Congressional Correspondence
July - October 1981 [1]

# 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

1981 OCT 29 AM 10:07

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

#316

October 27, 1981

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 Latta

DELBERT L. LATTA
Representative to Congress

DLL:lt

Mrs. Mallardi
(V-299)

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

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 <u>not</u> 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.

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 furthercomment.

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

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

#294

October 8, 1981



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

OCT 08 1981

October 1, 1981

[redacted]

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

Subject: Electronic Fund Trafsfers (EFT)

Dear Congressman Young:

On September 22nd 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 Wlmestad of your office.

Mr. Elmestad advided 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 Decurity check is reveived by ETF on the second or third of the month (SEPTEMBER) and will not be shown UNTIL ~~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 acknowlegted 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

[redacted]

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 Trandfers (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 unitl 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 deposied 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 wolld like for you to explain your reasoning and consider changing back to your original commsittment.

Sincerely yours,

Larry Kiefer

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]

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) ✓

Gov. Wallich will testify; Mr. Truman handling statement

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

DAN ROSTENKOWSKI, ILL.
JAMES R. JONES, OKLA.
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BILL FRENZEL, MINN.
L. A. (SKIP) BAFALIS, FLA.
RICHARD T. SCHULZE, PA.

EX OFFICIO:
BARBER B. CONABLE, JR., N.Y.

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

SUBCOMMITTEE ON TRADE

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

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

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

Chairman Should See This

ALBERT LEE SMITH, JR.
6TH DISTRICT, ALABAMA

COMMITTEES:
BUDGET
VETERANS' AFFAIRS

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

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

#283

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

October 1, 1981

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

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)

Chairman Volcker
V-258

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

PAUL A. VOLCKER
CHAIRMAN

OCT 26 1981

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.

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

Action copies sent to Mr. Bradfield and Miss Hart for coordination of reply

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.

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

MAJORITY—(202) 225-4407

NINETY-SEVENTH CONGRESS

**Congress of the United States**

**House of Representatives**

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

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

#258

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

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

Action assigned Mr. Allison

MARK O. HATFIELD

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

OREGON

1981 OCT -2 PM 12:08

United States Senate

WASHINGTON, D.C. 20510

RECEIVED OFFICE OF THE CHAIRMAN

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

BOB DOLE

Sorry I had to leave -

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

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

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)

ATTACHMENT

"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 enducing 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 <u>cash</u> customers (non "cash card" holders) who pay the same price as <u>credit</u> 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 <u>that would otherwise be finance charges</u> 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 <u>purely</u> 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 affect 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.

Action assigned Janet Hart



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



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.

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

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 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:
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FINANCIAL INSTITUTIONS SUPERVISION, REGULATION AND INSURANCE
INTERNATIONAL TRADE, INVESTMENT AND MONETARY POLICY

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

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

October 21, 1981

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

Dear ~~Mr. Chairman:~~ Paul

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

Many thanks in advance for your cooperation and assistance. It is a pleasure to be your colleague in government service.

Sincerely,

George Hansen

GEORGE HANSEN
Member of Congress

GVH:gss

OFFICE OF THE CHAIRMAN
RECEIVED
1981 OCT 22 AM 9:13
FEDERAL RESERVE SYSTEM
OF THE
BOARD OF GOVERNORS

sent 10/23/81 am

RUDY BOSCHWITZ
MINNESOTA

# United States Senate

WASHINGTON, D.C. 20510

October 21, 1981

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

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

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

Rudy Boschwitz
United States Senator

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. Sharpe~~ d

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 securites). 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 221 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 (G) 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. Blyth, Eastman, Dillon & Co., Inc. ("Blyth, 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. (Blyth, 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 Blyth, Eastman to Continental might be viewed as in contravention of Regulation T, 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 through other rules of law, such as those concerned with "aiding and abetting". As stated by the Court in Bronner v. Goldman, 361 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." 1/

1/ See also: Federal Reserve Board Interpretation at 12 CFR 220.111; Landy v. Chemical Bank, CCH Fed. Sec. L. Rep. ¶ 95,360 (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 recission 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.2/

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-

2/ 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
LH/RSP:is
cc: Skadden, Arps, Slate, Meagher & Flom
Steptoe & Johnson
Office of the General Counsel, Securities and Exchange Commission

Action assigned Jack Ryan



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

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.

8920 PERSHALL ROAD, HAZELWOOD, MISSOURI 63042 (314) 524-5000

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

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

CM

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

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 holdling companies.

Sincerely,

S/Paul A. Volcker

CM

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

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.

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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.

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Sincerely,

S/Paul A. Volcker

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]

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,

Angeles Anonuevo Jr.

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. Volcker

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



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

#284

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

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

October 7, 1981

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

JORDAN, JIM

B: GENERAL INFORMATION REQUEST

OCT 7

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

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

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES

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 reducing 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,

Tom Kindness

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.

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)

JACK FIELDS
8TH DISTRICT, TEXAS

COMMITTEE ON
PUBLIC WORKS AND
TRANSPORTATION

COMMITTEE ON
MERCHANT MARINE
AND FISHERIES

# Congress of United the States

House of Representatives • Washington, D.C. 20515

September 24, 1981

#277

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1981 SEP 28 AM 10:42

RECEIVED
OFFICE OF THE CHAIRMAN

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

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

JF:ckr

PLEASE RESPOND TO:
☐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.

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-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**

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

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

September 24, 1981

#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,

Bud Hillis

ELWOOD H. (BUD) HILLIS
MEMBER OF CONGRESS

EHH/ms

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

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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

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

#276

September 25, 1981



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

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:

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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
SPARTANBURG, SOUTH CAROLINA 29301
803-585-3702

242 FEDERAL BUILDING
GREENVILLE, SOUTH CAROLINA 29603
803-233-5366

112 CUSTOM HOUSE
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

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

October 5, 1981

AC #191

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,

Fritz

Ernest F. Hollings

EFH/kk

Call his assistant for more info on this story

Monday
Dec 14 - Bd Meet
Dec 16 - DIDC
Dec 17 - Chicago Fed

3

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.

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With best regards.

Sincerely,

Paul A Volcker

STROM THURMOND, S.C., CHAIRMAN

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QUENTIN CROMMELIN, JR., STAFF DIRECTOR

United States Senate

COMMITTEE ON THE JUDICIARY
WASHINGTON, D.C. 20510

October 6, 1981

re: #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

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



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

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

Vin Weber
Member of Congress

VW/ls/11

11/17 - FOMC

HOUSE OF REPRESENTATIVES

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

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

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ROGER W. JEPSEN, IOWA,
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LLOYD BENTSEN, TEX.
WILLIAM PROXMIRE, WIS.
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.

WALTER E. FAUNTROY, D.C., CHAIRMAN

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

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

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

# U.S. HOUSE OF REPRESENTATIVES

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

November 2, 1981

#324

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 salutory 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

WASHINGTON OFFICE:
ROOM 408
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GREENVILLE, SOUTH CAROLINA 29603
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P.O. BOX 1330
SPARTANBURG, SOUTH CAROLINA 29304
803-582-6422

Campbell

COMMITTEE ON APPROPRIATIONS

SUBCOMMITTEES:
COMMERCE, JUSTICE, AND STATE, THE JUDICIARY AND RELATED AGENCIES
TREASURY, POSTAL SERVICE, GENERAL GOVERNMENT
LEGISLATIVE BRANCH

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

#197

September 30, 1981

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

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

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 Campbell

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

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 goverment 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.

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

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.

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

208 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
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717 OLD POST OFFICE BUILDING
OKLAHOMA CITY, OKLA. 73102
(405) 231-4541

Action assigned Mr. Kichline

COMMITTEES:
APPROPRIATIONS

SUBCOMMITTEE ASSIGNMENTS:
MILITARY CONSTRUCTION
FOREIGN OPERATIONS

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

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
81 SEP 17 PM 12: 52
RECEIVED
OFFICE OF THE CHAIRMAN

September 16, 1981

#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.

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,

Mickey Edwards

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,

S/ Paul

WRM:RS:vcd (#V-288)

bcc: Dick Syron
Mrs. Mallardi (2)

Action assigned Bill Maloni



**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

#288

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. Godrey Briefs of my staff at 225-7502.

Thank you for your assistance.

Sincerely yours,

Bill

J. William Stanton

Call EGC
my log

JWS/gwm

# 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



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.

# U.S. HOUSE OF REPRESENTATIVES

## COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

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



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 annnounced 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.

# # # #

Mrs Mallardi
(V-263)

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

October 9, 1981

PAUL A. VOLCKER
CHAIRMAN

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.

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 underesitmate 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

# CONGRESS OF THE UNITED STATES
## HOUSE OF REPRESENTATIVES

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WASHINGTON, D.C. 20515
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TOLL FREE: 1-800-582-1001

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

September 15, 1981

#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.

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

THOMAS N. KINDNESS
Member of Congress

TNK/vf

Mrs. Mallardi
LV-266

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 "inaction" 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.

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 difficulities 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.

Action assigned Mr. Kichline


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


MONTANA OFFICES:
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2717 FIRST AVENUE, NORTH
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TOLL FREE
800-332-5965


BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1981 SEP 22 PM 3:01
RECEIVED
OFFICE OF THE CHAIRMAN

September 18, 1981

#266

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
Ron Marlenee, M.C.

Dan Marriott
Dan Marriott, M.C.

Walter B Jones
Walter B. Jones, M.C.

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. Mallardi
(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.

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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-267
bcc: Mrs. Mallardi (2)

, Action assigned Mr. Kichline

COMMITTEES:

ARMED SERVICES

SUBCOMMITTEES:
SEAPOWER AND STRATEGIC AND CRITICAL MATERIALS
MILITARY INSTALLATIONS AND FACILITIES

MERCHANT MARINE AND FISHERIES

SUBCOMMITTEES:
WILDLIFE AND FISHERIES
COAST GUARD

ROY P. DYSON
FIRST DISTRICT, MARYLAND

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

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TONY M. PAPPAS
ADMINISTRATIVE ASSISTANT

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BEL AIR, MARYLAND 21014
(301) 838-3063

September 21, 1981

#267

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

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1981 SEP 23 [illegible]
RECEIVED
OFFICE OF THE CHAIRMAN

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

ROY DYSON
Member of Congress

RD: SFS:bf

Mrs. Mallardi
(V-251)

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

October 8, 1981

PAUL A. VOLCKER
CHAIRMAN

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

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

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

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

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1981 SEP -9 PM 2:45
RECEIVED
OFFICE OF THE CHAIRMAN

September 8, 1981

#251

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,

Jim 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)

Don Winn will discuss with Chairman



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

# U.S. HOUSE OF REPRESENTATIVES

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

September 23, 1981

#269



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

Dear Paul:

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.

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

Walter E. Fauntroy
Chairman

CM
V-279

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

October 7, 1981

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

The Honorable Sam B. Hall, Jr.
Page Two

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 Volcker

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

COMMITTEES:
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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

318 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
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U.S. FEDERAL BUILDING, ROOM G 15
MARSHALL, TEXAS 75670
TELEPHONE: (214) 938-8386

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

September 25, 1981 #279

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

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

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. I have endeavored to support the President in reducing spending and balancing the budget.

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 informatin 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.

Sam B. Hall, Jr.

Mrs. Mallardi
(V-282)

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

October 6, 1981

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;

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

Mrs. Mallardi
(V-273)

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

October 5, 1981

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 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

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.)

Democratic Caucus
U.S. House of Representatives
306-307 ANNEX #1 HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-9141

GERALDINE A. FERRARO
SECRETARY

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

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 Long

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

PAUL A. VOLCKER
CHAIRMAN

October 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:

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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



# 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



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.

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,

Leo C. Zeferetti

LEO C. ZEFERETTI
Chairman

LCZ:pcn

LARRY PRESSLER
SOUTH DAKOTA

UNITED STATES SENATE
WASHINGTON, D.C. 20510



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,

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. Volcker

CO:vcd (V-268)

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

Don Winn has memo into Chairman re Gov. T[illegible]ters testifying

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

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

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.

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

## TITLE I—BUSINESS AND AGRICULTURAL LOAN

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

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

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

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

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

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

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

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

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

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

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

TITLE II—CONSUMER LOANS

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

"PART D—CONSUMER LOANS

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

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

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

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

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

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

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

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

## TITLE III—EFFECTIVE DATE

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

○

97TH CONGRESS
1ST SESSION

# H. R. 3172

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

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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.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That title V of the Depository Institutions Deregulation and Monetary Control Act of 1980 is amended by adding at the end thereof the following:

"PART D—GENERAL USURY OVERRIDE

"OTHER LOANS

"SEC. 531. (a) If the applicable rate prescribed in this section exceeds the rate a person would be permitted to charge in the absence of this section, such person may in the case of any loan, notwithstanding any State constitution or statute which is hereby preempted for the purposes of this section, take, receive, reserve, and charge on any such loan, interest at a rate of not more than 1 per centum in excess of the discount rate, including any surcharge thereon, on ninety-day commercial paper in effect at the Federal Reserve bank in the Federal Reserve district where the person is located.

"(b) If the rate prescribed in subsection (a) exceeds the rate such person would be permitted to charge in the absence of this section, and such State imposed rate is thereby preempted by the rate described in subsection (a), the taking, receiving, reserving, or charging a greater rate than is allowed by subsection (a), when knowingly done, shall be deemed a forfeiture of the entire interest which the loan carries with it, or which has been agreed to be paid thereon. If such greater rate of interest has been paid, the person who paid it may recover, in a civil action commenced in a court of appropriate jurisdiction not later than two years after the date of such payment, an amount equal to twice the amount of interest paid from the person taking, receiving, reserving, or charging such interest.

"(c) For the purpose of this part—

"(1) the term 'loan' includes all secured and unsecured loans, credit sales, forbearances, advances, renewals or other extensions of credit made by or to any person or organization;

"(2) the term 'interest' includes any compensation, however denominated, for a loan;

"(3) the term 'organization' means a corporation, government or governmental subdivision or agency, trust, estate, partnership, cooperative, association, or other entity; and

"(4) the term 'person' means a natural person or organization.

"EFFECTIVE DATE OF PART D

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

"(1) April 1, 1983, or

"(2) the date, on or after July 1, 1981, on which such State adopts a law or certifies that the voters of such State have voted in favor of any provision, constitutional or otherwise, which states explicitly and by its terms that such State does not want the provisions of this part to apply with respect to loans made in such State,

except that such provisions shall apply to any loan made on or after such later date pursuant to a commitment to make such loan which was entered into on or after July 1, 1981, and prior to such later date.

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

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

"(2) was made prior to July 1, 1981, and bears or provides for interest on or after July 1, 1981, on the outstanding amount thereof at a variable or fluctuating rate; or

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

"(c) This part does not apply to any loan secured by a residential manufactured home unless the loan meets the requirements 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

COMMITTEES:
FINANCE
ENVIRONMENT AND PUBLIC WORKS
JOINT ECONOMIC

# United States Senate

WASHINGTON, D.C. 20510

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
1981 SEP -9 PM 2:16
RECEIVED
OFFICE OF THE CHAIRMAN

September 4, 1981

#1252

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 apreciate your responding to his letter as well as my own.

Sincerely,

Lloyd Bentsen

Lloyd Bentsen

Enclosure

United States Senate
COMMITTEE ON FINANCE
WASHINGTON, D.C. 20510

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

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:sl (#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**

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

#765

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

[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)

FO 'B

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 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
SUBCOMMITTEE:
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
RECEIVED OFFICE OF THE CHAIRMAN

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

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

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

Committee on Public Works and Transportation
U.S. House of Representatives
Room 2165, Rayburn House Office Building
Washington, D.C. 20515
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 properety 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 Subcommitttee can be arranged.

Every best wish.

Sincerely,

John G. Fary

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

PAUL A. VOLCKER
CHAIRMAN

September 18, 1981

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**

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

August 27, 1981

#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.

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
1981 AUG 31 AM 9:44
RECEIVED
OFFICE OF THE CHAIRMAN

Sincerely,

Mike Lowry

MIKE LOWRY
Member of Congress

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.

Sincerely,

S/Paul A. Volcker

CEH:JSZ:vcd (V-249)
bcc: Ms. Wing
Ms. Headly
Mr. Mallardi (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

COMMITTEES:
POST OFFICE AND CIVIL SERVICE
SUBCOMMITTEES:
CIVIL SERVICES
HUMAN SERVICES
POSTAL OPERATIONS
PUBLIC WORKS AND TRANSPORTATION
SUBCOMMITTEES:
AVIATION
WATER RESOURCES

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1981 SEP -9 AM 9:28
RECEIVED OFFICE OF THE CHAIRMAN

September 8, 1981

#249

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 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:DS: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

HOUSE COMMITTEE ON
BANKING, FINANCE AND
URBAN AFFAIRS

HOUSE COMMITTEE ON
INTERIOR AND INSULAR AFFAIRS

HOUSE SELECT COMMITTEE
ON AGING



July 27, 1981

#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 Feds 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

Mrs. Mallardi

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

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,

Bruce F. Vento

Bruce F. Vento
Member of Congress

BFV/cm

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

MEMBER:
COMMITTEE ON
GOVERNMENT OPERATIONS

SUBCOMMITTEE:
CHAIRMAN, INTERGOVERNMENTAL
RELATIONS AND HUMAN RESOURCES

COMMITTEE ON
FOREIGN AFFAIRS

SUBCOMMITTEES:
INTERNATIONAL SECURITY AND
SCIENTIFIC AFFAIRS
EUROPE AND THE MIDDLE EAST

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

WASHINGTON OFFICE:
WALTER J. PITTMAN
ADMINISTRATIVE ASSISTANT

TED L. DANIEL
EXECUTIVE ASSISTANT

2188 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

August 27, 1981

Mr. Paul A. Volcker
Chairman
Federal Reserve System
Rederal 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

L. H. Fountain

LHF:gw
Enc.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1981 AUG 28 AM 11:23
RECEIVED
OFFICE OF THE CHAIRMAN

AUG 21 1981

Sherrill Faw Construction Company, Inc.

"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,

S/ Paul

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

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

Alan Cranston

Enclosures

# Removal Notice

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## 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.

- 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 experiental 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

Michael E. Thomas
[redacted]

**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,

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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,

S/Paul A. Volcker

CEH:JSZ:vcd (#V-250)
bcc: C. E. Headly
J. S. Zeisel
Mrs. Mallardi (2) ✓

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 PM 2:15
RECEIVED OFFICE OF THE CHAIRMAN

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

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

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 propsperity which the Reagan "economic recovery" program will bring.

Your attention and that of the Board to these points is appreciated. Thank you.

Best wishes,

Doug Bereuter

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)