Congressional Correspondence
November - December 1981 [2]

Action assigned Mr. Bernard

WAYNE DOWDY
4TH DISTRICT, MISSISSIPPI

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

#344

November 19, 1981

Honorable Paul A. Volcker, Chairman
Depository Institutions Deregulation Committee
20th and Constitution Avenue
Room B - 2120
Washington, D. C. 20551

Dear Chairman Volcker:

I am enclosing correspondence which I have received from my constituents expressing concern over actions taken by the DIDC which will adversely affect the savings and loan industry.

I want to express my personal concern over this situation, and respectfully request that you address my constituents' suggestion that the DIDC postpone implementing its final rules on Money Market Certificate ceilings and the IRS/ Keough "wild-card" accounts. I am sure you share my concern for the plight of savings and loan institutions, which are facing a tremendous strain at this time.

Let me thank you in advance for your attention to this matter.

Sincerely,

Wayne Dowdy

Wayne Dowdy
Member of Congress

WD:km
Enclosures

1981 NOV 23 AM 10:00

NOV 3 1981

Natchez First Federal

Savings & Loan Association

October 29, 1981

The Honorable Wayne Dowdy
House of Representatives
1631 Longworth Building
Washington, D. C. 20515

Dear sir:

On September 22 of this year actions were taken by the DID Committee which we feel will create an additional threat to all savings and loan institutions, a number of which are already in dire circumstances due to the tremendous losses they are sustaining. Actions taken by the committee were to raise the passbook certificate rates by the associations, allow a four-week Money Market Certificate averaging option and to allow "wild-card" 18-month IRA/Keogh accounts, beginning December 1 of this year. Other damaging actions taken by DIDC included the proposed new 3-1/2 year no-ceiling certificate starting in February of 1982, lower the jumbo minimum to $25,000.00 and also creation of two new savings accounts -- one a 91-day account with a $10,000.00 minimum and a ceiling based on 13-week T-bills, and two, a transaction account with a $5,000.00 minimum balance and no rate ceiling.

Last summer the DIDC did substantial harm to our business by removing the 12 percent cap on the 2-1/2 year certificate with the result that these deposits now yield 17 to 18 percent.

We urge you, as our elected representative in Washington, to demand that the DIDC postpose implementing its final rules on MMC ceilings and the IRS/Keogh wild-card accounts and also to suspend consideration of the other proposals issued for comment. Time is needed by Congress to review the DIDC's performance and to assess the detrimental impact it is having on the financial community and the economy and to develop corrective legislation.

Thank you for your consideration of this request.

Very truly yours,

Eugene A. Platte

Eugene A. Platte
Executive Vice President-Secretary

EAP/srb

P. O. Box 888 -:- Natchez, Mississippi 39120-0888 -:- 442-2733

Natchez First Federal
Savings & Loan Association

NOV 3 1981

October 30, 1981

The Honorable Wayne Dowdy
House of Representatives
1631 Longworth Building
Washington, D.C. 20515

Dear Wayne:

As you are well aware, these are very trying times for the savings and loan industry. Last summer the Depository Institutions Deregulation Committee did substantial harm to our business by removing the 12 percent cap on the 2½ year certificate with the result that these deposits now yield 17 to 18 percent instead of 13 percent.

I am writing to ask that you consider demanding that the DIDC postpone implementing its final rules on money market certificate ceilings and the IRA/KEOGH wild-card accounts and suspend consideration of the proposals issued for comment. This will provide the needed time for Congress to review the DIDC's performance, to assess the impact it is having on the financial community and the economy, and to develop corrective legislation.

Please keep in mind that I realize the present administration's goals to deregulate business in general, and overall I support this theory. However, this industry, due mainly to the fact that it has billions of dollars in fixed low interest rate loans on its books, can ill afford the liability side of our balance sheet to be totally deregulated until we have time to bring our asset side in line.

Thank you for your consideration.

Very truly,

James J. Cole
Vice President-Treasurer

JJC/md

P.O. Box 1048 • Natchez, Mississippi 39120 • 442-2733

December 4, 1981

The Honorable Charles McC. Mathias, Jr.
United States Senate
Washington, D.C. 20510

Dear Senator Mathias:

I appreciate having the correspondence that you forwarded concerning actions taken by the Depository Institutions Deregulation Committee at its meeting on September 22, and proposed actions that are to be considered at the upcoming meeting on December 16. I want to assure you that I understand the concerns that prompted your constituents to write and will bear them in mind at our next meeting.

Sincerely,

S/Paul A. Volcker

NB:pjt (#V-343)
bcc: Mr. Bernard
Mrs. Mallardi (2)

CHARLES McC. MATHIAS, JR.
MARYLAND

REPLY TO:
358 Russell Senate Office Building
Washington, D.C. 20510

United States Senate

WASHINGTON, D.C. 20510

November 17, 1981

#343

1981 NOV 20 PM 1:40

Honorable Paul A. Volcker
Chairman - Depository Institutions
Deregulations Committee
20th and Constitution Avenue
Washington, D.C. 20551

Dear Chairman Volcker:

I am writing to bring to your attention several letters from constituents regarding the Depository Institutions Deregulation Committee's final rules on four-week money market certificates and IRA/KEOGH Accounts.

I would appreciate consideration of the concerns raised in these letters before the rules are implemented.

Thank you for your attention to this matter.

With best wishes,

Sincerely,

Cm

Charles McC. Mathias, Jr.
United States Senator

CM:rdc
Enclosure

BASS & DENICK, P.A.
ATTORNEYS AT LAW
916 MUNSEY BUILDING
BALTIMORE, MARYLAND 21202

LEONARD BASS
THEODORE C. DENICK
STUART L. SAGAL

HOWARD CASSIN
LARRY CAPLAN

MULBERRY 5-7400

November 10, 1981

Senator Charles M. C. Mathias, Jr.
358 Russell Senate Office Building
Washington, D.C. 20510

RE: DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

Dear Senator Mathias:

The writer has been a practicing attorney intimately involved in Savings and Loan Association activities in the Metropolitan Baltimore Area for approximately thirty (30) years. During this period of time, I have had an opportunity to see people of modest means acquire ownership of real estate, which resulted in the upgrading of neighborhoods and pride of ownership. This was accomplished, to a major extent, by the cooperation of Savings and Loans in our area, who almost exclusively advanced the necessary mortgage money for such purposes. As a result of the depository institutions deregulation laws, I am fearful that these people will not be able to retain their homes, sell the same to people of similar means and that those people of modest means cannot afford to acquire real estate. The deregulation of interest rates has had the effect of driving Savings and Loan Associations out of business, forcing mergers, raising interest rates charged on loans, in order to pay savers, such rates that it is making it economically impossible for people to acquire new homes.

I, therefore, strongly urge that action be taken to prevent implementation of the September 1981 action of the DIDC Rules which will increase passbook rates, IRA Accounts and Four Week Money Market Certificates.

I seek to avoid further escalation of interest rates that must come from the proposed three and half year no interest ceiling certificates due to start in February 1982 and other action that the Deregulation Committee has proposed.

It is sincerely felt that the Deregulation Committee is working against the best interest of the present administration in an attempt to lower interest rates and to start our economy moving upward.

I strongly urge you to lend your good offices to opposing depository institutions deregulations at this time.

Respectfully yours,

THEODORE C. DENICK

TCD/sa

Jefferson Federal Savings
& Loan Association
1680 K STREET, N W
WASHINGTON, D. C. 20006
PHONE 833-3950

LUCIAN H. VANDOREN
PRESIDENT
AND
CHIEF EXECUTIVE OFFICER

November 5, 1981

The Honorable Charles McC. Mathias
United States Senate
Washington, D. C. 20510

My dear Senator Mathias:

The purpose of this letter is to urge you to demand that the Depository Institutions Deregulation Committee (DIDC) postpone implementing its final rules pertaining to its September 22, 1981, actions, including the Four-Week Money Market Certificate averaging option and the "Wild-Card", 18 month IRA/KEOGH Accounts beginning December 1, 1981. Treasury Secretary Regan, Chairman of the DIDC Committee, recently changed his mind concerning another action which would have increased the passbook ceiling rate which financial institutions are permitted to pay.

Further, I urge you to demand that the DIDC suspend consideration of proposed actions, including a new 3½ year, no ceiling, certificate starting February, 1982; lowering the Jumbo (certificates of $100,000 or more) minimum to $25,000 (with a one day notice of withdrawal); the creation of two new accounts: A 91 day account with a $10,000 minimum and a ceiling based on 13 week T-Bills, and a transaction with a $5,000 minimum balance with no rate ceiling.

It is my opinion that all of the pending actions are totally irresponsible at this time and would be extremely costly to the thrift industry, particularly, which is and has been for some time fighting for survival resulting from the general state of the Nation's economy and exceedingly high interest rates over which our industry has absolutely no control.

I would also like to impress upon you that it is absolutely essential that Congress review the performance of the DIDC in order to assess the impact it is having on the financial community and the economy and to develop corrective action. Included in this review should be a reconsideration of the membership of the Committee which is overwhelmingly representative of commercial banks vis-a-vis savings and loans.

Thank you for your support in these all important matters.

Very truly yours,

President and
Chief Executive Officer

LHV/psp

BALTIMORE COUNTY SAVINGS
& LOAN ASSOCIATION

4208 EBENEZER ROAD, BALTIMORE, MARYLAND 21236
(301) 256-1300

October 27, 1981

Senator Charles McC. Mathias, Jr.
358 Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Mathias:

I urge you to demand that the Depository Institutions Deregulation Committee (DIDC) postpone implementing its final rules on Money Market Certificate ceilings and the IRA/Keogh wild-card account and suspend consideration of the proposals issued for comment. This will provide the needed time for Congress to review the DIDC's performance, to assess the impact it is having on the financial community and the economy and to develop corrective legislation.

Very truly yours,

Michael J. Dietz
Executive Vice-President

MJD:dme

bc

Additional Offices

BCS BALTIMORE COUNTY SAVINGS

BEL AIR
Bel Air Plaza
Bel Air, Md 21014
301/836-7100

DUNDALK
1736 Merritt Blvd.
Dundalk, Md. 21222
30[illegible]-4700

TOWSON
6358 York Road
Baltimore, Md. 21212
301/532-9660

TIMONIUM
216[illegible] York Road
[illegible] 21093
[illegible]

SEVERNA PARK
537 Ritchie Highway
Severna Park, Md. 21146
301/[illegible]-3200

Citizens Savings and Loan Association, Inc.

CONVENIENT MARYLAND LOCATIONS

FRANK L. HEWITT, JR.
CHAIRMAN OF THE BOARD
PRESIDENT

1981 OCT

MAIN OFFICE
8485 FENTON ST., SILVER SPRING 20907
565-8909

October 27, 1981

Senator Charles McC. Mathias, Jr.
United States Senate
358 Russell Office Building
Washington, D. C. 20510

Re: DIDC Regulations
and Proposals

Dear Senator Mathias:

We strongly urge you (1) to demand that the DIDC postpone implementing its final rules on Money Market Certificate ceilings and the IRA/Keogh wild-card account, and (2) to suspend consideration of that Committee's proposed additional regulations.

These steps are necessary in order to provide needed time for Congress to review the DIDC's overall performance, to assess the impact it is having on the financial community and economy, and to develop corrective legislation.

Sincerely yours,

FLHewitt

Frank L. Hewitt, Jr.
Chairman and President

BRADFORD FEDERAL
SAVINGS AND LOAN ASSOCIATION
MAIN OFFICE
6900 YORK ROAD
BALTIMORE, MD 21212
TELEPHONE (301) 377 9600

GENE D KLAUSING
President

October 29, 1981

Senator Charles M. Mathias, Jr.
358 Russell Building
Washington, D.C. 20510

Dear Senator Mathias:

We are urgently asking your support to put some immediate restraint on the Depository Institutions Deregulation Committee. Our business will suffer substantial harm if the DIDC does not postpone or cancel implementing the four-week Money Market Certificate averaging option and the "wild-card" 18-month IRA/Keogh accounts which are to begin December 1, 1981.

Further damage will also occur if the proposed new 3-1/2 year no-ceiling certificate scheduled to start February 1982, the lowering of the minimum on jumbo accounts to $25,000.00, the creation of a 91-day account with a minimum of $10,000.00 and a ceiling based on 13-week T-bills, and a transaction account with a $5,000.00 minimum balance and no rate ceiling are not rescinded.

Our country desperately needs help in the housing, automobile, and steel industries. Thrift institutions have always been the greatest provider of mortgage money and we cannot continue to do this if the DIDC's actions continue to increase the cost of our money.

Yours truly,

BRADFORD FEDERAL SAVINGS AND LOAN ASSOCIATION

Gene D. Klausing
Gene D. Klausing
President

GDK/js

FAYETTE STREET OFFICE: 2600 BLOCK E. FAYETTE STREET, COR. LUZERNE BALTIMORE, MD. 21224
JACKSONVILLE OFFICE: 14301 JARRETTSVILLE PIKE PHOENIX, MD. 21131
HOWARD COUNTY OFFICE: 10100 BALTIMORE NATIONAL PIKE AT BETHANY LANE ELLICOTT CITY, MD. 21043

AUGUSTA
SAVINGS AND LOAN ASSOCIATION

October 28, 1981

The Honorable Charles McC. Mathias, Jr.
The United States Senate
Senate Office Building
Washington, D.C. 20510

Dear Senator Mathias:

I would like to introduce myself, Thomas F. Costantini, Executive Vice President of Augusta Savings and Loan Association, with headquarters in Baltimore and eight other offices through-out Maryland. I am deeply concerned over the recent actions of the Depository Institutions Deregulation Committee, relative to the Savings and Loan Industry.

As a representative for the citizens of Maryland, I appeal to you to make every effort to postpone the pending actions of this Committee, in order to provide the needed time for Congress to evaluate the Depository Institutions Deregulation Committee's performance, and to assess the impact it is having on the financial community, as well as, the economy in general and to develop corrective legislation.

Those actions which concern me and the Industry include the four-week Money Market Certificate averaging option, and the "wild-card" 18-month IRA/Keogh accounts beginning December 1st.

In an effort to avoid further damaging actions by the Depository Institutions Deregulation Committee, we ask you to turn back their efforts for a new 3-1/2 year no-ceiling certificate beginning next February, the lowering of the jumbo minimum to $25,000, as well as, the creation of two new accounts - a 91-day account with a $10,000 minimum and a ceiling based on 13-week Treasury Bills, and a transaction account with a $5,000 minimum balance and no rate ceiling.

The Committee has already done substantial harm to the business by removing the 12 percent cap on the 2-1/2 year certificates which are now yielding in the neighborhood of 16 to 18 percent. The Committee has acted and is continuing to act in an irresponsible manner, and if allowed by Congress to continue these actions, they will further deteriorate the housing industry in this country.

I would greatly appreciate your consideration of this matter and

PRINCIPAL OFFICE: 420 N. HOWARD ST./P.O. BOX 1256/BALTIMORE, MD. 21203/PHONE (301)244-0500
DUNDALK OFFICE: 9 CENTER PLACE/288-2372
ANNAPOLIS OFFICE: 217 MAIN ST./263-4343
GOLDEN RING MALL OFFICE: 6400 ROSSVILLE BLVD./574-6160
HAVRE DE GRACE OFFICE: 301 ST. JOHN STREET/939-3131
SALISBURY OFFICE: RT. 50 & TILGHMAN RD./742-1534
WESTMINSTER OFFICE: WESTMINSTER SHOP. CTR./848-3700

trust that consideration will prompt you to assist in curbing the Committee's activity.

Thank you.

Respectively yours,

Thomas F. Costantini

Thomas F. Costantini
Executive Vice President

TFC:jlk

Mrs. Malladi
(V-315)

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

December 3, 1981

PAUL A. VOLCKER
CHAIRMAN

The Honorable J. William Stanton
House of Representatives
Washington, D.C. 20515

Dear Bill:

Thanks for your letter about possible ways of streamlining the bank merger and holding company application process; this is an area where you and I have similar views and objectives.

As you know, as part of the current application process, the Federal Reserve is required to take into consideration both current and potential competitive effects. Recent court decisions have held that if the Federal Reserve is to deny an application on the basis of potential competition such a decision would have to be based on much more extensive information than we now require applicants to submit. In part, to avoid this potential increase in the demands on applicants we are now exploring the possibility of putting out general guidelines for evaluating potential competition. An applicant who met these guidelines could presume that, in the ordinary course of events, potential competition would not weigh against approval. In the likely few cases where the guidelines were not met a much more thorough analysis would be required.

I am also interested in exploring the possibility of using the guideline approach for analyses of existing competition. In all cases, the Board would, of course, continue to do a detailed analysis of the financial and safety and soundness considerations involved in an application.

I believe this approach would have the possibility of significantly reducing the burden on applying banks and of shortening the time involved in the application process. At any rate, it is something we are working on right now and I hope to have a proposal to put out for comment soon. At this point I don't believe any legislative action is required on this particular issue, but I will keep you informed about our progress.

I can appreciate the frustrations expressed in Mr. McCoy's letter, but I am pleased to say that at least in this case the Federal Reserve was not the reason for the delay. Just over two

The Honorable J. William Stanton
Page Two

months elapsed from the time we received the Banc One application to its approval. That doesn't mean we haven't taken far too long to process applications in other cases and a streamlined process for the competitive factors aspect of applications is only one way in which we are trying to make improvements.

Sincerely,

S/ Paul

DS:pjt (#V-315)
bcc: Mr. Kline
Mr. Ryan
Mrs. Mallardi (2)

Action assigned Mr. Ryan

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

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

October 22, 1981

#315

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

Dear Chairman Volcker:

I read with great interest your statement before the ABA convention in San Francisco. When you read the enclosed letter from John McCoy of Bank One Corporation, you will see that I was particularly interested in your comment that "the Federal Reserve (is) now exploring whether more can be done to reduce the time-consuming process of approving mergers, take-overs or new activities for banks and bank holding companies."

I realize that there are legitimate concerns on the part of all of the regulators of depository institutions with respect to the application process for acquisition, mergers or new activities, but it seems to me that waiting for a final approval notice from a regulator for more than one year is unnecessary. It seems to me that much can be done to streamline this regulatory process and act on such applications in a more timely fashion. I was heartened to learn that the Federal Reserve has begun to review its own procedures, and I would be interested to hear more about your thoughts on this subject to determine what, if any, legislative response is required in these matters. I hope we can explore this further when the Banking Committee begins its comprehensive hearings later this fall.

Thank you for taking the time to consider Mr. McCoy's concerns. I'll look forward to hearing from you.

Sincerely,

Bill -

J. William Stanton

JWS/gwm

Enclosures

SEP ~ 1 1981

John G. McCoy
Vice Chairman

BANC ONE CORPORATION
Post Office Box 16654
Columbus, Ohio 43216
614 463-5901

September 17, 1981

Honorable J. William Stanton
Congress of the United States
House of Representatives
2466 Rayburn Building
Washington, D. C. 20515

Dear Bill:

It certainly was nice talking to you on the 'phone yesterday and I appreciated not only your interest but the time spent and the opportunity to say hello to you once again.

One of the very costly things that occurs in the banking industry is the amount of time and effort in filing an application for either an affiliation or merger with the agencies. For example, from the time we made the deal with the Directors of Lake National Bank until it was finally consummated and they became a part of the Corporation, thirteen months elapsed and we had filed one hundred and thirty-eight pounds of documents with various government agencies. This should be compared with the DuPont acquisition of Conoco which was of much greater size and significance and it was completed in six weeks because non-bank businesses such as DuPont are not required to obtain prior regulatory approval.

Concern for safety and soundness may warrant the position of some limitation on risk-taking by banks and bank holding companies. However, the regulatory people know which banks that would apply to and it is my belief that acquisitions by banks and bank holding companies should not be subject to prior approval requirements which are not imposed on other businesses.

It should be noted that even after prior approval were eliminated a bank or bank holding company acquisition would, as in the case of DuPont-Conoco, continue to be subject to review and challenge under the anti-trust laws of the Justice Department.

Bill, I certainly will appreciate any thoughts you could interpose on this matter as it seems to me an unbelievable penalty imposed on our industry as opposed to others.

Sincerely,

John G

Vice Chairman

JGMc:bj

December 3, 1981

The Honorable Edward Madigan
House of Representatives
Washington, D. C. 20515

Dear Mr. Madigan:

Thank you for your letter concerning deregulatory actions by the Depository Institutions Deregulation Committee (DIDC). I appreciate having your views on the pace of deregulation, and I want to assure you that the safety and soundness of depository institutions is a foremost consideration in my decisions on DIDC matters. Our next meeting is scheduled for December 16, and I will undertake to inform you of the outcome of the meeting.

Sincerely,

S/Paul A. Volcker

NB:vcd (V-348)

bcc: Mr. Bernard
Mrs. Mallardi (2)

TICKLER: SEND PRESS RELEASE AFTER 12/16 MTG.

December 3, 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 December 1 inviting the Board to appear before your Subcommittee at hearings on House Joint Resolution 365.

Vice Chairman Frederick H. Schultz is looking forward to appearing on Wednesday, December 9, at 2:00 p.m.

Sincerely,

S/ Paul

CO:vcd (#V-349)

bcc: Vice Chairman Schultz (with incoming)
Mr. Axilrod (with incoming)
Mr. Bernard
Mrs. Mallardi (2)

V.C. Schultz will testify; Axilrod in charge of statement

WALTER E. FAUNTROY, D.C., CHAIRMAN

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

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

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

U.S. HOUSE OF REPRESENTATIVES

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

December 1, 1981 #349

1981 DEC -3 AM 9:24

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

Dear Paul:

On December 9, 1981, the Subcommittee on Domestic Monetary Policy will hold hearings on House Joint Resolution 365. This Resolution resolves that the Administration should reconsider its economic policies, that the Administration and the Board of Governors of the Federal Reserve System should take steps to discourage lending for speculative and unproductive activities such as corporate acquisitions, that the Board of Governors of the Federal Reserve System should reconsider its tentative decision in July 1981 to lower its targets for growth of the monetary aggregates in 1981 and that the President should abide by Section 10 of the Federal Reserve Act in making future appointments to the Board of Governors of the Federal Reserve System.

Since the Board of Governors of the Federal Reserve System obviously has an interest in this Resolution, I would like to ask you to testify on H.J. Res. 365 at the Subcommittee's hearings on December 9, 1981 at 2:00 p.m. in Room 2222 of the Rayburn House Office Building. 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 E. Fauntroy

Walter E. Fauntroy
Chairman

December 1, 1981

The Honorable Paul Simon
Chairman
Subcommittee on Postsecondary
Education
Committee on Education and Labor
House of Representatives
Washington, D.C. 20515

Dear Chairman Simon:

It was very helpful to receive your views on the 1981 amendments to the Higher Education Act relating to origination fees charged in federally insured and guaranteed student loans. I was disturbed to learn of the problems and confusion that this issue was causing. We have revised the Regulation Z official staff commentary in a way that we believe more closely reflects the congressional intent and will avoid any disruption to the student loan program. A copy of the Federal Register notice which reflects the change is enclosed.

Sincerely,

S/Paul A. Volcker

Enclosure (p.r. dtd. 11/27/81)
CJY:DS:pjt (#V-331, V-338 & V-328)
bcc: Ms. Yarus
Mrs. Mallardi (2) ✓

(Identical ltrs. sent to: Ranking Minority Member E. Thomas Coleman, Sub. on Postsecondary Education; Cong. Weaver, AuCoin, Wyden, Denny Smith, Sens. Hatfield and Packwood; and Chrmn. Stafford & Ranking Minority Member Pell of Sub. on Education Arts & Humanities of House Comm. on Labor and Human Resources)

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

#338

November 16, 1981

1981 NOV 18 PM 2:41

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

Dear Chairman Volcker:

As members of Oregon's Congressional delegation, we are extremely concerned over recent language appearing as part of the Federal Reserve System's Staff Commentary on the Truth in Lending statute as it relates to loan origination fees for the Guaranteed Student Loan and Federally Insured Student Loan programs.

In Oregon alone, this language has delayed the disbursement of financial aid checks for over 4,000 students of higher education. Unable to find adequate alternative financing, thousands are being forced to suspend their education.

As has been previously pointed out in letters to you from the Chairman and ranking minority member of the House Subcommittee on Postsecondary Education, as well as from the Chairman and ranking minority member of the Senate Subcommittee on Education, Arts and Humanities, Section 438 (c) (4) of the Higher Education Act of 1981 provides for a blanket waiver of the Truth in Lending statute as it relates to loan origination fees prior to August 1, 1982. We believe the Federal Reserve System's Staff Commentary on Regulation Z, which appeared in the October 9, 1981 Federal Register, page 50327, conflicts with the clear intent of Congress in this regard.

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

We understand that the FRS Board of Governors has set a meeting for this Thursday, November 19th, to resolve this conflict. We respectfully urge you to concur with the intent of the legislation as passed by Congress and signed by the President, and modify the Staff Commentary on Regulation Z as it pertains to the Guaranteed Student Loan and the Federally Insured Student Loan programs.

We appreciate your cooperation in this important matter.

Sincerely,

Jim Weaver
JIM WEAVER, Member of Congress

MARK O. HATFIELD, U.S. Senator

Bob Packwood
BOB PACKWOOD, U.S. Senator

LES AUCOIN, Member of Congress

RON WYDEN, Member of Congress

Denny Smith
DENNY SMITH, Member of Congress

Action assigned Janet Hart; info copy to Governor Teeters

ORRIN G. HATCH, UTAH, CHAIRMAN

ROBERT T. STAFFORD, VT.
DAN QUAYLE, IND.
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GEORGE W. PRITTS, JR., CHIEF COUNSEL
RENN M. PATCH, STAFF DIRECTOR AND GENERAL COUNSEL
LAWRENCE C. HOROWITZ, M.D., MINORITY STAFF DIRECTOR

United States Senate

COMMITTEE ON LABOR AND
HUMAN RESOURCES
WASHINGTON, D.C. 20510

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
1981 NOV 12 PM 12: 34
OFFICE OF THE CHAIRMAN

November 10, 1981

#328

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

Dear Chairman Volcker:

We are writing to reiterate the clear intent of Congress in the enactment of Section 536 of the Omnibus Budget Reconciliation Act of 1981, PL 97-35, relating to origination fees for Federally Insured Student Loans. Section 536 of PL 97-35 amended Section 438 of the Higher Education Act of 1965, which provides for special allowance payments by the Federal government to lenders participating in the program.

Under this provision of PL 97-35, Section 438 (c) (4) of the Higher Education Act now provides that, in charging borrowers an origination fee:

> the lender shall disclose to the borrower the amount and method of calculating the origination fee. For any loan for which the lender is authorized to charge an origination fee and which is made prior to August 1, 1982 -
>
> > (A) this disclosure need not meet the requirements the Truth in Lending Act (15 U.S.C. 1601 et seq.) or the disclosure requirements of any State law;

Thus, as conferees on PL 97-35, and as the Chairman and ranking Minority Member of the Subcommittee with jurisdiction over the Federally Insured Student Loan program, it was our intent to provide for a blanket waiver of the Truth in Lending statute prior to August 1, 1982. This was necessary as the imposition of the origination fee was to take effect ten days after the enactment of PL 97-35, and lenders had already begun to process loans for the 1981-82 academic year. If this statute had not been waived, the loan process would have been subject to severe delay, and millions of students would have been unable to finance their higher education through this program.

On October 9, 1981, there appeared in the Federal Register on page 50327, as part of the Official Staff Commentary of the Federal Reserve System on Regulation Z, language which would appear to conflict with the clear intent of Congress respecting origination fee disclosure. Commentary 17 (i) (4), by providing for the deduction and disclosure of the origination fee as a prepaid finance charge, allows for only a partial waiver of Truth in Lending and is therefore contrary to Section 438 (c) (4) as cited above.

We hope that you will reevaluate and modify the Staff Commentary on Regulation Z as it pertains to the Federally Insured Student Loan program in light of this clarification of Section 438 (c) (4) and Congressional intent in its enactment. We appreciate your cooperation in this matter, and look forward to your response.

Sincerely,

Claiborne Pell
Ranking Minority Member
Subcommittee on Education
Arts and Humanities

Robert T. Stafford
Chairman
Subcommittee on Education
Arts and Humanities

Action assigned Janet Hart; info copy to Gov. Teeters

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
COMMITTEE ON EDUCATION AND LABOR
SUBCOMMITTEE ON POSTSECONDARY EDUCATION
320 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515

November 12, 1981

#331

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

Dear Chairman Volcker:

We are writing to reiterate the clear intent of Congress in the enactment of Section 536 of the Omnibus Budget Reconciliation Act of 1981, P.L. 97-35, relating to origination fees for the Guaranteed Student Loans and Federally Insured Student Loans. Section 536 of P.L. 97-35 amended Section 438 of the Higher Education Act of 1965, which provides for special allowance payments by the Federal government to lenders participating in the program.

Under this provision of P.L. 97-35, Section 438 (c) (4) of the Higher Education Act now provides that, in charging borrowers an origination fee:

> the lender shall disclose to the borrower the amount and method of calculating the origination fee. For any loan for which the lender is authorized to charge an origination fee and which is made prior to August 1, 1982 -
>
> (A) this disclosure need not meet the requirements of the Truth in Lending Act (15 U.S.C. 1601 et seq.) or the disclosure requirements of any State law;

Thus, as conferees on P.L. 97-35, and as Chairman and ranking Minority Member of the Subcommittee with jurisdiction over the Guaranteed Student Loan and the Federally Insured Student Loan programs, it was our intent to provide for a blanket waiver of the Truth in Lending statute as it relates to loan origination fees prior to August 1, 1982. This was necessary as the imposition of the origination fee was to take effect ten days after the enactment of P.L. 97-35, and lenders had already begun to process loans for the 1981-82 academic year. If this statute had not been waived, the loan process would have been subject to severe delay, and millions of students would have been unable to finance their higher education through this program.

Honorable Paul Volcker
Page 2
November 12, 1981

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We hope that you will reevaluate and modify the Staff Commentary on Regulation Z as it pertains to the Guaranteed Student Loan and the Federally Insured Student Loan programs in light of this clarification of Section 438 (c) (4) and Congressional intent in its enactment. We appreciate your cooperation in this matter.

Sincerely,

Paul Simon

PAUL SIMON
Chairman
Subcommittee on Postsecondary Education

Tom Coleman

E. THOMAS COLEMAN
Ranking Minority Member
Subcommittee on Postsecondary Education

Mrs. Mallardi
(V-314)

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

December 1, 1981

PAUL A. VOLCKER
CHAIRMAN

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

Dear Carroll:

Thank you for bringing to my attention the letter from your constituents, Messrs. Anderson, Buchanan, Dawson, and Stacy, who suggest that you introduce legislation to re-implement rate controls on depository institutions.

I can easily appreciate the concerns you and they have about the impact of high interest rates on the economy--and on the housing and auto industries, particularly. My colleagues and I indeed share those concerns. As you know, we are attempting to restrain inflationary pressures and thus lay the groundwork for a sustained decline in interest rates by limiting the growth of money and credit. In the current institutional framework, such restraint on money and credit has been reflected in considerable upward pressure on interest rates. As your constituents suggest, in an earlier era when Regulation Q ceilings and other "market imperfections" were more significant, monetary restraint typically resulted in part in rising interest rates but also in credit-availability problems owing, for example, to disintermediation. In effect, a given degree of restriction on inflationary forces in the economy could--all other things equal--be achieved with a smaller rise in interest rates albeit with some sectors being rationed out of the credit markets.

Like your constituents, I have sometimes wondered whether the changes in process relying almost entirely on interest rates to control credit expansion is that much of an improvement. It must be recalled that past periods of disintermediation were marked by credit crunches that wreaked considerable havoc; these were, not coincidentally, periods of sharp deterioration in housing. In fact, in large measure, it was concerns for the disintermediation sectors which led to change.

Furthermore, it is not clear, as your constituents' letter suggests, that non-price rationing of credit ensures a faster return of the economy to conditions permitting lower interest rates; that interest rates have been high for a considerable period of time may not be due to the lack of credit-availability problems but rather to the fact that inflationary expectations have become so deeply embedded and have made it difficult to bring about the necessary adjustment of expectations and behavior. I cannot help but note that the prospects for federal fiscal policy are one element in this expectational problem; it is evident that many people, quite clearly--including investors in long-term bonds--are concerned about the possibility that the government will continue to place large demands on the nation's savings and credit markets in the years ahead.

At this juncture, I don't think it is realistic to attempt to turn back the clock and restore the financial markets to their past structure. Given the developments of recent years, including the growing importance of non-depository institutions and foreign credit sources, an effort in that direction might prove quite ineffective. But, in any event, the fundamental problem of turning the tide against inflation would still exist and, in addressing that problem, a certain degree of economic distress is unavoidable. I think we are beginning to make progress, and if we apply the tools at our disposal steadfastly, we can look forward to a healthier environment for all sectors of industry.

I hope these comments will prove useful to you. Please don't hesitate to contact me again if you'd like to pursue these matters further.

Sincerely,

S/ Paul

MJP: JLK: DS: pjt (V-314

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

Action assigned Mr. Kichline

CARROLL HUBBARD
CONGRESSMAN
1ST DISTRICT, KENTUCKY

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

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

AT LARGE MAJORITY WHIP

COMMITTEES:
BANKING, FINANCE AND URBAN AFFAIRS

MERCHANT MARINE AND FISHERIES

CHAIRMAN, SUBCOMMITTEE ON PANAMA CANAL/OUTER CONTINENTAL SHELF

October 23, 1981

#314

Hon. Paul Volcker, Chairman
Board of Governors
The Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

Dear Paul:

I am writing on behalf of my constituents, Mike Anderson, Wally Buchanan, Randell Dawson and Roger Stacy of Paducah, Kentucky, regarding their extreme concern about today's high inflation and interest rates.

Enclosed is a copy of their October 10 letter to me for your consideration. During my recent meeting with these individuals, and many others, we discussed at length the need for immediate action regarding interest rates in order to help the housing and automotive industries, which are in severe danger of collapse. Indeed, as you may remember, these are the same issues that we discussed during our meeting in September, Paul.

Your consideration of their concerns, as well as mine, will be greatly appreciated.

With best wishes for you, I am

Sincerely yours,

Carroll Hubbard

Carroll Hubbard
Member of Congress

1981 OCT 27 AM 10:09

CH/mms

Enclosure

HOME BUILDERS ASSOCIATION
of Western Kentucky

PHONE 443-4611
Room 14A Guthrie Bldg. - 517 Broadway
Paducah, Kentucky 42001

October 10, 1981

COPY

Congressman Hubbard:

In light of the catostrophic effects of high interest rates on the overall economy, especially the small entrepreneur and specifically the housing industry; we as a group ask that you introduce (as a ranking member of the House Banking Committee) legislation to reimplement rate controls on financial institutions.

The justification for this request lies in the facts that:

1. The financial community has operated profitably and with a great degree of interest rate stability with rate controls up until June of 1978, with the advent of the Money Market Certificate.

2. For housing (an American's dream and priviledge) can only survive with the continuation of the Fixed Rate Mortgage Loan. In todays environment and with deregulation, this mainstay of financing for housing will become an extinct item.

3. Volatility in interest rates will always exist in the capital markets because of the Federal Covernment's direct involvement. Although this administration is committed to budgetary restraint, Reagonomics will not persist in the eventual change to a different, possibly liberal administration. With deregulation and no rate

COPY

controls the private sector will continue to compete with the government regardless of the effects of the high interest rate spiral.

4. Disintermediation is the transfer of funds from financial institutions to other more lucrative investments. This phenomenon occurred periodically in the past because of the inability of financial institutions to pay market rates. The truth is the small businessman, homebuilder, realtor, financial institution, etc., can survive an historically short period of no funds (6 months to 1 year) but cannot stand three (3) years of exorbitantly high interest rates.

Acknowledging the fact that inflation must be brought to a halt, but also appreciating that the elimination of the small, non-corporate entity poses an even worse dilemma, the monopolization of the market place by large corporations.

To allow the industrious little man to prosper and still achieve the american dream of home ownership we implore you to investigate, plan and strive for the introduction, passage and implementation of rate controls on Depository Institutions in this country.

Awaiting your reply and willing to discuss this issue with you.

Wally [illegible]
President
Paducah Board of Realtors

[illegible] Dawson
S.O.S.

Roger Stan, auto dealer

Yours truly,

Mike Anderson

Mike Anderson
President
Home Builders Association
of Western Kentucky

115 Chriswell Cir.
Paducah, Ky. 42001
(502)554-5238

Mrs. Mallardi
(V-322)

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

December 1, 1981

PAUL A. VOLCKER
CHAIRMAN

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

Dear Mr. Whitehurst:

Thank you for your letter enclosing and asking for a reaction to the views of Mr. Frank N. Wood, President of the Chesapeake Savings and Loan Association, concerning recent actions and proposals of the Depository Institutions Deregulation Committee. I want to assure you that I understand and share some of the concerns which prompted him to write to you. The DIDC has been assigned a very difficult task by the Congress: how to remove interest rate ceilings in order to provide a greater return to savers while at the same time not placing so great a burden on depository institutions that it would threaten their viability.

The first of Mr. Wood's concerns is the cost impact of the new rule which permits the use of a four-week average of auction results on 26-week Treasury bills in calculating the maximum interest rates payable on Money Market Certificates (MMCs). Previously, the MMC rate was based on the auction result for the latest weekly auction only. The new rule does raise ceiling rates on MMCs--and hence costs to depository institutions--when Treasury bill rates are in a declining trend. The DIDC felt that the new rule, which went into effect last month, will enable depository institutions to be more competitive with money market mutual funds throughout an interest rate cycle, especially during a period of declining short-term interest rates when money market funds traditionally have been able to pay relatively higher rates.

Mr. Wood also expressed concern about the cost implications of the new IRA/Keogh account which depository institutions may begin to offer on December 1, 1981. This newly created account has a minimum maturity of 1-1/2 years and no regulated interest rate ceiling. In establishing the account, the DIDC cited three basic objectives. The first was to reduce the complexities associated with the administration of IRA/Keogh accounts under existing agency regulations. That objective was met mainly by permitting additional deposits to an account without the requirement of an extension in maturity. The second objective was to help fulfill the Congressional intent of the Employee Retirement Income Security Act of 1974 (ERISA) to encourage qualified individuals to save for their retirement. As you know, a provision of the Economic Recovery Act of 1981 has greatly expanded the eligibility and contribution limits for IRA and Keogh accounts. The third objective was to proceed with the Committee's mandate to provide for the orderly phaseout and ultimate elimination of deposit ceilings. The passage of the Economic Recovery Act has enlarged the potential pool of IRA/Keogh funds. As you know, IRA/Keogh plans may be offered by a variety of institutions, including brokerage houses and insurance companies, and it is important that depository institutions have full competitive access to such funds.

In his letter Mr. Wood also referred to a number of proposals for new deposit instruments which the DIDC will consider at its next meeting on December 16. These include proposals for short-term time deposit instruments which would permit Federally insured depository institutions to compete more effectively for short-term deposits, especially with money market mutual funds. The DIDC must, of course, weigh such a competitive benefit against the possibility that a new short-term instrument could also result in substantial shifting of deposit funds from low-interest deposit accounts and thereby increase the costs of depository institutions.

As I said earlier, the issues the DIDC has to resolve are inherently difficult and contentious; ultimately all of these questions come down to matters of judgment and I appreciate having the opportunity to comment on Mr. Wood's points. Please let me know if I can be of further assistance.

Sincerely,

S/Paul A. Volcker

NB:RS:vcd (V-322)

bcc: Normand Bernard
Mrs. Mallardi (2)

Action assigned Mr. Bern[illegible]

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:
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(202) 225-4215
JOHN P. MAGILL
ADMINISTRATIVE ASSISTANT

CONSTITUENT SERVICE OFFICES:
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VERENA C. WASSERMAN
OFFICE MANAGER

ROOM 601, PEMBROKE ONE
VIRGINIA BEACH, VIRGINIA 23462
(804) 490-2393
BLANCHE M. BOYLES
OFFICE MANAGER

#322

November 2, 1981

1981 NOV -3 AM 11:08

The Honorable Paul A. Volcker, Chairman
Depository Institutions Deregulation
Committee
20th and Constitution Avenue, NW
Room B-2120
Washington, D. C. 20551

Dear Chairman Volcker:

Attached is a copy of a letter which I have received from Mr. Frank N. Wood, President of the Chesapeake Savings and Loan Association, concerning actions taken by the DIDC. I would appreciate it if his comments could receive every consideration. A report from you would also be appreciated.

Thank you for your assistance.

Sincerely,

G William Whitehurst

G. WILLIAM WHITEHURST

GWW:RL
Attachment

Chesapeake Savings and Loan Association
Established 1895

MAIN OFFICE · BRAMBLETON AND GRANBY · NORFOLK, VIRGINIA 23510

October 29, 1981

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

Dear Bill:

I am writing to you protesting the decisions of the Depository Institutions Deregulation Committee (DIDC) which are having an adverse reaction on the Savings and Loan industry. The Committee is heavily weighted in favor of the commercial banks, and the Savings and Loans are left with only the Federal Home Loan Bank Board Chairman and at times the Federal Reserve Bank Board Chairman to lookout for our interest.

The majority of its decisions or proposals do nothing but increase the cost of obtaining and retaining funds. When the 12 percent cap on the 2½ Year Certificate was removed in August of this year the cost of these deposits moved to between 16½ and 17 percent instead of 13 percent.

Most of the Savings and Loans in the nation are operating in the red and with the proposals of the DIDC to increase the cost of funds even more, the future of our business is indeed bleak.

Proposals now pending before the Committee which will ever increase our cost will include: the 4-Week Money Market Certificate averaging option; the "Wild-Card" (no interest ceiling) 18-Month IRA/Keogh Accounts; the 3½ Year No Ceiling Certificate Account; lowering the Jumbo minimum from $100,000.00 to $25,000.00 with a 1 day notice for withdrawal; the creation of the new 91-Day Account with a $10,000.00 minimum and a ceiling based on 13-Week Treasury Bills; and a transaction account with a $5,000.00 minimum balance and no rate ceiling.

It is therefore advisable that some action be taken by Congress urging the DIDC to postpone implementing these final rules on Money Market Certificate ceilings and the IRA/Keogh "Wild-Card" accounts, and suspend the other proposals issued for comment. This will provide the needed time for Congress to review the DIDC's performance, to assess the impact it is having on the financial community and the economy, and to develope corrective legislation.

I would appreciate any assistance you could give our industry.

Sincerely,

Frank

Frank N. Wood
President

FEDERAL HOME LOAN BANK SYSTEM MEMBER
MEMBER FSLIC

FNW:lwp

November 30, 1981

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

Dear Senator Stennis:

I am happy to respond to your letter of November 17 enclosing correspondence from Mr. E. B. Robinson, Jr., President of Deposit Guaranty National Bank. Mr. Robinson expressed strong concern that the Depository Institutions Deregulation Committee might rescind its decision to authorize a new IRA/Keogh account. The Committee recently reaffirmed the decision authorizing depository institutions to offer the new account starting December 1, 1981.

Sincerely,

S/Paul A. Volcker

NB:RS:vcd (#V-342)

bcc: Normand Bernard
Mrs. Mallardi (2)

Action assigned Mr. Bernard

United States Senate

COMMITTEE ON ARMED SERVICES
WASHINGTON, D.C. 20510

November 17, 1981

#342

1981 NOV 19 AM 9:13

Honorable Paul A. Volcker, Chairman
Depository Institutions Deregulation Committee
20th and Constitution Avenue, Room B-2120
Washington, D. C. 20551

Dear Mr. Chairman:

I enclose herewith a letter which I have received from Mr. E. B. Robinson, Jr., President, Deposit Guaranty National Bank, Jackson, Mississippi, in which he expresses his opposition to a reversal by the Depository Institutions Deregulation Committee of its rule eliminating interest rate restrictions on the new 1½-year time deposit allowed for IRA/Keogh accounts.

I will appreciate your giving this letter your consideration and letting me hear from you with respect to it at your earliest convenience.

Sincerely,

John C. Stennis

John C. Stennis
United States Senator

JCS/kbc

Enclosure

One Deposit Guaranty Pla
Jackson, Mississippi 39205
Phone 601 354-8283
Telecopier 601 354-8408

E. B. Robinson, Jr.
President

DEPOSIT GUARANTY NATIONAL BANK

1981 NOV 17 AM 10:50
SENATOR JOHN C. STENNIS

November 13, 1981

Senator John C. Stennis
205 Russell Senate Office Building
Washington, D. C. 20510

Dear Senator Stennis:

We have learned that the Depository Institution Deregulatory Committee (DIDC) is considering reversing its rule eliminating interest rate restrictions on the new 1½ year time deposit allowed for IRA/KEOGH deposits. We are opposed to such a move.

We feel that the intent of the President's economic recovery program is to encourage savings in the private sector. This is apparent from Congress' enactment of the Economic Recovery Tax Act of 1981 which greatly expanded the eligibility for IRA/KEOGH accounts. The DIDC's action to create a new time deposit free of interest rate restrictions was the best possible method to accomplish that purpose.

It is also our opinion that the new IRA time deposit is a logical step in implementing the committee's legislative mandate "to provide for the orderly phase out and ultimate elimination of deposit rate ceilings." Banks face stiff competition for these funds from organizations that are not subject to such regulations, thus leaving the banking industry at a disadvantage in attracting these funds, which have been projected to be at least $80 billion dollars.

We urge you to continue your commitment to deregulation and solicit your help in proposing a definite schedule of deregulation consistent with the federal statute that is necessary for prudent planning purposes and operations.

Sincerely,

E. B. Robinson, Jr.

E. B. Robinson, Jr.
President

EBRjr/hn

Grow With Us

November 30, 1981

The Honorable Robin Beard
House of Representatives
Washington, D. C. 20515

Dear Mr. Beard:

Thank you for your recent letter calling for a further 1 percentage point reduction in the discount rate. As you know, in the last 60 days the surcharge rate levied on large, frequent borrowers has been, in a series of steps, reduced from 4 percentage points to zero, and early this month the basic discount rate was reduced from 14 to 13 percent. It has been our objective to keep the discount rate close to market interest rates and these reductions were consistent with declines in short-term rates of 5 to 6-1/2 percentage points and in long-term rates of 1-1/2 to 3 percentage points over the last two or three months.

I can assure you that the Board reviews the discount rate frequently in light of the general objectives of monetary policy and economic developments. If the economy continues to weaken, particularly in an environment of slowing inflation and weaker money and credit demands, the Board will give serious consideration to further changes in the discount rate.

I should note that the discount rate applies to borrowings by all eligible depository institutions--not just member banks--and is initiated by the Boards of Directors of the Federal Reserve Banks with approval by the Board of Governors.

Sincerely,

S/Paul A. Volcker

ECE:RS:vcd (V-339)

bcc: Mr. Ettin
Mrs. Mallardi (2)

ROBIN BEARD
6TH DISTRICT, TENNESSEE

WASHINGTON OFFICE:
229 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-2811

Action assigned Mr. Kichline

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

DISTRICT OFFICES:
6584 POPLAR
SUITE 400
MEMPHIS, TENNESSEE 38138
(901) 767-4652

22 PUBLIC SQUARE
COLUMBIA, TENNESSEE 38401
(615) 388-2133

November 16, 1981

#339

1981 NOV 18 PM 2:41

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

Dear Chairman Volcker:

I am calling upon you and the other members of the Open Market Committee to immediately lower the discount rates that the Federal Reserve is charging its member banks by at least a full percentage point.

I believe this action is justified and necessary since the money supply figures released last week showed that the FED is not meeting its own minimum growth targets for this year.

Your immediate consideration on this critical matter is most appreciated.

Sincerely,

Robin Beard, M. C.

RLB:rm

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

PAUL A. VOLCKER
CHAIRMAN

NOV 30 1981

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

Dear Mr. McCollum:

I am pleased to respond to your request for comment on H.R. 4826, the bill you recently introduced "to bring interest rates down." The bill would impose a legal ceiling on interest rates the U.S. Treasury would be able to pay on its debt and a higher but closely tied, nationwide ceiling on the interest rates that lenders would be able to charge on loans to private borrowers. More specifically, after a phase-in period, the Treasury, in issuing new debt, would be forbidden to pay a rate in excess of a basic "real" rate of interest of 4 percent and an additional percentage amount equal to the rate of inflation experienced over the preceding year. Interest rates on loans to private borrowers would not be allowed to exceed the rate permissible on Treasury securities by more than 6 percentage points.

While I believe any attempt to legislate interest rates cannot ultimately be successful, let me say that your bill takes a decidely more enlightened approach to setting ceilings on interest rates than is generally true of such proposals. In particular, by building in a mechanism to adjust the ceiling for inflationary conditions, your proposal takes into account the major role played by inflation in causing our current high interest rates and recognizes that lenders require compensation for the eroding effects that inflation has on the real value of fixed income assets. Moreover, the bill implicitly recognizes that positive real interest rates on loans are needed to encourage thrift and to see that the resources thus saved are allocated to efficient investment uses. Finally, the proposal would permit interest rates on loans with different borrowers to vary, thus giving lenders the opportunity to gain compensation for differences in default risk exposure.

Despite these features, however, I believe it would be unwise to adopt the bill. First, the proposed constraints could prove highly disruptive to the Treasury's ability to manage the nation's debt. Even given the broadly based demands for Treasury debt, the Treasury is not in a position to dictate to the market. Rather, as is true of other borrowers, it must be willing and able to pay interest rates on its debt that are high enough to attract funds in sufficient volume to meet its financing needs. To place a constraint on this capability would create the great risk that Treasury would find itself with insufficient funds to finance a current deficit and to refinance maturing debt. I see no advantage to placing the government's financial integrity in this type of jeopardy.

Second, with respect to the proposed usury ceiling on private lending rates, it seems to me that, even in times of extremely tight credit conditions, our economic and financial system will be better served if credit markets are able to respond freely to changing supply and demand conditions. Government regulation here as in other areas will tend to cause dislocations and distortions in the allocative role of the markets. Moreover, circumvention of the proposed ceilings by private lenders and borrowers would be a major potential problem. Financial markets are worldwide in scope. Thus, many of our more sophisticated lenders will be inclined to transfer funds to markets abroad if they are constrained from receiving a competitive rate at home. And, even within our borders, there would be the potential for some lenders and borrowers to reach agreements in which interest rates exceeded the legal ceilings. Considering the size and complexity of our financial markets, arrangements to hold down the extent of such circumvention could prove quite costly.

Third, if past experience serves as a guide, the legal ceilings would serve as effective constraints only infrequently and then for relatively short periods of time. For example, the proposed legal ceilings would have constrained rates this past summer but would not be effective now, given the sharp decline in interest rates that has occurred in recent months. Thus, one might well ask whether it makes sense to set up an elaborate legal framework--which must include arrangements to encourage compliance--that more than likely will have only infrequent applicability.

To sum up, I believe there are good and sound reasons to rely--even under exceptionally tight credit conditions--on competitive market forces to determine the levels of interest rates borrowers must pay and lenders may charge. Moreover, in addition to the inefficiencies inherent in interdicting the free play of such forces, imposing legal rate ceilings would create the potential for significant circumvention that would be quite costly to prevent.

Let me close by emphasizing that I fully share your concern about the effects that high interest rates are having on our economy today. As you so clearly recognize, inflation is the prime cause for these rate levels, and thus, for interest rates to return and then remain at more acceptable levels, inflation must be purged from our economy. As you know, to achieve this goal, the Federal Reserve is following a strong anti-inflation policy, one which is moderating growth in money and credit to a pace necessary to restrain inflationary pressures. Let me assure you that we intend to carry this policy to successful conclusion.

However, given the necessity for restrained monetary policy, it is of utmost importance that federal budget deficits be reduced. Heavy borrowing by the federal government tends to both crowd out private borrowers and to push up interest rates. Expectations of continued large deficit financing by the federal government, moreover, add to these pressures because they generate fears that the Treasury will persist in crowding out private borrowers over the future and because they reduce public confidence that inflation will be successfully brought under control. Thus, let me take this opportunity to urge you to support measures--whether on the outlay or tax side--to bring down federal budget deficits.

Thank you for giving me the opportunity to comment on your proposal.

Sincerely,

S/ Paul

ΣX
FS:JLK:DS:pjt (#V-325)
bcc: Mr. Struble
Mr. Kichline
Mrs. Mallardi (2)

Action assigned Mr. Kichline

BILL McCOLLUM
5TH DISTRICT, FLORIDA

COMMITTEE ON
BANKING, FINANCE AND
URBAN AFFAIRS

COMMITTEE ON
THE JUDICIARY

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

1313 LONGWORTH HOUSE OFFICE BUILDING
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(305) 830-6655
FROM LAKE COUNTY, TOLL FREE:
383-2323

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5800 U.S. HIGHWAY 19 NORTH
HOLIDAY, FLORIDA 33590
(813) 937-4231
FROM N. PASCO COUNTY, TOLL FREE:
845-0846

November 4, 1981

#325

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

Dear Mr. Chairman:

Recently I introduced a bill in the House of Representatives, H.R. 4826, as a measure designed to bring interest rates down and tie them in the future to the rate of inflation by limiting the interest (yield) which the federal government can pay on newly issued bills, notes and bonds and setting a national usury ceiling indexed to the rate of inflation. I believe H.R. 4826 contains a relatively novel concept which will complement the President's economic recovery plan by indirectly influencing rates of interest to come down sooner than they otherwise would and may provide the basis for assuring a lasting definitive relationship between the rate of inflation and interest rates.

I have enclosed a copy of my bill and my Congressional Record statement for your consideration and comments. Your attention is directed to Section Two of the bill which is the central part of H.R. 4826 and describes the details on the concept. After you have had time to review the bill, I would like to know your thoughts concerning the concepts embodied in the bill and how it might be improved if the basic concepts are worth pursuing.

Your consideration of this matter is greatly appreciated.

Sincerely,

Bill McCollum

BILL McCOLLUM
Member of Congress

BMcC/law

Enclosures

magic—called for an increase of 1.1 percent in real economic activity in the current calendar year, soaring to a 4.2 percent gain in 1982, followed by a 5 percent gain in 1983.

Such rose-colored expectations have not yet officially been discarded, but they can be junked. Yet Weidenbaum is still insisting that "the forces are already in motion to reverse current downward tendencies, even though several more months of poor economic statistics are a likely probability." Those "forces" are the first stage of the individual and business tax cuts, and a decline (from high peaks) in short- and long-term interest rates.

But don't make any bets that this prediction is any better than others the administration has made so far. The individual tax cut on Oct. 1 is of piddling dimension, and the business cuts—even though retroactive to Jan. 1, 1981—won't help the economy until next year. More significant, perhaps, is the new uncertainty over next year's tax cuts.

And as for interest rates, the administration originally far underestimated how high they would go and hence the dampening of real economic growth as well as the drain on the budget to service the national debt. Now, there has been a modest reduction from the peaks, but nothing yet to reduce the crunch on business expansion, or to ease the real depression in housing and cars.

Treasury Secretary Donald T. Regan, in a moment of candor last Friday, admitted that in the case of the administration's efforts to prevent disaster in the savings and loan industry "we actually don't know what's going on."

One wonders whether that can't be said of the administration's approach to other problems in the nation's economy. For example, President Reagan did not oppose the "All Savers" Certificate proposed by the savings industry as a bail-out for their sickness—although he had plenty of warning that it was bad legislation of dubious value to the S&Ls, and a positive additional bonanza for upper-bracket earners.

Now the administration is discovering that the Treasury will take a terrible bath through the tax-free status of the All Savers. Moreover, according to some private analysts, so much money has been shoveled into the All Savers that the economy has suffered directly: economists report that money that might have gone into down payments for cars was tucked instead into All-Savers.

It would be hard to exaggerate the extent to which the crucial error of Reagan's approach to economic problems lies in the horrible 1981 tax legislation. Nobel economics laureate James Tobin put it exactly the right way the other day when he said that the "disgraceful" bill "really made a shambles of the American tax system."

Congress and the president together, yielding to almost every greedy pressure, "gave up all pretense that this country [should] make any attempt to check the accumulation of dynastic wealth, or try to render things more equal in the next generation," Tobin said.

There is a certain immorality to the tax bill, as Tobin suggests. But let's put that question aside and deal for the moment only with the macro-economic effect: with a recession a certainty, the economic growth prospects that might have generated extra tax revenue are not in view. Therefore, it is time for reality to replace the supplysiders' mumbo-jumbo (call it voodoo economics, if you will), and aim policy toward a partial withdrawal of the tax cut. This in turn can encourage the Federal Reserve to ease up on its drastic monetary policy. ●

PARAQUAT BAN

HON. BILLY LEE EVANS

OF GEORGIA

IN THE HOUSE OF REPRESENTATIVES

Thursday, October 22, 1981

● Mr. EVANS of Georgia. Mr. Speaker, today I am pleased to join with my colleagues from the neighboring State of Florida, Mr. IRELAND, Mr. SHAW, and Mr. HUTTO, to introduce legislation which has already received overwhelming support from all members of the House Foreign Affairs Committee. This bill will allow the use of the herbicide, paraquat, in overseas marihuana eradication programs.

I look at this bill as the single most important legislation that we could enact this year to help stem the tide of drugs flowing into this country.

The controversy over paraquat stems from an amendment to the 1961 Foreign Assistance Act which prohibited U.S. financial assistance to any foreign country that was using a herbicide on marihuana that might be found harmful by the Secretary of Health and Human Services (HHS) to smokers. Former Secretary Joseph Califano then determined that there was a possibility of harm which required the State Department to withdraw any support to Mexico in their marihuana eradication program.

As a member of the Select Committee on Narcotics Abuse and Control, I chaired hearings in the 96th Congress on the health consequences of paraquat-contaminated marihuana on possible smokers of the drug in this country. My conclusion and the conclusion of the other members of the committee at the termination of those hearings was that HHS had overextrapolated its figures in its determination that paraquat was harmful to humans, considering the level of contamination found.

We determined that given the amount of contaminated marihuana on the U.S. market, and the persistence and amounts of exposure, it is extremely unlikely if not impossible that any serious health consequence would result to smokers in the United States from a foreign, national paraquat eradication program. In my opinion it is clear that HHS was passing judgment given worse-case assumptions, far beyond reality, and determined possible harm rather than probable harm.

To sum up the importance of the paraquat program and the potential impact it has on the flow of marihuana, allow me to point out some basic facts about the Mexican program—a proven effective program. According to a Drug Enforcement Administration study, the Mexicans eradicated approximately 7.2 million kilos of marihuana in 1976. The Mexicans, however, were only able to confiscate through law enforcement means, 403,930 kilos. My research further indicates that the combined effort of United States seizures and Mexican seizures only totals 501,183 kilos of marihuana. Therefore, one can easily see that this program has proven to be cost-effective. Between the Mexican seizures and the Mexican eradication program, my estimation shows that eradication is responsible for 94 percent of the marihuana taken off the market. One cannot emphasize enough the potential impact that such a program can have if other source countries launch the same attack on marihuana. Mexico has gone from the No. 1 source country for 85 percent of the marihuana coming into the United States to less than 10 percent.

As with Florida, my home State of Georgia, because of its proximity to the South American source countries, is inundated with marihuana. The readily available amounts are so great that it is forcing the distributors of the drug into a younger and younger market every year. According to NIDA studies some 16 million Americans are now regular users; and among high school seniors, about 1 in 10 are daily smokers averaging 3½ joints a day. I have calls coming into my office daily from concerned parents and teachers about the harmful effect this drug is having on our young people. I know this is a matter of national concern, and no doubt similar feelings have been expressed from parents in every State.

I will not sit on the sidelines and continue to see this massive influx of drugs coming into our country affecting more and more children every year and destroying more and more families. We know we have an effective program that can destroy this menace. This eradication program is the best thing we have got going, and I intend to fight to the finish to see that this bill passes the House of Representatives and is signed by the President. I urge all Members to join in the battle against drug use and offer their support for this vital legislation ●

THE INTEREST RATE REFORM ACT

HON. BILL McCOLLUM

OF FLORIDA

IN THE HOUSE OF REPRESENTATIVES

Thursday, October 22, 1981

● Mr. McCOLLUM. Mr. Speaker, today I have introduced the Interest Rate Reform Act of 1981. The purpose of this bill is to bring down the intolerable rates of interest existing in this country; provide a fixed and logical relationship between the rate of inflation, the interest rate paid by the U.S. Government on debt issues, and interest charged on loans in the marketplace; assure that the public is protected in the future from unreasonable profitmaking through interest rates by those who might be tempted to take advantage of changing economic climates and attending uncertainties; and provide a uniformity of interest rate ceilings thoughout the Nation.

High interest rates have placed loans of any sort out of reach for all but the wealthiest of Americans and the largest of businesses. No longer can young American families afford to buy single-family dwellings. Small businesses cannot borrow money and are having difficulty paying back loans they already have with many facing the possibility of bankruptcy in the coming months if high interest rates persist. The entire economic recovery plan of President Reagan is in jeopardy without it having the time necessary to work. It is an understatement to say that high interest rates must come down, and since the free market forces, which I much prefer, are not working, Congress must act to assure that these interest rates do come down.

Why do we have continued high interest rates when the rate of inflation is considerably below where it was a few months ago and the prospects of keeping it down are brighter than they have been in years? The answer lies in the law of supply and demand in the marketplace, since interest rates are nothing more than the price of money. The forces at play have been difficult to analyze and are even more elusive of control, even in our highly regulated banking system. In order to control inflation it has been and continues to be necessary for the Federal Reserve to maintain a tight monetary policy and avoid the creation of dollars while laws which will reduce budget deficits and stimulate savings and investment take effect. At the same time, the huge borrowing by the Treasury necessitated by the runaway deficits created by the follies of past Congresses and administrations reduces the supply of available money to consumers and businesses even more. On the other hand, the demand for money at any rate of interest by those few who can afford the high rate remains substantially greater than the supply and will for the forseeable future unless there is a major recession or economic collapse, which none of us want. With these conditions, market forces alone are not going to bring interest rates down.

On a more specific level there are a number of forces at work in keeping the interest rates high. One of these is the greed of the money market center banks and other huge financial interests which are simply making a big profit and appear unwilling to sacrifice these profits at the moment even though they should know that their greed will cost them in the long run. Another significant factor is simply the high rate of interest the Department of the Treasury is willing to pay on bills and notes it sells to finance the debt presumably under the assumption that it must make all of these sales planned each week no matter what the market rate of interest in order to meet the Government's cash flow obligations. Under the present conditions the Treasury debt obligation rates are the central force most directly influencing the interest rates of the underlying financial markets of the country, both the interest rate paid to depositors and investors and interest rates charged to borrowers, since in the money business one is a direct function of the other. Consequently, any realistic control over interest rates charged the public must be accompanied by related controls on the interest rate paid by the Federal Government when it sells Federal debt obligations. Hence comes the rationale behind the Interest Rate Reform Act of 1981.

The bill I have introduced calls for a gradual week-by-week reduction in the amount of interest or yield which the Treasury is allowed to pay on bills or notes—or any other debt obligation issued by any agency or instrumentality—until such point as the rate of interest or yield is equal to an amount 4 percent greater than the percentage increase in the consumer price index over the preceding 12 months—the most widely accepted measure of the rate of inflation. At this point the Treasury is locked into maintaining a ceiling on the amount of interest it is able to pay on the sale of any such obligations at the constant level of 4 percent above the current 12 month CPI increase, using the latest figures available from the Department of Labor at the time of each auction or sale of debt. This differential provides a reasonable profit rate for those who deal in Government obligations and who must take into account inflation.

Now the Treasury may not like this proposal at first blush, but I suspect upon study and reflection the first-thought arguments against it will fade. Assuming the phasein factor, the weekly reduction of one-fourth of 1 percent, is appropriate, and data unavailable to me may show some other factor more appropriate the Treasury should be able to sustain a week or two where all of the bills and notes it would like to have sold are not completely sold because the buyers want a greater return of their money. With the appropriate reduction factor, the demand forces of the marketplace should level off any initial distortion and result in the sale of virtually all obligations offered the following week at the next reduced level and allow for any lost sales to be made up in a relatively short period of time. Once the constant relationship factor between the Federal debt obligation rate ceiling and the rate of inflation is established, there should be no difficulty whatsoever making market.

The rest of this bill provides for a national usury law tied to the Federal debt obligation rate ceiling. It provides that the maximum legal rate of interest which may be charged cannot be greater than 6 percent more than the current Federal debt obligation rate. This provides for high enough real interest above the rate of inflation for lenders to be able to make higher risk loans to the less creditworthy, who are most often the general public who have the greatest suffering when the amount of available money is choked off. The market forces would compel the prime rate to be considerably lower. Further, there is an exemption provided from the usury ceiling for loans which do not exceed a total of $2,500 and those which do exceed $500,000 made to any person or business entity within a 180-day period. This exemption should allow the availability of money to the consumer and the small loan, high-risk person where it might not otherwise be available under an interest ceiling, as well as facilitate the making of very large loans.

The Interest Rate Reform Act of 1981 is designed to be a workable piece of legislation that fits together with the other portions of the President's economic recovery plan. It provides a missing link, the need for which was obscured by historic economic assumptions about the relationship of interest rates and inflation in the marketplace. I believe that it is innovative and will work. I urge my colleagues, the administration, and those in the business, financial, and academic community to analyze it carefully and critically. I have high hopes that the reasoning I have presented is sufficiently clear that many of my fellow Members in Congress will join in cosponsoring this critical piece of legislation and that it will move swiftly through the Halls of both bodies and onto the President's desk so that we may have relief from those exorbitant interest rates before things get completely out of hand.

The Interest Rate Reform Act of 1981 which I have proposed today may make it sound to some as though I am abandoning the principles of free enterprise which I have long advocated. This is not so. In my judgment there are very few areas where Federal intervention and regulation are justified and wherever possible they should be eliminated. However, there will always be some areas where the Government must step in and restrict those who would obstruct the benefits of the free enterprise system to the vast majority of Americans for their own personal greed and benefit. Such has historically been the case with banks and money markets.

We have always had State usury laws in this country and usury laws have been a deep part of the entire Western culture. Historically, they have been necessary for a healthy economy and, although some have argued strongly against them, it is my judgment that the public interest is best served by correcting the defects pointed out by the critics, but maintaining the basic concept. So it is, I believe, with the bill I have introduced. It supersedes many diverse State laws which over the years in many cases have become archaic anyway and in light of the current economic upheaval might as well not be on the books. With the interstate nature of the flow of money and commerce, a uniform national usury law is essential and certainly this is the appropriate time to enact it.

The text of the bill is as follows:

H.R. 4826

A bill to reduce interest rates by limiting the rate of interest which the United States Government may pay on debt obligations issued by the United States and by establishing a national indexed usury ceiling.

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 Reform Act of 1981".

SEC. 2. (a)(1) No officer or employee of the United States may sell any debt obligation of the United States, or of any agency or instrumentality of the United States, bearing interest at a rate, or at a discount from face value, yielding a rate of return greater than fifteen percent or one-fourth of one percent less than the average auction price for Treasury bills at the auction held the week prior to the date of the enactment of this Act, whichever is greater.

(2) After such date, such maximum interest rate or yield shall be reduced by one-fourth of one percent per week until such maximum interest rate or yield is four percent greater than the increase, expressed as a percentage, in the Consumer Price Index during the most recent twelve month period preceding the sale of the debt obligation involved for which figures are available.

(b) After reaching the point where such maximum rate or yield is four percent greater than the increase in the Consumer Price Index during the period described in subsection (a)(2), all such officers and employees shall maintain such maximum interest rate or yield at such level.

SEC. 3. (a) Notwithstanding any other provision of law, the maximum legal rate of interest shall be not greater than six percent above the currently effective rate provided in section 2.

(b)(1) All contracts and assurances for the loan or forbearance in money or other thing of value at more than the legal rate of interest are void as to the excess of interest over the legal rate of interest.

(2) The principal, with legal rate of interest, may be recovered on any such contract or assurance, but not the excess of interest. Such excess of interest, if already paid, may be recovered from the lender or forbearer even though payment was made to an assignee. If the lender or forbearer refuses, before suit is brought, a tender of the principal with legal rate of interest or refuses a demand by the borrower for the refund of any excess interest already collected, such lender or forbearer shall pay the costs and attorneys fees incurred by the debtor in the prosecution or defense of any suit brought with regard to the contract or assurance.

(3) A court having jurisdiction may grant equitable or declaratory relief for any such excess of interest and to that end may compel the necessary discovery from the lender or forbearer.

(c) Subsections (a) and (b) shall not apply with respect to any one or more contracts or assurances which do not exceed a total of $2,500 or which do exceed a total of $500,000 made to any person or business entity, including related or affiliated persons or business entities, within any 180 day period.

(d)(1) No person may hereafter plead or set up the taking of more than the legal rate of interest as a defense to any action brought against such person to recover damages on, or to enforce payment of or other remedy on any mortgage, bond, note, or other obligation executed or assumed by such person, except that this section shall not apply to any action which is now pending or to any suit or action instituted subsequent to the date of the enactment of this Act upon any mortgage, bond, note, or other obligation executed or assumed by such person prior to the date of the enactment of this Act.

(2) This Act shall not prevent any State or territory of the United States from allowing such defenses or imposing criminal sanctions with regard to contracts or assurances bearing interest or yielding a rate of return greater than twice the legal rate of interest calculated under section 2 as of the effective date of such contract or assurance.

SEC. 4. All references to interest rates and yields in sections 2 and 3 mean simple interest annualized over a one-year period.

SEC. 5. A reasonable charge for origination fees, finder's fees, delinquency fees and commissions, and actual costs of recording and filing fees and of documentary and intangible taxes shall not be considered interest under this Act.●

WPPSS TO CLOSE TWO NUCLEAR PROJECTS THIS WEEK

HON. DON BONKER
OF WASHINGTON
IN THE HOUSE OF REPRESENTATIVES
Thursday, October 22, 1981

● Mr. BONKER. Mr. Speaker, the Washington Public Power Supply System is deciding this week how best to shut down two of its five partially built nuclear power plants in Washington State.

The Supply System will either mothball the projects to permit, it will be said, studies of their future to proceed in an orderly manner, or the projects will be canceled. There are many who feel that they will never be completed in either case.

Northeast utilities, major electric consumers, and WPPSS turned to these options after the latest estimates of the costs of completing the two plants—a staggering $11.8 billion—showed that they had outstripped the financing capacity of the region and the patience of Wall Street analysts. The region's ratepayers now face truly enormous construction bills.

Ironically, the two plants were big factors in their own demise. During their 4-year construction history, costs skyrocketed, rising more than 500 percent since they were first announced and 300 percent after construction commenced. Retail electricity price projections rose, too, and energy forecasters knew that higher prices would make energy conservation more attractive. They gradually lowered their projections of the Northwest's power needs, and much of the justification for building the two plants, which have a combined capacity of nearly 2,500 megawatts, simply evaporated.

Now the Northwest is stuck with two large nuclear plants that are 22 and 13 percent, respectively, complete. They represent investments of $2.25 billion and would require hundreds of millions of additional dollars for complete cancellation.

The outlook for finishing them is quite bleak. WPPSS and the region's electric utility industry ignored critics of the plants for too long. In February 1979 I seriously questioned the wisdom of pressing ahead with the entire five-plant program. Had my advice been heeded then, termination of these two plants would have saved the region most of a $3 billion debt—savings to the ratepayers or money which could be supporting energy conservation programs, renewable energy resource development and other cost-effective actions to address the region's energy needs. Instead, that investment is sitting idle.

The Northwest must now be on guard to avoid a repeat of this tragic fiasco. The entities and individuals who decide to build big powerplants and who oversee their construction must be held more accountable to the ratepayers who must foot the bills.

Initiative 394, which will be on the Washington State ballot on November 3, is one option. It would require voter approval of public utility bonds for major power projects; it would not create the electric power doomsday in the State that some of its opponents are fond of predicting.

Although the initiative is not likely to make big powerplant construction any easier, it should make it better by enhancing accountability. If Washington voters give themselves this task, they undoubtedly will not have much patience with construction mismanagement and needless cost overruns, but I think they can be trusted to recognize legitimate power needs and to authorize expenditures to meet those needs.

The Northwest has entered an era of unprecedented power cost increases. Electric utility accountability has never been more important; it deserves thoughtful debate and reasoned analysis. Everyone would be better served if critics of the initiative would take that approach and drop the misleading rhetoric that has been all too prevalent in their campaign thus far.

The painful sessions at WPPSS this week show that the issues at stake are much too important to do otherwise.●

HUNGARIAN FREEDOM FIGHTERS

SPEECH OF

HON. BILL EMERSON
OF MISSOURI
IN THE HOUSE OF REPRESENTATIVES
Wednesday October 14, 1981

● Mr. EMERSON. Mr. Speaker, tommorrow, October 23, marks the 25th anniversary of the Hungarian Freedom

I

97TH CONGRESS
1ST SESSION

H. R. 4826

To reduce interest rates by limiting the rate of interest which the United States Government may pay on debt obligations issued by the United States and by establishing a national indexed usury ceiling.

IN THE HOUSE OF REPRESENTATIVES

OCTOBER 22, 1981

Mr. MCCOLLUM introduced the following bill; which was referred jointly to the Committees on Banking, Finance and Urban Affairs and Ways and Means

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A BILL

To reduce interest rates by limiting the rate of interest which the United States Government may pay on debt obligations issued by the United States and by establishing a national indexed usury ceiling.

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 Reform Act of 1981".

SEC. 2. (a)(1) No officer or employee of the United States may sell any debt obligation of the United States, or of any agency or instrumentality of the United States, bearing interest at a rate, or at a discount from face value, yielding a rate of return greater than 15 per centum or one-fourth of 1 per centum less than the average auction price for Treasury bills at the auction held the week prior to the date of the enactment of this Act, whichever is greater.

(2) After such date, such maximum interest rate or yield shall be reduced by one-fourth of 1 per centum per week until such maximum interest rate or yield is 4 per centum greater than the increase, expressed as a percentage, in the Consumer Price Index during the most recent twelve-month period preceding the sale of the debt obligation involved for which figures are available.

(b) After reaching the point where such maximum rate or yield is 4 per centum greater than the increase in the Consumer Price Index during the period described in subsection (a)(2), all such officers and employees shall maintain such maximum interest rate or yield at such level.

SEC. 3. (a) Notwithstanding any other provision of law, the maximum legal rate of interest shall be not greater than 6 per centum above the currently effective rate provided in section 2.

(b)(1) All contracts and assurances for the loan or forbearance in money or other thing of value at more than the legal rate of interest are void as to the excess of interest over the legal rate of interest.

(2) The principal, with legal rate of interest, may be recovered on any such contract or assurance, but not the excess of interest. Such excess of interest, if already paid, may be recovered from the lender or forbearer even though payment was made to an assignee. If the lender or forbearer refuses, before suit is brought, a tender of the principal with legal rate of interest or refuses a demand by the borrower for the refund of any excess interest already collected, such lender or forbearer shall pay the costs and attorneys fees incurred by the debtor in the prosecution or defense of any suit brought with regard to the contract or assurance.

(3) A court having jurisdiction may grant equitable or declaratory relief for any such excess of interest and to that end may compel the necessary discovery from the lender or forbearer.

(c) Subsections (a) and (b) shall not apply with respect to any one or more contracts or assurances which do not exceed a total of $2,500 or which do exceed a total of $500,000 made to any person or business entity, including related or affiliated persons or business entities, within any one-hundred-and-eighty-day period.

(d)(1) No person may hereafter plead or set up the taking of more than the legal rate of interest as a defense to any action brought against such person to recover damages on, or to enforce payment of or other remedy on any mortgage, bond, note, or other obligation executed or assumed by such person, except that this section shall not apply to any action which is now pending or to any suit or action instituted subsequent to the date of the enactment of this Act upon any mortgage, bond, note, or other obligation executed or assumed by such person prior to the date of the enactment of this Act.

(2) This Act shall not prevent any State or territory of the United States from allowing such defenses or imposing criminal sanctions with regard to contracts or assurances bearing interest or yielding a rate of return greater than twice the legal rate of interest calculated under section 2 as of the effective date of such contract or assurance.

SEC. 4. All references to interest rates and yields in sections 2 and 3 mean simple interest annualized over a one-year period.

SEC. 5. A reasonable charge for origination fees, finder's fees, delinquency fees and commissions, and actual costs of recording and filing fees and of documentary and intangible taxes shall not be considered interest under this Act.

○

NOV 25 1981

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

Dear Mr. Whitehurst:

I am happy to respond to your letter of November 17 enclosing correspondence from Mr. Warner N. Dalhouse, President of Dominion Bankshares Corporation. Mr. Dalhouse expressed strong concern that the Depository Institutions Deregulation Committee might rescind its decision to authorize a new IRA/Keogh account. The Committee recently reaffirmed the decision authorizing depository institutions to offer the new account starting December 1, 1981.

Sincerely,

S/Paul A. Volcker

NB:DS:pjt (#V-340)
bcc: Mr. Bernard
Mrs. Mallardi (2)

Action assigned Mr. Bernard

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

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BLANCHE M. BOYLES
OFFICE MANAGER

#340

November 17, 1981

The Honorable Paul A. Volcker, Chairman
Depository Institutions Deregulation Committee
20th and Constitution Avenue, NW
Washington, D. C. 20551

Dear Chairman Volcker:

I am enclosing a copy of a letter which I recently received from Mr. Warner N. Dalhouse, President of Dominion Bankshares Corporation, in Roanoke, Virginia. I would appreciate it if the views expressed in his letter on the subject IRA and Keogh plans could receive every consideration.

With best wishes, I remain

Sincerely,

G William Whitehurst

G. WILLIAM WHITEHURST

GWW:RL
Enclosure

Dominion Bankshares Corporation
Post Office Box 13327 Roanoke, Virginia 24040 Telephone 703/362-7646

November 10, 1981

Warner N. Dalhouse
President

Honorable G. William Whitehurst
House of Representatives
2438 Rayburn Building
Independence and S. Capitol St., S.W.
Washington, D.C. 20515

Dear Mr. Whitehurst:

Great pressures have been placed on the DIDC to suspend or modify the recently approved rules for IRA and Keogh instruments. We strongly object to such action and have urged the DIDC to implement retirement account deregulation as approved at the last meeting.

Depository institutions must have the capability to be fully competitive from the very start in the new IRA market place. Due to the long-term nature of retirement accounts, initial account openings will determine these growing customer relationships for many years. Brokerage houses, money funds and insurance companies are developing aggressive IRA and Keogh programs. If we are not allowed the same flexibility, a profitable source of stable funds will be permanently lost.

Banks and thrifts have already invested millions of dollars in computer operations, legal preparation, employee training and marketing programs to offer attractive, new retirement account services to better serve our customers. Any change to the currently approved regulations would not only be extremely wasteful, but would also result in a chaotic effort to revamp policies, procedures, operating documents, customer communications and employee training.

Furthermore, implementation of the IRA and Keogh accounts as approved will provide an excellent opportunity for the DIDC to evaluate industry reaction to other deregulated services. Since the immediate earnings impact of these retirement account instruments will be limited, the utilization and effectiveness of a deregulated deposit service can be gauged without the risks associated with more mature deposit services. The DIDC should not give up this valuable opportunity.

In our opinion, thrifts who oppose this deregulation are extremely naive and do not adequately understand the competitive forces now at play in the retirement account market. The attached article from Business Week magazine poignantly describes the retirement account environment; hopefully you will have a moment to read it. All depository institutions, including thrifts, would be best served by having the approved regulations fully implemented.

We urge you to extend your support to the DIDC in reconfirming its intention to deregulate retirement accounts starting December 1, 1981. Limiting our ability to compete for this extremely stable source of funds will permanently shrink our deposit potential and our capacity to fully serve our customers.

Sincerely,

Warner N. Dalhouse

Warner N. Dalhouse
President

WND:rlw

Attachment

NOV 25 1981

The Honorable Hank Brown
House of Representatives
Washington, D.C. 20515

Dear Mr. Brown:

I want to thank you for your thoughtful letter concerning the new IRA/Keogh account created by the Depository Institutions Deregulation Committee at its meeting on September 22. Over the past few days the Committee reaffirmed the decision authorizing depository institutions to offer the new account starting December 1, 1981.

Sincerely,

S/Paul A. Volcker

NB:DS:pjt (#V-334)
bcc: Mr. Bernard
Mrs. Mallardi (2)

Action assigned Mr. Bernard

HANK BROWN
4TH DISTRICT, COLORADO

COMMITTEES:
INTERIOR AND INSULAR AFFAIRS
STANDARDS OF OFFICIAL CONDUCT

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

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WASHINGTON, D.C. 20515
(202) 225-4676

DISTRICT OFFICES:
1015 37TH AVENUE COURT
SUITE 101A
GREELEY, COLORADO 80631
(303) 352-4112

203 FEDERAL BUILDING
FORT COLLINS, COLORADO 80521
(303) 493-9132

FEDERAL BUILDING
GRAND JUNCTION, COLORADO 81501
(303) 243-1736

ROOM 9, 230 MAIN STREET
FORT MORGAN, COLORADO 80701
(303) 867-8909

ADAMS COUNTY
(303) 466-3443

November 16, 1981

#334

1981 NOV 17 AM 8:34

The Honorable Paul A. Volcker
Chairman, Board of Governors
Federal Reserve System
20th and Constitution Avenue, N.W.
Washington, D. C. 20552

Dear Mr. Volcker:

It has been brought to my attention, by several of my constituents, that the DIDC may be considering a reversal of a ruling adopted by the Committee on September 22. The ruling created, effective December 1st, a new 18-month IRA/Keogh account which will carry no ceiling for interest rates.

I would hope that you would not reverse the ruling. My appeal is based on the merits of such an account, as well as the fact that this is an inappropriate time to make such a decision. The Committee provided an extensive comment period prior to making its unanimous decision in September, reviewing carefully all comments received at that time. To reverse the decision now, so near to its effective date, would not be equitable to those institutions who have already spent time and money in preparing employees and informing consumers of the advent of this new investing tool. The banking industry needs to be assured that when it acts in good faith on a ruling of the DIDC, that that ruling will not be capriciously altered or revoked.

Thank you for your consideration of this matter.

Sincerely,

Hank Brown

Hank Brown
Member of Congress

HB/j

NOV 25 1981

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

Dear Senator Stevens:

Thank you for your letter of November 10 requesting comment on the new IRA/Keogh account which depository institutions are authorized to offer starting December 1, 1981. You expressed concern about the timing of the account and enclosed correspondence from Mr. L. C. Coffman, President of Alaska Federal Savings, urging postponement of the account in light of its potential cost impact on depository institutions, particularly Alaskan institutions.

The Depository Institutions Deregulation Committee recently reconsidered and reaffirmed its earlier decision to authorize the new IRA/Keogh account. However, the Committee did rescind its earlier decision which would have permitted waiver of early withdrawal penalties on transfers to the new account from existing IRA/Keogh accounts at the same institution.

The Committee believes that the new account will help to fulfill the Congressional intent of the Employee Retirement Income Security Act of 1974 (ERISA) to encourage qualified individuals to save for their retirement. As you know, eligibility for IRA/Keogh accounts was greatly expanded by the Economic Recovery Tax Act of 1981, and hopefully the accounts may prove to be major sources of funds for depository institutions which will now be able to compete on a rate basis with other institutions--such as insurance companies and brokerage firms--that offer IRA/Keogh retirement plans.

While the Committee reaffirmed its decision not to impose an interest rate ceiling on the new account, the Committee also indicated that the supervisory agencies will carefully monitor IRA/Keogh accounts to determine if rates are being offered which would adversely affect the financial stability of financial institutions.

Sincerely,

S/Paul A. Volcker

NB:RS:vcd (V-341)
bcc: Normand Bernard
Mrs. Mallardi (2)

Action assigned Mr. Bernard

STEVENS
ALASKA

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1981 NOV 19 AM 9:09

RECEIVED
OFFICE OF THE CHAIRMAN

United States Senate

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

#341

November 10, 1981

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

Dear Mr. Chairman:

I am writing you on a matter related to your duties as Chairman of the DIDC.

Attached is a letter from one of Alaska's leading financial institutions outlining what surely must be the feeling of savings institutions nationwide.

Considering that the DIDC recently reversed its position on raising the rate for passbook savings accounts, it is surprising to see the IRA/KEOGH "wild card" being considered by the DIDC. The same "timing" reasons applicable to setting new passbook rates are also relevent to the "wild card" proposal.

It is my hope that the DIDC will delay the implementation of this proposal until sufficient time is allowed for financial institutions to modify their investments to accomodate the higher cost of these funds.

With best wishes,

Cordially,

Ted Stevens

TED STEVENS
Assistant Majority Leader

Enclosure

ALASKA FEDERAL SAVINGS

ADMINISTRATIVE OFFICES
(907) 586-1015 586-1017
311 NORTH FRANKLIN ST.
JUNEAU, ALASKA 99801

November 6, 1981

Honorable Ted Stevens
United States Senator
411 Russell Office Building
Washington, D.C. 20510

Dear Senator Stevens:

The Depository Institution Deregulation Committee (DIDC), in their meeting of September 22, 1981 passed actions that would create a "wild card" 18-month IRA/KEOGH savings account with no limit on the rates that may be paid to the account holders. In addition they are also considering other regulations which will further increase the cost of funds for the Savings and Loan industry, and particularly the Alaskan institutions.

The "All Savers" account that we were authorized to issue the first of October has not had the positive effect on earnings that we anticipated. However, the "All Savers" account will be attractive in time, especially as other investment opportunities diminish when interest rates decline.

The investment opportunities in Alaska are very limited, due to the low rate State loan programs. At the present time our cost of funds is 1% higher than that available for investments in our local loan markets.

The actions of the DIDC will only further increase our industry's cost of funds and produce no additional revenue, as we do not have investments available for these high cost funds.

I would appreciate your support by contacting the DIDC and urging them to postpone implementing the final rule on the IRA/KEOGH "wild card" accounts and postpone consideration of the other proposals that are pending, until such time as the financial industry has had an opportunity to adjust their investments to accomodate this higher cost of money. The DIDC's continued race to deregulate the rates paid for savings deposits is way ahead of the public's acceptance of the new investment requirements and cost. The loser in this race can only be the financial community. Thus it is extremely important that the DIDC's actions be slowed to the ability of the borrowing public's acceptance of the price they must pay for deregulation.

Your assistance is sincerely appreciated in this most urgent matter.

Yours truly,

L.C. Coffman

L.C. Coffman
President

LCC:ss

Mrs. Mallardi
(V-323)

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

November 25, 1981

PAUL A. VOLCKER
CHAIRMAN

The Honorable Edward Zorinsky
United States Senate
Washington, D.C. 20510

Dear Senator Zorinsky:

Thank you for forwarding the letter you received from your constituent, Mr. Arnold Legband, describing the current financial problems of his farm supply business in rural Nebraska.

As a supplier to the farm sector, Mr. Legband's firms certainly appear to have been adversely affected by the relatively low farm earnings of 1980 and 1981. The enclosed study by our staff, "The Impact of High Interest Rates on the Housing, Automobile, Agriculture, and Small Business Sectors," summarizes the farm income situation as it appeared to be in late summer. More recently, the downward pressures on farm prices and farm incomes have been reinforced by large grain crops here and abroad. High interest rates have no doubt further aggravated the financial problems that poor sales to farmers have caused for farm supply firms, large and small, even if it does not generally appear to be the principal factor.

In addition, Mr. Legband's letter vividly reflects the financial surprises and shocks that borrowers from rural banks have experienced since late 1979. Before then, interest rates on farm and business loans at most rural banks were relatively stable, even during periods when market interest rates and loan rates at most large and urban banks rose sharply. Loan rates at rural banks did not fluctuate much because the interest rates paid by these banks to local depositors--their main source of funds--were relatively stable. As late as 1978, therefore, credit terms and practices at rural banks resembled those that had last prevailed nationally in the 1950's.

Beginning in 1979, however, the cost of a major portion of deposits at rural banks began to reflect national market interest rates, as rural depositors moved their funds into the newly authorized money market certificates. Quite suddenly, therefore, rural bankers and borrowers were faced with changed credit conditions to which their urban counterparts had been adjusting more gradually, over a period spanning about two decades. From very little interest rate volatility and, consequently, low risk of significant rate changes, borrowers from rural banks were plunged into a diametrically opposite rate environment. Inevitably, some borrowers would find it difficult or impossible to adjust to the changed conditions and costs and, as Mr. Legband's letter indicates, rural bankers necessarily have been actively involved in determining and tracking the financial condition of their borrowers. Those borrowers who coincidentally were encountering problems with their selling prices or volume, such as farmers and farm suppliers, obviously were in greater financial jeopardy and thus have been attracting greater attention and concern from their lenders.

I can readily sympathize with the problems that rural firms are having in coping with the changed borrowing conditions during generally difficult economic times. In the short run, lower interest rates during a period of weakness in economic activity may help the financial situation of these firms to some extent; however, longer-term improvement appears to require a return to sustained economic growth and the recovery in farm income that this growth would foster. Such growth, I am convinced, is contingent on our further success in reducing the rate of inflation in prices and wages generally, which should also result in a substantial period of lower interest rate levels.

Sincerely,

S/Paul A. Volcker

Enclosure

EM:JZ:JLK:vcd (V-323)

bcc: Ms. Zickler
Mr. Melichar
Ms. Wing
Mrs. Mallardi (2)

EDWARD ZORINSKY
NEBRASKA
431 RUSSELL SENATE OFFICE BUILDING
(202) 224-6551

COMMITTEE:
AGRICULTURE, NUTRITION, AND FORESTRY

SUBCOMMITTEES:
RANKING MINORITY MEMBER
AGRICULTURAL CREDIT AND RURAL ELECTRIFICATION
AGRICULTURAL PRODUCTION, MARKETING AND STABILIZATION OF PRICES
FOREIGN AGRICULTURAL POLICY

United States Senate

WASHINGTON, D.C. 20510

FOREIGN RELATIONS COMMITTEE

SUBCOMMITTEES:
RANKING MINORITY MEMBER
WESTERN HEMISPHERE AFFAIRS
ARMS CONTROL AND INTERNATIONAL OPERATIONS
EUROPEAN AFFAIRS

DISTRICT OFFICES:
8311 FEDERAL BUILDING
215 NORTH 17TH STREET
OMAHA, NEBR. 68102
(402) 221-4381

100 CENTENNIAL MALL, NORTH
LINCOLN, NEBR. 68508
(402) 471-5246

1811 WEST 2ND STREET
GRAND ISLAND, NEBR. 68801
(308) 381-7251

#323

November 2, 1981

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

Dear Mr. Chairman:

Recently I received a letter from a constituent, Mr. Arnold Legband, who informed me that his agricultural products and services business is today near bankruptcy. The tight monetary policy pursued by the Federal Reserve Board and the reduced price support legislation promoted by the Reagan Administration are crippling his business. Enclosed is a copy of the letter for your review.

I would greatly appreciate a response from you.

With best wishes,

Respectfully,

Ed Zorinsky

Edward Zorinsky
U.S. Senator

EZ/rlj/am

enclosure

AG-LAND PRODUCTS

Box 1525 Fremont, Nebr. 68025
Phone (402) 727-4141

Arnold Legband and Sons

10-26-81

The Honorable
Edward Zorinsky
U S Senate
Washington, D.C. 20510

Please be advised that we are praying for a decrease in interest money. We don't know how long we can survive under the present economic conditions Our company is agriculturally oriented and to say it simply- We are hurting The farmers are not doing any buying as the banks are not loaning any money

We have notes due and are not able to pay on the principal because all we have been able to afford to pay thus far is the interest. It is abuilt in overhead expense that is slowly killing us. Our operating costs are so high that our profit margin is nil.

We operate our company as efficient as possible. Its a family owned company and our employees received higher wages then we did in order to satisfy their necessities. My wife does all the sales, collecting and book-work on an au-gratis salary. We have put in more time and effort than ever before. All of us can't go broke or there won't be any money or collateral to pay anybody's salaries.

We have attempted to run a fair and honorable business. In the past we have carried our full time employees through the winter months because it is costly to re-train new people and we value them as worthy employees. We will not be able to do so as the banks are not loaning any money in this area. The future agricultural economy looks bleak in this area and the spring is not very optimistic at this writing. All of our customers and dealers are in a depressed mood due to the tight money flow and depressed agricultural market.

In the past we were able to borrow money on an open note basis and use our equipment and inventory for collateral. The financial institutions want neither- they are running scaird and they want the money or notes paid. Even if we are willing yo pay the high cost of interest- we can't get the money to stay afloat until this inflation economy levels out.

AG-LAND PRODUCTS

Box ~~105~~ 1525 Fremont, Nebr. 68025
Phone (402) 727-4141

Arnold Legband and Sons

Cont.----

If we sell out now the prices are so deflated that we won't be able to sell our equipment for its real value as no one is buying or has the money to buy. It wouldn't bring sufficient dollars to pay the notes.

The financial institutions dispute all the financial figures and we are spending more time of varifications of figures and furnishing proof of such. They are only interested in figure facts of value sold now and not in actual value.

When and where can we get financial assistance to continue our growth and existance. We can't all throw in the towell and go on welfare.

Lowering the taxes won't help if we don't have any taxes to pay.

Come and visit out in the mid-west with farmers, builders, agricultural oriented companies and financial institutions and you will find the contents of this writing to be valid.

We are putting our trust in your vocal authority to give us some hope of encouragement.

Signed in good faith but in desperation,

Respectfully,

Arnold Legband

Arnold Legband Mgr.
Ag-Land Farm Products, Inc.

November 23, 1981

The Honorable Carroll A. Campbell, Jr.
House of Representatives
Washington, D.C. 20515

Dear Mr. Campbell:

Thank you for your letter of November 1 recommending Mrs. Nell W. Stewart to serve on the Board's Consumer Advisory Council.

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

Again, thank you for your interest.

Sincerely,

S/Paul A. Volcker

CO:pjt (#V-330)
bcc: Mrs. Bray (w/copy of incoming)
Mrs. Mallardi (2) ✓

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

WASHINGTON OFFICE:
ROOM 408
CANNON HOUSE OFFICE BUILDING
202-225-6030

DISTRICT OFFICES:
P.O. BOX 10183, FEDERAL STATION
GREENVILLE, SOUTH CAROLINA 29603
803-232-1141

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

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
1981 NOV 13 AM 9:36
OFFICE OF THE SECRETARY

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

COMMITTEE ON APPROPRIATIONS

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

November 1, 1981

#330

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

Dear Mr. Chairman:

I am pleased to take this opportunity to recommend highly the selection of Mrs. Nell W. Stewart for a position on the Consumer Advisory Council of the Federal Reserve Board. Mrs. Stewart has been nominated by the South Carolina Department of Consumer Affairs, and I believe she would be an excellent choice.

The Director of Consumer Affairs at Texize Corporation in Greenville, South Carolina, Mrs. Stewart has an exemplary record in looking after the well-being of consumers. Further, she has a knowledge of the business world that would help her to interpret the impact of Federal Reserve Board actions on individual consumers.

I sincerely hope that you will be able to give Mrs. Stewart favorable consideration, and would welcome the opportunity to talk with you about her qualifications if that would be helpful.

With kindest regards,

Carroll Campbell

Carroll A. Campbell, Jr.
Member of Congress

CACJr/nm

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

PAUL A. VOLCKER
CHAIRMAN

November 20, 1981

The Honorable Fred Richmond
House of Representatives
Washington, D. C. 20220

Dear Fred:

I've had a chance to look into the Tyvek bank notes which you gave to me the other night.

As I suspected, the Bureau of Engraving and Printing has been considering Tyvek as well as other "substrates" for use in U.S. currency to enhance its life as well as to accommodate security features. While no decisions have been made, the obvious cost benefits of alternative substrates like Tyvek deserve -- and I believe are receiving -- careful evaluation.

Barbara and I greatly appreciated the opera and dinner -- the first was quite a spectacle and the second a most pleasant aftermath. Thanks again.

Sincerely,

Paul

P.S. I am enclosing the bank notes, so they don't get lost!

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

November 19, 1981

PAUL A. VOLCKER
CHAIRMAN

The Honorable Sid Morrison
House of Representatives
Washington, D. C. 20515

Dear Mr. Morrison:

Thank you for giving me the opportunity to look over the recommendation of your constituent, Mr. Archie G. Hill, regarding a change in the structure of reserve requirements.

Mr. Hill recommends that banks be permitted to hold low-rate Treasury securities in lieu of non-earning reserves. He indicates that this would be a way of alleviating the burden of interest payments in the federal budget. There is, I'm sorry to say, a flaw in this argument. Under the current system, the non-earning reserve balances that banks hold at the Federal Reserve generally are already invested by the Federal Reserve in government securities, with the vast majority of the interest earned returned to the U. S. Treasury. Consequently, the system Mr. Hill proposes would prove ineffective in solving the problem he is addressing.

The mechanics of bank reserve accounting are not widely understood at all and Mr. Hill's oversight is completely understandable. Mr. Hill is to be commended for his study of the serious national problem of large budgetary deficits and his effort to offer helpful advice. I'm afraid, however, that the answer lies only in the more difficult realm of tax and expenditure policy, where the Congress and the Administration are laboring today.

Sincerely,

S/Paul A. Volcker

MJP:JLK:RS:vcd (V-333)

bcc: Mr. Prell
Ms. Wing
Mrs. Mallardi (2)

Action assigned Mr. Kichline

SID MORRISON
4TH DISTRICT, WASHINGTON

COMMITTEE ON AGRICULTURE

SUBCOMMITTEES:
FORESTS, FAMILY FARMS AND ENERGY
CONSERVATION, CREDIT AND RURAL DEVELOPMENT
COTTON, RICE AND SUGAR

WASHINGTON OFFICE:
1330 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-5816

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

DISTRICT OFFICES:
212 EAST "E" STREET
YAKIMA, WASHINGTON 98901
(509) 575-5891

ROOM 177—FEDERAL BUILDING
RICHLAND, WASHINGTON 99352
(509) 376-9702

ROOM 314—ARTS BUILDING
1104 MAIN STREET
VANCOUVER, WASHINGTON 98660
(206) 696-7838

1981 NOV 17

November 11, 1981 #333

The Honorable Paul Volcker
Chairman
Federal Reserve System
20th and Constitution Avenue, NW
Washington, D.C. 20551

Dear Mr. Volcker:

Enclosed is a letter from one of my constituents. I believe that he has brought forward some workable ideas concerning the Federal Reserve System.

I would appreciate your comments on his ideas and any suggestions you may have that would make them better. We must do everything we can to lower interest rates in a responsible fashion while at the same time reducing the federal debt. I hope Mr. Hill's suggestions are helpful.

I look forward to hearing from you. In the meantime, if there is anything I can do from this end, please let me know.

With kind regards,

Sincerely,

Sid Morrison

Sid Morrison

SM:kwb

COMMERCIAL
CONTROLLED ATMOSPHERE

INDUSTRIAL
METAL BUILDINGS

HILL'S CONSTRUCTION CO., INC.

1702 ENGLEWOOD, *Mailing Address:* P.O. BOX 47, YAKIMA, WASHINGTON 98907 PH. 509/248-6990

October 28, 1981

Congressman Sid Morrison
Washington, D. C.

Dear Sid:

It appears that holding the Federal budget deficit this year (1982) to $43,000,000,000 and balancing it in 1984 is partly contingent on the Federal Government being able to sell its bonds-notes at a lower interest rate than 15%.

The Federal Reserve requires approximately 14% of the total deposit in each bank to be held in cash reserve (can't be loaned, therefore no interest is derived from this reserve). I am told this varies normally from 12 to 17% at the discretion of the Federal Reserve Board.

Let me run the following by you in a suggested new Congressional Bill in regard to the Federal Reserve:

1. Allow the banks to use 50% of this reserve in bonds-notes sold by the Federal Government provided the Federal Government sold the bonds direct to that bank for not more than 6% interest or not over 1 point more interest than the inflation was the previous quarter before the purchase, adjusted to a yearly average - whichever of the two would be the less interest.

2. Prohibit the Federal Reserve Board from requiring the banks to carry a larger rate of cash reserve, including the government bonds, than it has at any time during the past ten years.

3. If the Federal Reserve Board finds any bank needs more cash reserves, the Federal Reserve Board must accept the Federal Government bonds-notes as security for the principal cash value of the Federal Government's said bonds or notes from any Federal Bank. While in escrow with the Federal Reserve system, the interest on the bonds-notes would be drawn to the Federal Reserve system and the bank would have no claim on any interest until such time as the bank's cash reserve is satisfactory to redeem the Federal Government's bonds or notes to again be used per Paragraph One.

4. During the period the Federal Reserve Board is holding as security Federal Government bonds-notes from any bank, that bank cannot buy Federal Government bonds-notes for use as allowed in Paragraph One.

(a) The above is not mandatory to the banks. In other words, the purchase by the banks would be voluntary.

(b) The Federal Government's interest rate on its outstanding bonds-notes might be cut up to 40% after a period of time. This would cut the taxpayers' Federal taxes necessary to finance the National Debt approximately $40,000,000,000 per year.

(c) The Federal Government's bonds and notes would have a cash value equal to the U. S. dollar in exchange between the Federal Reserve system and the original purchaser bank.

Sid, if you find merit in the above, use it as you see fit; if you see holes in it, repair it or drop it in File 13.

Sincerely,

Archie G. Hill

Archie G. Hill

AGH:mmw

P. S. Herb is the only one I have discussed this with.

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

November 19, 1981

PAUL A. VOLCKER
CHAIRMAN

The Honorable Phil Sharp
House of Representatives
Washington, D. C. 20515

Dear Mr. Sharp:

Thank you for your recent letter 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 high cost of credit.

It is important to note that Federal Reserve policy is not directed toward maintaining any particular level of interest rates but rather to 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 a considerable reduction in interest rates since this summer in connection with a weakening of demands for money and credit as economic activity has declined. Short-term Treasury bill rates have dropped 3-1/2 to 4 percentage points from the average level prevailing in August, bank prime rates have been reduced to 16-1/2 percent--from more than 20 percent in August--and some short-term market rates have fallen even more. Long-term interest rates also have declined, but by much less, which in part reflects 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 if less of the burden of restraint is placed on monetary policy. As you point out, 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.

To achieve and sustain a lower level of inflation and interest rates will require a fundamental change in expectations about future price behavior. Not only borrowers and lenders, but also consumers, business and labor must be convinced that they can make plans and commitments for the future with confidence that price increases will be restrained. This conviction will not come about if government policies--both monetary and budgetary--show signs of wavering in their intention to bring down inflation.

I believe we are making some progress in reducing inflation and changing attitudes. I do not underestimate the difficulties of continuing on this course. 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.

I appreciate very much your taking the time to give me your views on the situation.

Sincerely,

S/Paul A. Volcker

DK:JLK:vcd (V-313 and 332)

bcc: Mr. Kohn
Ms. Wing
Mrs. Mallardi (2)

Action assigned Mr. Kichline

PHIL SHARP
10TH DISTRICT, INDIANA

2452 RAYBURN HOUSE OFFICE BUILDING
(202) 225-3021

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

October 23, 1981

#332

1981 NOV 17 AM 8:34

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

Dear Chairman Volcker:

The reports this week that the economy is slipping into a recession nationally confirms the conditions the people I represent in Indiana have been facing locally for many months. I am writing to you to urge a change in the monetary policy being pursued by the Federal Reserve System.

The Board of Governors must act to ease its tight money policy and to bring down interest rates. The current high interest rates have hurt automobile sales; the housing, construction and real estate industries; farming and small business operations. In recent months, we have seen record numbers of bankruptcies, especially among small businesses. We are seeing a major drop in farm income this year and rising unemployment. These conditions are disastrous in Indiana and other areas where automobile and agricultural production is of great importance.

There has never been, and there is not now, a quick fix to our economic problems, and I know the Federal Reserve System must avoid a sudden and wide swing in monetary policy. But I believe it is essential that the Board of Governors change its current, excessively tight policy.

Congress has enacted tax legislation designed to stimulate greater investment, and work remains for the Congress and the President in controlling budget deficits. I fear, however, that unless monetary policy changes and interest rates decline, revitalization of American business and industry will be postponed indefinitely and millions of our citizens will be without jobs.

Sincerely,

Phil Sharp

Phil Sharp
Member of Congress

PS/tw

PHIL SHARP
DISTRICT, INDIANA

2452 RAYBURN HOUSE OFFICE BUILDING
(202) 225-3021

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

October 30, 1981

Dear Friend,

I recently sent the enclosed letter to Federal Reserve Chairman Volcker protesting high interest rates, and I wanted you to have a copy of it.

Statistics recently confirmed nationally what those of us in Indiana have known for many months--the economy has slipped into a recession--and there is no question that prolonged high interest rates have been a major cause. The Congress and the President must work to keep the deficit under control, but the Federal Reserve's excessively tight money policy is having a devastating impact on Indiana and the nation:

--Housing sales and starts are at their lowest level since the 1974 recession; 300,000 unsold homes remain on the market.

--Early October auto sales plunged 35%; enormous job losses are occurring and investment in new plants, machinery and equipment is threatened.

--Owners of small businesses tell me they cannot survive unless interest rates drop substantially; a record number of 450,000 people are expected to file for bankruptcy this year.

--Farm income, according to the Wall Street Journal, is expected to be the worst in 20 years; higher production costs and the need for additional borrowing are creating serious problems.

I would like to hear from you on this issue. If you agree that action by the Federal Reserve is needed, I would ask that you, too, write to Chairman Volcker. We must pull together to help rebuild the strength of our economy, and I would like to have the benefit of your thoughts on this issue, or on any other matter of concern to you.

Sincerely,

Phil Sharp

Phil Sharp
Member of Congress

PS/tw
Enclosure

Action assigned Mr. Kichline

PHIL SHARP
10TH DISTRICT, INDIANA

2452 RAYBURN HOUSE OFFICE BUILDING
(202) 225-3021

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

1981 OCT 26 AM 10:55

October 23, 1981

#313

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

Dear Chairman Volcker:

The reports this week that the economy is slipping into a recession nationally confirms the conditions the people I represent in Indiana have been facing locally for many months. I am writing to you to urge a change in the monetary policy being pursued by the Federal Reserve System.

The Board of Governors must act to ease its tight money policy and to bring down interest rates. The current high interest rates are seriously damaging important parts of our economy. Interest rates have hurt automobile sales; the housing, construction and real estate industries; farming and small business operations. In recent months, we have seen record numbers of bankruptcies, especially among small businesses. We are seeing a major drop in farm income this year and rising unemployment. These conditions are disastrous in Indiana and other areas where automobile and agricultural production is of great importance.

There has never been, and there is not now, a quick fix to our economic problems, and I know the Federal Reserve System must avoid a sudden and wide swing in monetary policy. But I believe it is essential that the Board of Governors change its current, excessively tight policy.

Congress has enacted tax legislation designed to stimulate greater investment, and work remains for the Congress and the President in controlling budget deficits. I fear, however, that unless monetary policy changes and interest rates decline, revitalization of American business and industry will be postponed indefinitely and millions of our citizens will be without jobs.

Sincerely,

Phil Sharp

Phil Sharp
Member of Congress

Mrs. Mallardi
(V-307)

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

November 19, 1981

PAUL A. VOLCKER
CHAIRMAN

The Honorable Ken Kramer
House of Representatives
Washington, D.C. 20515

Dear Mr. Kramer:

Thank you for your recent letter 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 high cost of credit.

It is important to note that Federal Reserve policy is not directed toward maintaining any particular level of interest rates but rather to 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 a considerable reduction in interest rates since this summer in connection with a weakening of demands for money and credit as economic activity has declined. Short-term Treasury bill rates have dropped 3½ to 4 percentage points from the average level prevailing in August, bank prime rates have been reduced to 16½ percent--from more than 20 percent in August--and some short-term market rates have fallen even more. Long-term market rates also have declined, but by much less, which in part reflects 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 Ken Kramer
Page Two

Some of the damage of severe financial stress can be averted if less of the burden of restraint is placed on monetary policy. As you point out, 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.

I agree with your emphasis on the importance of attitudes and expectations for our economic performance, and like you I am concerned about the increasing signs of pessimism among small businesses and others feeling the impact of high interest rates. It is this same concern about psychological factors, however, that leads me to conclude that an easing of monetary policy would be largely ineffectual in achieving a lasting decline in interest rates. To achieve and sustain a lower level of inflation and interest rates will require a fundamental change in expectations about future price behavior. Not only borrowers and lenders, but also consumers, business and labor must be convinced that they can make plans and commitments for the future with confidence that price increases will be restrained. This conviction will not come about if government policies--both monetary and budgetary--show signs of wavering in their intention to bring down inflation.

I believe we are making some progress in reducing inflation and changing attitudes. I do not underestimate the difficulties of continuing on this course. I hope and trust we will also not underestimate the dangers of ailing 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.

I appreciate very much your taking the time to give me your views on the situation.

Sincerely,

S/Paul A. Volcker

DK:JLK:DS:pjt (#V-307)
bcc: Mr. Kohn
Mr. Kichline
Mrs. Mallardi (2)

Action assigned Mr. Kichline

KEN KRAMER
5TH DISTRICT, COLORADO

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EDUCATION AND LABOR

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

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8933 EAST UNION AVENUE
ENGLEWOOD, COLORADO 80110
(303) 779-6900

October 16, 1981

#307

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1981 OCT 20 AM 8:43
RECEIVED OFFICE OF THE CHAIRMAN

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

Dear Chairman Volcker:

I realize that you have probably received many letters from both the public and private sectors urging the Federal Reserve to review its monetary policies with the objective of reducing the presently high interest rates.

While I respect the Federal Reserve's commitment to a tight money policy in order to combat inflation, high interest rates have become just as serious a problem -if not a more serious problem - than inflation. Therefore, I feel we should move decisively to bring interest rates down.

Of course the long-term solution to both high inflation and high interest rates is to balance the federal budget and restrain government growth and spending. With the backing of the American people, the Administration and the Congress are now working towards a balanced budget through the President's Economic Recovery Program.

In the short term, however, high interest rates are impeding the potential benefits of the President's Economic Recovery Program by limiting the ability of small businesses to obtain credit, which in many cases, is necessary for them to continue operating. The most interest-sensitive small businesses, such as homebuilders and car dealerships are being devastated by high interest rates. Car dealerships all over the nation are being forced to close their doors and housing starts have reached their lowest level in thirty-five years. Not only are builders everywhere losing their businesses, but the cost and unavailability of mortgage loans have placed a home beyond the reach of all but the richest of Americans.

We cannot afford to have America's small businesses go under, especially when they are desparately needed to increase productivity and help get the economy rolling. Nor can we afford to have more people forced out of jobs and onto unemployment rolls. For many, the cure for inflation is becoming worse than the disease. The psychology of the economy is as important as the reality, as the reality will often follow the psychology. It is imperative that we have an atmosphere of hope and cptimism rather than one of despair and gloom.

At this point, high interest rates are having such a disastrous effect on small businesses that the atmosphere of hope is rapidly dissipating. I realize that the Federal Reserve cannot open up the federal floodgates or we will have an exacerbated inflationary spiral, but something must be done about the high interest rates.

In order to maintain an atmosphere of optimism and to assure that high interest rates do not thwart the nation's chances for economic recovery I am urging the Federal Reserve to immediately loosen the nation's money supply enough to bring interest rates down to reasonable levels.

Your cooperation would be greatly appreciated by those of us in the Congress who are committed to reduced government spending and who will continue to fight for a balanced federal budget in order to control inflation and get the economy moving again.

Sincerely,

Ken Kramer

KK:mj

Mrs. Mallardi
(V-309)

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

November 19, 1981

PAUL A. VOLCKER
CHAIRMAN

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

Dear Senator East:

Thank you for your recent letter 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 high cost of credit.

It is important to note that Federal Reserve policy is not directed toward maintaining any particular level of interest rates but rather to 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 a considerable reduction in interest rates since this summer in connection with a weakening of demands for money and credit as economic activity has declined. Short-term Treasury bill rates have dropped 3½ to 4 percentage points from the average level prevailing in August, bank prime rates have been reduced to 16½ percent--from more than 20 percent in August--and some short-term market rates have fallen even more. Long-term interest rates also have declined, but by much less, which in part reflects 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.

As you point out, one measure of money, M1-B, is currently below the 1981 target range set by the Federal Open Market Committee. M1-B, which consists of currency, demand deposits, and NOW accounts, was designed to measure the public's holdings of transactions balances. The Committee also has established targets for other, broader measures of the public's money holdings, and these are at or above the upper limits of their ranges. The Committee is not satisfied with the shortfall of M1-B growth, but it is mindful of the danger that the increase in reserves necessary to bring narrow money to within its target range would foster expansion of the broader aggregates well above their respective targets. The exceptional weakness in M1-B this year may reflect the influence of money market mutual funds and other means for allowing people to minimize their holdings of lower yielding demand or NOW account balances. In an era of rapid innovation in financial practices, growth of a broader aggregate that includes money market funds and other liquid assets could well be a better indication of the thrust of monetary policy than M1-B.

Some of the damage of severe financial stress can be averted if less of the burden of restraint is placed on monetary policy. The credit-sensitive factors 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.

To achieve and sustain a lower level of inflation and interest rates will require a fundamental change in expectations about future price behavior. Not only borrowers and lenders, but also consumers, business and labor must be convinced that they can make plans and commitments for the future with confidence that price increases will be restrained. This conviction will not come about if government policies--both monetary and budgetary--show signs of wavering in their intention to bring down inflation.

I believe we are making some progress in reducing inflation and changing attitudes. I do not underestimate the difficulties of continuing on this course. 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.

I appreciate very much your taking the time to give me your views on the situation.

Sincerely,

S/Paul A. Volcker

DK:JLK:pjt (#V-309
bcc: Mr. Kohn
Mr. Kichline
Mrs. Mallardi (2)

Action assigned Mr. Kichline

JOHN P. EAST
NORTH CAROLINA

United States Senate
WASHINGTON, D.C. 20510

#309

October 7, 1981

The Honorable Paul A. Volcker
Chairman
Board of Governors of the Federal Reserve System
Twentieth Street and Constitution Avenue, N.W.
Washington, D. C. 20511

Dear Mr. Volcker:

Recently I met with a group of home builders from my state, some of whom are on the brink of bankruptcy because of current high interest rates. As you are well aware, high interest rates have had a particularly devastating effect on the construction and automobile industries. Frankly, I feel they are being asked to bear a disproportionately high burden in the fight against inflation. Can nothing be done about this problem?

Let me say at the outset that I am not an advocate of any of the "quick fix" solutions presently before the Congress. I fully appreciate the need for sound, consistent monetary and economic policies, and I yield to no one in my determination to reduce budget deficits by cutting wasteful and extravagant federal spending. I know that there are no easy solutions to this problem.

Nevertheless, I believe that an unduly restrictive monetary policy can be as detrimental to economic recovery as an unduly permissive one. As you know, Secretary Regan suggested recently that the Federal Reserve should ensure "a sufficiency of money to enable the economy to recover nicely."

I have personally inquired of the Treasury Department and have found that M 1-B is presently growing at a rate well below the Federal Reserve's own minimum goal of 3 1/2 percent. Possibly, Secretary Regan is correct in suggesting it is time to ease up a bit.

I can see no good reason why the Federal Reserve should not stick to its own announced targets. If it carries monetary discipline too far it runs the risk of provoking some rash corrective measure from Congress. I know that neither of us would want to see that.

Please give this request careful consideration. My sincerest thanks.

Best wishes,

John P. East

John P. East
United States Senator

JPE:jej

Information copies sent Messrs. Syron, Schwartz, Ettin and Bradfield

United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WASHINGTON, D.C. 20510

October 19, 1981

#308

The Honorable Paul A. Volcker
Chairman
Board of Governors of the Federal
Reserve System
Federal Reserve Building
Washington, D. C. 20006

Dear Chairman Volcker:

On October 19, 1981, the Committee on Banking, Housing and Urban Affairs will begin a series of hearings on four proposed pieces of legislation: S. 1686, S. 1703, S. 1720 and S. 1721.

Included in these bills are proposals for new powers designed to enhance the ability of our nation's depository institutions to compete and remain strong in the evolving financial marketplace, to expand the options available to regulatory agencies in dealing with troubled financial institutions, to remove due-on-sale and usury restrictions that undermine financial institution strength and to enable state and local governments to use NOW accounts.

This letter is a formal invitation to you to appear as a witness for a hearing before the Committee on October 29, 1981. The hearing will be held in Room 5302 of the Dirksen Senate Office Building and will begin at 9:30 a.m.

Enclosed is a copy of the Committee's "Guidelines for Witnesses." While the "Guidelines" ask for 75 copies of your prepared statement, I would greatly appreciate your sending at least 100 copies, for the level of interest in these hearings is particularly high.

If you have any further questions, please call John Collins or Lamar Smith of the Committee's staff at 202-224-7391.

Sincerely,

Jake Garn

Jake Garn
Chairman

JG:lsw
Enclosure

Mrs. Mallardi
(V-306)

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

November 4, 1981

PAUL A. VOLCKER
CHAIRMAN

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

Dear Mr. Paul:

Your letter of October 15 asks for our counsel's opinions on certain legal effects of amendments to the Monetary Control Act that would limit the Federal Reserve's ability to purchase foreign government securities to bonds denominated in the currency of the issuing government and to debts of governments with which the Federal Reserve System has swap agreements.

With regard to specific questions you raise, counsel advises that the amendments you propose would not appear to (a) prevent the use of foreign government obligations as collateral for Federal Reserve notes, or (b) narrowly limit the number of governments whose debt could be purchased, in the sense that the Federal Reserve, with the agreement of the foreign country, theoretically could expand the network of swap agreements.

More broadly, if I understand the intent of the amendments, they would attempt to codify the basic rationale for the authority provided in the Monetary Control Act--that is to provide a convenient and assured investment outlet for foreign currency balances acquired as a result of foreign exchange market activities. However, I should also point out the amendments could be undesirably rigid in some respects, even viewed in that appropriate context. Swap agreements are, of course, two sided, and circumstances may arise in the future such that either the Federal Reserve or a foreign central bank may not find a swap agreement desirable or generally needed, even though we may acquire currency balances of that country. For example, the foreign central bank may feel that it has access to sufficient dollars without an ongoing facility--i.e., a "swap"--for, in effect, borrowing them directly from the Federal Reserve. At the same time, we may find that exchange market operations undertaken in the normal course of managing the nation's foreign exchange reserves lead to holdings of that country's currency. It would be desirable, under the circumstances, still to be able to earn interest on those holdings through the convenience of investing the funds in the foreign government's securities.

The Honorable Ron Paul
Page Two

If it were felt that something like the proposed amendments were in fact needed, more general language limiting investments in governmental securities of foreign countries to the employment of currencies acquired in the course of exchange market operations would be more appropriate.

In any event, I believe the purpose of the existing provision has been well documented in testimony and floor statements during Congressional consideration of the Monetary Control Act and in subsequent statements. In the circumstances, I question whether further legislative clarification is necessary.

Sincerely,

S/ Paul

SHA:PAV:pjt (#V-306)
bcc: Mr. Axilrod
Mrs. Mallardi (2)

Action assigned Mr. Bradfield

RON PAUL
22ND DISTRICT, TEXAS

ROOM 1234
LONGWORTH HOUSE OFFICE BUILDING
(202) 225-5951

COMMITTEE ON BANKING,
FINANCE, AND URBAN AFFAIRS

RANKING REPUBLICAN
SUBCOMMITTEE ON GENERAL OVERSIGHT

MEMBER, UNITED STATES GOLD
POLICY COMMISSION

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

CONSTITUENT SERVICE CENTERS:

1110 NASA ROAD 1, SUITE 100
HOUSTON, TEXAS 77058
(713) 486-8583

6711 BELLFORT AVENUE, SUITE 307
HOUSTON, TEXAS 77087
(713) 226-4636

2116 THOMPSON HIGHWAY, SUITE 105
RICHMOND, TEXAS 77469
(713) 226-4568

101 OYSTER CREEK DRIVE
LAKE JACKSON, TEXAS 77566
(713) 297-3961

CONGRESSIONAL HOTLINES:
HOUSTON: (713) 237-1550
LAKE JACKSON: (713) 297-0202

October 15, 1981

#306

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

Dear Mr. Volcker:

Two amendments to the Monetary Control Act have been suggested. I am writing for the purpose of soliciting your counsel's opinions on what effects these amendments would have on the Federal Reserve's power to (1) purchase the obligations of foreign governments or international agencies; (2) use those obligations as collateral for issuing Federal Reserve notes.

The first amendment (H.R. 3407) would specify that the Fed could purchase only bonds denominated in the currency of the issuing government. The second suggested amendment would permit the Fed to purchase only the debts of governments with which it has swap agreements.

Would either of these amendments prevent the use of foreign government obligations as collateral for issuing Federal Reserve notes? Would either amendment limit the number of governments the debt of which the Fed could purchase, i.e., are not swap agreements arrived at by the Fed independently of Congress? What practical limitations, if any, would be imposed by these amendments?

Sincerely,

Ron Paul

Ron Paul
Member of Congress

RP/jr

1981 OCT 19 PM 10:02

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

November 17, 1981

PAUL A. VOLCKER
CHAIRMAN

The Honorable Charles McC. Mathias, Jr.
United States Senate
Washington, D.C. 20510

Dear Senator Mathias:

Thank you for your letter concerning monetary policy. I understand the concerns which prompted you to write. The growth of M1-B, to which you referred, is below our target ranges for the year. However, as a result of the development of money market funds and other financial innovations, the growth of the "effective" money supply has in my view been somewhat understated. It has become clear to me that less money narrowly defined is now needed to finance any level of growth in the economy then may have earlier been the case. The broader measures of money--M2 and M3--are now at the top or above our ranges. For these reasons, I believe monetary policy has on balance been about right.

Over time the Federal Reserve remains committed to the objective of achieving monetary growth that is consistent with an expanding but non-inflationary economy. I must tell you that our control over monetary growth is quite limited over the short run, so much so that I would question the feasibility and indeed the possibility of "fine tuning" such as you appear to be recommending.

You note your concern about the strongly inhibiting impact that high interest rates are having on certain sectors of the economy. I share that concern. The underlying cause of high interest rates is, of course, our continuing problem of inflation. In my judgment, monetary policy still is carrying too much of the burden in our anti-inflationary fight. The result is more strain and pressure on financial markets and credit-dependent sectors of the economy than is desirable or necessary. Monetary restraint has to be supplemented by other actions, particularly measures to reduce the federal deficit. Obviously, a solid beginning has been made by the Congress in this area but much more needs to be done.

I appreciate your continuing interest in monetary policy and I would be pleased to discuss these issues further with you.

Sincerely,

Paul

NB?DS:pjt (#V-317)
bcc: Mr. Bernard
Mrs. Mallardi (2)

CHARLES McC. MATHIAS, JR.
MARYLAND

Action assigned Mr. Axilrod

United States Senate
WASHINGTON, D.C. 20510

BOARD OF GOVERNORS
FEDERAL
1981 OCT 30 PM 1:51
RECEIVED
OFFICE OF THE CHAIRMAN

October 28, 1981

#317

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

Dear Mr. Chairman:

News reports recently state that the Federal Reserve has tightened the growth of the money supply (M1-B) to such an extent that the growth rate is far below the Board's target range of 3.5 percent to 6 percent for this year.

The resulting high cost of money, in the form of high interest rates, has seriously inhibited the normal functioning of certain economic sectors, most notably housing, small business, and farming. This, in turn, has forced job layoffs and unprecedented slowdowns in products and services which those sectors provide.

The pent-up demand for those products is growing at a dangerous rate, threatening to explode once relief in interest rates occurs.

For these reasons, I think it is important that the Board carefully fine tune monetary policy in keeping with these factors.

Thank you for your attention to this matter.

With best wishes,

Sincerely,

C. McC. Mathias

Charles McC. Mathias, Jr.
United States Senator

CM:mtm

November 16, 1981

The Honorable Harold L. Volkmer
House of Representatives
Washington, D. C. 20515

Dear Mr. Volkmer:

Thank you for your thoughtful letter concerning deregulatory actions by the Depository Institutions Deregulation Committee. You made specific reference to the concerns of thrift industry officials about the new IRA/Keogh account, scheduled to go into effect on December 1, 1981, and the new rule which permits four week averaging of bill rates in establishing new ceiling rates on money market certificates. Thrift industry officials are also concerned, as you further noted, about the possible adoption of new deregulated deposit instruments at the next meeting of the DIDC to be held on December 16.

Please be assured that I understand the concerns of the thrift industry and I will review them very carefully in arriving at my decision on these issues.

Should you wish to do so, I would be pleased to discuss these matters personally with you.

Sincerely,

S/Paul A. Volcker

NB:WRM:vcd (V-327)

bcc: Mr. Bernard
Mrs. Mallardi (2)

Action assigned Mr. Bernard

HAROLD L. VOLKMER
9TH CONGRESSIONAL DISTRICT
MISSOURI

1007 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-2956

HOUSE COMMITTEE ON
AGRICULTURE

HOUSE COMMITTEE ON
SCIENCE AND TECHNOLOGY

MINDY A. TRACHTENBERG
ADMINISTRATIVE ASSISTANT

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

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DISTRICT ADMINISTRATOR
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1181 S. DUCHESNE
ST. CHARLES, MISSOURI 63301
(314) 946-5649

122 BOURKE
MACON, MISSOURI 63552
(816) 385-5615

#327

November 9, 1981

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

Dear Chairman Volcker:

I would like to bring the following matter to your attention as an Ex Officio Member of the Depository Institutions Deregulation Committee.

Recently, I had the opportunity to discuss, with the Savings and Loan industry of Missouri, the problems they are facing and was quite impressed with their concern over the scheduled actions of the Depository Institutions Deregulation Committee (DIDC). Of most concern are those regulations implementing the "wild card" 18-month IRA-Keogh Certificate and the Four-week averaging Money Market Certificate rates.

I urge you to very carefully review these actions for the adverse impact they will have on the savings and loan industry before they are implemented, as well as take a second look at any of the proposed DIDC actions concerning interest rates or new types of accounts which are purported to "help" the industry.

The industry spokesmen are quite concerned that if they receive any more "help" from the DIDC, they are not going to be able to meet the urgent needs of savers and the pent-up demands of the homebuyers of America.

If I can be of any assistance on this or any other matter, please do not hesitate to get in touch with me at 225-2956.

With best regards, I am

Respectfully yours,

Harold L Volkmer

Harold L. Volkmer
Member of Congress

HLV/dlm/am

cc: Depository Institutions Deregulation Committee

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

November 10, 1981

PAUL A. VOLCKER
CHAIRMAN

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

Dear Senator Pryor:

I appreciate the opportunity to respond to your thoughtful letter concerning decisions made by the Depository Institutions Deregulation Committee (DIDC) at its meeting on September 22. You expressed concern about three of those decisions, including the rate increase of one-half percentage point on passbook savings. I share the latter concern, and voted against the increase both when first introduced and at the time it was reconsidered. As you know, the DIDC reversed its earlier decision and voted to rescind the increase which would otherwise have gone into effect on November 1.

With regard to the new IRA/Keogh account, I was persuaded by the argument that the major expansion in eligibility voted by Congress will lead to large inflows of new IRA/Keogh funds and that the competition for such funds, including that from insurance companies and brokerage firms, will be strong. In the circumstances, I felt it was very important to give depository institutions an instrument that will provide them the opportunity to compete effectively in a much enlarged market. I am also persuaded that IRA/Keogh deposits provide a relatively stable source of funds that over time may enhance the availability of funds to the housing industry.

With respect to the new formula which permits a higher rate on six-month MMCs when a four-week moving average on six-month Treasury bills exceeds the latest auction result, I would note that its purpose is again to improve the ability of depository institutions to compete with other institutions for these types of funds. Specifically, the alternative methods of calculating MMC interest ceilings will enable banks and thrift institutions to be more competitive with money market mutual funds throughout the interest rate cycle.

I can understand your concerns and I want to assure you that I share your objectives for a viable thrift industry and a strong economy. I would be happy to discuss these matters further with you, and I will in any event keep your concerns firmly in mind at future DIDC meetings.

Sincerely,

S/Paul A. Volcker

(NB:RS):AFC:vcd (V-326)

cc: Mr. Bernard
Mrs. Mallardi (2)

Action assigned Mr. Bernard

DAVID PRYOR
ARKANSAS

248 RUSSELL SENATE OFFICE BUILDING
WASHINGTON, D.C. 20510
(202) 224-2353

ARKANSAS OFFICE:
3030 FEDERAL BUILDING
LITTLE ROCK, ARKANSAS 72201
(501) 378-6336

United States Senate
WASHINGTON, D.C. 20510

COMMITTEES:
AGRICULTURE, NUTRITION, AND FORESTRY
GOVERNMENTAL AFFAIRS
SPECIAL COMMITTEE ON AGING
SELECT COMMITTEE ON ETHICS

November 2, 1981

1981 NOV -6 AM 8:55

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

#326

Dear Mr. Chairman:

In approving the Depository Institutions Deregulation and Monetary Control Act, the Congress clearly gave the Depository Institutions Deregulation Committee a mandate to raise returns on small savers' accounts to the market level; however, it deliberately left the timing of such increases indefinite to allow the DIDC to adjust the changes to the state of the economy.

Now the DIDC has approved or is considering certain changes which might better be postponed to a later date. The savings and loan industry in particular is concerned about DIDC decisions on passbook savings, the six-month money market certificate index and the IRA/Keogh "wild card."

The industry argues that the increase in the passbook rate, for example, will not help small savers but would seriously harm S & L's all over the country and would offset the recent gains from the All Savers certificates. The U.S. League of Savings Associations estimates that the change in passbook rates will cost their institutions around $500 million over the next year, that the MMC index change will cost about $300 million, and that the "wild card" could cost well over $800 million.

During the August recess members of Congress found that the number one concern among our constituents is high interest rates, especially mortgage rates. In fact, there is near panic among many segments of the population, including small businessmen, potential homebuyers and farmers. While I sympathize with small savers, who have subsidized borrowing for many years, I question the wisdom of increasing the price of certain funds at this critical time. I am hopeful that in the next few months the effects of the President's economic policies will begin to exert downward pressure on interest rates and that we will then be able to implement the small savers provisions without further harming our economy.

I was pleased to note that the Committee has delayed the implementation date on the passbook decision and hope this delay indicates a willingness by the members of the DIDC to closely consider the effects of the timing of these recent decisions and others to come.

Sincerely,

David Pryor

David Pryor

DP/alj

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

November 10, 1981

PAUL A. VOLCKER
CHAIRMAN

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

Dear Mr. Skeen:

Thank you for your recent letter expressing concern about the extraordinarily high levels of interest rates we have been experiencing. Let me assure you that I share your concern about the nation's economic difficulties and am well aware of the hardship imposed upon the groups and individuals you mention.

Unfortunately, there is no "quick fix" to our major problem, which is inflation. A sustained lowering in the level of interest rates and a generally improved economic performance can only be achieved by a reduction in inflation and in the deeply entrenched expectations of continued rapid price escalation.

We at the Federal Reserve believe that by maintaining our policy of gradual reduction in monetary growth we offer the best prospect of an ultimate return to price stability. Such a policy minimizes the risks of either a precipitous disruption in economic activity or renewed upward pressures in inflation.

Some progress is being made. Since you wrote, short-term rates have declined sharply. The declines in long-term interest rates have been smaller, reflecting in part continued skepticism that inflation will be brought under control. In these circumstances, any indication that the Federal Reserve was attempting to artificially reduce interest rates by too aggressively expanding the money supply would nullify the progress we have already made toward reducing inflation and inflationary expectations. Rather than declining, interest rates would probably increase, possibly to levels higher than we have already experienced.

Thus, the Federal Reserve must remain committed to a policy of moderate monetary growth. Of course, the financial pressures associated with such a policy would be less painful for the economy if, at the same time, pressures on the financial markets were relieved by decisive action to curb the growth of the federal budget deficit and thereby reduce public sector borrowing requirements.

At any rate, we do see signs of progress, and I am convinced our policy will prove successful over time in returning to economic prosperity.

Sincerely,

S/Paul A. Volcker

CG:GB:JSZ:NS:RS:PAV:vcd (V-293)

bcc: Ms. Glassman
Ms. Salus
Ms. Wing
Mr. Burghardt
Mrs. Mallardi (2)

Action assigned Jim Kichline

1508 Longworth House Office Building
Washington D.C. 20515
202-225-2365

Committees:
Agriculture
Science and Technology

Suzanne Eisold
Administrative Assistant

Congress of the United States
House of Representatives

Joe Skeen
2nd District, New Mexico

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(505) 524-8022

300 W. Arrington
Farmington, New Mexico 87401
(505) 327-4933

#213

September 18, 1981

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

Dear Mr. Volcker:

Today's interest rates are the highest this nation has seen in over a century. We believe that 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 if 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 1900 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 my opinion are now one of, if not the major, roadblock to economic recovery. I urge you to review the policies of the Federal Reserve and to take actions to lower interest rates.

Sincerely,

JOE SKEEN
Member of Congress

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

November 10, 1981

PAUL A. VOLCKER
CHAIRMAN

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

Dear Mr. Archer:

Thank you for your recent letter requesting comment on the adoption of disclosure requirements relating to the All Savers Certificates ("ASCs") suggested by the National Association of Home Builders ("NAHB") and the National Association of Realtors ("NAR"). The NAHB and the NAR are concerned with the need for a better reporting system to ensure that depository institutions are complying with the housing tie-in mandated by the legislation.

We believe that it is important that Congress' intent that ASCs lead to expanded investment in qualified residential financing be met. To this end, members of the Board's staff, in conjunction with the Federal Financial Institutions Examination Council ("FFIEC"), are developing examination procedures designed to ensure compliance with the requirement contained in the legislation that depository institutions place an amount equal to 75 percent of either the previous quarter's net increase in ASCs or qualified net savings in qualified residential financing by the end of the next quarter. These standardized procedures will be presented to the FFIEC in the near future, and we believe that their adoption will provide a sufficient basis for the agencies to ensure that depository institutions in their jurisdiction comply with the legislation and current regulations.

With respect to the suggestion that depository institutions be required to make monthly reports of compliance, we have serious reservations about increasing the paperwork burden on depository institutions, particularly smaller institutions, in view of Congressional legislation, such as the Paperwork Reduction Act, which requires federal departments and agencies to minimize reporting burdens.

We also believe that public disclosure of the information sought by the NAHB and NAR could put an institution at a competitive disadvantage, since such information would reveal the investment and lending strategies of the institutions. Public disclosure of this information could also compromise the integrity and confidentiality of the examination process. It should also be noted that the information sought is generally exempt from disclosure under federal law.

We believe that the current regulatory requirements--that an executive officer of a depository institution certify that the institution has complied with the requirements to extend qualified residential financing, and that the work papers supporting the certification be made available to examiners--enable the individual agencies to ensure that the intent of Congress in authorizing ASCs is carried out. We also believe that sufficient sanctions exist for institutions to comply with the requirements of the legislation. We will, of course, continue to monitor developments in this area to ensure that the tie-in to residential financing as required by the legislation is complied with.

Thank you for your comments on this issue.

Sincerely,

S/Paul A. Volcker

DR:GTS:DJW:NS:RS:vcd (V-295)

bcc: Dan Rhoads
Gil Schwartz
G.C. Log #311
Legal Records (2)
Naomi Salus
Mrs. Mallardi (2)

Action assigned Mr. Bradfield

BILL ARCHER
7TH DISTRICT, TEXAS

MEMBER:
WAYS AND MEANS
COMMITTEE

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

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

WASHINGTON OFFICE:
1135 LONGWORTH
HOUSE OFFICE BUILDING

DISTRICT OFFICE:
FEDERAL OFFICE BUILDING
HOUSTON, TEXAS 77002

#295

October 7, 1981

Dear Mr. Chairman:

I am enclosing a copy of a letter sent to you yesterday by the National Association of Home Builders and the National Association of Realtors regarding the need to enact a more efficient reporting system with regard to the All Savers Certificate housing tie-in.

I worked very hard in the Ways and Means Committee during the consideration of the tax bill to see that the provisions of the All Savers Certificate included a tie-in to residential financing. In order to insure that this requirement is met, I would like to encourage that you consider adopting a rule along the line of that advocated in the enclosed letter. The intent of the Congress in passing this provision was to provide the American people with a source of increased mortgage financing and I would very much appreciate your consideration in this matter.

Sincerely,

Bill Archer

Bill Archer
Member of Congress

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

THIS STATIONERY PRINTED ON PAPER MADE WITH RECYCLED FIBERS

NATIONAL ASSOCIATION OF HOME BUILDERS
NATIONAL ASSOCIATION OF REALTORS®

October 6, 1981

Mr. Paul A. Volcker
Chairman
Federal Reserve System - The Board of Governors
Constitution Avenue & 20th St., N.W.
Washington, DC

Dear Chairman Volcker:

We are writing you in your capacity as Chairman of the Federal Reserve System concerning the recently issued regulations promulgating the so-called All Savers Certificates (ASCs) passed by Congress in the Economic Recovery Tax Act of 1981. We wish to express our views on the need to provide a more efficient reporting system with respect to the ASCs housing tie-in mandated by the Act.

As you are no doubt aware, millions of American families are currently prevented from buying a home due to the high cost and unavailability of mortgage financing. In addition, depository institutions, the traditional source for home mortgages, have suffered from runaway inflation, bank deregulation and changing saver habits. To respond to this pervasive problem, the Congress has granted depository institutions access to tax-exempt financing via the ASCs. In doing so the Congress stated its intent in the Conference Report accompanying the legislation that participating institutions will use the ASC proceeds "to provide residential financing by the end of the subsequent calendar quarter."

The regulations provide overall requirements that must be observed by institutions offering the ASCs. In order to give more specific guidance to institutions, what is needed now are rules enunciating the reporting format envisioned in the current regulations and providing for public access to each institution's report on the housing tie-in. Only in this way will institutions know with certainty what information is called for by the regulations and only in this way can members of an institution's local community know with certainty that the institution's investments are consistent with the intent of Congress.

On behalf of the more than 800,000 individuals represented by our organizations, we urge you to adopt rules to provide for monitoring of the ASC housing tie-in on a 30-day basis and public access to documents outlining each institution's progress in providing the residential financing envisioned by Congress. In this way, the residents of each community will know, on a timely basis, of a depository institution's housing investments and gain confidence in the ASC program and its favorable impact in their community. The 30-day system should provide for the same certifications currently proposed in the regulations but with the added requirements of a standardized reporting format and public disclosure by each institution of the reports and a summary of the account balances and investments used to prepare the report. The disclosure could be similar to that currently required in the Community Reinvestment Act. In addition, the report should delineate the total amount that was required to be put into qualified residential financing and the amount placed into each of the eight types of financing specified in the ASC legislation.

We believe this proposal would respond to the concerns raised in Congress and in the private sector with respect to the reporting requirements and enforcement of the ASC housing tie-in. We urge your immediate action and pledge our support and assistance.

Sincerely,

Herman J. Smith

Herman J. Smith, President
NATIONAL ASSOCIATION OF HOME BUILDERS

John R. Wood

John R. Wood, President
NATIONAL ASSOCIATION OF REALTORS®

Mrs. Mallardi
(V-297)

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

November 2, 1981

PAUL A. VOLCKER
CHAIRMAN

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

Dear Mr. Albosta:

I want to thank you for your recent letter expressing concern about high interest rates. I understand and sympathize with your views about the detrimental effects of high rates of interest on the economy, and particularly on home builders, small businesses, and farmers. But I think that it is important to keep in mind that inflation and heavy government borrowing are major contributing factors to these high costs of credit.

If the Federal Reserve were to adopt an easier monetary policy to try to artificially reduce interest rates, the eventual result would be heightened inflation and inflationary expectations, leading to even higher interest rates. I would point out that although there is room for M1-B to grow faster than recently and still remain within its target range, the broader M2 aggregate has been expanding at a pace near the top of its target range. Any move toward easier money, such as the reduction in reserve requirements which you suggest, would thus be likely to cause M2 growth to substantially exceed the prescribed target range. This development would undoubtedly be widely interpreted as a capitulation in the fight against inflation. Rates of interest would accordingly be apt to rise sharply again despite the outpouring of newly created money.

I appreciate your suggestion about the appointment to the Federal Reserve Board of people with a strong background in farming or small business. I do think it important that Board membership reflect a variety of backgrounds and geographic representation, and I believe this has been the case over time. However, as you may recall, the law provides for such appointments to be made by the President--not by the Federal Reserve Board--with the advice and consent of the Senate.

Lasting relief from the high interest rates that are constraining economic activity can be assured, I am convinced, only by curbing the inflation--and the high interest rates and imbalances that it spawns--by remaining committed to a policy of gradually moderating the growth of money and credit. I see

The Honorable Don Albosta
Page Two

some signs of progress in unwinding the inflationary spiral, and I remain hopeful that a consistent stance of monetary restraint, coupled with prudent fiscal policies, will assure a healthier economic environment for us all.

Thank you for giving me the benefit of your thoughts on these issues.

Sincerely,

S/Paul A. Volcker

XAKX

PAV
AK:RMF:JSZ:RS:pjt (#V-297)
bcc: Mr. Fisher
Mr. Kling
Ms. Wing
Mrs. Mallardi (2)

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

October 29, 1981

The Honorable William Proxmire
United States Senate
Washington, D. C. 20510

Dear Senator Proxmire:

Thank you for the opportunity to comment on the enclosed letter from Mr. D. A. Blanke, President of the First National Bank, Wisconsin Rapids, Wisconsin. Mr. Blanke has expressed some concern over the disparity in the rate which the Treasury charged on Treasury Tax and Loan deposits and the rate of return on the sale of these funds for the reserve week ending September 23.

As Mr. Blanke indicated, the Treasury Department imposes a fee for funds held by Treasury Tax and Loan depositories, such as the First National Bank of Wisconsin Rapids, that exceed a pre-established ceiling. The Treasury charges for these excess deposits at a rate of 1/4 percentage point less than the national average Federal funds rate. In order to determine the daily average Federal funds rate, the New York Federal Reserve Bank calls several funds brokers in New York City each day to determine a representative sampling of funds traded. These rates are weighted by volume and an average is taken to arrive at the effective rate for the day. A mean average is taken of the daily rates to compute the weekly national average Federal funds rate, listed on the enclosed statistical release. This is the rate which the Treasury discounts by 1/4 percentage point in order to compute charges for Treasury Tax and Loan purposes. Depending upon regional market conditions, however, any given financial institution may find that its own return on Federal funds in a particular week is lower than or higher than the national average rate.

Since the Federal Reserve Banks act in the capacity of fiscal agents for the Treasury Department in handling Treasury Tax and Loan Accounts, we have forwarded your inquiry to Mr. William E. Douglas, Commissioner, Bureau of Government Financial Operations, Department of the Treasury, for any additional comments he may wish to make.

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

cc: Mr. William E. Douglas
MLB:AFC:CO:vcd (V-300)
bcc: Mr. Bermudez
Mrs. Mallardi

Enclosures (H.15)

Cong. Liaison Office will do memo to Chairman

United States Senate
COMMITTEE ON ARMED SERVICES
WASHINGTON, D.C. 20510

October 7, 1981

#297

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

Dear Mr. Chairman:

We have been requested by one of our many Mississippi small businessmen to ask you to meet with them here in Washington to discuss the issue of high interest rates and the resulting desperate financial difficulties. The group that desires to meet with you is primarily in the home building supply and forest products industry, with membership in the National Forest Products Association, Mississippi Lumber Manufacturers Association, Southern Forest Products Association, Southern Hardwood Manufacturers Association, Mississippi Forestry Association, and the Mississippi Manufacturers Association.

They are meeting on the 13th of October to formulate their concerns and suggestions and would plan for 100 to 200 of them to meet with you sometime after that date.

If you could accommodate them, we would be most grateful. We will get the appropriate people of their organizations to contact you or your staff to make the necessary arrangements.

With kind regards,

Sincerely,

John C. Stennis
JOHN C. STENNIS
United States Senator

Trent Lott
TRENT LOTT
Member of Congress

Thad Cochran
THAD COCHRAN
United States Senator

G. V. Montgomery
G. V. (SONNY) MONTGOMERY
Member of Congress

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

October 28, 1981

PAUL A. VOLCKER
CHAIRMAN

The Honorable Jim Dunn
House of Representatives
Washington, D. C. 20515

Dear Mr. Dunn:

Thank you for your recent letter regarding the problem of high interest rates. We at the Board share your deep concern about the economic health of our nation and we want to do what we can to foster economic expansion.

It is our aim, however, to make sure that economic expansion is sustainable, and the weight of historical evidence is that there cannot be sustained prosperity in an environment of rapid inflation. For this reason, we have committed ourselves to a policy of moderating the growth of money, recognizing that progress toward price stability otherwise will be impossible.

While we would like to see an easing of interest rates, we do not believe that it would be fruitful to pursue that objective by abandoning our course of monetary restraint. Such an action would have disastrous effects on the attitudes of participants in financial markets. Borrowers and lenders alike would respond in a fashion that would widen the "inflation premium" in interest rates that serves to compensate for the lower purchasing power of the dollars used to repay debts. I think it could be argued that the recent poor performance of the bond markets demonstrates the potential for such a development, although in this case it has been fears of the possible inflationary consequences of large federal budget deficits that has troubled many investors.

You suggest that we may be restraining too severely the growth of money. I would be the first to grant that there are broad areas of judgment involved in monetary targeting. As we look at the several monetary aggregates we follow, however, we do not see evidence of excessively sharp deceleration in monetary expansion.

At bottom, I'm afraid the crux of the matter is that, in attempting to turn back a tide of inflation that has been mounting for more than a decade, economic and financial stress is almost inevitable. It is encouraging, however, that out of this pain is coming some progress--price increases on average have slowed this year. If we stick to our guns--with both monetary and fiscal policy maintaining postures of restraint--I think we can look forward to a gathering momentum in the process of disinflation, with an accompanying easing of financial tensions. On the other hand, if we flinch at this juncture, I fear that we will only be repeating the mistakes of the past and squandering the hard-earned gains we have made.

Again, thank you for writing. I value the counsel of you and your colleagues in the Congress and view our continuing dialogue as inevitably contributing to the improvement of public policy.

Sincerely,

S/Paul A. Volcker

MJP:JLK:vcd (V-303)

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

Action assigned Mr. Kichline

JIM DUNN
6TH DISTRICT, MICHIGAN

COMMITTEES:
SCIENCE AND TECHNOLOGY
VETERANS' AFFAIRS

Congress of the United States
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

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JACKSON, MICHIGAN 49201
(517) 787-4323

October 15, 1981

#303

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

Dear Mr. Chairman:

Today I personally delivered to Governor Partee of the Federal Reserve Board a barrelful of keys. These keys were sent by citizens hit hard by unprecedented high interest rates. They symbolize the inability of families to buy the homes and cars they've dreamed of owning. The sending of these keys to their representatives reflects their desperation and misery in being locked into an economic prison. I did not want this message to stop here; many of these keys belong to you and your colleagues on the Board.

My state of Michigan, as is well-known, was suffering economic disaster even before the advent of these crippling interest rates. Industries basic to my state are the most vulnerable to explosive rates and are now fighting financial paralysis. Unemployment is still at an inhuman level, and those with an income find themselves unable to purchase under credit terms currently demanded.

The rest of the country is calling for relief as well. The money supply need not be held at as tight a level as it is. This country cannot sacrifice certain major industries, small business, and many hardworking families in the name of economic theory. We in Congress have been cutting budgets and are reducing deficits. The Federal Reserve must play its part in the economic recovery of this country. I and thousands of former key holders ask that you start now.

Sincerely,

Jim Dunn

Jim Dunn
Member of Congress

JD/wsm

1. –

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

October 28, 1981

PAUL A. VOLCKER
CHAIRMAN

The Honorable Douglas Applegate
House of Representatives
Washington, D.C. 20515

Dear Mr. Applegate:

Thank you for your recent letter regarding the economic situation and the impact of high interest rates. The conditions you describe in your district are most distressing, and, of course, they are not unique to your area. I am well aware that these are difficult times for many households, businesses, and governmental units across the country.

High interest rates are an important factor in the difficulties of many industries today, but I think it must be recognized that other problems exist as well--including prominently in some of the instances you note years of unrealistic wage and price increases that have made American firms less competitive in the world marketplace. Indeed, inflation more broadly is at the root of much of the economic stress we face, including high interest rates.

There is simply no way that I know of to reduce interest rates on a sustained basis without restraining inflation and lowering the inflationary expectations of borrowers and lenders. To be sure, the Federal Reserve could flood depository institutions with reserves and drive down very short-term interest rates. But this would yield, at most, temporary relief from high short-term rates, lasting only until the resultant inflationary monetary expansion led to still greater pressures of credit demands on credit supplies, and the market's anticipation of such effects might even result quite quickly in higher longer-term rates. Public confidence in the Federal Reserve's commitment to anti-inflationary monetary restraint is absolutely essential if there is to be a durable easing of interest rates. And, as has been indicated by the behavior of the bond markets in recent months, a credible commitment to fiscal restraint--to the ending of our persistent federal budgetary deficits--is also crucial.

I believe we are beginning to see signs of progress in the fight against inflation. I would hope that the psychological momentum that has made that progress so difficult will begin to turn decisively in a more favorable direction, bringing about an easing of financial tensions and paving the way to better economic performance. To shift gears in monetary policy at this juncture, it seems to me, would be to repeat the mistakes of the past and to lose the hard-earned gains we have made to date.

I welcome this opportunity for an exchange of views on these important matters. A sincere dialogue can only be constructive as we work together to frame monetary and fiscal policies that will serve the interests of our nation.

Sincerely,

S/Paul A. Volcker

MJP:JLK:CO:pjt (#V-301)
bcc: Mr. Kichline
Mr. Prell
Mrs. Mallardi (2)

Action assigned Mr. Kichline

18TH DISTRICT, OHIO
435 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
202-225-6265

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ST. CLAIRSVILLE 614-695-4600
NEW PHILADELPHIA 216-343-9112
EAST LIVERPOOL 216-385-5921

COMMITTEES:
PUBLIC WORKS AND TRANSPORTATION
VETERANS' AFFAIRS

DOUGLAS APPLEGATE
UNITED STATES HOUSE OF REPRESENTATIVES

October 14, 1981 #301

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

Dear Mr. Volker:

"Now is the time for all good men to come to the aid of their country."

These, of course, are words we first used on the typewriter, but there is now a stronger meaning and need for the fulfillment of these words today. America is hurting, Mr. Chairman, and I am appealing at this time to your good sense of economic judgement and sensitivity to people who are financially hurting in an effort to reverse this trend.

Established business people, blue collar workers, and young people alike, are suffering as well as the nation's established institutions. One need only look at this nation's basic industries such as housing, automobiles, steel, and the like to see the devastating financial effects that the Federal Reserve's tight money policies are having. Further, the repercussions in terms of massive nationwide unemployment and an overall depressed economy are severe. The situation won't get any better either, if you and your board continue to severely restrict the use of available money to these people.

Loosen the reigns, Mr. Chairman, lest we suffer the worst recession since the 1930's! The nation needs an economic stimulus which you can provide by acting in this matter.

I live and represent eastern Ohio, an area where steel mills and coal mines have laid off over 5,000 people in the last 60 days. This, coupled with thousands of existing lay offs, brings the unemployment rate in my congressional district to well over 11% and worse yet, there is no economic relief in sight.

Interest rates must come down or the economic foundation upon which this nation is built will begin to quickly deteriorate. I am aware of the possibility of increased inflation if interest rates are allowed to decline, but no one can say that that will be the end result for sure. I believe we should be given the chance to find out for sure. After all, what good is lower inflation if high interest rates keep America from working.

Now is the time to let the market place establish the economic levels needed to sustain the economy. Enough is enough! Let's get the nation working again. Otherwise, the consequences will be catastrophic.

Yours truly,

DOUGLAS APPLEGATE
U.S. CONGRESSMAN

DA/kmp

October 26, 1981

Mr. John Pearson
Page County Appliance Center, Inc.
517 West Sheridan Avenue
Shenandoah, Iowa 51601

Dear Mr. Pearson:

Congressman Harkin forwarded your letter to me in which you indicate concern about high interest rates.

I very much understand your concerns over the intense pressures faced by many firms and individuals as a result of high interest rates. We all very much want to see lower interest rates, but a sustained lower level of rates can only be achieved by a reduction in inflation and inflationary expectations. The Federal Reserve could attempt to lower interest rates only by expanding the supply of money at an accelerated pace. Such a policy, however, would shortly add fuel to the fires of inflation and lead to still higher rates.

I believe we are beginning to see some signs of progress in unwinding the inflationary spiral, and I remain hopeful that a consistent stance of monetary restraint, coupled with prudent fiscal policies, will prove successful over time in returning the country to prosperity.

Sincerely,

S/Paul A. Volcker

cc: Congressman Tom Harkin

LW:JLK:vcd (V-311)

bcc: Ms. Wing
Mrs. Mallardi (2)

tion assigned Mr. Kichline

TOM HARKIN
5TH DISTRICT, IOWA

2411 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-3806

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HEARING IMPAIRED
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AGRICULTURE
SCIENCE AND TECHNOLOGY

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

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(712) 325-5533

113 W. MONTGOMERY STREET
CRESTON, IOWA 50801
(515) 782-5727

October 21, 1981 #311

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

Dear Mr. Volcker:

Enclosed is a letter I received recently from Mr. John Pearson of Shenandoah, Iowa. He has asked me to forward it to you. Mr. Pearson is upset over high interest rates.

Any attention you can give to his concerns would be appreciated. Thank you for your assistance in this matter.

Sincerely,

Tom

Tom Harkin
Member of Congress

TH/ts

Enclosure

PAGE COUNTY APPLIANCE CENTER, INC.

JOHN AND MARGARET PEARSON
517 WEST SHERIDAN AVE. PHONE 712-246-2285
SHENANDOAH, IOWA 51601

FRIGIDAIRE

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RADIO
TELEVISION

SEP 30 1981

1650

9-26-81

Mr. Volker:

as you sit in your chair and you say you are right and we are all wrong and that it will hurt and you are right it is hurting to the point that it is breaking us. Now a few of us came up with a way of maybe hurting you so you know how it feels. I cashed in my savings bonds and two of my friends cashed in over $10,000 dollars worth today. If we can get more people in town to follow plus get some news coverage on this so it can go nation wide maybe you can hurt also. If just 40% of the people will cash in their bonds, I think you will have the same problems that business is having with high interest rates. I do not think this will be to hard to do as people are just feed up with things.

P. S.
maybe if enough bonds are turned in you will not have the money for your big cigars because if you were in business you could not afford to smoke

John Pearson

[redacted]

51601

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

October 19, 1981

PAUL A. VOLCKER
CHAIRMAN

The Honorable Bob Traxler
House of Representatives
Washington, D. C. 20515

Dear Mr. Traxler;

Thank you for your letter of October 7 regarding the economic stresses that have been associated with high interest rates. I can appreciate your concerns, especially in view of the depressed state of the Michigan economy.

I--and my colleagues at the Federal Reserve--share your concerns about the nation's economic difficulties. We would very much like to see a return to lower interest rates. However, there is no quick fix for high rates that will also be lasting. If we were to open wide the monetary taps, as your letter suggests, the inevitable result would be an aggravation of the inflationary trends and expectations that are the root of our current problems. The only practical course for the Federal Reserve, and the one that provides the best hope for a sustained reduction of interest rates without undue economic disruption, is to maintain a policy of measured restraint on monetary expansion. Of course, the financial pressures associated with such a policy will be considerably ameliorated by decisive action to curb the growth of the federal budgetary deficit. As you know, concerns about the prospects for the budget have weighed heavily on the financial markets in recent weeks, and indeed have moved long-term bond yields to all-time highs in the face of some easing in short-term rates.

I might note that the so-called "broad" monetary aggregates--M2 and M3--have been running high relative to their target ranges thus far this year. It has been this fact, along with a recognition that major innovations in the public's cash management behavior have been restraining the demand for traditional transactions accounts, that has led the System to avoid an aggressive effort to bring the narrow monetary aggregates up into their ranges. On balance, I believe that the behavior of the aggregates is consistent with the longer-range objective of slowing monetary expansion gradually toward rates consistent with price stability--an objective supported by the Administration and the Banking Committees of the Congress.

I might also note that, although high interest rates clearly have not helped, they have not been the whole story behind the troubles of the housing and automotive industries. Past inflationary excesses in the housing market and large price hikes posted by auto makers have contributed appreciably to the drop in demand in those sectors; you may find the enclosed staff report of interest in this regard. I think the message in this is that we are unlikely to achieve a renewed and durable prosperity unless we lick the problem of inflation. We're beginning to make progress in that battle, and it surely would be a great mistake to retreat now. If we falter now, I fear that we will only find ourselves with even greater difficulties down the road.

Again, I appreciate your taking the time to express your concerns. I think that it is essential in these difficult times that the Congress and the Federal Reserve keep open the lines of communication so that we can work together in as constructive a way as possible to restore a sound economy.

Sincerely,

S/Paul A. Volcker

Enclosure (9/1/81 study, "The Impact of High Interest Rates on the Housing, Automobile, Agriculture, and Small Business Sectors"

MJP:JLK:PAV:vcd (V-292)

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

Action assigned Mr. Kichline

BOB TRAXLER
8TH DISTRICT, MICHIGAN

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October 7, 1981

#292

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1981 OCT -7 AM 11:4
RECEIVED OFFICE OF THE CHAIRMAN

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

Dear Mr. Chairman:

The prolonged tight money policy of the Federal Reserve has brought our nation's economy to the brink of crisis. I urge the Board to act--now--to relieve the severe hardship brought on by high intereset rates.

Since the beginning of this year, the Fed's policy of sharply restricting money supply growth, below your own targets for 1981, has resulted in lingering interest rates more than 10% over the the rate of inflation. Those unprecendted interest rates are causing economic devastation:

*Prohibitive mortgage rates have brought homebuilding and real estate businesses to a virtual halt, thousands of building and construction workers remain jobless, the American dream of home ownership has slipped away from millions.

*The high price of automobile loans is the single most important factor in holding automobile sales down, crippling manufacturers and dealers, and preventing tens of thousands of autoworkers from returning to work after more than a year-and-a-half of unemployment.

*Farmers and small businessmen cannot find the credit to finance their onging operations, let alone to expand or make new capital investments; bankruptcies are growing.

*Thrift institutions and state and local governments are finding that the high cost of money is destroying their ability to provide essential services to consumers and taxpayers.

Michigan has been in a deep recession for two years. We cannot endure more hardship. High interest rates threaten our national economic recovery. The President's strategy of combatting inflation and unemployment through new capital investment-that spurs economic growth and long-term productivity increases--is being choked in the cradle. Tax breaks next April for new investments are of little value if American businesses cannot afford to make the investments in the first place.

Mr. Chairman, I implore the Board to act now to increase the growth of the money supply to the upper limits of your own 1981 targets. Every day of delay is another of misery for thousands of my constituents.

Sincerely,

Bob Traxler

BOB TRAXLER, M.C.

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

October 15, 1981

PAUL A. VOLCKER
CHAIRMAN

The Honorable Frank R. Wolf
House of Representatives
Washington, D.C. 20515

Dear Mr. Wolf:

Thank you for sending me a copy of the paper by your constituent, Mr. Ronald M. Sendak.

I share Mr. Sendak's concern about the current high level of interest rates, and the burden that these interest rates place on the credit-dependent sectors of the economy. In addition, I join Mr. Sendak in applauding the recently enacted policies of the Administration and Congress aimed at both reducing the growth of federal expenditures and changing the tax laws to improve the environment for business and personal savings and investment. I cannot agree, however, with Mr. Sendak's assertion that Federal Reserve policies are creating inflation. Nor can I support the remedy that he advocates for lowering inflation--namely, establishing, by law or regulation, a maximum limit on interest rates of 10 percent or less.

High interest rates are not the cause of our current inflation, rather they are the result of the buildup of inflation and inflationary pressures over many years. Interest rates are ultimately determined by market forces--by individuals and businesses acting upon their own judgments of their current needs and the future. Thus, high inflationary expectations are reflected in interest rates, as borrowers must compensate lenders for their expected loss of purchasing power. Any attempt to artificially reduce interest rates by either legislation or regulation, as advocated by Mr. Sendak, would be counterproductive, since such a policy would foster a misallocation of resources and likely aggravate our economic and financial problems.

As you may know, short-term interest rates have declined somewhat over the last several weeks. However, long-term interest rates remain high reflecting in part continued skepticism that inflation will be brought under control. We have begun to see some signs that inflation is abating and all interest rates will decline as further progress is made toward a lasting reduction in both inflation and inflationary expectations. This goal can be reached, I believe, only if the Federal Reserve

The Honorable Frank R. Wolf
Page Two

steadfastly adheres to its policy of gradually reducing the growth of money and credit to amounts compatible with price stability. To do otherwise would only increase inflation and inflationary expectations ultimately leading to higher not lower interest rates.

At any rate, I do believe we are making progress and I hope we can all look forward to better times before too long.

Sincerely,

S/Paul A. Volcker

NM:DK:JLK:RS:pjt (#V-270)
bcc: Mr. Mains
Mr. Kohn
Mr. Kichline
Mrs. Mallardi (2)

Action assigned Mr. Kichline

FRANK R. WOLF
10TH DISTRICT, VIRGINIA

PLEASE RESPOND TO
ADDRESS CHECKED

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

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AVIATION
WATER RESOURCES

September 23, 1981

1270

Mr. Paul A. Volcker
Chairman
Federal Reserve Board
21st and Constitution Avenue, N.W.
Washington, D.C. 20551

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

Dear Mr. Volcker:

One of my constituents who is a business management consultant sent me the enclosed article on interest rates which he will publish soon and I thought you might find it interesting.

With best regards, I am

Sincerely,

Frank R. Wolf
Member of Congress

FRW/jjs
enclosure

About the Author---

Ronald M. Sendak is a graduate of Harvard College and Harvard Business School, with doctoral studies at several other universities. He has had careers in business and government and has taught college courses in business and economics. His articles have been published extensively. Sendak is now a business management consultant in Washington, D. C.

Though schooled in economics, he prefers to be considered a businessman, not an economist. His detractors undoubtedly will agree.

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