND  
TRANSPORTATION

COMMUNICATIONS: RANKING DEMOCRAT  
SURFACE TRANSPORTATION  
SCIENCE, TECHNOLOGY, AND SPACE

DEMOCRATIC POLICY COMMITTEE

OFFICE OF TECHNOLOGY ASSESSMENT  
NATIONAL OCEAN POLICY STUDY

Mr. Paul Volcker, President  
Federal Reserve Board  
Constitution Avenue  
between 20th and 21st Streets  
Washington, DC 20551

Dear Mr. Volcker:

I write today to follow up on an invitation sent to you by  
Mr. W. L. Carpenter of Greenville, South Carolina, who is Chairman  
of the 7th Annual Economic Outlook Conference.

As you are aware, Mr. Carpenter invited you to be the featured  
speaker at the Conference. This is a prestigious gathering and  
the program is always outstanding. If your schedule is such that  
you could arrange to be there, this tradition of excellence would  
continue and your appearance would be the real highlight of the  
1981 Conference. I know you would enjoy yourself and I hope you  
will be able to accept Mr. Carpenter's invitation.

With warm regards, I am

Sincerely,

Ernest F. Hollings

EFH/kk

*Call his assistant  
for more info  
Stacy*

*Monday  
Dec 14 - Ad Meet  
Dec 16 - P106  
Dec 17 - Chicago Fed*

RECEIVED  
OFFICE OF THE CHAIRMAN

1981 OCT -6 PM 11:46

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM



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

October 14, 1981

PAUL A. VOLCKER  
CHAIRMAN

The Honorable Strom Thurmond  
United States Senate  
Washington, D. C. 20510

Dear Senator Thurmond:

Thank you for your recent letter endorsing the invitation of Mr. Carpenter for me to speak at the Annual Economic Outlook Conference in Greenville.

As much as I would have liked to attend the Conference, I have been forced by my calendar to send regrets to Mr. Carpenter. I can never seem to find time to do all of the things that I should be doing.

A member of my staff, however, has been in contact with Mr. Carpenter and provided him with the names of several possible representatives from the Federal Reserve who might be available for the December conference.

With best regards.

Sincerely,

*Paul A. Volcker*

STROM THURMOND, S. C., CHAIRMAN  
CHARLES McC. MATHIAS, JR., MD.      JOSEPH R. BIDEN, JR., DEL.  
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JEREMIAH DENTON, ALA.                HOWELL HEFLIN, ALA.  
ARLEN SPECTER, PA.

VINTON DEVANE LIDE, CHIEF COUNSEL  
QUENTIN CROMMELIN, JR., STAFF DIRECTOR

# United States Senate

COMMITTEE ON THE JUDICIARY  
WASHINGTON, D.C. 20510

October 6, 1981

*m: #194*

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

Dear Mr. Chairman:

It has recently come to my attention that you have been invited to address the 7th Annual Economic Outlook Conference in Greenville, South Carolina, during December.

I am pleased to endorse this invitation and hope that you will be able to give it every consideration. I believe that you would find this group to be most enthusiastic and that you would be well received. The conference is jointly sponsored by Clemson University, Furman University, and The Greater Greenville Chamber of Commerce, and it is my understanding that they are flexible as to the exact date in December which would be most convenient to your schedule.

I hope you are doing nicely, and with kindest regards and best wishes,

Sincerely,

*Strom Thurmond*  
Strom Thurmond

ST/o

BOARD OF GOVERNORS  
FEDERAL RESERVE SYSTEM  
1981 OCT -8 PM 11:22  
RECEIVED  
OFFICE OF THE CHAIRMAN

VIN WEBER  
6TH DISTRICT, MINNESOTA

COMMITTEE ON SCIENCE AND  
TECHNOLOGY

SUBCOMMITTEES:  
ENERGY DEVELOPMENT AND  
APPLICATIONS

SCIENCE, RESEARCH, AND  
TECHNOLOGY

COMMITTEE ON SMALL BUSINESS

SUBCOMMITTEE:  
TAX, ACCESS TO EQUITY CAPITAL, AND  
BUSINESS OPPORTUNITIES

ASSISTANT REGIONAL WHIP  
REPUBLICAN POLICY COMMITTEE

BOARD OF GOVERNORS  
OF THE  
**Congress of the United States**  
1981 OCT 19 AM 11  
**House of Representatives**  
Washington, D.C. 20515  
OFFICE OF THE CHAIRMAN

WASHINGTON OFFICE:  
514 CANNON BUILDING  
WASHINGTON, D.C. 20515  
(202) 225-2331

LEONARD SWINEHART  
ADMINISTRATIVE ASSISTANT

DISTRICT OFFICES:  
ROOM 135  
720 ST. GERMAIN  
ST. CLOUD, MINNESOTA 56301  
(612) 252-7580

208 COLLEGE DRIVE  
MARSHALL, MINNESOTA 56258  
(507) 532-9611

#206

October 19, 1981

Mr. Paul Volker  
Chairman of the Board of Governors  
Federal Reserve Board  
20th & Constitution Ave. N.W.  
Washington, D.C. 20551

Dear Mr. Chairman:

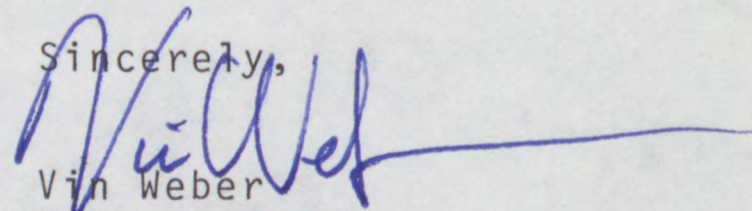
I would like to ask you to appear before the Minnesota  
Agri-Growth Council's annual meeting on November 17.

I realize this is short notice but I feel that this would  
be an extremely important group for you to address.  
This is a statewide group representing every segment  
of agriculture and agribusiness. I am confident that  
your appearance would draw at least 1500 people and  
make the event an unqualified success.

I believe the Council is an important political faction  
in Minnesota. Your appearance would benefit those of  
us who are running in 1982 and will count on this group  
for support.

I would greatly appreciate a favorable response. If you  
wish to speak with me personally on this matter, please  
call. Thank you for your consideration.

Sincerely,



Vin Weber  
Member of Congress

VW/1s/11

11/17 - FOMC

HOUSE OF REPRESENTATIVES

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GILLIS W. LONG, LA.  
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JAMES K. GALBRAITH,  
EXECUTIVE DIRECTOR

# Congress of the United States

## JOINT ECONOMIC COMMITTEE

(CREATED PURSUANT TO SEC. 5(a) OF PUBLIC LAW 304, 79TH CONGRESS)

WASHINGTON, D.C. 20510

SENATE

ROGER W. JEPSEN, IOWA,  
VICE CHAIRMAN  
WILLIAM V. ROTH, JR., DEL.  
JAMES ABDNOR, S. DAK.  
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LLOYD BENTSEN, TEX.  
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EDWARD M. KENNEDY, MASS.  
PAUL S. SARBANES, MD.

#207

October 20, 1981

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

Dear Chairman Volcker:

I have been asked by The Ohio University to invite you to give a Edwin and Ruth Kennedy Lecture during the winter term of this academic year (January-March 1982). Ohio University is the oldest University west of the Appalachian Mountains (with 14,000 students) and the Kennedy Lecture Series is an important and distinguished part of the University's cultural life.

The invitation would be to give a lecture on any convenient weekday evening during January, February or early March. Ohio University will, of course, cover all your expenses and will offer you an honorarium if such payment is possible.

As an economist with the Joint Economic Committee who has been enormously impressed not only by your testimony before us, but by your actions as Chairman, I personally hope you might be able to accept the offer to present this lecture.

For more information or a response, feel free to call me at 224-2485.

Sincerely,

*Richard K. Vedder*

Richard K. Vedder  
Economist\*

\*Before joining the JEC I served as Chairman, Department of Economics, Ohio University.

RECEIVED  
OFFICE OF THE CHAIRMAN  
1981 OCT 21 AM 11:10  
BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WALTER E. FAUNTROY, D.C., CHAIRMAN

PARREN J. MITCHELL, MD.  
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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

November 2, 1981

*#324*

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

PERSONAL AND CONFIDENTIAL

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

Dear Paul:

I have noted that Mobil Corporation is offering to buy Marathon Oil Company, and has arranged \$6.3 billion in bank loans and lines of credit for this purpose. At a time when interest rates are still high despite recent declines, and small businesses, farmers and homebuilders are suffering because of tight credit, it is unconscionable that Mobil can absorb so much of the limited credit supplies for such an unproductive acquisition.

As a Member and Chairman of the Subcommittee on Domestic Monetary Policy of the House Banking Committee, I know that you share my concern about the credit-market impact of these merger activities. I believe that it is now time for the Federal Reserve Board to do more than express concern. I ask you as Chairman of the Board to call upon the chief executive officers of the leading banks in this country to cease making loans and extending lines of credit for such unproductive activities as the Mobil/Marathon merger. I believe that such a request and suggestion from you would have a salutary effect on credit markets in these troubled times.

With kindest personal regards,

Sincerely,

*Walt*

Walter E. Fauntroy  
Chairman

*PAV called  
12/4/81*



CARROLL A. CAMPBELL, JR.  
4TH DISTRICT, SOUTH CAROLINA



*Campbell*

COMMITTEE ON APPROPRIATIONS

SUBCOMMITTEES:

COMMERCE, JUSTICE, AND STATE, THE  
JUDICIARY AND RELATED AGENCIES

TREASURY, POSTAL SERVICE,  
GENERAL GOVERNMENT

LEGISLATIVE BRANCH

WASHINGTON OFFICE:

Room 408  
CANNON HOUSE OFFICE BUILDING  
202-225-6030

DISTRICT OFFICES:

P.O. Box 10183, FEDERAL STATION  
GREENVILLE, SOUTH CAROLINA 29603  
803-232-1141

P.O. Box 1330  
SPARTANBURG, SOUTH CAROLINA 29304  
803-582-6422

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

#197

September 30, 1981

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

RECEIVED  
OFFICE OF THE CHAIRMAN  
1981 OCT -5 PM 10:09  
BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Dear Mr. Chairman:

Attached is a copy of a letter to you from Mr. Bill Carpenter of Greenville, South Carolina, inviting you to be the featured guest speaker at the 7th Annual Economic Outlook Conference in Greenville in December of this year.

I would like to take this opportunity to add my personal endorsement to this invitation and ask that you give every consideration to accepting this engagement, schedule permitting.

This year's conference promises to be outstanding, and your presence and contribution would greatly enhance its success.

Thank you for your attention in this matter.

Sincerely,

Carroll A. Campbell, Jr.  
Member of Congress

CAC:sjb

ESTABLISHED 1902



J. E. SIRRINE COMPANY

ARCHITECTS

ENGINEERS

PLANNERS

POST OFFICE BOX 5456 GREENVILLE, SOUTH CAROLINA 29606 TELEPHONE (803) 298-6000

September 24, 1981

SEP 30 1981

Mr. Paul Volcker, President  
Federal Reserve Board  
Federal Reserve Building  
Constitution Avenue  
Between 20th and 21st Street  
Washington, D. C. 20551

Dear Mr. Volcker:

In December, we will have the 7th Annual Economic Outlook Conference in Greenville. It is jointly sponsored by Clemson University, Furman University, and The Greater Greenville Chamber of Commerce. I am chairman for the 1981 event.

We would consider it an honor if you could be with us as our featured guest speaker. Larry Kudlow will be with us from the Office of Management and Budget. We would add a regional (Dr. Donald Ratajcsak, Georgia State University) and state/local (Jim Lindley, CEO, South Carolina National Bank) economic emphasis to build on your government viewpoint. Our format is flexible but has generally had a "headliner" presentation of 20-30 minutes, followed by shorter economic analysis on the regional and state level. Then, a panel of the speakers to answer questions from the audience which can be very stimulating. The entire program is over in 3-3½ hours, including a beginning lunch.

Some of our past speakers from government have been Bert Lance, Malcolm Toon, and John Connally; industry - Bob Fluor and Cliff Garvin; financial/economic - Alan Greenspan, Louis Rukeyser, and many others.

We like to have our conference in mid-December and could schedule it for any day between the 14th and the 18th. If the week before or after could be easier for you, I'm sure we would try to meet your schedule, and I am sure we can help out to ease your travel arrangements.

Mr. Paul Volcker, President  
Federal Reserve Board

-2-

September 24, 1981

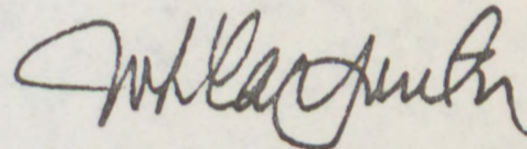
The attendees will be mostly from South Carolina, North Carolina, and Georgia. We would expect 500-750 people, as this event has become the highlight of the year.

I am attaching a previous announcement of the conference.

I hope you will be able to come. You can expect a warm reception and a stimulating session.

Truly yours,

J. E. SIRRINE COMPANY



W. L. Carpenter  
Chairman

/sb

bcc: Mr. Carroll Gray  
Ms. Betti Taylor  
Mr. Hayne Hipp  
Mr. Robert S. Small  
Congressman Carroll Campbell  
Senator Strom Thurmond



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

October 9, 1981

PAUL A. VOLCKER  
CHAIRMAN

The Honorable Mickey Edwards  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Edwards:

I appreciate your recent letter in which you express concern about high interest rates and monetary policy. I am sure you are aware that my colleagues and I share your concern about the effects of high rates on businesses that are heavily dependent upon credit. The question, of course, is how to get rates down, not just for a month or two, but so they stay down.

The crux of the problem lies in the inflationary process that has been so strong, complicated as well at present by the reality and outlook for deficits. In a real sense, extraordinarily high interest rates have been the symptom of the disease, and the only way lower rates of interest can be sustained is by gaining control over inflation.

As we see it, the Federal Reserve's current policy of restraining the growth in money and credit is essential in the fight against inflation. An attempt to force interest rates lower by accelerating growth of money and credit would ultimately produce higher rates of inflation and interest rates, and any progress made would be lost. The next attack on inflation would then only be more difficult and painful.

A considerable part of the stress in financial markets is associated with concern over the federal budgetary situation. Additional efforts on the part of the Congress and the Administration to place the budget convincingly on track to balance or surplus, I believe, would be helpful in relieving pressures on markets. I encourage the Congress to do all it can in bringing expenditure growth in line with receipts.

I would note that sensitive short-term market rates are two to three percent or more below their peaks this summer. At the same time the bond market--which is greatly affected by expectations--has performed badly, and the prime rate is indeed sluggish, although somewhat lower. We need to build confidence that our policies can and will work, and I see signs of progress, even though I well realize these are times that try our patience.

The Honorable Mickey Edwards  
Page Two

Thank you for taking the time to share your concerns with me, and I am enclosing a recent statement before the Budget Committee that goes into these issues in a little more detail.

Sincerely,

S/Paul A. Volcker

Enclosure (9/16/81 stmt. before Senate Budget Cmte.)

CEH:JLK:PAV:vcd (#V-259)

bcc: Ms. Headly  
Ms. Wing  
Mrs. Mallardi (2) ✓

MICKEY EDWARDS  
FIFTH DISTRICT, OKLAHOMA

Action assigned Mr. Kichline

COMMITTEES:  
APPROPRIATIONS

208 CANNON HOUSE OFFICE BUILDING  
WASHINGTON, D.C. 20515  
(202) 225-2132

# Congress of the United States

House of Representatives

Washington, D.C. 20515

September 16, 1981

BOARD OF GOVERNORS  
FEDERAL RESERVE SYSTEM  
SUBCOMMITTEE ASSIGNMENTS:  
MILITARY CONSTRUCTION  
FOREIGN OPERATIONS

RECEIVED  
OFFICE OF THE CHAIRMAN  
SEP 17 PM 12:52

DISTRICT OFFICE:  
717 OLD POST OFFICE BUILDING  
OKLAHOMA CITY, OKLA. 73102  
(405) 231-4541

\$259

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

Dear Mr. Chairman:

I have seen first hand, in Oklahoma, the terrible effects of the Federal Reserve Board's policies on credit and monetary growth.

Throughout Oklahoma, farmers and small-town merchants are in serious, and increasing, trouble.

Bank officials in small towns in Oklahoma are hoping bank examiners will be lenient in their examination of outstanding bank loans because bankers know that calling in loans now could ruin farmers and small businesses.

Since the Federal Reserve initiated its tight money policy, interest rates have climbed to a level not seen in this country for more than a century.

The Program for Economic Recovery that passed Congress this past summer laid the foundation for new growth in the American economy. Every current economic indicator verifies that this growth is occurring. But high interest rates can bring this growth to a halt.

The Congressional Budget Office, in its report to Congress last week, predicted a strong growth period in the near future and attributed that in part to the work the Congress has done this past summer. The report also warned that the growth could be stopped if interest rates do not come down.

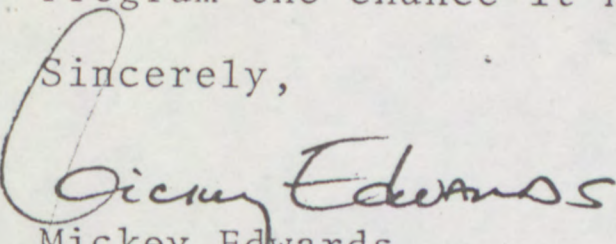
It is clear that the Program for Economic Recovery will work if given a chance. The only thing that stands in the way of a return to a healthy economy is the Federal Reserve's restrictive policy.

While I share your concern that a sudden drop in interest rates to a level of seven or eight percent could cause an inflationary demand for money, a more gradual reduction, starting at a rate of 13 or 14 percent, would nonetheless be adequate to stimulate new investment, plant expansion, homebuilding, and other important signs of a healthy economy.

The Honorable Paul A. Volcker  
September 16, 1981  
Page Two

I urge you to review the Federal Reserve's policy and take immediate action to lower the interest rate and give the Economic Recovery Program the chance it needs to succeed.

Sincerely,

A handwritten signature in cursive script that reads "Mickey Edwards". The signature is written in dark ink and is positioned above the typed name.

Mickey Edwards  
Member of Congress

ME/dms

October 9, 1981

The Honorable J. William Stanton  
Ranking Minority Member  
Committee on Banking, Finance  
and Urban Affairs  
House of Representatives  
Washington, D. C. 20515

Dear Bill:

Thank you for your letter asking the Federal Reserve System to cooperate with the House Banking Committee's planned field hearings in November.

I would be more than happy to assist the Committee by providing economic profiles of the areas in which the hearings are to be held. I have instructed the Reserve Banks in the areas the Committee plans to visit to prepare research papers on the local economies.

Greg Wilson and Dr. Godfrey Briefs of your staff can expect to hear directly from our Reserve Bank personnel. If they have any questions, please contact Don Winn at 452-3457.

Sincerely,

*St. Paul*

WRM:RS:vcd (#V-288)

bcc: Dick Syron  
Mrs. Mallardi (2) ✓



Action assigned Bill Maloni

FERNAND J. ST GERMAIN, R.I., CHAIRMAN  
HENRY S. REUSS, WIS.  
HENRY B. GONZALEZ, TEX.  
JOSEPH G. MINISH, N.J.  
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BARNEY FRANK, MASS.  
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STENY H. HOYER, MD.

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

NINETY-SEVENTH CONGRESS

2129 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, D.C. 20515

September 28, 1981

J. WILLIAM STANTON, OHIO  
CHALMERS P. WYLIE, OHIO  
STEWART B. MCKINNEY, CONN.  
GEORGE HANSEN, IDAHO  
HENRY J. HYDE, ILL.  
JIM LEACH, IOWA  
THOMAS B. EVANS, JR., DEL.  
RON PAUL, TEX.  
ED BETHUNE, ARK.  
NORMAN D. SHUMWAY, CALIF.  
STAN PARRIS, VA.  
ED WEBER, OHIO  
BILL MCCOLLUM, FLA.  
GREGORY W. CARMAN, N.Y.  
GEORGE C. WORTLEY, N.Y.  
MARGE ROUKEMA, N.J.  
BILL LOWERY, CALIF.  
JAMES K. COYNE, PA.  
DOUGLAS K. BEREUTER, NEBR.  
225-4247

4288  
PAV has seen GRC

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

Dear Mr. Chairman:

During October and November, the House Banking Committee will hold field hearings on the state of the economy. Chairman St Germain announced that these hearings "would attempt to draw a complete picture of economic conditions as they impact on workers, small businesses, farmers, consumers and other groups."

I am writing to ask if the Federal Reserve would provide the Members of our Committee with background information on the local economy for each of the six cities and regions which we will visit. The respective Federal Reserve banks are in a perfect position to compile this information, which would be of great benefit to all Members of our Committee.

So that Members will have an opportunity to review these background reports in a timely fashion, I would ask that this economic background material on the St. Paul-Minneapolis area be delivered sometime during the week of October 12 in preparation for our hearing on the 19th. If your staff has any questions about this material, please have them contact Mr. Greg Wilson or Dr. Godfrey Briefs of my staff at 225-7502.

Thank you for your assistance.

Sincerely yours,

*Bill*

J. William Stanton

JWS/gwm

Call EGC  
my dogood  
JWS

FERNAND J. ST GERMAIN, R.I., CHAIRMAN  
HENRY S. REUSS, WIS.  
HENRY B. GONZALEZ, TEX.  
JOSEPH G. MINISH, N.J.  
FRANK ANNUNZIO, ILL.  
FARREN J. MITCHELL, MD.  
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DAVID W. EVANS, IND.  
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STANLEY N. LUNDINE, N.Y.  
MARY ROSE OAKAR, OHIO  
JIM MATTOX, TEX.  
BRUCE F. VENTO, MINN.  
DOUG BARNARD, JR., GA.  
ROBERT GARCIA, N.Y.  
MIKE LOWRY, WASH.  
CHARLES E. SCHUMER, N.Y.  
BARNEY FRANK, MASS.  
BILL PATMAN, TEX.  
WILLIAM J. COYNE, PA.  
STENY H. HOYER, MD.

J. WILLIAM STANTON, OHIO  
CHALMERS P. WYLIE, OHIO  
STEWART B. MCKINNEY, CONN.  
GEORGE HANSEN, IDAHO  
HENRY J. HYDE, ILL.  
JIM LEACH, IOWA  
THOMAS B. EVANS, JR., DEL.  
RON PAUL, TEX.  
ED BETHUNE, ARK.  
NORMAN D. SHUMWAY, CALIF.  
STAN PARRIS, VA.  
ED WEBER, OHIO  
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GREGORY W. CARMAN, N.Y.  
GEORGE C. WORTLEY, N.Y.  
MARGE ROUKEMA, N.J.  
BILL LOWERY, CALIF.  
JAMES K. COYNE, PA.  
DOUGLAS K. BEREUTER, NEBR.  
225-4247

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

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

September 17, 1981

SEP 31 1981

MEMO TO: All Members of the Committee on Banking, Finance and Urban Affairs  
FROM: Fernand J. St Germain, Chairman  
SUBJECT: Field Hearings on the Economy

9:00 A.M.  
Monday,  
Oct. 19  
St. Paul/  
Minneapolis

Field hearings on the economy will open at 9 A.M., Monday, October 19, in St. Paul-Minneapolis followed by hearings in:

- Seattle, Friday, November 6
- Tucson, Saturday, November 7
- Chicago, Monday, November 9
- Atlanta, Friday, November 13
- Providence, Monday, November 23

The specific sites for each hearing, transportation plans, and other details will be released just as soon as preliminary advance staff work is completed.

FERNAND J. ST GERMAIN, R.I., CHAIRMAN  
HENRY B. REUSS, WIS.  
HENRY B. GONZALEZ, TEX.  
JOSEPH G. MINISH, N.J.  
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PARREN J. MITCHELL, MD.  
WALTER E. FAUNTROY, D.C.  
STEPHEN L. NEAL, N.C.  
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JAMES J. BLANCHARD, MICH.  
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ROBERT GARCIA, N.Y.  
MIKE LOWRY, WASH.  
CHARLES E. SCHUMER, N.Y.  
BARNEY FRANK, MASS.  
BILL PATMAN, TEX.  
WILLIAM J. COYNE, PA.  
STENY H. HOYER, MD.

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

NINETY-SEVENTH CONGRESS  
2129 RAYBURN HOUSE OFFICE BUILDING  
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J. WILLIAM STANTON, OHIO  
CHALMERS P. WYLIE, OHIO  
STEWART B. MCKINNEY, CONN.  
GEORGE HANSEN, IDAHO  
HENRY J. HYDE, ILL.  
JIM LEACH, IOWA  
THOMAS B. EVANS, JR., DEL.  
RON PAUL, TEX.  
ED BETHUNE, FLA.  
NORMAN D. SHAWWAY, CALIF.  
STAN FARRIS, ILL.  
ED WEBER, OHIO  
BILL MCCOLLUM, ILL.  
GREGORY W. CAHAN, N.Y.  
GEORGE C. WORLEY, N.Y.  
MARGE ROUKEMAN, ILL.  
BILL LOWERY, CALIF.  
JAMES K. COYNE, ILL.  
DOUGLAS K. BERECH, NEBR.  
225-4207

FOR IMMEDIATE RELEASE:

WASHINGTON, D.C., Sept. 10 -- Chairman Fernand J. St Germain announced today that the Banking, Finance and Urban Affairs Committee will conduct coast to coast grass roots hearings on the economy during October, November and December.

Mr. St Germain said the Committee would attempt to draw a complete picture of economic conditions as they impact on workers, small businesses, farmers, consumers and other groups.

"We have a great mass of rhetoric and aggregate economic data compiled by Federal agencies and various trade associations, but a shortage of information from the grass roots -- the people on the receiving end of economic policies who must daily face the crush of high interest rates, shortages of credit, deteriorating public facilities, and the continuing ravages of inflation," Mr. St Germain said.

Mr. St Germain said it was his intention to open the hearings to as many people as possible so that all aspects of the economic problems in local areas could be aired.

"The Committee will be conducting long sessions, beginning early and running into the night and utilizing Saturdays and Sundays where necessary," the Chairman said.

(more)

The hearings will be held in Providence, Rhode Island; Atlanta, Georgia; Chicago, Illinois; Minneapolis, Minnesota; Tucson, Arizona; and Seattle, Washington. Dates for the hearings will be announced later.

Mr. St Germain said the cities selected would provide the Committee with information on problems in the different geographical regions with varied economies and characteristics.

Mr. St Germain said the Committee will analyze the testimony and data from the hearings and issue a report on the grass roots findings.

# # # #



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

October 9, 1981

PAUL A. VOLCKER  
CHAIRMAN

*Mrs. Mallardi  
(V-263)*

The Honorable Thomas N. Kindness  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Kindness:

Thank you for your letter of September 15 regarding Federal Reserve policy and the impact of high interest rates. I want to assure you that I and the other members of the Federal Reserve Board share your concern about the stresses being created in the economy by high interest rates. While some sectors of the economy have seemed to be quite resistant to the prevailing financial pressures, others clearly have been hit hard by the rising cost of credit.

First of all, let me point out that I do not like high interest rates any more than you do. It is important to note that Federal Reserve policy is not directed toward maintaining any particular level of interest rates but rather on promoting a rate of growth of money and credit that is consistent with reducing inflation and improving our long-term economic prospects. The current level of interest rates is a result of stubbornly high inflationary expectations and the application of the monetary restraint needed to reduce inflation in the face of continued strong private credit demands and the need to finance the large federal deficit.

As you know, there has been some reduction in short-term interest rates in recent weeks and the pressure on bank reserves has lessened. However, longer-term interest rates have remained high reflecting in part the continued skepticism about future price developments I referred to earlier. These developments point out the limits of the Federal Reserve's influence on market interest rates. If the Federal Reserve were to attempt to artificially reduce interest rates by pouring reserves into the banking system, such a shift in the direction of policy would serve only to heighten the already deep-seated fears--reflected in the very depressed bond markets--that the government is in fact not committed to seeing the fight against inflation through to a successful end. The added monetary stimulus would intensify price pressures in the economy, worsening the inflation problem that is at the root of today's high interest rates. The end result of the process would inevitably be higher not lower rates.

The Honorable Thomas N. Kindness  
Page Two

Some of the damage of severe financial stress can be averted, however, if less of the burden of restraint is placed on monetary policy. The credit-sensitive sectors of the economy would benefit greatly if, in particular, there were a less substantial federal government demand on the debt markets. Sustained, large budget deficits, which appear unavoidable unless there is further progress in cutting expenditures, can only tend to squeeze out private borrowers who do not have, in effect, first call on the nation's financial resources.

It is my hope that the public's recognition of the sincerity of the government in its commitment to anti-inflationary restraint will show through in wage and price decisions throughout the economy. There have been a few favorable signs this year on the inflation front, but I'm afraid that these signs have in considerable degree reflected the impacts of the very harsh direct effects of high interest rates on spending decisions. There has been little evidence of the kind of substantial change in psychology that can greatly ease the adjustment from an inflationary to a non-inflationary economy.

I am convinced that we are making progress. It is incumbent upon us in government to grasp the opportunity to pursue policies that will overcome the existing skepticism and move us more rapidly toward an environment of greater economic vitality and lower interest rates. That is what all of us want in the long run--even if there may be differences in opinion on how we can get there.

I do not underestimate the difficulties of the present situation. The threshold of patience and pain is and will be tested. I hope and trust we will also not underestimate the dangers of failing to turn inflation around or to put it more positively, the enormous opportunity we have to change the debilitating economic trends of the past decade or more.

These are all matters, in the end, of judgment. I appreciate very much you taking the time to communicate your assessment of the situation.

Sincerely,

S/Paul A. Volcker

(MJP:JLK:RS:)CO:pjt (#V-263)  
bcc: Mrs. Mallardi (2)

THOMAS N. KINDNESS  
8TH DISTRICT, OHIO

2434 RAYBURN BUILDING  
WASHINGTON, D.C. 20515  
(202) 225-6205

CONGRESS OF THE UNITED STATES  
HOUSE OF REPRESENTATIVES

646 HIGH STREET  
HAMILTON, OHIO 45011  
(513) 895-5656  
TOLL FREE: 1-800-582-1001

September 15, 1981

234 EAST MAIN STREET  
GREENVILLE, OHIO 45331  
(513) 548-6817

#263

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

Dear Chairman Volcker:

This one more voice must be raised, in concern if not in anger, about the need for the interests of the American people to be served by the Federal Reserve, in balance with the interests of financial institutions.

I suggest that the time has arrived to gradually ease restriction of the monetary supply sufficiently to accommodate the real economic growth which can occur in the United States under conditions which are now established and developing. On a comparative basis, U.S.-based and other international corporations already find it attractive or necessary to provide manufacturing jobs in other nations, rather than in the United States, for a variety of reasons. Add to those other reasons a great enough difference in the cost of borrowing funds to produce goods in another country, pay for shipping the goods to the United States, and still improve profits, then Sir, we are in trouble.

Under such circumstances, not nearly enough growth in real U.S. wealth will occur, and the Federal budget cannot be balanced.

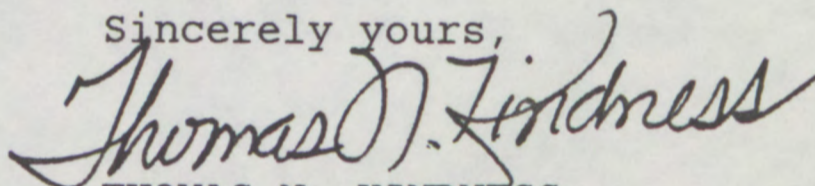
Interest rates must come down before too many business decisions are made upon the basis of the new tax law changes and the expectation of our relatively tight monetary policy continuing indefinitely.

Mr. Paul A. Volcker  
September 15, 1981  
Page 2

I am neither an economist, a financial expert, nor a magician; but I am a very concerned observer of conditions occurring in many little parts of our Nation's life, and a great believer in the magic of a free enterprise economy, filled with people who are "ready to go" and to rebuild America, together.

Thank you for your patient consideration.

Sincerely yours,



THOMAS N. KINDNESS  
Member of Congress

TNK/vf





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

October 9, 1981

PAUL A. VOLCKER  
CHAIRMAN

The Honorable Ron Marlenee  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Marlenee:

Thank you for the recent letter from you and your colleagues regarding Federal Reserve policy and the impact of high interest rates. I want to assure you that I and the other members of the Federal Reserve Board share your concern about the stresses being created in the economy by high interest rates. While some sectors of the economy have seemed to be quite resistant to the prevailing financial pressures, others clearly have been hit hard by the rising cost of credit.

I must take issue with your assertion that my "in-action" is unresponsive to the national effort to improve our economy. First of all, let me point out that I do not like high interest rates any more than you do. It is important to note that Federal Reserve policy is not directed toward maintaining any particular level of interest rates but rather on promoting a rate of growth of money and credit that is consistent with reducing inflation and improving our long-term economic prospects. The current level of interest rates is a result of stubbornly high inflationary expectations and the application of the monetary restraint needed to reduce inflation in the face of continued strong private credit demands and the need to finance the large federal deficit.

As you know, there has been some reduction in short-term interest rates in recent weeks and the pressure on bank reserves has lessened. However, longer-term interest rates have remained high reflecting in part the continued skepticism about future price developments I referred to earlier. These developments point out the limits of the Federal Reserve's influence on market interest rates. If the Federal Reserve were to attempt to artificially reduce interest rates by pouring reserves into the banking system, such a shift in the direction of policy would serve only to heighten the already deep-seated fears--reflected in the very depressed bond markets--that the government is in fact not committed to seeing the fight against inflation through to a successful end. The added monetary stimulus would intensify price pressures in the economy, worsening the inflation problem that is at the root of today's high interest rates. The end result of the process would inevitably be higher not lower rates.

*Mrs. Mallandi  
LV-266*

The Honorable Ron Marlenee  
Page Two

Some of the damage of severe financial stress can be averted, however, if less of the burden of restraint is placed on monetary policy. The credit-sensitive sectors of the economy would benefit greatly if, in particular, there were a less substantial federal government demand on the debt markets. Sustained, large budget deficits, which appear unavoidable unless there is further progress in cutting expenditures, can only tend to squeeze out private borrowers who do not have, in effect, first call on the nation's financial resources.

It is my hope that the public's recognition of the sincerity of the government in its commitment to anti-inflationary restraint will show through in wage and price decisions throughout the economy. There have been a few favorable signs this year on the inflation front, but I'm afraid that these signs have in considerable degree reflected the impacts of the very harsh direct effects of high interest rates on spending decisions. There has been little evidence of the kind of substantial change in psychology that can greatly ease the adjustment from an inflationary to a non-inflationary economy.

I am convinced that we are making progress. It is incumbent upon us in government to grasp the opportunity to pursue policies that will overcome the existing skepticism and move us more rapidly toward an environment of greater economic vitality and lower interest rates. That is what all of us want in the long run--even if there may be differences in opinion on how we can get there.

I do not underestimate the difficulties of the present situation. The threshold of patience and pain is and will be tested. I hope and trust we will also not underestimate the dangers of failing to turn inflation around--or to put it more positively, the enormous opportunity we have to change the debilitating economic trends of the past decade or more.

These are all matters, in the end, of judgment. I appreciate very much you and your colleagues taking the time to communicate your assessment of the situation.

Sincerely,

S/Paul A. Volcker

MJP:JLK:RS:pjt (#V-266)  
bcc: Mr. Prell  
Ms. Wing  
Mrs. Mallardi (2)

Identical letters also sent to: Congressmen Dan Marriott, Walter Jones, Edward Derwinski, Joe Skeen, Clint Roberts, Arlant Stangeland, James Howard, and Bill Alexander.

RON MARLENEE  
MONTANA

WASHINGTON OFFICE:  
409 CANNON HOUSE OFFICE BUILDING  
WASHINGTON, D.C. 20515  
(202) 225-1555

Congress of the United States  
House of Representatives

Washington, D.C. 20515

September 18, 1981

#266

MONTANA OFFICES:  
312 9TH STREET, SOUTH  
GREAT FALLS, MONTANA 59405  
(406) 453-3264  
2717 FIRST AVENUE, NORTH  
BILLINGS, MONTANA 59101  
(406) 657-6753  
TOLL FREE  
800-332-5965  
RECEIVED  
OFFICE OF THE CHAIRMAN  
BOARD OF GOVERNORS  
FEDERAL RESERVE SYSTEM  
SEP 22 PM 3:01

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

Dear Mr. Volcker:

Today's interest rates are the highest this nation has seen in over a century. We believe it is imperative that the Federal Reserve review its monetary policies with the goal of easing these interest rates.

The people of this nation are now endeavoring to control inflation through self-discipline and support of Congressional and Presidential action. Your inaction can only be interpreted by the people of this nation as unresponsive to a unified effort by the Administration, Congress, and the people to increase productivity, provide jobs and actually reduce inflation and interest rates.

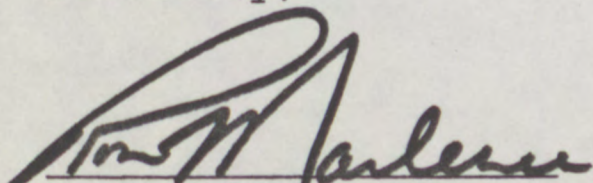
The President's economic stimulus package will be frustrated if these exorbitant rates are not lowered. The current rates are having a disastrous effect on our economy and the ability of small businesses, farmers and others to keep operating. In addition, reinvestment by industry is dampened and the creation of new jobs will be seriously affected.

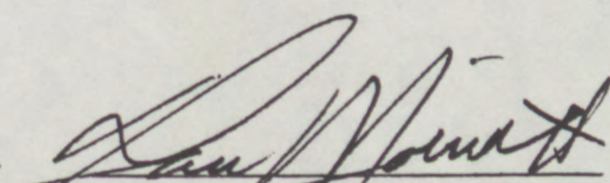
The impact of these results simply cannot be underestimated. Most of the 13 million jobs we hope to create in the next few years will come from small businesses, but only if they can expand or new ones can be created. Current high interest rates will not allow this type of activity.

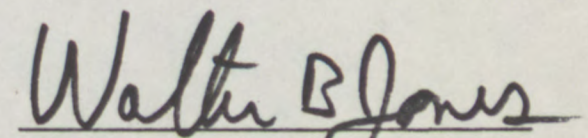
Mr. Chairman, these interest rates are already forcing the closure of many small businesses throughout the nation. The number of car dealerships has declined by more than 1,900 dealers, home sales have dropped significantly as have the number of housing starts. Jobs lost due to these business failures will not be regained if interest rates do not drop.

The policies of the Federal Reserve System have a major effect on interest rates, and in our opinion are now one of, if not the major, roadblock to economic recovery. We urge you to review the policies of the Federal Reserve and to take actions to lower interest rates.

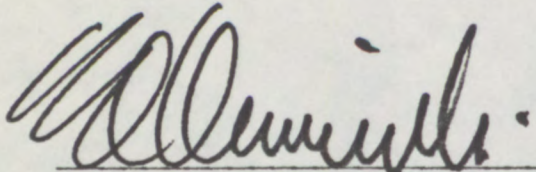
Sincerely,

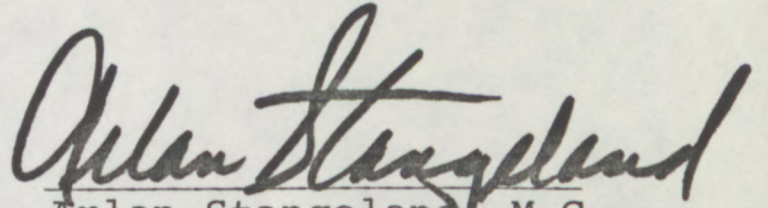
  
Ron Marlenee, M.C.

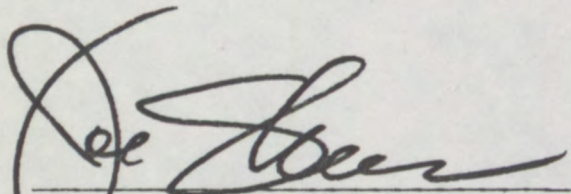
  
Dan Marriott, M.C.

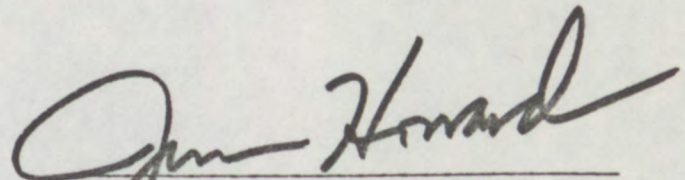
  
Walter B. Jones, M.C.

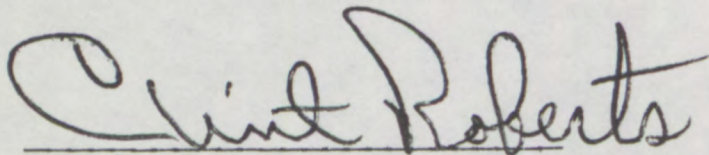
Mr. Paul Volcker  
September 18, 1981  
Page 2

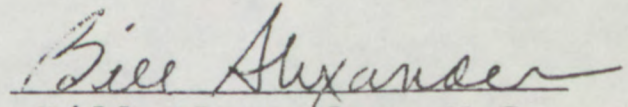
  
Edward Derwinski, M.C.

  
Arlan Stangeland, M.C.

  
Joe Skeen, M.C.

  
James Howard, M.C.

  
Clint Roberts, M.C.

  
Bill Alexander, M.C.

Mrs. Mallard  
(V-267)



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

October 9, 1981

PAUL A. VOLCKER  
CHAIRMAN

The Honorable Roy Dyson  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Dyson:

Thank you for your letter of September 21 regarding Federal Reserve policy and the impact of high interest rates. I want to assure you that I and the other members of the Federal Reserve Board share your concern about the stresses being created in the economy by high interest rates. While some sectors of the economy have seemed to be quite resistant to the prevailing financial pressures, others clearly have been hit hard by the rising cost of credit.

First of all, let me point out that I do not like high interest rates any more than you do. It is important to note that Federal Reserve policy is not directed toward maintaining any particular level of interest rates but rather on promoting a rate of growth of money and credit that is consistent with reducing inflation and improving our long-term economic prospects. The current level of interest rates is a result of stubbornly high inflationary expectations and the application of the monetary restraint needed to reduce inflation in the face of continued strong private credit demands and the need to finance the large federal deficit.

As you know, there has been some reduction in short-term interest rates in recent weeks and the pressure on bank reserves has lessened. However, longer-term interest rates have remained high reflecting in part the continued skepticism about future price developments I referred to earlier. These developments point out the limits of the Federal Reserve's influence on market interest rates. If the Federal Reserve were to attempt to artificially reduce interest rates by pouring reserves into the banking system, such a shift in the direction of policy would serve only to heighten the already deep-seated fears--reflected in the very depressed bond markets--that the government is in fact not committed to seeing the fight against inflation through to a successful end. The added monetary stimulus would intensify price pressures in the economy, worsening the inflation problem that is at the root of today's high interest rates. The end result of the process would inevitably be higher not lower rates.

The Honorable Roy Dyson  
Page Two

Some of the damage of severe financial stress can be averted, however, if less of the burden of restraint is placed on monetary policy. The credit-sensitive sectors of the economy would benefit greatly if, in particular, there were a less substantial federal government demand on the debt markets. Sustained, large budget deficits, which appear unavoidable unless there is further progress in cutting expenditures, can only tend to squeeze out private borrowers who do not have, in effect, first call on the nation's financial resources.

It is my hope that the public's recognition of the sincerity of the government in its commitment to anti-inflationary restraint will show through in wage and price decisions throughout the economy. There have been a few favorable signs this year on the inflation front, but I'm afraid that these signs have in considerable degree reflected the impacts of the very harsh direct effects of high interest rates on spending decisions. There has been little evidence of the kind of substantial change in psychology that can greatly ease the adjustment from an inflationary to a non-inflationary economy.

I am convinced that we are making progress. It is incumbent upon us in government to grasp the opportunity to pursue policies that will overcome the existing skepticism and move us more rapidly toward an environment of greater economic vitality and lower interest rates. That is what all of us want in the long run--even if there may be differences in opinion on how we can get there.

I do not underestimate the difficulties of the present situation. The threshold of patience and pain is and will be tested. I hope and trust we will also not underestimate the dangers of failing to turn inflation around--or to put it more positively, the enormous opportunity we have to change the debilitating economic trends of the past decade or more.

These are all matters, in the end, of judgment. I appreciate very much you taking the time to communicate your assessment of the situation.

Sincerely,

S/Paul A. Volcker

(MJP:JLK:RS:)CO:pjt (#V-267  
bcc: Mrs. Mallardi (2)

COMMITTEES:

ARMED SERVICES

SUBCOMMITTEES:

SEAPOWER AND STRATEGIC AND CRITICAL MATERIALS

MILITARY INSTALLATIONS AND FACILITIES

MERCHANT MARINE AND FISHERIES

SUBCOMMITTEES:

WILDLIFE AND FISHERIES

COAST GUARD

Action assigned Mr. Kichline  
ROY P. DYSON  
FIRST DISTRICT, MARYLAND

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

1020 LONGWORTH HOUSE OFFICE BUILDING  
WASHINGTON, D.C. 20515  
(202) 225-5311  
TONY M. PAPPAS  
ADMINISTRATIVE ASSISTANT  
WALDORF FIVE CENTER  
SUITE 105, ROUTE 5  
P.O. Box 742  
WALDORF, MARYLAND 20601  
(301) 645-4844  
SUITE 703  
ONE PLAZA EAST  
SALISBURY, MARYLAND 21801  
(301) 742-9070  
20 EAST FULFORD AVENUE  
BEL AIR, MARYLAND 21014  
(301) 838-3063

September 21, 1981

1267

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

Dear Mr. Volcker:

Over the last three years Americans have seen a dramatic, almost cataclysmic, change in interest rates. In a single twelve month period we saw interest rates rise and fall almost 22 percentage points--the largest change this country has ever witnessed. Today, interest rates remain near their highest levels. I believe it is imperative that the Federal Reserve review its current monetary policies with the goal of easing interest rates and stabilizing interest rate fluctuations.

In the first three quarters of 1981 over a thousand businesses were forced to close; the reason--high interest rates. Small businesses, farmers and others dependent on short term credit are unable to continue to operate with interest rates holding at their present levels. Most of the 13 million jobs we hope to create in the next few years will come from small businesses, but only if they expand or if new ones can be created. Current high interest rates are not conducive to the formation and expansion of small businesses, thus jeopardizing the possibilities of creating new jobs.

The people of this nation are fighting inflation on two fronts; through their own efforts and by urging the government to control its spending policies. Both the Administration and Congress have responded to these efforts by initiating one of the most massive spending and tax reduction programs in this nation's history. Your continued policy of monetary restraint is proving to be inconsistent with attempts by the Administration, Congress and the American people to increase productivity, provide new jobs and reduce inflation and interest rates.

The policies of the Federal Reserve have a major effect on interest rates and, in my opinion, are a major obstacle to economic recovery. I urge you to review the current monetary restraint fostered by your Board and take actions to lower interest rates.

Sincerely



ROY DYSON  
Member of Congress

RD: SFS:bf

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
1981 SEP 23  
RECEIVED  
OFFICE OF THE CHIEF COUNSEL



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

October 8, 1981

PAUL A. VOLCKER  
CHAIRMAN

*Mrs. Mallardi  
(V-251)*

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

Dear Mr. Santini:

Thank you for your recent letter in which you urge that the Federal Reserve attempt to ease credit conditions by relaxing its monetary targets.

First of all, let me point out that I do not like high interest rates any more than you do. It is important to note that Federal Reserve policy is not directed toward maintaining any particular level of interest rates but rather on promoting a rate of growth of money and credit that is consistent with reducing inflation and improving our long-term economic prospects. The current level of interest rates is a result of stubbornly high inflationary expectations and the application of the monetary restraint needed to reduce inflation in the face of continued strong private credit demands and the need to finance the large federal deficit.

As you know, there has been some reduction in short-term interest rates in recent weeks and the pressure on bank reserves has lessened. However, longer-term interest rates have remained high reflecting in part the continued skepticism about future price developments I referred to earlier. These developments point out the limits of the Federal Reserve's influence on market interest rates. If the Federal Reserve were to attempt to artificially reduce interest rates by pouring reserves into the banking system, such a shift in the direction of policy would serve only to heighten the already deep-seated fears--reflected in the very depressed bond markets--that the government is in fact not committed to seeing the fight against inflation through to a successful end. The added monetary stimulus would intensify price pressures in the economy, worsening the inflation problem that is at the root of today's high interest rates. The end result of the process would inevitably be higher not lower rates.

I would note here that in a period of rapid financial innovation such as the present, growth in the monetary aggregates must be interpreted carefully. In particular, the recent apparent



The Honorable James D. Santini  
Page Two

weakness in the narrow, or M1-B, definition of money likely is a misleading indicator of the degree of monetary tautness. The evidence appears to suggest that the recent sluggishness in this measure thus far in 1981 has resulted from more intensive application of sophisticated cash management techniques by firms and even individuals that permits a reduction in holdings of transaction balances relative to levels of spending. By contrast, the M2 and M3 definitions of money, which include highly liquid alternatives to such transaction balances, are growing near or above the upper ends of their respective ranges.

Interest rates will fall to permanently lower levels only when market participants are convinced that the restoration of price stability is a realistic expectation. In recent months we have seen the first tentative signs that inflation is beginning to slow. Consistent policy actions that allow such evidence to accumulate will eventually bring with them the lower interest rates we all seek. The road toward lower interest rates will be shortened by prompt evidence that steps are being taken to reduce the burden federal credit demands are placing--or expected to place--on credit markets, increasing the share of the economy's scarce savings available for private sector investment.

Disciplined monetary policy in conjunction with a policy of curtailed public spending does entail some strains in the short run. But both approaches are essential in order to achieve the basis for lower interest rates and sustained economic growth over the long term. It is my sincere hope and conviction that as we make further progress against inflation, interest rates will decline further.

Sincerely,

S/Paul A. Volcker

TB:TDS:JLK:RS:pjt (#V-251)  
bcc: Messrs. Brady, Simpson, Kichline  
Mrs. Mallardi (2)

JIM SANTINI  
NEVADA

WASHINGTON OFFICE:  
2429 RAYBURN HOUSE OFFICE BUILDING  
WASHINGTON, D.C. 20515  
TELEPHONE: (202) 225-5965

DISTRICT OFFICES:  
SUITE 4-620 FEDERAL BUILDING  
300 LAS VEGAS BOULEVARD SOUTH  
LAS VEGAS, NEVADA 89101  
TELEPHONE: (702) 385-6575

SUITE 1139 FEDERAL BUILDING  
300 BOOTH STREET  
RENO, NEVADA 89502  
TELEPHONE: (702) 784-5657

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

September 8, 1981

BOARD OF GOVERNORS  
FEDERAL RESERVE SYSTEM  
SEP -9 PM 2:15  
OFFICE RECEIVED  
OF THE CHAIRMAN

- COMMITTEES:
- INTERIOR AND INSULAR AFFAIRS
- SUBCOMMITTEES:
- MINES AND MINING, CHAIRMAN
- PUBLIC LANDS AND NATIONAL PARKS
- ENERGY AND COMMERCE
- SUBCOMMITTEES:
- COMMERCE, TRANSPORTATION AND TOURISM
- OVERSIGHT AND INVESTIGATIONS
- SELECT COMMITTEE ON AGING
- SUBCOMMITTEE:
- HOUSING AND CONSUMER INTERESTS
- U.S. CONGRESSIONAL TRAVEL
- AND TOURISM CAUCUS, CHAIRMAN

*JDS*

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

Dear Chairman Volcker:

Most Americans would agree that the economy with its spiraling interest and inflation rates, and high unemployment, is the number one problem facing our nation today. During my recent August visit to Nevada, I found that a majority of my constituents are pleased with Congressional initiatives to reduce federal spending and cut taxes. But with the prime interest rate at 20 percent and mortgage interest rates at 17 percent, it is not surprising that Nevadans are crying out for a sensible credit policy.

I agree that we must curb the inflationary pressures which fuel high interest rates. That is why I supported the President's "Program for Economic Recovery" to cut taxes and reduce spending. I will continue to do everything I can to bring the budget under control by 1984.

In July of 1980, the prime interest rate was 11.48 percent. In July of 1981, the prime interest rate was 20.39 percent! I don't believe that 20 percent interest rates will cure this nation's economic woes. Long-term economic recovery depends on stimulating production and today's interest rates are counterproductive to that goal.

Therefore, I respectfully urge the Federal Reserve Board to consider relaxing money supply targets, without jeopardizing firm control over the overall growth of money and credit.

Thank you for your kind consideration.

With all best wishes,

Sincerely,

*James D. Santini*  
JAMES D. SANTINI  
Member of Congress

JDS:sam

October 7, 1981

The Honorable Walter E. Fauntroy  
Chairman  
Subcommittee on Domestic Monetary Policy  
Committee on Banking, Finance and  
Urban Affairs  
House of Representatives  
Washington, D. C. 20515

Dear Walter:

Thank you for your letter of September 23 inviting the Board to appear before your Subcommittee hearings on the present and prospective conditions of credit markets, including the impact of Federal budget deficits on the availability and price of credit.

Governor Lyle E. Gramley is looking forward to appearing on October 27 at 10:00 a.m.

Sincerely,

S/ Paul

CO:vcd (V-269)

bcc: Gov. Gramley  
Mr. Kichline  
Mrs. Mallardi (2) ✓

WALTER E. FRUNTROY, 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

Don Winn will discuss with Chairman

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

September 23, 1981

4269

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

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
1981 SEP 24 PM 11:05  
RECEIVED  
OFFICE OF THE CHAIRMAN

Dear Paul:

On Tuesday, October 27, 1981, the Subcommittee on Domestic Monetary Policy will begin a series of hearings on the present and prospective conditions of credit markets. On that first day, it is my intention to begin the exploration of the impact of Federal deficit financing on the uses and distribution of credit. As you know, there has been considerable dispute over the impact that any deficit and its various forms of financing may have upon the supply and distribution of credit, and on inflation and the conduct of monetary policy.

Accordingly, I would like to ask that you or your designee testify before the Subcommittee on your projections of the probable size of the deficit for FY-82, FY-83, and FY-84 if there are no significant further budget cuts or tax increases, and the impact that such deficits are likely to have upon the availability, distribution, and price of credit. I would, further, like you to discuss various credit conservation mechanisms which could be applied to alleviate the adverse impact of deficit financing, as well as the advisability of further amendments to the Monetary Control Act. I am, too, particularly interested in exploring with you the appropriate monetary policy for the Federal Reserve System to follow if large deficits occur in the next year. It would be useful for the Committee to be advised, therefore, of previous Accords which the Federal Reserve has had with Treasury Department on financing the Federal deficit, and their impact on the economy, particularly upon the conduct of monetary policy.

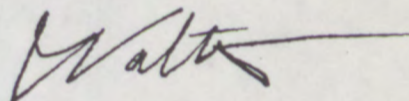
You or your designee are requested to testify on Tuesday, October 27, 1981, at 10:00 a.m. before the Subcommittee on these matters. A room for the hearings is being arranged, and we will inform you of the hearing location when that is set. You are invited to bring with you such staff as you think may be appropriate to assist you in answering technical questions.

Letter to: The Honorable Paul A. Volcker  
9/23/81  
Page 2

Committee rules require that 150 copies of your statement be made available to the Subcommittee no later than 48 hours prior to your testimony. You should bring additional copies with you if you wish to assure that the press and others will have your statement.

Any questions that you and your staff may have concerning this request should be directed to Howard Lee, Staff Director, of the Subcommittee, who may be reached at 202-225-7315.

Sincerely yours,



Walter E. Fauntroy  
Chairman



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

October 7, 1981

CM  
V-279  
PAUL A. VOLCKER  
CHAIRMAN

The Honorable Sam B. Hall, Jr.  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Hall:

Thank you for your recent letter regarding high interest rates. I agree with you that the current financial situation is an unhappy one and that high interest rates, if they were to persist, would be an impediment to the sort of economic performance we would all like to see for this nation in the years ahead.

Thus I cannot argue with the thrust of your suggestion that the Federal Reserve, the Administration, and the Congress should work together to achieve lower interest rates. I am a bit concerned, however, by the suggestion--as I read your letter--that the Federal Reserve has it within its powers to "assure interest rate reductions." The scope for the System to effect changes in interest rates is limited, and you have put your finger on one of the other key factors in rate determination--namely, federal spending. A credible commitment to monetary restraint is essential to the attainment of a sustained reduction in interest rates, and so, too, is a commitment to fiscal policies that point clearly toward elimination of the large federal budgetary deficits that burden financial markets. As you know, the bond markets have experienced a very substantial setback in past months as a result of intensified concern about the prospects for the federal budget--suggesting that, as remarkable as has been the progress in spending reduction achieved to date, it must be viewed as only an initial step.

With respect to the issue of corporate mergers, I am troubled by the possibility that the managers of some of our leading companies are devoting a good deal of their time, intellect, and energy to endeavors of questionable economic value. Our country desperately needs to focus its efforts on productivity-enhancing activities that can raise living standards. However, as dramatic as have been several highly publicized merger deals, the credit market impacts have been, in reality, quite limited. The credit flows involved in the transactions actually consummated have been considerably smaller than suggested by the volume of

credit lines arranged. Moreover, in simple terms, mergers involve only a transfer of ownership of existing assets and do not absorb any of the real saving in the economy that might be used to finance investment in new plant and equipment. And, finally, if our experience with credit controls last year proved anything, it is that attempting to channel credit to preferred uses or away from less desirable uses is extremely difficult in our highly fluid domestic and international financial markets--and that efforts to do so can have very deleterious side effects. While the situation certainly deserves continued watching, at this point I believe the better course for public policy is to rely on our highly competitive markets to route credit in an economically efficient manner and look to anti-trust policy to avoid undesirable industrial concentration.

These are difficult times for the nation, as we endeavor to put the economy back on the track toward prosperity and price stability. Constructive dialogue on policy is needed; I welcome this opportunity for an exchange of views, seeing it as part of such a dialogue.

Sincerely,

Paul A. Volker

P.S. I don't want to suggest that the appearance, and to some degree the substance, of the "takeover loan" problem do not trouble me. It does! We are watching it closely. I appreciate your concern.  
PAV

SAM B. HALL, JR.  
FIRST DISTRICT  
STATE OF TEXAS

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

COMMITTEES:  
JUDICIARY  
SUBCOMMITTEES:  
CRIMINAL JUSTICE  
IMMIGRATION, REFUGEES, AND  
INTERNATIONAL LAW  
CRIME  
VETERANS' AFFAIRS  
SUBCOMMITTEES:  
CHAIRMAN, COMPENSATION,  
PENSION AND INSURANCE  
OVERSIGHT AND INVESTIGATIONS

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

U.S. FEDERAL BUILDING, ROOM G 15  
MARSHALL, TEXAS 75670  
TELEPHONE: (214) 938-8386

September 25, 1981

U.S. POST OFFICE AND FEDERAL BUILDING  
ROOM 210-PARIS, TEXAS 75460  
TELEPHONE: (214) 785-0723

U.S. POST OFFICE AND FEDERAL BUILDING  
ROOM 401-TEXARKANA, TEXAS 75501  
TELEPHONE: (214) 793-6728

1279

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

Dear Mr. Chairman:

A recent statement by you to the effect that a significant reduction in Federal spending is necessary to reduce high interest rates is certainly on target in my judgement. We have endeavored to support the President in reducing spending and balancing the budget.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
RECEIVED  
OFFICE OF THE CHAIRMAN  
1981 SEP 28 AM 10:42

While it is indeed unfortunate that some segments of the financial community have responded negatively to the Administration's economic initiatives, it is clear that high interest rates and the shortage of lending money is having a bad psychological effect on middle America as far as the overall economic program is concerned.

Of course, it will be months, indeed years, before the budget and tax reductions will impact the economy in a positive way, but if the sentiment in my Congressional District is a general indication of the mood of the Country, we have got to explore ways to reduce interest rates immediately. In other words, strong, highly visible action on the part of the Federal Reserve at this time could galvanize public confidence in the future of the American economy.

It would appear meaningful, therefore, for the Federal Reserve to establish a dialogue with the people by assuming a more public role in working with the White House and Congress in a mutual effort to articulate a national commitment and goal for achieving interest rate reductions. Such an effort, in my opinion, would not serve to threaten the independent character of the Federal Reserve and would assure the American people that a national commitment, of which the Federal Reserve is a part, exists in the highest councils of government to provide a better game plan for bringing interest rates down to specific and acceptable levels within a reasonable time frame.

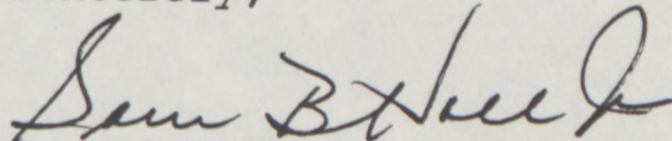


In embarking on this errand of national commitment, the Federal Reserve should assure interest rate reductions commensurate in significance with the historic spending reductions secured by Congress. As an institution, the Federal Reserve should move forward in step with the cooperative efforts of the White House and respective houses of Congress.

Further, the Federal Reserve should do everything possible to direct private credit markets away from unproductive lending practices. Perhaps corporate mergers present a good place to start. According to information available to me, billions upon billions of credit dollars are used to finance these ventures. During times of tight money supply, such misdirection of credit is killing the American farmer, homebuilders, small businessmen and other productive and job-producing participants in our market economy.

I commend these remarks for your attention, and with kindest regards, I am

Sincerely,



Sam B. Hall, Jr.



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

October 6, 1981

Mrs. Mallardi  
(V-282)

The Honorable James V. Hansen  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Hansen:

Thank you for your letter of September 29, on behalf of one of your constituents, requesting answers to the following questions about the Federal Reserve System.

1. Who are the members of the Board?

Answer: The Board of Governors presently is made up of Chairman Paul A. Volcker, Vice Chairman Frederick H. Schultz, and Governors Henry C. Wallich, J. Charles Partee, Nancy H. Teeters, Emmett J. Rice, Lyle E. Gramley. I am enclosing biographical sketches of the members of the Board and a pamphlet which contains additional information about the Board.

2. How are funds received to pay Board members' salaries?

Answer: As provided in the Federal Reserve Act, the salaries of the Board members as well as all other expenses of the Board are paid from assessments of the Federal Reserve Banks. Earnings of the Federal Reserve Banks are derived primarily from interest received on their holdings of securities acquired through open market operations and on their loans to member banks. Such earnings go first to the payment of expenses (including assessments by the Board of Governors to defray its expenses), the statutory 6 percent dividend on Federal Reserve stock required to be purchased by member banks, and any additions to surplus necessary to maintain each Reserve Bank's surplus equal to its paid-in capital stock. Remaining earnings are then paid into the U.S. Treasury.

3. How are Board members selected?

Answer: Members of the Board are nominated by the President and confirmed by the Senate. There are certain statutory guidelines that the President must follow in appointing Board members. For example, only one Board member may be selected to serve at one time from any one of the 12 Federal Reserve districts;

The Honorable James V. Hansen  
Page Two

and the President, in appointing Board members, is required to give due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country.

4. What happens to the interest paid on funds collected by the Board?

Answer: As stated in the answer to question 2, the net earnings of the Reserve Banks are paid into the U.S. Treasury. In recent years, System payments to the Treasury have averaged 90 percent or more of gross receipts. In calendar year 1980 payments to the Treasury amounted to \$11.707 billion.

5. Who has jurisdiction over the Board?

Answer: The Congress has ultimate authority over the Federal Reserve and oversees the activities of the System through relevant committees. 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 directives of promoting full employment, balanced growth of real income, adequate productivity growth, and reasonable price stability. Moreover, the Board is required by law to make an annual report to the Congress and members of the Board, especially the Chairman, are called upon frequently to testify before Congressional committees.

6. How long do Board members serve?

Answer: Board members are appointed to 14-year terms. One term begins every two years, on February 1 of even-numbered years. A member who serves a full term may not be reappointed. A member who completes an unexpired portion of a term may be reappointed. All terms end on their statutory date regardless of the date on which the member is sworn into office.

7. How can a member be removed from the Board?

Answer: The Federal Reserve Act states that members of the Board can be "removed for cause by the President."

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

CO:AFC:pjt (#V-282)  
bcc: Mrs. Mallardi

Enclosures



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

October 5, 1981

Mrs. Malardi  
(V-273)

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

Dear Senator Stevens:

Thank you for your letter of September 22 to Chairman Volcker requesting comment on the enclosed correspondence from Mr. Fredrick E. Wentz concerning the Monetary Control Act of 1980 (Title I of P. L. 96-221) and H. R. 3599, introduced by Congressman Ron Paul. Mr. Paul's bill would repeal the Monetary Control Act.

As you are aware, Congress, in the Monetary Control Act, took the step of imposing Federal reserve requirements on all depository institutions because it believed that universal reserve requirements were necessary to assist in the fight against inflation. Repeal of the Act would impair the Board's ability to conduct monetary policy by exempting large portions of the money supply from one of the most basic tools used by the Federal Reserve to influence the quantity of money.

Mr. Wentz' concern about the Monetary Control Act relates to a relatively minor provision of the Act which has given rise to a great deal of misunderstanding. This provision authorizes the Federal Reserve to purchase obligations of foreign governments. The sole purpose of the provision is to facilitate the foreign exchange operations of the Federal Reserve. As part of the Federal Reserve's responsibility to help maintain orderly market conditions, the System has entered into arrangements with several foreign countries to purchase foreign currencies that can be used to defend the dollar. These agreements are called "swap" arrangements. When these swaps take place, the Federal Reserve then owns foreign currencies. Until passage of the Monetary Control Act, the Federal Reserve did not have any convenient way to invest these holdings in order to obtain a return. Since 1914, the Federal Reserve has possessed authority to invest its funds in certain types of securities. For example, the System is empowered to

The Honorable Ted Stevens  
Page Two

purchase U. S. government and agency securities, certain short-term obligations of State and local governments, bankers' acceptances, and bills of exchange. However, with the passage of the Monetary Control Act, the Federal Reserve can now invest foreign currencies it holds as a result of its swap arrangements in interest bearing obligations. This will result in an increase in Federal Reserve earnings, almost all of which are turned over to the U. S. Treasury. (In 1980, the Board paid the U. S. Treasury \$11.7 billion.)

Since the new authority is to be used only in conjunction with foreign exchange operations, the provision does not permit the Federal Reserve to "monetize" (i.e., provide Federal Reserve credit in return for a debt obligation of the borrower) the debt of private persons or foreign countries. Indeed, there is nothing in the Monetary Control Act that touches upon the ability of the Federal Reserve to purchase private debt obligations whatsoever. Use of the authority to invest in foreign obligations merely provides the System with the opportunity to earn interest on foreign currencies which are needed to conduct foreign exchange operations and which otherwise would constitute non-interest bearing assets. When the authority is used, all that is provided is foreign currency, which constitutes a debt of another country, and not Federal Reserve credit.

I hope that this is helpful 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

CO:AFC:vcd (#V-273)

bcc: Mrs. Mallardi

October 5, 1981

The Honorable Gillis W. Long  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Long:

Thank you for your letter of September 25 endorsing the nomination of David B. Ward, Esq., to serve on the Board's Consumer Advisory Council.

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

I appreciate your interest in the Council.

Sincerely,

S/Paul A. Volcker

CO:vcd (#V-281)

bcc: Mrs. Bray (w/copy of incoming)  
Mrs. Mallardi (2) ✓

GILLIS W. LONG  
CHAIRMAN

# Democratic Caucus

GERALDINE A. FERRARO  
SECRETARY

FORMER CHAIRMEN  
THOMAS S. FOLEY (WASH.)  
PHILLIP BURTON (CALIF.)  
OLIN TEAGUE (TEX.)  
DAN ROSTENKOWSKI (ILL.)  
EUGENE KEOGH (N.Y.)  
ALBERT THOMAS (TEX.)  
FRANCIS WALTER (PA.)  
MELVIN PRICE (ILL.)  
JOHN ROONEY (N.Y.)  
WILBUR MILLS (ARK.)

## U.S. House of Representatives

306-307 ANNEX #1 HOUSE OFFICE BUILDING  
WASHINGTON, D.C. 20515  
(202) 225-9141

FORMER SECRETARIES  
SHIRLEY CHISHOLM (N.Y.)  
PATSY MINK (HAWAII)  
LEONOR K. SULLIVAN (MO.)  
EDNA F. KELLY (N.Y.)

ALVIN FROM  
STAFF DIRECTOR

September 25, 1981

#281

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

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
1981 SEP 29 AM 10:17  
RECEIVED  
OFFICE OF THE CHAIRMAN

Dear Chairman Volker:

It has been brought to my attention that the Board is in the process of reviewing nominations to fill a number of vacancies on its Consumer Advisory Council and that among the names being considered is that of David B. Ward, Esq., an executive of Beneficial Management Corporation of Morristown, New Jersey.

In my opinion, Mr. Ward would make an excellent choice for appointment as a representative of the financial community in your efforts to balance membership among creditors, consumers and others.

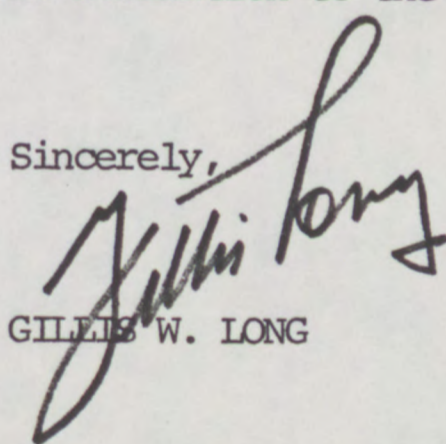
For example, as Senior Vice President of his corporation's Government Relations Department, which oversees Beneficial's regulatory and legislative activities on behalf of its affiliated depository institutions, consumer finance companies, insurance companies and retail credit operations, Mr. Ward has an extensive knowledge of the kinds of credit and related issues which come before the Council.

In addition, Mr. Ward's background as a practicing attorney and as an active member of various credit related associations and institutions gives him invaluable experience and training which would prove to be of great benefit to the Consumer Advisory Council.

I am pleased to endorse his nomination to the Council.

With best wishes, I am

Sincerely,



GILLIS W. LONG

GWL/afm

cc: Frederick H. Schultz  
Henry C. Wallich  
Nancy Hays Teeters  
J. Charles Partee  
Emmett J. Rice  
Lyle E. Gramley

*Chairman's off*

OCT 2 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:

At yesterday's Subcommittee markup, counsel remarked that "institutions of the same type" in section 8(a) of H.R. 4603 refers to institutions eligible for assistance under section 406(f) of the National Housing Act, that is, savings and loan associations and Federal mutual savings banks insured by the Federal Savings and Loan Insurance Corporation.

This is to advise that the intent of the regulators in drafting this provision was to distinguish among institutions on the basis of a thrift-commercial bank distinction. Accordingly, as a general matter, a State-chartered mutual savings bank insured by the FDIC would be regarded by the Federal Home Loan Bank Board as an institution of the same type for purposes of section 8(a).

Sincerely,

*S/Paul A. Volcker*

MB:ids  
10/5/81





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

October 2, 1981

PAUL A. VOLCKER  
CHAIRMAN

The Honorable J. William Stanton  
Ranking Minority Member  
Committee on Banking, Finance  
and Urban Affairs  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Stanton:

In 1976 the Congress asked the Board to undertake a study of Section 23A of the Federal Reserve Act and propose needed amendments. This statute places quantitative limitations on a bank's transactions with affiliated companies and requires that all bank loans or extensions of credit to affiliates be fully secured. After extensive study, the Board concluded that Section 23A had major shortcomings and clearly was in need of amendment. First, the statute in some areas is unduly restrictive and should be modified in a manner that would still give banks adequate protection. Second, the statute is poorly drafted and organized. For many years, these shortcomings have made compliance with and enforcement of the statute difficult for bankers and bank supervisors. Finally, the statute contains several potentially dangerous "loopholes" which, if permitted to continue, could expose banks to undue risk.

In both March 1978 and April 1979, the Board submitted to the Congress a detailed proposal to amend Section 23A. No action was taken on the bills during the Ninety-Fifth or Ninety-Sixth Congress.

The Board continues to believe that Section 23A needs amending. Accordingly, the Board included its Section 23A proposal among its legislative recommendations in the Board's Annual Report to the Congress that was transmitted on May 15, 1981. Consistent with this position, the Board is now forwarding the enclosed draft bill to the House Banking Committee, along with a brief summary of the Board's principal recommendations and a detailed discussion paper explaining the reasons for the proposed amendments.

Sincerely,

S/Paul A. Volcker

Enclosure

BT:RS:vcd

bcc: Mr. Talley

Mrs. Mallardi (2) ✓



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

October 2, 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:

In 1976 the Congress asked the Board to undertake a study of Section 23A of the Federal Reserve Act and propose needed amendments. This statute places quantitative limitations on a bank's transactions with affiliated companies and requires that all bank loans or extensions of credit to affiliates be fully secured. After extensive study, the Board concluded that Section 23A had major shortcomings and clearly was in need of amendment. First, the statute in some areas is unduly restrictive and should be modified in a manner that would still give banks adequate protection. Second, the statute is poorly drafted and organized. For many years, these shortcomings have made compliance with and enforcement of the statute difficult for bankers and bank supervisors. Finally, the statute contains several potentially dangerous "loop-holes" which, if permitted to continue, could expose banks to undue risk.

In both March 1978 and April 1979, the Board submitted to the Congress a detailed proposal to amend Section 23A. No action was taken on the bills during the Ninety-Fifth or Ninety-Sixth Congress.

The Board continues to believe that Section 23A needs amending. Accordingly, the Board included its Section 23A proposal among its legislative recommendations in the Board's Annual Report to the Congress that was transmitted on May 15, 1981. Consistent with this position, the Board is now forwarding the enclosed draft bill to your Committee, along with a brief summary of the Board's principal recommendations and a detailed discussion paper explaining the reasons for the proposed amendments.

Sincerely,

S/Paul A. Volcker

Enclosure

BT:RS:vcd

bcc: Mr. Talley

Mrs. Mallardi (2)



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

October 2, 1981

PAUL A. VOLCKER  
CHAIRMAN

The Honorable Harrison A. Williams, Jr.  
Ranking Minority Member  
Committee on Banking, Housing  
and Urban Affairs  
United States Senate  
Washington, D. C. 20510

Dear Senator Williams:

In 1976 the Senate Banking Committee asked the Board to undertake a study of Section 23A of the Federal Reserve Act and propose needed amendments. This statute places quantitative limitations on a bank's transactions with affiliated companies and requires that all bank loans or extensions of credit to affiliates be fully secured. After extensive study, the Board concluded that Section 23A had major shortcomings and clearly was in need of amendment. First, the statute in some areas is unduly restrictive and should be modified in a manner that would still give banks adequate protection. Second, the statute is poorly drafted and organized. For many years these shortcomings have made compliance with and enforcement of the statute difficult for bankers and bank supervisors. Finally, the statute contains several potentially dangerous "loopholes" which, if permitted to continue, could expose banks to undue risk.

In both March 1978 and April 1979, the Board submitted to the Senate Banking Committee a detailed proposal to amend Section 23A. While the Board's draft legislation was introduced on both occasions, no action was taken on the bills during the Ninety-Fifth or Ninety-Sixth Congress.

The Board continues to believe that Section 23A needs amending. Accordingly, the Board included its Section 23A proposal among its legislative recommendations in the Board's Annual Report to the Congress that was transmitted on May 15, 1981. Consistent with this position, the Board is now forwarding the enclosed draft bill to the Senate Banking Committee, along with a brief summary of the Board's principal recommendations and a detailed discussion paper explaining the reasons for the proposed amendments.

Sincerely,  
S/Paul A. Volcker

Enclosure

BT:RS:vcd

bcc: Mr. Talley  
Mrs. Mallardi (2) ✓



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

October 2, 1981

PAUL A. VOLCKER  
CHAIRMAN

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

Dear Chairman Garn:

In 1976 the Senate Banking Committee asked the Board to undertake a study of Section 23A of the Federal Reserve Act and proposed needed amendments. This statute places quantitative limitations on a bank's transactions with affiliated companies and requires that all bank loans or extensions of credit to affiliates be fully secured. After extensive study, the Board concluded that Section 23A had major shortcomings and clearly was in need of amendment. First, the statute in some areas is unduly restrictive and should be modified in a manner that would still give banks adequate protection. Second, the statute is poorly drafted and organized. For many years these shortcomings have made compliance with and enforcement of the statute difficult for bankers and bank supervisors. Finally, the statute contains several potentially dangerous "loopholes" which, if permitted to continue, could expose banks to undue risk.

In both March 1978 and April 1979, the Board submitted to your Committee a detailed proposal to amend Section 23A. While the Board's draft legislation was introduced on both occasions, no action was taken on the bills during the Ninety-Fifth or Ninety-Sixth Congress.

The Board continues to believe that Section 23A needs amending. Accordingly, the Board included its Section 23A proposal among its legislative recommendations in the Board's Annual Report to the Congress that was transmitted on May 15, 1981. Consistent with this position, the Board is now forwarding the enclosed draft bill to your Committee, along with a brief summary of the Board's principal recommendations and a detailed discussion paper explaining the reasons for the proposed amendments.

Sincerely,

S/Paul A. Volcker

Enclosure

bcc: Senator Cranston

BT:RS:vcd

bcc: Mr. Talley

Mrs. Mallardi (2) ✓

October 1, 1981

The Honorable Leo C. Zeferetti  
Chairman  
Select Committee on Narcotics Abuse  
and Control  
House of Representatives  
Washington, D. C. 20515

Dear Chairman Zeferetti:

Thank you for your letter of September 24 inviting the Board to appear before your Committee's public hearing in Fort Lauderdale, Florida, to examine the effectiveness of the Government's investigation and prosecution of cases to trace, seize and forfeit moneys and other assets derived from drug trafficking.

I am pleased to inform you that Mr. John E. Ryan, Director, Division of Banking Supervision and Regulation, will appear on behalf of the Board on October 9.

Sincerely,

S/Paul A. Volcker

CO:vcd (#V-271)

bcc: Mr. Ryan  
Mrs. Mallardi (2)

Bill Maloni will discuss with Gov. Schultz

LEO C. ZEFERETTI, N.Y.  
CHAIRMAN

PETER W. RODINO, JR., N.J.  
CHARLES B. RANGEL, N.Y.  
FORTNEY H. (PETE) STARK, CALIF.  
GLENN ENGLISH, OKLA.  
BILLY L. EVANS, GA.  
JAMES H. SCHEUER, N.Y.  
CARDISS COLLINS, ILL.  
DANIEL K. AKAKA, HAWAII  
FRANK J. GUARINI, N.J.  
ROBERT T. MATSUI, CALIF.

EX OFFICIO:

MARIO BIAGGI, N.Y.  
DANTE B. FASCELL, FLA.  
LINDY BOGGS, LA.  
BARBARA A. MIKULSKI, MD.  
EARL HUTTO, FLA.  
GEORGE DANIELSON, CALIF.  
WALTER E. FAUNTROY, D.C.

# U.S. House of Representatives

## SELECT COMMITTEE ON NARCOTICS ABUSE AND CONTROL

ROOM H2-234, HOUSE OFFICE BUILDING ANNEX 2  
WASHINGTON, D.C. 20515

COMMITTEE PHONE 202-225-1753

September 24, 1981

TOM RAILSBACK, ILL.  
RANKING MINORITY MEMBER  
ROBIN L. BEARD, TENN.  
BENJAMIN A. GILMAN, N.Y.  
TENNYSON GUYER, OHIO  
LAWRENCE COUGHLIN, PA.  
ROBERT K. DORNAN, CALIF.  
LAWRENCE J. DENARDIS, CONN.  
E. CLAY SHAW, JR., FLA.

EX OFFICIO:

MATTHEW J. RINALDO, N.J.  
ROBERT L. (BOB) LIVINGSTON, LA.  
CHARLES F. DOUGHERTY, PA.  
HENRY HYDE, ILL.

PATRICK L. CARPENTIER  
CHIEF COUNSEL  
ROSCOE B. STAREK III  
MINORITY COUNSEL

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

Dear Mr. Chairman:

The Select Committee on Narcotics Abuse and Control, on Friday, October 9, 1981, will conduct a public hearing at the Fort Lauderdale, Florida, City Hall, 100 North Andrews Avenue, Fort Lauderdale, Florida. The Committee will examine the effectiveness of the Government's investigation and prosecution of cases to trace, seize and forfeit moneys and other assets derived from drug trafficking.

The hearing will focus upon the effectiveness of the reports required of financial institutions under the Bank Secrecy Act and the efficacy of other related laws used to prosecute traffickers and seize and forfeit their assets. The hearing will also address those laws which limit investigations to identify and trace assets. We will solicit recommendations for changes in the laws to strengthen financial prosecutions. In addition, the Committee will address the role of Federal banking regulations and auditing agencies in criminal financial investigations as they relate to narcotics traffickers. The Committee will also examine the impact on the banking community of increased regulatory schemes that would enhance financial investigations. We would appreciate your appearance or that of your designated representative to address these issues.

The Rules of the House of Representatives require that each witness deliver 50 copies of his statement to the Committee at least 48 hours prior to the hearing date. The witness will be asked to deliver a brief summary of that statement at the hearing, with the full text to appear in the hearing record. It is also requested that the statement not be released to the press prior to appearance before the Select Committee.

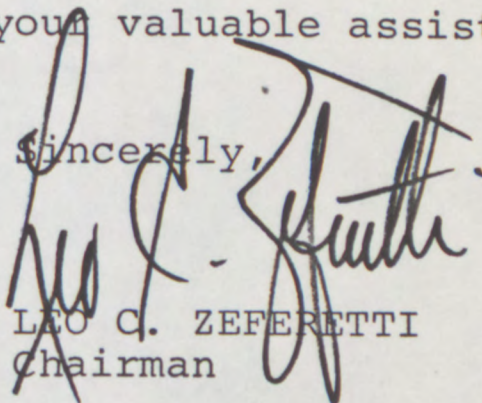
BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
1981 SEP 24 PM 2:16  
RECEIVED  
OFFICE OF THE CHAIRMAN

The Honorable Paul A. Volcker  
September 24, 1981  
Page 2

For further information or arrangement of final details,  
please contact Mr. Patrick L. Carpentier, Chief Counsel of the  
Select Committee, at 225-1753.

Thank you very much for your valuable assistance and cooperation  
in this important issue.

Sincerely,

A handwritten signature in black ink, appearing to read "Leo C. Zeferetti". The signature is written in a cursive style with a large, sweeping initial "L".

LEO C. ZEFERETTI  
Chairman

LCZ:pcn

LARRY PRESSLER  
SOUTH DAKOTA



UNITED STATES SENATE  
WASHINGTON, D. C. 20510

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

1981 OCT -2 AM 10:52

RECEIVED  
OFFICE OF THE CHAIRMAN

September 29, 1981

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

Dear Mr. Volcker:

This is to acknowledge and thank you for the two books you sent me. I certainly appreciate your prompt response and am happy to have these informative additions to my library.

I am very happy we had the opportunity to exchange views on important issues and I look forward to working with you in the future.

Thank you again for your thoughtfulness.

Sincerely,

A handwritten signature in cursive script that reads "Larry".

Larry Pressler  
United States Senator

LP/aw



September 29, 1981

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

Dear Chairman Annunzio:

Thank you for your letter of September 23  
inviting the Board to appear before your Subcommittee  
hearings on the issue of Federal preemption of State  
usury laws.

Governor Nancy H. Teeters is looking forward  
to appearing on October 7 at 10:00 a.m.

Sincerely,

*S/ Paul A. Vojtek*

CO:vcd (V-268)

bcc: Governor Teeters  
Robert Fisher  
Mrs. Mallardi (2) ✓

FRANK ANNUNZIO, ILL., CHAIRMAN

FERNAND J. ST GERMAIN, R.I.  
HENRY B. GONZALEZ, TEX.  
JOSEPH G. MINISH, N.J.  
BILL PATMAN, TEX.

CURTIS A. PRINS,  
STAFF DIRECTOR

TELEPHONE: 225-9181

Don Winn has memo into Chairman re Gov.  
Toters testifying

THOMAS B. EVANS, JR., DEL.  
CHALMERS P. WYLIE, OHIO  
GEORGE C. WORTLEY, N.Y.  
GREGORY W. CARMAN, N.Y.

# U.S. HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

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

ROOM 212 HOUSE OFFICE BUILDING ANNEX No. 1

WASHINGTON, D.C. 20515

September 23, 1981

*1268*

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
1981 SEP 24 11:10:09  
RECEIVED  
OFFICE OF THE CHAIRMAN

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

Dear Mr. Chairman:

The House Banking, Finance and Urban Affairs Subcommittee on Consumer Affairs and Coinage plans to hold hearings on Wednesday, October 7, 1981, to consider the issue of Federal preemption of State usury laws. Two bills on this issue have been referred to the Subcommittee: H.R. 2501, the Interest Rate Deregulation Act of 1981, and H.R. 3172, a bill to authorize loans at interest rates in excess of certain State usury ceilings. I have enclosed copies for you.

I wish to invite you to appear before the Subcommittee on Wednesday, October 7, 1981, at 10:00 a.m. The hearings will be held in Room 2128 Rayburn House Office Building. Your presentation should be limited to ten minutes, however, your written statement for the record may be of any length.

The Subcommittee requires a minimum of 50 copies of the prepared statement at least 48 hours prior to your scheduled appearance. The statements should be delivered to the Subcommittee office, Room 212 Annex #1, 300 New Jersey Avenue, S.E., by Monday, October 5, 1981.

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

With every best wish,

Sincerely,

*Frank Annunzio*  
Frank Annunzio  
Chairman

Enclosures

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

---

## A BILL

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

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*  
3       That this Act may be cited as the "Interest Rate Deregula-  
4       tion Act of 1981".

5       TITLE I—BUSINESS AND AGRICULTURAL LOAN

6       SEC. 101. Section 511 of the Depository Institutions  
7       Deregulations and Monetary Control Act of 1980 (94 Stat.  
8       161; Public Law 96-221) is amended to read as follows:

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

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

9       “SEC. 512. (a) Except as provided in subsection (b) of  
10 this section, the provisions of this part shall apply with re-  
11 spect to business and agricultural loans made on or after  
12 April 1, 1980.

13       “(b) The provision of this part shall not apply to any  
14 business or agricultural loan made in any State after the date  
15 (on or after April 1, 1980, and prior to April 1, 1983), on  
16 which such State adopts a law or certifies that the voters of  
17 such State have voted in favor of any provision, constitution-  
18 al or otherwise, which states explicitly and by its terms that  
19 such State does not want the provisions of this part to apply  
20 with respect to loans made in such State, except that such  
21 provision shall apply to any loan made on or after such date  
22 pursuant to a commitment to make such loan which was en-  
23 tered into on or after April 1, 1980, and prior to such date.

24       “(c) A loan shall be deemed to be made on or after April  
25 1, 1980, if such loan—

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

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

9           “(C) is a renewal, extension, or other modification  
10          of a loan made prior to April 1, 1980, and such renew-  
11          al or extension or other modification is made with the  
12          written consent of any person obligated to repay such  
13          loan; and

14          “(2)(A) is an original principal amount of \$25,000  
15          or more (\$1,000 or more on or after the date of enact-  
16          ment of the Housing and Community Development Act  
17          of 1980 or any amount on or after the date of enact-  
18          ment of the Interest Rate Deregulation Act of 1981);  
19          or

20          “(B) is part of a series of advances if the aggre-  
21          gate of all sums advanced or agreed or contemplated to  
22          be advanced pursuant to a commitment or other agree-  
23          ment therefor is \$25,000 or more (\$1,000 or more on  
24          or after the date of enactment of the Housing and  
25          Community Development Act of 1980 or any amount

1 on or after the dates of enactment of the Interest Rate  
2 Deregulation Act of 1981).”.

3 TITLE II—CONSUMER LOANS

4 SEC. 201. Title V of the Depository Institution Deregulation and Monetary Control Act of 1980 is amended by  
5 adding at the end thereof the following new subpart:  
6

7 “PART D—CONSUMER LOANS

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

15 “(b) Notwithstanding subsection (a), the consumer pro-  
16 tection and regulatory provisions of the constitution or the  
17 laws of any State shall remain in full force and affect.

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

1       “SEC. 533. (a) Except as provided in subsection (b) of  
2 this section, the provision of section 531 shall apply with  
3 respect to any extension of consumer credit made on or after  
4 the effective date of the Interest Rate Deregulation Act of  
5 1981.

6       “(b) The provisions of section 531 shall not apply to any  
7 extension of consumer credit in any State made on or after a  
8 date (on or after the effective date of the Interest Rate De-  
9 regulation Act of 1981 and prior to a date three years after  
10 such effective date) on which such State adopts a law or  
11 certifies that the voters of such State have voted in favor of  
12 any provision, constitutional or otherwise, which states ex-  
13 plicitly and by its terms that such State does not want the  
14 provisions of this part to apply with respect to loans made in  
15 such State, except that such provisions shall apply to any  
16 loan made on or after such date pursuant to a commitment to  
17 make such loan which was entered into on or after the effec-  
18 tive date of the Interest Rate Deregulation Act of 1981.

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

24       “SEC. 534. The Board of Governors of the Federal Re-  
25 serve System is authorized to issue rules and regulations and

1 to publish interpretations governing the implementation of  
2 this part.”.

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

7 TITLE III—EFFECTIVE DATE

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

○



97TH CONGRESS  
1ST SESSION

# H. R. 3172

To authorize loans at interest rates in excess of certain State usury ceilings.

---

## IN THE HOUSE OF REPRESENTATIVES

APRIL 9, 1981

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

---

# A BILL

To authorize loans at interest rates in excess of certain State  
usury ceilings.

1       *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*  
3 That title V of the Depository Institutions Deregulation and  
4 Monetary Control Act of 1980 is amended by adding at the  
5 end thereof the following:

6                   "PART D—GENERAL USURY OVERRIDE

7                               "OTHER LOANS

8       "SEC. 531. (a) If the applicable rate prescribed in this  
9 section exceeds the rate a person would be permitted to  
10 charge in the absence of this section, such person may in the

1 case of any loan, notwithstanding any State constitution or  
2 statute which is hereby preempted for the purposes of this  
3 section, take, receive, reserve, and charge on any such loan,  
4 interest at a rate of not more than 1 per centum in excess of  
5 the discount rate, including any surcharge thereon, on  
6 ninety-day commercial paper in effect at the Federal Reserve  
7 bank in the Federal Reserve district where the person is lo-  
8 cated.

9       “(b) If the rate prescribed in subsection (a) exceeds the  
10 rate such person would be permitted to charge in the absence  
11 of this section, and such State imposed rate is thereby pre-  
12 empted by the rate described in subsection (a), the taking,  
13 receiving, reserving, or charging a greater rate than is al-  
14 lowed by subsection (a), when knowingly done, shall be  
15 deemed a forfeiture of the entire interest which the loan car-  
16 ries with it, or which has been agreed to be paid thereon. If  
17 such greater rate of interest has been paid, the person who  
18 paid it may recover, in a civil action commenced in a court of  
19 appropriate jurisdiction not later than two years after the  
20 date of such payment, an amount equal to twice the amount  
21 of interest paid from the person taking, receiving, reserving,  
22 or charging such interest.

23       “(c) For the purpose of this part—

24               “(1) the term ‘loan’ includes all secured and unse-  
25               cured loans, credit sales, forbearances, advances, re-

1 newals or other extensions of credit made by or to any  
2 person or organization;

3 “(2) the term ‘interest’ includes any compensa-  
4 tion, however denominated, for a loan;

5 “(3) the term ‘organization’ means a corporation,  
6 government or governmental subdivision or agency,  
7 trust, estate, partnership, cooperative, association, or  
8 other entity; and

9 “(4) the term ‘person’ means a natural person or  
10 organization.

11 “EFFECTIVE DATE OF PART D

12 “SEC. 532. (a) The provisions of this part shall apply  
13 only with respect to loans made in any State during the  
14 period beginning on July 1, 1981, and ending on the earlier  
15 of—

16 “(1) April 1, 1983, or

17 “(2) the date, on or after July 1, 1981, on which  
18 such State adopts a law or certifies that the voters of  
19 such State have voted in favor of any provision, consti-  
20 tutional or otherwise, which states explicitly and by its  
21 terms that such State does not want the provisions of  
22 this part to apply with respect to loans made in such  
23 State,

24 except that such provisions shall apply to any loan made on  
25 or after such later date pursuant to a commitment to make

1 such loan which was entered into or after July 1, 1981,  
2 and prior to such later date.

3 “(b) A loan shall be deemed to be made on or after July  
4 1, 1981, if such loan—

5 “(1) is funded or made in whole or in part after  
6 July 1, 1981, regardless of whether pursuant to a  
7 commitment or other agreement therefor made prior to  
8 July 1, 1981;

9 “(2) was made prior to July 1, 1981, and bears  
10 or provides for interest on or after July 1, 1981, on  
11 the outstanding amount thereof at a variable or fluctu-  
12 ating rate; or

13 “(3) is a renewal, extension, or other modification  
14 made on or after July 1, 1981, of any loan, if such  
15 renewal, extension, or other modification is made with  
16 a written consent of any person obligated to repay  
17 such loan.

18 “(c) This part does not apply to any loan secured by a  
19 residential manufactured home unless the loan meets the re-  
20 quirements of section 501(c).”

○

September 28, 1981

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

Dear Senator Bentsen:

Thank you for the opportunity to comment on the concerns that you and your constituent, Mr. Zac Lentz, have expressed regarding an increase in passbook ceiling rates.

As you may know, at its meeting September 22 the Depository Institutions Deregulation Committee voted to increase the passbook rate by one-half percentage point to 5-3/4 percent at commercial banks and 6 percent at savings and loan associations and mutual savings banks. I voted against the increase because of concerns that are similar to those of yourself and Mr. Lentz.

The issue of how quickly the passbook ceiling rate should be raised to market levels is obviously a difficult one that involves balancing what may at least appear to be conflicting objectives. There is no question that it is desirable to raise the rate of return to savers, particularly those of limited means. On the other hand, higher interest payments on passbook accounts will probably place added pressure on many depository institutions at a time when their earnings are already under a great deal of strain. In my judgment, the balancing of these interests did not justify an increase in the passbook rate of one-half of a percent at this time. However, I would note that the increase the Committee voted was significantly less than many thrift institutions had feared.

Sincerely,

S/ Paul

NB:RS/tn (V-252)  
bcc: Mr. Bernard  
Mrs. Mallardi (2) ✓

LLOYD BENTSEN  
TEXAS

# United States Senate

WASHINGTON, D.C. 20510

September 4, 1981

COMMITTEES:  
FINANCE  
ENVIRONMENT AND PUBLIC WORKS  
JOINT ECONOMIC  
BOARD OF GOVERNORS  
FEDERAL RESERVE SYSTEM  
1981 SEP -9 PM 2:16  
RECEIVED  
OFFICE OF THE CHAIRMAN

#252

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

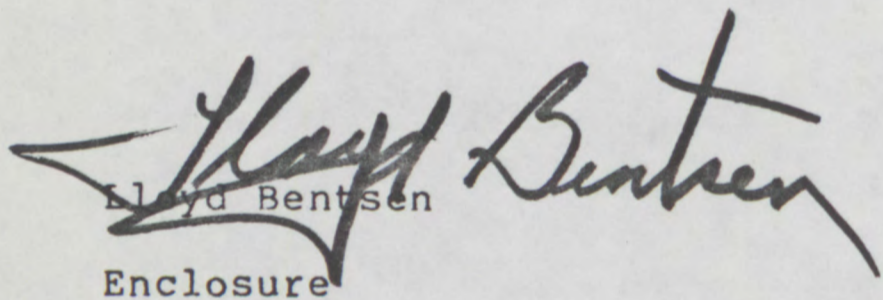
Dear Mr. Chairman:

I am quite concerned over the potential impact of a major increase in the interest rate ceilings on passbook savings accounts. Such a move at this time would be a major drain on our already-weakened savings institutions and would largely offset the efforts of Congress to attract lower-cost deposits into our financial institutions through the new All-Savers' Certificates which were authorized in the Economic Recovery Tax Act.

Congress quite clearly stated the intention to phase out interest rate ceilings when it passed the Depository Institutions Deregulation Act. I believe that you should phase out these ceilings gradually, giving the industry time to adjust, rather than precipitously throwing them off.

Enclosed is a letter from a knowledgeable constituent which expresses similar views. I would appreciate your responding to his letter as well as my own.

Sincerely,

  
Lloyd Bentsen  
Enclosure

ROBERT J. DOLE, KANS., CHAIRMAN

BOB PACKWOOD, OREG.  
WILLIAM V. ROTH, JR., DEL.  
JOHN C. DANFORTH, MO.  
JOHN H. CHAFEE, R.I.  
JOHN HEINZ, PA.  
MALCOLM WALLOP, WYO.  
DAVID DURENBERGER, MINN.  
WILLIAM L. ARMSTRONG, COLO.  
STEVEN D. SYMMS, IDAHO  
CHARLES E. GRASSLEY, IOWA

RUSSELL B. LONG, LA.  
HARRY F. BYRD, JR., VA.  
LLOYD BENTSEN, TEX.  
SPARK M. MATSUNAGA, HAWAII  
DANIEL PATRICK MOYNIHAN, N.Y.  
MAX BAUCUS, MONT.  
DAVID L. BOREN, OKLA.  
BILL BRADLEY, N.J.  
GEORGE J. MITCHELL, MAINE

## United States Senate

COMMITTEE ON FINANCE  
WASHINGTON, D.C. 20510

ROBERT E. LIGHTHIZER, CHIEF COUNSEL  
MICHAEL STERN, MINORITY STAFF DIRECTOR

September 3, 1981

Mr. Zac Lentz  
South Texas Savings  
P.O. Box 2118  
Victoria, Texas 77901

Dear Zac:

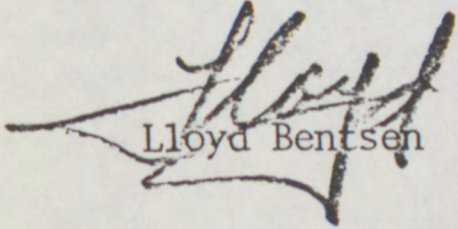
Thank you for your letter concerning the proposal before the Depository Institutions Deregulation Committee to increase the interest rate ceilings on passbook savings accounts. As you know, the DIDC is required by law to consider an increase in the rates on passbook savings accounts at its meeting on September 22. However, the law does not require that the ceilings be raised at that time.

At the last DIDC meeting Mr. Sprague, representing the Federal Deposit Insurance Corporation, tossed out the idea of increasing the passbook interest rate ceiling by 5%. I have been told that such a move had not previously been considered, and Sprague is no longer Chairman of FDIC and thus is not a member of the DIDC.

I agree that an immediate increase of that magnitude would be very hard to absorb. It would be particularly hard on the already-beleaguered thrift industry, and it is doubtful that in the short run such an increase would attract enough deposits to offset the impact of the increased interest costs. Since this decision will be made by the DIDC, I have taken the liberty of forwarding copies of your letter to all the members of the DIDC. I have enclosed a copy of the letter which I sent with your letter.

It was good to hear from you again, and I will continue to follow the deliberations of the DIDC on this issue.

Sincerely,

  
Lloyd Bentsen

September 24, 1981

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

Dear Mr. Whitehurst:

Thank you for your letter of September 17 enclosing a copy of a letter addressed to Chairman Volcker from Mr. E. Spencer Wise regarding interest rates.

As you requested, I am pleased to enclose a copy of Chairman Volcker's response to Mr. Wise.

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

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn  
Assistant to the Board

Enclosure

CO:s1 (#V-265)

bcc: Mrs. Mallardi ✓



G. WILLIAM WHITEHURST  
2D DISTRICT, VIRGINIA

COMMITTEES:  
ARMED SERVICES

SUBCOMMITTEES:

READINESS  
RANKING MINORITY MEMBER

MILITARY INSTALLATIONS AND  
FACILITIES

PERMANENT SELECT COMMITTEE  
ON INTELLIGENCE

SUBCOMMITTEES:

PROGRAM AND BUDGET AUTHORIZATION

U.S. DELEGATE TO  
NORTH ATLANTIC ASSEMBLY

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

#765

WASHINGTON OFFICE:  
2469 RAYBURN BUILDING  
WASHINGTON, D.C. 20515  
(202) 225-4215

JOHN P. MAGILL  
ADMINISTRATIVE ASSISTANT

CONSTITUENT SERVICE OFFICES:

815 FEDERAL BUILDING  
NORFOLK, VIRGINIA 23510  
(804) 441-3340

VERENA C. WASSERMAN  
OFFICE MANAGER

ROOM 601, PEMBROKE ONE  
VIRGINIA BEACH, VIRGINIA 23462  
(804) 490-2393

BLANCHE M. BOYLES  
OFFICE MANAGER

September 17, 1981

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

Dear Chairman Volcker:

You have recently received the attached letter from Mr. E. Spencer Wise, 5106 Atlantic Avenue, Virginia Beach, Virginia 23451. I would appreciate it if his views could receive every consideration. If you would send me a copy of the reply which is made to Mr. Wise, I would be most grateful.

Sincerely,

*Bill Whitehurst*

G. WILLIAM WHITEHURST

GWW:RL  
Attachment

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
1981 SEP 21 PM 1:01  
RECEIVED  
OFFICE OF THE CHAIRMAN

[REDACTED]  
September 11, 1981

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

Dear Mr. Volker:

In an ad in today's Washington Post, Mr. James E. Stewart, Chairman of the Board and Chief Executive Officer of Lone Star Industries asks readers to make sure their voices are heard. Hence this letter.

PLEASE KEEP INTEREST RATES UP! KEEP THEM UP UNTIL THE WATER (i.e. INFLATION) IS SQUEEZED OUT OF THE ECONOMY.

Surely Mr Stewart, as head of a large industrial complex must have at least heard of the crash of 1929. Surely he cannot be ignorant of the fact that the orgy of inflation of the 1920's could have been controlled, and perhaps stopped, if the Federal Reserve system had acted responsibly as it is doing now, to inhibit the growth of inflationary credit.

Sincerely yours,  
E. Spencer Wise

cc: Mr. James E. Stewart, Chairman, Lone Star Industries, Inc., One Greenwich Plaza, Greenwich, Conn. 06830

Congressman G. William Whitehurst, House Office Building, Washington, D.C.

September 24, 1981

The Honorable Larry Pressler  
United States Senate  
Washington, D.C. 20510

Dear Senator Pressler:

During our discussion the other day I promised I would send you some information about the origin and functions of the Federal Reserve System.

I have enclosed two publications that touch on those issues; one describes the historical evolution of the Federal Reserve and the other our responsibilities. The Purposes and Functions piece was published in 1974 and is being updated to reflect the Monetary Control Act and the change in our operating procedures.

I thought our discussion was useful and I'd be happy to talk again any time.

Sincerely,

*S/ Paul*

Enclosures

RS:sl

bcc: Mrs. Mallardi (2) ✓



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

September 23, 1981

The Honorable Marc Lincoln Marks  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Marks:

Thank you for your letter of August 19 to Chairman Volcker concerning the authority of the Federal Reserve to purchase short-term obligations fully guaranteed as to principal and interest by a foreign government or agency.

Your constituents' concern about the Monetary Control Act relates to a relatively minor provision of the Act which has given rise to a great deal of misunderstanding. This provision authorizes the Federal Reserve to purchase obligations of foreign governments. The sole purpose of the provision is to facilitate the foreign exchange operations of the Federal Reserve. As part of the Federal Reserve's responsibility to help maintain orderly market conditions, the System has entered into arrangements with several foreign countries to purchase foreign currencies that can be used to defend the dollar. These agreements are called "swap" arrangements. When these swaps take place, the Federal Reserve then owns foreign currencies. Until passage of the Monetary Control Act, the Federal Reserve did not have any convenient way to invest these holdings in order to obtain a return.

Since 1914, the Federal Reserve has possessed authority to invest its funds in certain types of securities. For example, the System is empowered to purchase U.S. government and agency securities, certain short-term obligations of State and local governments, bankers' acceptances, and bills of exchange. However, with the passage of the Monetary Control Act, the Federal Reserve can now invest foreign currencies it holds as a result of its swap arrangements in interest bearing obligations. This will result in an increase in Federal Reserve earnings, almost all of which are turned over to the U.S. Treasury. (In 1980, the Board paid the U.S. Treasury \$11.7 billion.)

Since the new authority is to be used only in conjunction with foreign exchange operations, the provision does not permit the Federal Reserve to "monetize" (i.e., provide Federal Reserve credit in return for a debt obligation of the borrower) the debt

FO B

The Honorable Marc Lincoln Marks  
Page Two

of private persons or foreign countries. Indeed, there is nothing in the Monetary Control Act that touches upon the ability of the Federal Reserve to purchase private debt obligations whatsoever. Use of the authority to invest in foreign obligations merely provides the System with the opportunity to earn interest on foreign currencies which are needed to conduct foreign exchange operations and which otherwise would constitute noninterest bearing assets.

I hope that this is helpful 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

(GTS:WRM:)CO:AFC:pjt (#V-234)  
bcc: Mrs. Mallardi

Response will be prepared by Cong. Liaison Office

#23

MARC LINCOLN MARKS  
24TH DISTRICT, PENNSYLVANIA

COMMITTEES:  
ENERGY AND COMMERCE  
SUBCOMMITTEES:  
OVERSIGHT AND INVESTIGATIONS  
TELECOMMUNICATIONS, CONSUMER  
PROTECTION AND FINANCE  
SELECT COMMITTEE ON AGING  
SUBCOMMITTEES:  
HEALTH AND LONG-TERM CARE

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

WASHINGTON OFFICE:  
1424 LONGWORTH HOUSE OFFICE BUILDING  
WASHINGTON, D.C. 20515  
(202) 225-5406

DISTRICT OFFICES:  
108 FEDERAL OFFICE BUILDING  
ERIE, PENNSYLVANIA 16501  
(814) 455-1313

91 EAST STATE STREET  
SHARON, PENNSYLVANIA 16146  
(412) 981-7600

305 CHESTNUT STREET  
MEADVILLE, PENNSYLVANIA 16335  
(814) 724-6713

BOARD OF GOVERNORS  
FEDERAL RESERVE SYSTEM  
1981 AUG 20 AM 10:25  
OFFICE OF THE CHAIRMAN  
RECEIVED

August 19, 1981

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

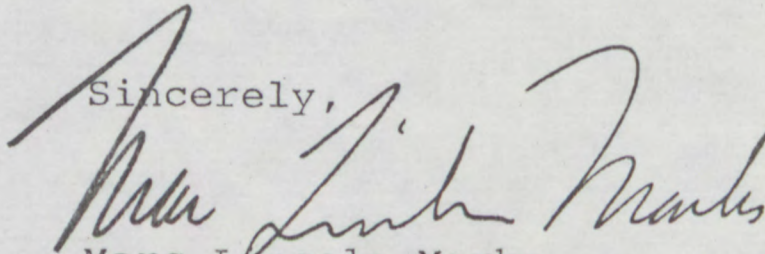
Dear Chairman Volcker:

I have received many inquiries concerning the Monetary Control Act of 1980. Specifically, my constituents are concerned about the inclusion of Title I, Sec. 105 (b) (1) and (2), the provision authorizing any Federal Reserve Bank to buy and sell short-term obligations fully guaranteed as to principal and interest by a foreign government or agency. The individuals are worried that in our monetizing the foreign government's debt, by increasing the money supply in such a manner we would be increasing the inflation rate.

I would really appreciate any information you could provide me regarding this provision in the Monetary Control Act, including any implementation of the Fed's right to authorize such action up to this time, and the ramifications of such an action occurring on our money supply and inflation rate.

I greatly appreciate your attention to this matter.

Sincerely,



Marc Lincoln Marks  
Member of Congress

MLM/ted



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

September 22, 1981

The Honorable John G. Fary  
Chairman  
Subcommittee on Public Buildings  
and Grounds  
Committee on Public Works and  
Transportation  
House of Representatives  
Washington, D. C. 20515

Dear Chairman Fary:

Thank you for your letter of September 3, addressed to Chairman Volcker, concerning plans to hold hearings on the current and projected space needs of the Federal Government.

Mr. Mannion, the Board's Deputy General Counsel, has been in touch with Ms. Nancy Vatalli of your staff, and in a recent conversation indicated to her that it appears that the Board is not the kind of agency that was meant to be covered by your request. As was indicated to Ms. Vatalli, the Board's property is not subject to the jurisdiction of the General Services Administration, nor were the cost of the Board Building and the Federal Reserve Annex borne by government appropriations. The provisions of the Federal Reserve Act vest the Board with sole authority over its property, 12 U.S.C. § 243. In addition, the Board receives its funds from assessments on the Federal Reserve Banks and by statute, 12 U.S.C. § 244; such funds are not construed to be government funds or appropriated monies. Since your inquiry is directed at property under the control of the General Services Administration and future space needs of those government agencies that might impact upon the federal budget, we do not believe that you intended to cover the Board in your request.

Even though we believe our inclusion in your survey was inadvertent, we are pleased to supply information concerning the Board Building and the Federal Reserve Annex that may be of help to you. Unfortunately, we do not have data in the form requested in the attachments to your letter. The Board Building contains 242,000 gross square feet and its construction was completed in 1937 at a cost of \$3.5 million. It was renovated in

The Honorable John G. Fary  
Page Two

1977 at a cost of \$9.3 million. The Federal Reserve Annex contains 780,000 gross square feet and its construction was completed in 1974 at a cost of \$41.3 million. At the present time, there are no plans for increased space needs through 1986 and, in fact, the Board is attempting to maintain or contract the number of its personnel, which numbered 1,529 as of June 30, 1981.

I hope that this information is of help to you.

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn  
Assistant to the Board

REM:CO:vcd (#V-248)

bcc: Mr. Bradfield (G.C. #277)  
Mr. Mannion  
Mr. Don Anderson  
Mrs. Mallardi



JAMES J. HOWARD, N.J., CHAIRMAN

GLENN M. ANDERSON, CALIF.  
ROBERT A. ROE, N.J.  
JOHN B. BREAU, LA.  
NORMAN Y. MINETA, CALIF.  
ELLIOTT H. LEVITAS, GA.  
JAMES L. OBERSTAR, MINN.  
HENRY J. NOWAK, N.Y.  
ROBERT W. EDGAR, PA.  
MARILYN LLOYD BOUQUARD, TENN.  
JOHN G. FARY, ILL.  
ROBERT A. YOUNG, MO.  
ALLEN E. ERTEL, PA.  
BILLY LEE EVANS, GA.  
RONNIE G. FLIPPO, ALA.  
NICK JOE RAHALL II, W. VA.  
DOUGLAS APPEGATE, OHIO  
GERALDINE A. FERRARO, N.Y.  
EUGENE V. ATKINSON, PA.  
DONALD JOSEPH ALBOSTA, MICH.  
WILLIAM HILL BONER, TENN.  
RON DE LUGO, VIRGIN ISLANDS  
GUS SAVAGE, ILL.  
FOFO I. F. SUNIA, AM. SAMOA  
BUDDY ROEMER, LA.  
BRIAN J. DONNELLY, MASS.  
RAY KOGOVSEK, COLO.

DON H. CLAUSEN, CALIF.  
GENE SNYDER, KY.  
JOHN PAUL HAMMERSCHMIDT, ARK.  
BUD SHUSTER, PA.  
BARRY M. GOLDWATER, JR., CALIF.  
TOM HAGEDORN, MINN.  
ARLAN STANGELAND, MINN.  
NEWT GINGRICH, GA.  
WILLIAM F. CLINGER, JR., PA.  
GERALD B. H. SOLOMON, N.Y.  
HAROLD C. HOLLENBECK, N.J.  
H. JOEL DECKARD, IND.  
WAYNE R. GRISHAM, CALIF.  
JIM JEFFRIES, KANS.  
JACK FIELDS, TEX.  
GUY MOLINARI, N.Y.  
E. CLAY SHAW, JR., FLA.  
BOB MC EWEN, OHIO  
FRANK WOLF, VA.  
SALVATORE J. D'AMICO, SPECIAL  
COUNSEL AND STAFF DIRECTOR  
RICHARD J. SULLIVAN, CHIEF COUNSEL  
CLYDE E. WOODLE, CHIEF ENGINEER  
LARRY REIDA, MINORITY COUNSEL

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
Committee on Public Works and Transportation  
1981 SEP - 8 11:29  
House of Representatives  
Room 2165, Rayburn House Office Building  
Washington, D.C. 20515  
RECEIVED  
OFFICE OF THE CHAIRMAN  
TELEPHONE: AREA CODE 202, 225-4472

# 248

September 3, 1981

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

Dear Mr. Chairman:

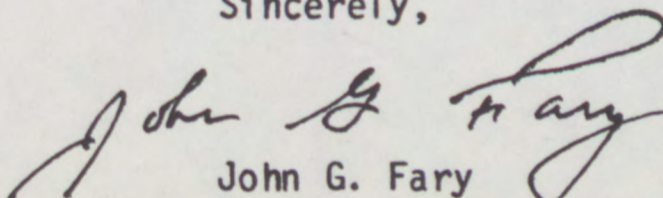
The Subcommittee on Public Buildings and Grounds of the House Committee on Public Works and Transportation plans to commence in-depth hearings on September 22, 1981, concerning the past, current and projected space needs of the Federal government. During the hearings, major emphasis will be focused on space under the jurisdiction of the General Services Administration (GSA), the government agency charged with primary jurisdiction for providing space to house departments and agencies and provide generally for the housekeeping functions of the executive branch. In this regard, the Subcommittee will thoroughly review implementation of Public Law 92-313, which authorized GSA to charge agencies rent for space they occupy in order to (1) induce savings by making Federal agencies account for the cost of the space they occupy and (2) allow GSA to improve service to customer agencies by providing greater flexibility in funding public buildings activities. In addition, emphasis will be focused on property acquired or leased under the independent authority of departments and agencies, generally. As such, the availability and accuracy of data on the attached sheets regarding past, current and future space needs of your agency will play a significant role in assessing federal space needs. A projection of future space requirements must be made to consider cost-effective planning in view of current budgetary restraints. This information will allow the Subcommittee the opportunity to forecast not only changes attributable to budget cuts in particular programs under the jurisdiction of your agency but also the opportunity to fine-tune space currently utilized for such activities.

Lastly, the Subcommittee will receive further testimony on H.R. 1938, a bill to establish the Public Buildings Services in the General Services Administration, and for other purposes; and S. 533, a bill cited as the "Public Buildings Act of 1981."

Your cooperation in providing the requested data to the Subcommittee by September 17, 1981, will be appreciated. It is further requested that an employee of your department or agency contact Nancy Vitali or Tom Quillan, Committee staff, at 225-9161, so that any questions relating to this data can be clarified, as well as a date for your appearance before the Subcommittee can be arranged.

Every best wish.

Sincerely,



John G. Fary  
Chairman, Subcommittee on Public Buildings  
and Grounds

Enclosure



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

September 21, 1981

PAUL A. VOLCKER  
CHAIRMAN

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

Dear Chairman Garn:

The Federal Reserve Board staff has completed the enclosed study, as requested by the Committee on Banking, Housing and Urban Affairs, of the potential implications of the acquisition of thrifts by bank holding companies.

The study suggests that, in general, policy and economic considerations that have been the basis for precluding bank holding companies from acquiring thrifts have diminished or are relatively insignificant. While problems of regulatory inconsistency among the various agencies with responsibilities over the institutions involved in an inter-industry acquisition could arise, the report also suggests such problems could be resolved with reasonable coordination. The report also identifies potential benefits resulting from enhanced competition and wider accessibility to services in consumer finance markets.

In forwarding this staff study to you, I would emphasize that the Board has not yet completed its own consideration of the public policy questions involved in affiliation of commercial banks and thrifts. That consideration will be proceeding in the weeks ahead, taking account of the present strained situation of some thrift institutions and legislative initiatives.

As you know, the Federal Reserve has statutory authority to approve bank holding company acquisitions of thrifts. As a matter of policy, the Board, in evaluating all the circumstances during the 1970's, did not approve such acquisitions, and we have refrained from entertaining such proposals over the past year in the light of our own and Congressional concern that the question be restudied and evaluated in the light of current and prospective developments. In view of the rapid changes now taking place in U.S. financial markets, and with the new analysis before us, that approach is now being reexamined.

The Honorable Jake Garn  
Page Two

The immediate question before us is whether a bank holding company should in any circumstances be allowed to acquire a thrift institution that is in serious financial difficulty. As you know, the Federal Reserve has supported passage of the so-called Regulators' Bill, which would provide certain tools enhancing the ability of the supervisory agencies to deal with distressed thrift institutions. Among other things, that bill includes criteria specifying limited circumstances in which cross-industry acquisition of thrifts would be allowed. Other sections of the bill would also help the supervisory agencies in maintaining the viability of troubled thrifts, thereby reducing the number of instances in which it may be necessary to have a thrift acquired by another institution.

In the absence of this legislation, the Board believes that the public interest may dictate that the Federal Reserve may soon need to use its existing, broader statutory authority to approve bank holding company acquisition of thrifts on a case-by-case basis; in the particular instance of troubled thrifts, any adverse effects may be more than compensated by substantial public benefits. In my own view, taking into consideration the trend toward provision of thrift institutions with full banking powers, some of the adverse factors underlying more general disapproval of bank holding companies acquiring thrifts may be diminishing. However, as indicated above, the Board has not yet reached a policy conclusion in this area.

Sincerely,

S/Paul A. Volcker

Enclosure

IDENTICAL LETTER TO SENATOR WILLIAM PROXMIRE

PAV:pjt  
bcc: Mrs. Mallardi (2) ✓



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

September 18, 1981

PAUL A. VOLCKER  
CHAIRMAN

The Honorable Mike Lowry  
Member of Congress  
107 Prefontaine Place South  
Seattle, Washington 98104

Dear Mr. Lowry:

Thank you for your letter of August 27 concerning a constituent in Burien, Washington, who is having difficulty obtaining pennies for his grocery business.

Unfortunately, the difficulty in obtaining the one-cent coin in the Seattle-King County area is an experience that is currently being shared nationwide. In fact, a recent survey of all Reserve Banks and Branches indicated that 62 percent of the Reserve offices are receiving continuous complaints about penny availability. The Federal Reserve System and the Bureau of the Mint are aware of the current limitations in the availability of the penny and are actively taking steps to resolve the situation. The following paragraphs explain these steps, as well as the events surrounding the recent growth in penny demand.

The increase in penny demand over the past two years has far exceeded the historical growth in coin demand and pushed production levels to the limit of the Mint's capacity. In February 1980, demand for pennies was running 87 percent above the same period in 1979. This unusually large increase was attributable to the public's withdrawal of pennies from circulation when copper prices rose from \$.93 per pound in December 1979 to a peak of \$1.43 in February 1980. By March 1980, the demand for pennies so greatly exceeded available supplies that the Federal Reserve System began to allocate cents on a monthly basis, based on 1979 payout levels. This program has had to be continued throughout 1980 and into 1981 because demand has continued to exceed supplies, despite the decline in copper prices.

The same phenomenon of extraordinary penny demand occurred in 1974 when the price of copper peaked at \$1.41 per pound. Such speculative withdrawal of pennies from circulation, and the resulting high demand levels, can be expected to occur

again if the price of copper increases above \$1.00 per pound. To counter such demand, the Bureau of the Mint proposed a change in the metallic composition of the penny from 95 percent copper and 5 percent zinc to 97.6 percent zinc and 2.4 percent copper. This proposal was approved and introduction of the new zinc penny is scheduled for December 1981. This change in composition should reduce or eliminate the speculative demand for the one-cent coin, and result in greater penny availability and a substantial annual savings in production costs due to the lower zinc price (zinc averaged less than \$.45 per pound in 1980).

It should also be mentioned that the current Federal Reserve System demand for pennies is running approximately 1.4 billion per month; however, total monthly production is around 1 billion, due to budget constraints at the Mint. These shortages are unavoidable, given the budget situation, and will mean continued allocations by the Reserve offices until production of the new zinc penny reaches maximum levels and the Mint is given the necessary funding to meet penny demand. While the Reserve offices would like to satisfy all commercial needs for the one-cent coin, the supply has been severely limited. Therefore, to alleviate some of the pressure, until sufficient penny supplies are available, the Federal Reserve System has and will continue to employ what we believe to be a fair and equitable allocation system.

I hope this letter answers the questions raised by your constituent and assure you that we are doing everything possible to ease the burdens of the present shortages.

Sincerely,

S/ Paul A. Volcker

MLB:CO:vcd (#V-241)  
Gov. Gramley  
bcc: Margaret L. Barfoot  
Mr. Allison  
Mrs. Mallardi (2) ✓  
Mr. App

Action assigned Mr. Allison

MIKE LOWRY  
SEVENTH DISTRICT  
WASHINGTON

1206 LONGWORTH HOUSE OFFICE BUILDING  
WASHINGTON, D.C. 20515  
(202) 225-3106

107 PREFONTAINE PLACE SOUTH  
SEATTLE, WASHINGTON 98104  
(206) 442-7170

# Congress of the United States

## House of Representatives

Washington, D.C. 20515

August 27, 1981

- COMMITTEES:  
BANKING, FINANCE AND URBAN AFFAIRS
- SUBCOMMITTEES:  
HOUSING AND COMMUNITY DEVELOPMENT  
INTERNATIONAL TRADE, INVESTMENT AND MONETARY POLICY  
INTERNATIONAL DEVELOPMENT INSTITUTIONS AND FINANCE  
MERCHANT MARINE AND FISHERIES
- SUBCOMMITTEES:  
FISHERIES, WILDLIFE CONSERVATION, AND THE ENVIRONMENT  
COAST GUARD AND NAVIGATION  
PANAMA CANAL/OUTER CONTINENTAL SHELF

#241

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

Dear Chairman Volcker:

Recently a grocer in the town of Burien, Washington called my office asking for assistance in obtaining pennies for his business. He had asked his bank for additional pennies to meet customer demand but was told that the bank was also in short supply and had been unable to have its allotment increased by the Seattle Federal Reserve Bank.

As you undoubtedly know, businesses such as grocery stores require a great deal of change during the course of a day. While a number of factors may influence the availability of pennies at any one time, I believe the government should take all necessary steps to ensure that an adequate supply of its currency is available to the public.

I would appreciate your having appropriate personnel of the Board review the penny supply situation in the Seattle-King County area and take whatever steps necessary to improve the distribution and availability of pennies to the public.

Thank you for your attention to this matter. Please respond to my office at 107 Prefontaine Place South, Seattle, WA. 98104.

Sincerely,

*Mike Lowry*  
MIKE LOWRY  
Member of Congress

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
1981 AUG 31 AM 9:44  
RECEIVED  
OFFICE OF THE CHAIRMAN

September 18, 1981

The Honorable Frank R. Wolf  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Wolf:

Thank you for giving me the opportunity to comment on the concerns of many of your constituents about high interest rates.

I understand and am fully sympathetic to the burdens that high interest rates place on the businesses and individuals that are most heavily dependent on credit. But it should be recognized that inflation is the basic source of the difficulties; the cost of borrowing money has become inflated just as prices on other goods have. The current level of interest rates reflects inflation that has been building for many years, compounded by expectations that price increases will continue to be quite rapid.

Recognizing the role of money in the inflationary process, the Federal Reserve is pursuing a policy that restricts the growth of money and credit. But monetary policy cannot carry the burden alone. As you mentioned, President Reagan's economic recovery program of tax and spending cuts is also important in the inflation fight. Much has been accomplished in cutting spending, but the battle is far from won. Despite the great progress that has been made, we are still facing the prospect of large deficits in the next few years at least. We are now at a critical point in the battle to gain control over inflation, and it is imperative that the Administration and Congress reduce budget outlays further. Any indication of backing away from the objective of attaining a balanced budget would surely intensify pressures in the markets and make the steps necessary to control inflation more difficult and painful.

I cannot offer predictions as to when we can expect to see an easing in interest rates except that with the appropriate monetary policy in place, the sooner budgetary policy is convincingly on track, the sooner we can hope for a reduction in inflation and interest rates and a return to a more stable and prosperous environment.

I hope you find my comments helpful, and I assure you that I appreciate hearing of your concerns.

CEH:JSZ:vcd (V-249)

bcc: Ms. Wing  
Ms. Headly

Sincerely,

*S/*Paul A. Volcker

*Mr. Mallon (2)* ✓

Action assigned Mr. Kichline

FRANK R. WOLF  
10TH DISTRICT VIRGINIA

PLEASE RESPOND TO  
ADDRESS CHECKED

WASHINGTON OFFICE:

414 CANNON BUILDING  
WASHINGTON, D.C. 20515  
(202) 225-5136

CONSTITUENT SERVICES OFFICES:

1651 OLD MEADOW RD.  
SUITE 115  
MCLEAN, VIRGINIA 22102  
(703) 734-1500

19 E. MARKET ST.  
ROOM 4B  
LEESBURG, VIRGINIA 22075  
(703) 777-4422

Congress of the United States  
House of Representatives

Washington, D.C. 20515

September 8, 1981

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
1981 SEP -9 AM 9:28

RECEIVED  
OFFICE OF THE CHAIRMAN.

COMMITTEES:

POST OFFICE AND  
CIVIL SERVICE

SUBCOMMITTEES:

CIVIL SERVICES  
HUMAN SERVICES  
POSTAL OPERATIONS

PUBLIC WORKS AND  
TRANSPORTATION

SUBCOMMITTEES:

AVIATION  
WATER RESOURCES

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

Dear Mr. Volcker:

I have received several dozen letters in the past few weeks from my constituents in Northern Virginia relating their economic plight directly attributable to high interest rates.

These letters have come from small businessmen, home builders, realtors, construction contractors and mortgage bankers who are deeply concerned about the cause and effect relationship between soaring interest rates and the deterioration of the housing industry and its related businesses.

I also have heard from frustrated middle-income earners who can't afford to pay sky-high mortgages inflated by high interest. They all are pleading for their growing financial burdens fueled by high interest and inflation to be eased.

Frankly, I don't have a satisfactory answer for them. That is why I am writing to you to ask that you explain the Federal Reserve Board's current monetary policy. I would hope that you also could offer some indication when interest rates will begin to drop, now that President Reagan's economic recovery program of tax and spending cuts is in place.

I would appreciate a reply as soon as possible to this request.

Sincerely,

Frank R. Wolf  
Member of Congress

FRW/jjs





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

September 18, 1981

PAUL A. VOLCKER  
CHAIRMAN

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

Dear Mr. Vento:

I am pleased to have the opportunity to comment on several issues we were unable to pursue adequately at the hearings last July before the House Banking, Finance and Urban Affairs Committee.

The first two issues you raise relate to concerns about the equitable distribution of a restricted supply of credit. The Federal Reserve monitors developments in credit markets regularly and carefully, to remain informed as to both the volume and terms of credit flows to various borrowers. Recently, the staff completed a study, at the request of the Senate Banking Committee, discussing the impact of credit stringency on the sectors about which you expressed particular concern; I have enclosed a copy of that report. In it, we concluded that housing, agriculture and automobiles are areas of the economy that have been demonstrating particular weakness in recent quarters. With respect to small business, it was difficult to generalize due to a lack of data and to the fact that these businesses are present throughout the economy. A number of factors have played a role in the current difficulties of these sectors, including weather conditions for agriculture and past price increases for autos and houses, but it is clear that credit conditions also have been important in reducing activity in these markets. To some extent, this reflects the nature of the goods or services involved. Home purchases, for example, involve extremely large outlays, financed by credit, and are often postponable, so it is not surprising that the housing industry has been especially hard hit by high interest rates.

I do not believe that credit conditions have been materially affected by loans for takeovers and other financial purposes. The amount of credit involved with the takeovers is not that large relative to total flows in the economy, and many of the lines were essentially duplicative. Also, foreign banks are responsible for many of the lines of credit associated with recent takeover activity. In current circumstances in which many firms and industries are in significant difficulty, I can understand your concerns about takeover loans. I share some of those concerns, however, in the broadest sense takeover loans in themselves should

The Honorable Bruce F. Vento  
Page Two

not be a drain on our limited supply of savings, because stockholders selling out obtain funds that are available for reinvestment (or for loan repayment), thereby recycling these funds back into the credit markets. However, I recognize that in the short run, and particularly as the financing is focused on the banking sector, the credit demands associated with the takeovers can have some impacts on the distribution of credit. In committing themselves to a large volume of takeover loans, banks may restrict for a time their lending to other potential borrowers, but any such effects should be quite small and short-lived.

The Federal Reserve also shares your concern about the impact of high interest rates on certain sectors of the economy. In my view, it would be a mistake, however, to attempt to deal with this problem by allocating credit to certain sectors of the economy. Our limited experience with credit controls last spring convinced me that this approach is undesirable.

One important step that can be taken to diminish pressure on capital markets and to reduce interest rates is to cut down on the volume of borrowing by the federal government. I have spoken out frequently on the need for Congress and the Administration to work together to pare outlays to bring them more in line with prospective receipts. These actions will help to reduce interest rates to private borrowers both by reducing the amount of credit preempted by the federal sector and by bolstering the convictions of investors that all parts of government are committed to consistent and coordinated anti-inflation policies.

I hope you find these comments useful.

Sincerely,

*S/ Paul A. Volcker*

Enclosure

DLK:JLK:CO:DA:pjt (#V-X 210)

bcc: Mr. Kohn

Mr. Kichline

Mrs. Mallardi (2) ✓

(Encl. 9/1/81 study, "The Impact of High Interest Rates on the Housing, Automobile, Agriculture, and Small Business Sectors")

BRUCE F. VENTO  
4TH DISTRICT, MINNESOTA

230 CANNON HOUSE OFFICE BUILDING  
WASHINGTON, D.C. 20515  
(202) 225-6631

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

Action assigned Mr. Kichline

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

July 27, 1981

HOUSE COMMITTEE ON  
BANKING, FINANCE AND  
URBAN AFFAIRS

HOUSE COMMITTEE ON  
INTERIOR AND INSULAR AFFAIRS

HOUSE SELECT COMMITTEE  
ON AGING

RECEIVED  
OFFICE OF THE CHAIRMAN

1981 JUL 28 AM 9:05

BOARD OF GOVERNERS  
OF THE  
FEDERAL RESERVE SYSTEM

#210

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

Dear Mr. Volcker:

I took a great interest in the testimony you presented last week before the House Banking, Finance and Urban Affairs Committee. However, due to our limited questioning time, I was unable to pursue several issues of concern to me. Thus, I am now submitting several questions in writing.

First, I am disturbed about the uneven effect the Fed's tight monetary policy has had on our economy. In particular, I am disturbed by the lack of credit equity under the Fed's policy. While large, cash rich corporations appear to have no trouble lining up immense, below prime lines of credit for mergers or takeover attempts, our small business, agricultural and home building sectors are in dire straits for lack of affordable credit. Each week papers report new stories of failing farmers and bankrupt businesses. Has the Fed established any economic criteria for determining at what point our agricultural, small business and housing sectors will have suffered too much damage? And, has the Fed developed any contingency plan to provide better credit equity to these sectors if relief does not come soon?

Second, I have strong concerns about the disproportionate supply of our scarce credit resources that are being controlled by large corporate concerns. The Conoco takeover mania that has drawn considerable attention in the news media has illustrated the immense lines of credit that these corporations are able to raise for purely financial purposes with what appears to be little undue concern for interest rate levels. Has the Fed undertaken any study of who is receiving credit in our economy, what prices are being paid in interest rates and how this credit is being used? I think such a study would be a useful tool in attempting to establish a more equitable credit agenda for this country. I would also appreciate learning your thoughts on possible alternatives the Fed has considered to help curb speculative or purely financial lending and ensure that our credit resources are channeled into productive concerns.

My third area of concern regards the use of a trigger mechanism for a third year tax cut. Do you think conditioning a third year tax cut to



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

*Mrs. Mallardi*

• September 18, 1981

The Honorable L. H. Fountain  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Fountain:

Thank you for your letter of August 27 requesting comment on the concerns of your constituent, Mr. Sherrill Faw. Mr. Faw suggested that the Federal Reserve Board develop programs to increase productivity and to discourage the "unproductive" use of credit for mergers. He also urged that interest rates be lowered as an aid to the housing industry. The Board of Governors, of course, recognizes the importance of increasing productivity in the economy, but we have no direct influence in this area.

The Federal Reserve has followed closely credit developments surrounding recent merger bids. We believe that lending and commitment activity associated with takeover financing is unlikely to have a lasting impact on the cost or availability of loans to other borrowers. Moreover, in the broadest context, takeover loans in themselves should not be a drain on our limited supply of savings. The proceeds from stock sales are available for reinvestment or for loan repayment, both of which recycle funds back into credit markets. We recognize that--because financing is concentrated in the banking sector--in the short-run credit demands associated with takeovers may restrict for a time certain institutions from lending to other would-be borrowers. This outcome would, to the extent that such borrowers have no alternative credit sources, potentially be harmful to the economy. However, in light of the temporary nature of these disturbances and the lack of evidence that the actions of the banks have significantly curtailed the flow of credit to other borrowers, we feel that the imposition of controls on merger-related transactions would not be a proper course for public policy. Our feelings in this regard are reinforced by the likelihood that significant costs would be associated with attempts to interrupt the free flow of credit in our financial system.

The Federal Reserve is well aware, of course, of the adverse effects of high interest rates in the homebuilding industry. It would be unwise, however, for the Board to induce

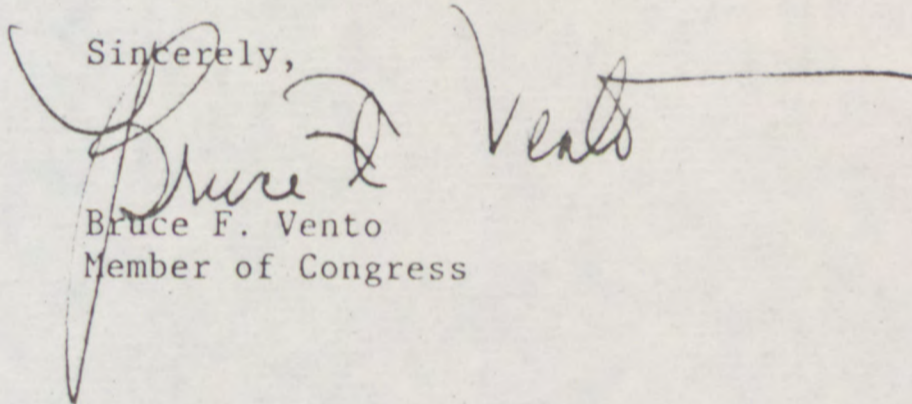
our economic performance is prudent and advisable? Will the three year tax cut proposal have any effect on the Fed's ability to set or maintain a monetary policy? Do you see any kind of trade off in terms of expectations? For example, which, in your opinion, is more stabilizing to the money market, an expectation of continued tax reduction or a more prudent approach that hinges on economic performance?

I realize that you have been reluctant to voice a strong opinion on the tax cut. However, I would urge you to become more vocal on fiscal matters which will impact on our economic conditions. While monetary policy is indeed separate and distinct from fiscal matters, the two are closely interrelated. Certainly, coordinated monetary and fiscal policies provide a much more effective comprehensive economic policy than one in which fiscal and monetary work against each other. The Fed was created by Congress as an independent body that could chart its own course without being burdened by political concerns. It is important that we know and understand your direction and concerns so that we can attempt to fashion a complementary fiscal policy.

Thank you very much for your attention to these matters.

Warm regards.

Sincerely,

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

Bruce F. Vento  
Member of Congress

BFV/cm

The Honorable L. H. Fountain  
Page Two

a decline in market interest rates by fostering a more rapid expansion of money. Such an action would only exacerbate inflationary pressures and ultimately lead to higher interest rates and even greater economic difficulties.

A sustained lowering of interest rates will be possible only when actual and anticipated inflation slow substantially. As Mr. Faw indicated, an appropriate fiscal policy has an important role in the fight against inflation. Only if there is a credible, long-range commitment to both fiscal and monetary restraint can we hope to see a reversal of the expectational spiral that has given such powerful momentum to the rise of wages, prices, and interest rates.

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

Sincerely,

*(Signed)* Donald J. Winn

Donald J. Winn  
Assistant to the Board

JLF:RMF:JLK:vcd (V-240)

cc: Mr. Kichline  
Mr. Fisher  
Mr. Freund  
Mrs. Mallardi

Action assigned Mr. Kichline

L. H. FOUNTAIN  
SECOND DISTRICT  
NORTH CAROLINA

WASHINGTON OFFICE:  
WALTER J. PITTMAN  
ADMINISTRATIVE ASSISTANT

TED L. DANIEL  
EXECUTIVE ASSISTANT

2108 RAYBURN HOUSE OFFICE BUILDING  
WASHINGTON, D.C. 20515  
TELEPHONE: (202) 225-4531

DISTRICT OFFICE:  
EDGEcombe COUNTY OFFICE BUILDING  
TARBORO, NORTH CAROLINA 27886  
TELEPHONE: (919) 823-4200

MEMBER:  
COMMITTEE ON  
GOVERNMENT OPERATIONS

# Congress of the United States

## House of Representatives

SUBCOMMITTEE:  
CHAIRMAN, INTERGOVERNMENTAL  
RELATIONS AND HUMAN RESOURCES

Washington, D.C. 20515

August 27, 1981

1240

COMMITTEE ON  
FOREIGN AFFAIRS

SUBCOMMITTEES:  
INTERNATIONAL SECURITY AND  
SCIENTIFIC AFFAIRS  
EUROPE AND THE MIDDLE EAST

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

Dear Mr. Chairman:

Enclosed is a self-explanatory letter I have received from Mr. Sherrill Faw of Wilkesboro, N.C.

I'm sure we all share Mr. Faw's concerns, and any information which you could supply on this matter will be appreciated.

With thanks and kindest regards, I am

Sincerely,

L. H. Fountain

LHF:gw  
Enc.

BOARD OF GOVERNORS  
FEDERAL RESERVE SYSTEM  
1981 AUG 28 AM 11:23  
RECEIVED  
OFFICE OF THE CHAIRMAN

AUG 21 1981

*Sherrill Faw Construction Company, Inc.* *SF*

"Customer Satisfaction is Our Business"

201 CURTIS BRIDGE RD.  
P. O. BOX 779  
WILKESBORO, N.C. 28697  
Phone: 667-7161

August 18, 1981

Representative L. H. Fountain  
U. S. House of Representatives  
Washington, D.C. 20515

Dear Representative Fountain:

In order to provide the American Dream of Home Ownership to the Citizens of North Carolina, it is imperative that interest rates be lowered to reasonable levels. This would then enable the building industry to again sell and build houses, thereby increasing employment, and cash flow for the economy.

I would like to ask you to continue working for additional budget cuts and program deferments in order to reduce the federal deficit and permit lower interest rates. Also, please encourage the Federal Reserve Board to develop a more equitable program to encourage productivity, discourage use of credit for unproductive programs such as mergers, and lower interest rates.

Thank you for helping the Citizens of North Carolina and the Building Industry.

Sincerely,

*Sherrill Faw*

Sherrill Faw  
President

SF/tls



September 18, 1981

The Honorable Alan Cranston  
United States Senate  
Washington, D.C. 20510


Dear Alan:

Thank you for your letter of September 11 recommending Mr. Michael E. Thomas to serve on the Board's Consumer Advisory Council.

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

I appreciate your taking the time to bring him to our attention.

Sincerely,



CO:pjt (#V-257)  
bcc: Mrs. Bray (w/copy of incoming)  
Mrs. Mallardi (2)

ALAN CRANSTON  
CALIFORNIA

## United States Senate

WASHINGTON, D.C. 20510

September 11, 1981

#257

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
RECEIVED  
OFFICE OF THE CHAIRMAN  
1981 SEP 16 PM 10:05

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

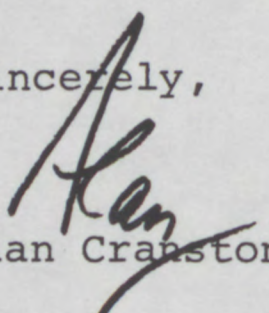
Dear Paul,

I'm pleased to recommend two Californians from the Los Angeles area, Michael Roster and Michael E. Thomas, for appointment to the Federal Reserve Consumer Advisory Council.

As you can see from the enclosed, Michael Roster is an attorney with considerable experience in every facet of the consumer credit field. Mike Thomas has been a manager in the Fluor Corporation for several years and, as such, has monitored the activities of the Federal Reserve Board and Consumer Council. I believe both are well qualified to serve on the Council and hope you will give them your most thoughtful consideration.

Best wishes,

Sincerely,

  
Alan Cranston

Enclosures

# Removal Notice



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

## Citation Information

**Document Type:** Resume

**Number of Pages Removed:** 4

**Citations:** Resume, Michael Roster, 1981.

The Honorable Alan Cranston  
U.S. Senate  
Washington, D.C. 20510

July 7, 1981

Dear Senator Cranston,

Consumer Advisory Council  
Confirmation of Nomination

Attached is a copy of correspondence nominating me for membership on the Consumer Advisory Council of the Federal Reserve System. Being one of your loyal constituents, I would appreciate your confirmation of my nomination to the Council.

As you are aware, the Consumer Advisory Council was established in 1976 to advise the Board of Governors on the exercise of its duties under the Consumer Credit Protection Act and on other related matters. The Council's membership is intended, to the extent possible, to represent all interests in the area of consumer financial services regulations.

In my position as domestic cash manager for the Fluor Corporation, I have professionally monitored activities of the Board and Council for several years and find that a member with my background appears warranted for the following reasons-

- A majority of the Council's membership represents academic or financial institutions. Only a few members are not of these institutions and it is a concern whether the needed scope and impartiality in its recommendations can exist given the Council's current composition.

Senator Alan Cranston

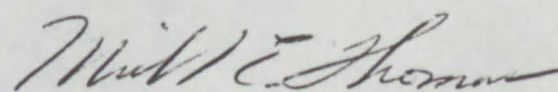
July 7, 1981

2

- There is an obvious absence of corporate representation on the Council. Yet a major push for the development of new financial services has often come from the corporate sector in response to and in anticipation of employee needs. Much of my time has been spent in the identification, analysis, design and implementation of employee services for both the banking and corporate environments.
- The trend in financial services will continue to be toward automated services. The need for individuals on the Council well versed in both finance and systems is obvious. I have operating backgrounds and conceptual experience in both of these areas.

In summary, there is a need on the Council for someone who can address issues from both a conceptual and experiential viewpoint, who is versed in consumer needs from a non-institutional perspective, and can view issues representing the interests of the consumer, financial and corporate sectors. I hope you concur with my nomination and give it your full support as I have a sincere desire to serve you and our fellow constituents in a constructive and beneficial manner.

Respectfully yours,



Michael E. Thomas



# CALIFORNIA CANADIAN BANK

700 SOUTH FLOWER STREET • LOS ANGELES, CALIFORNIA 90017

June 26, 1981

J. J. QUINN

Senior Vice President

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

Attention: Dolores S. Smith, Assistant Director  
Division of Consumer and Community Affairs

Gentlemen:

Consumer Advisory Council  
Nomination for Membership -  
Michael E. Thomas

As a member of the consumer finance community for over twenty years, I am pleased to nominate Michael E. Thomas for membership on the Consumer Advisory Council.

Michael has experience and knowledge that will bring to the Council a creative and contemporary view of consumer and other financial services, with particular emphasis on the developing area of electronic banking. As domestic cash manager for the Fluor Corporation, he has become known for his design and developmental abilities in the use of electronic funds transfer, automated teller services, etc., helping to make Fluor one of the industry leaders in employee services and cash management.

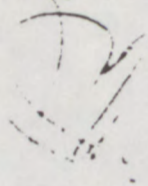
While representing over 25,000 Fluor employees nationwide, he has become intimately involved with the banking services needs of the consumer and is able to judge these needs from the banking and corporate viewpoints. Michael will bring to the Council the ability to see several sides of an issue, based on his years of practical experience. Through an advanced degree in finance and business economics and as a lecturer on economics at colleges in the area, Michael is able to view issues within a theoretical framework as well.

Michael has had extensive experience in systems development as a member of Fluor's computer services department, where he was responsible for project systems in the Western Hemisphere. In this capacity, he has learned the technical possibilities and constraints of data processing and has been able to relate its applications to the public and private environments.

In summary, I heartily recommend Michael for a position on the Consumer Advisory Council. He offers a unique combination of experience, knowledge and interest in the

automated financial services areas that is sure to serve the Council and the consumer well.

Very truly yours,

A handwritten signature in dark ink, appearing to be a stylized name, possibly "D. J. [unclear]".

# Removal Notice



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## Citation Information

**Document Type:** Resume

**Number of Pages Removed:** 3

**Citations:** Resume, Michael E. Thomas, 1981.



The names and affiliations of current Council members (and the expiration date of their term of office) follow:

Chairman

Ralph Rohner  
Professor  
Catholic University Law School  
Washington, D.C.  
December 31, 1981

Vice Chairman

Charlotte H. Scott  
Professor of Business  
Administration and Commerce  
University of Virginia  
Charlottesville, Virginia  
December 31, 1982

Arthur F. Bouton  
President-elect  
American Association of  
Retired Persons  
Little Rock, Arkansas  
December 31, 1983

Julia H. Boyd  
Alexandria, Virginia  
December 31, 1982

Ellen Broadman  
Attorney  
Consumers Union  
Washington, D.C.  
December 31, 1982

James L. Brown  
Director  
Center for Consumer Affairs  
Milwaukee, Wisconsin  
December 31, 1981

Mark E. Budnitz  
Associate Professor  
Emory University School of Law  
Atlanta, Georgia  
December 31, 1981

Joseph N. Cugini  
President & General Manager  
Westerly Community Credit Union  
Westerly, Rhode Island  
December 31, 1983

Richard S. D'Agostino  
Senior Vice President  
Girard Bank  
Philadelphia, Pennsylvania  
December 31, 1982

Susan Pierson De Witt  
Assistant Attorney General and  
Chief of Consumer Protection  
State of Illinois  
Springfield, Illinois  
December 31, 1983

Joanne Faulkner  
Attorney  
New Haven Legal Assistance  
Association, Inc.  
New Haven, Connecticut  
December 31, 1982

Luther R. Gatling  
President  
Budget & Credit  
Counseling Service  
New York, New York  
December 31, 1983

Vernard W. Henley  
President  
Consolidated Bank and  
Trust Company  
Richmond, Virginia  
December 31, 1982

Juan Jesus Hinojosa  
Partner  
Hinojosa & Ortiz  
McAllen, Texas  
December 31, 1982

Shirley T. Hosoi  
Vice President,  
Strategic Planning  
First Interstate Bancorporation  
Los Angeles, California  
December 31, 1982

George S. Irvin  
President  
George Irvin Chevrolet  
Denver, Colorado  
December 31, 1983

F. Thomas Juster  
Director  
Institute for Social Research  
Survey Research Center  
University of Michigan  
Ann Arbor, Michigan  
December 31, 1982

Richard F. Kerr  
Cincinnati, Ohio  
December 31, 1981

Harvey M. Kuhnley  
President and Chairman  
of the Board  
Twin City Federal Savings &  
Loan Association  
Minneapolis, Minnesota  
December 31, 1981

Robert J. McEwen, S.J.  
Professor of Economics  
Boston College  
Chestnut Hill, Massachusetts  
December 31, 1982

Stanley L. Mularz  
President  
Trans Union Credit  
Information Company  
Chicago, Illinois  
December 31, 1983

William J. O'Connor, Jr.  
Partner  
Phillips, Lytle, Hitchcock,  
Blaine & Huber  
Buffalo, New York  
December 31, 1983

Margaret Reilly-Petrone  
Professor of Economics  
Montclair College  
Upper Montclair, New Jersey  
December 31, 1982

Rene Reixach  
Staff Attorney  
Greater Upstate Law Project  
Rochester, New York  
December 31, 1982

Florence M. Rice  
President  
Harlem Consumer Education Council  
New York, New York  
December 31, 1981

Henry B. Schechter  
Director  
Office of Housing and  
Monetary Policy  
AFL-CIO  
Washington, D.C.  
December 31, 1981

Peter D. Schellie  
Partner  
Bingham, Dana & Gould  
Washington, D.C.  
December 31, 1982

Nancy Z. Spillman  
Director for Economic Education  
and Professor of Economics  
Los Angeles Trade Technical College  
Los Angeles, California  
December 31, 1983

Richard A. Van Winkle  
President  
Lockhart Finance Company  
Salt Lake City, Utah  
December 31, 1981

Mary W. Walker  
President  
National Bank of Walton  
County  
Monroe, Georgia  
December 31, 1981

September 18, 1981

The Honorable Douglas Bereuter  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Bereuter:

Thank you for your recent letter in which you express concern on behalf of your constituents about high interest rates.

My colleagues and I fully understand your alarm about the hardships that the high level of interest rates is imposing on businesses that are heavily dependent on credit. Unfortunately, there is no short-term solution to their problem. The only way to get sustainable reductions in rates is by attacking the source of the difficulty, and that is inflation.

As you point out, over the years monetary policy has been alone in the inflation fight. President Reagan's economic recovery program of tax and spending cuts supplies a long missing component of a comprehensive anti-inflation program. However, despite the progress that his plan achieves, we are still faced with the prospect of large budget deficits in the next few years at least. As you well know, this places added stress on the already strained financial markets. But, more importantly, the deficits reinforce deep-seated fears of market participants that the government is not going to succeed in bringing the budget to balance. The Administration and Congress must now cut budget outlays further to dispel those fears and relieve some of the strain.

The course that must be followed in order to gain control of inflation is obviously not easy or painless. But if we falter, either by relaxing monetary restraint or by detouring from the path to a balanced budget, inflationary pressures will intensify, pushing interest rates still higher, and any progress made will have been lost. The next attack on inflation would then only be more difficult and painful.

I hope that my comments are helpful to you. Once again, thank you for taking the time to share your concerns with me.

Sincerely,

CEH:JSZ:vcd (#V-250)  
bcc: C. E. Headly  
J. S. Zeisel  
Mrs. Mallardi (2) ✓

S/Paul A. Volcker

COMMITTEE ON INTERIOR AND  
INSULAR AFFAIRS

SUBCOMMITTEES:

WATER AND POWER RESOURCES  
ENERGY AND ENVIRONMENT  
INSULAR AFFAIRS

COMMITTEE ON BANKING,  
FINANCE AND URBAN AFFAIRS

SUBCOMMITTEES:

HOUSING AND COMMUNITY  
DEVELOPMENT  
ECONOMIC STABILIZATION  
GENERAL OVERSIGHT AND  
RENEGOTIATION

RURAL CAUCUS



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
1981 SEP -9 PH 2:15

DOUGLAS BEREUTER

1ST DISTRICT, NEBRASKA

WASHINGTON OFFICE:

1314 LONGWORTH HOUSE OFFICE BUILDING  
WASHINGTON, D.C. 20515  
(202) 225-4806

DISTRICT OFFICES:

1045 K STREET  
P.O. Box 82887  
LINCOLN, NEBRASKA 68501  
(402) 471-5400

P.O. Box 213

WAYNE, NEBRASKA 68787  
(402) 375-3030

Congress of the United States

House of Representatives

Washington, D.C. 20515

September 8, 1981

#250

Honorable Paul A. Volcker  
Chairman  
Federal Reserve System  
Twentieth and Constitution Ave., N.W.  
Washington, D.C. 20551

Dear Chairman Volcker:

I have recently returned from a month long visit across the length and breadth of my District. At each stopping point, I heard farmers, small business owners, builders and others express their deep frustration and concern at the persistence of high interest rates. Many individuals told me frankly that they may lose their livelihoods if interest rate relief does not come soon and I believe them. These vital segments of our economy, so dependent upon credit for normal business needs, simply cannot endure under the current economic conditions.

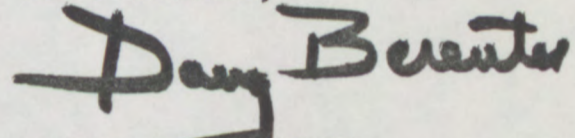
President Reagan has presented to the American public a bold four point "economic recovery program" designed to rid our country of high inflation, high unemployment, low productivity and high interest rates. Prior to the development and implementation of this program, the Federal Reserve Board, under your able leadership, has been alone in the battle against the monster of inflation.

Now that the Congress has overwhelmingly approved the President's program, monetary policy need no longer carry the inflation battle alone; deep spending cuts and tax reduction incentives should help equalize the inflation fighting burden.

At this point, therefore, I believe that the Federal Reserve should reexamine its monetary control policies. Although continued monetary restraint is ESSENTIAL in the long-term battle against inflation, we must recognize the disastrous short-term effects which unrelenting high interest rates are having upon many sectors of the economy. I would hope that some carefully crafted short-term relief may be devised soon. Otherwise, many farmers, small business owners and home builders may not be in business to profit from the economic prosperity which the Reagan "economic recovery" program will bring.

Your attention and that of the Board to these points is appreciated.  
Thank you.

Best wishes,

A handwritten signature in dark ink, appearing to read "Doug Bereuter". The signature is written in a cursive style with a prominent loop at the end of the last name.

DOUGLAS BEREUTER  
Member of Congress

DB/ssn

cc: Beryl Sprinkel  
Under Secretary of the Treasury  
for Monetary Affairs

September 17, 1981

The Honorable Marjorie S. Holt  
House of Representatives  
Washington, D.C. 20515

Dear Ms. Holt:

Thank you for your letter of August 24 concerning the role of monetary policy in the effort to defeat inflation. I fully agree with your view that a strong anti-inflation monetary policy stance, working together with fiscal constraint, will pay handsome dividends for the economy in the future.

As you have noted, several areas of the economy--such as housing, agriculture, and small business--have been affected much more adversely than other sectors by the high cost of credit. The uneven impact of monetary policy was discussed during my recent appearance before the Senate Banking Committee, and you may be interested in the enclosed staff study on this subject.

But solving the problems now being felt by those sectors suffering most from the high cost of credit is a difficult matter. Any additional program involving direct federal government expenditures would add to an already difficult budgetary problem. Funds budgeted for defense and the revenues foregone from tax reductions already portend difficulties in keeping spending in line with revenues.

Just as inflation and high interest rates hurt particularly the most credit-sensitive sectors, such as housing, agriculture, and small business, relief from these forces will benefit these sectors the most. Thus, the fundamental solution to these difficulties is to combat inflation in general by attacking its root causes, including excessive monetary growth and the burdensome demand for credit by the government sector.

Again, thank you for your words of encouragement and support.

Sincerely,

S/Paul A. Volcker

Enclosure

JLF:DFS:JSZ:CO:DS:pjt (#V-238)  
bcc. Messrs. Kichline, Zeisel, Seiders, Freund  
Mrs. Mallardi (2) ✓