Congressional Correspondence
November - December 1981 [37]

Mrs Mallardi
(V-244)

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

November 13, 1981

The Honorable William L. Dickinson
House of Representatives
Washington, D.C. 20515

Dear Mr. Dickinson:

Thank you for your letter requesting information concerning the authority of the Board of Governors of the Federal Reserve System to regulate interest rates. While I believe that you are primarily concerned with interest rates on loans, I will also address the Board's former authority to establish rates of interest payable by member banks on deposits.

In general, interest rates are determined by the demand for and supply of credit and the Federal Reserve does not set interest rates, other than the discount rate. The discount rate is the rate at which the Federal Reserve makes loans to depository institutions to meet temporary liquidity needs. Adjustments to the discount rate generally tend to follow rather than lead changes in market rates, and by statute (Section 14(d) of the Federal Reserve Act, 12 U.S.C. § 357) can be made without the prior approval of Congress.

The Federal Reserve does, however, in the conduct of monetary policy affect interest rates indirectly through open market purchases and sales of securities. The purchase of securities for the Federal Reserve's portfolio has the effect, all other things being equal, of reducing market interest rates. This occurs because such purchases increase the availability of money in the marketplace. Of course, as a general matter, there are many factors that affect interest rates, with the Federal Reserve's open market operations being only one element. Indeed, since October 1979, when the System changed its operating procedures, the Federal Reserve has focused on maintaining a rate of growth in the monetary aggregates consistent with previously established monetary targets. Accordingly, the Board does not currently focus upon interest rates in the conduct of monetary policy.

In addition, under the Credit Control Act, when the President determines that action is necessary or appropriate to prevent or control inflation generated by the excessive extension of credit, the Board may also be authorized by the President to regulate any and all extensions of credit, including the maximum

rates of interest that may be paid. This authority was invoked by the President and used by the Board in March 1980 to selectively control the extension of consumer credit by lenders. However, the Board did not at that time impose restrictions on the rates of interest lenders could charge. The Board's authority under the Credit Control Act was subsequently revoked by an Executive Order signed on July 3, 1980. I should note that, under P.L. 96-508, the Credit Control Act is to be repealed effective June 30, 1982, after which the Board will not possess authority to regulate interest rates directly.

While the Board formerly had the authority to determine the rates of interest payable on time deposits at member banks, this authority was transferred by Congress to the Depository Institutions Deregulation Committee ("DIDC") last year. Until the Board's power was transferred to the DIDC, the Board was authorized to determine and regulate the maximum rates of interest that all national banks and state-chartered banks that are members of the Federal Reserve System are permitted to pay on time and savings deposits under Section 19(j) of the Federal Reserve Act (12 U.S.C. § 371(b)). Similar authority for setting the maximum rates payable by commercial banks that are federally insured nonmember banks and federally insured savings and loan associations was vested in the Federal Deposit Insurance Corporation ("FDIC") and the Federal Home Loan Bank Board ("FHLBB"), respectively.

In response to the growing concern with the impact of rate ceilings on small savers, Congress passed the Depository Institutions Deregulation Act of 1980 (Title II of Public Law 96-221). This Act transferred to the DIDC the interest rate authority of the Federal Reserve Board (Section 19(j) of the Federal Reserve Act; 12 U.S.C. § 371(b)), the FDIC (Section 18(g) of the Federal Deposit Insurance Act; 12 U.S.C. § 1828(g)), and the FHLBB (Section 58(a) of the Federal Home Loan Act; 12 U.S.C. § 1425b(a)). The Act provides for a six-year phaseout of all interest rate controls by the DIDC. This Committee is composed of the Chairmen of the Federal Reserve, the FDIC, the FHLBB, and the National Credit Union Administration, the Secretary of the Treasury, and the Comptroller of the Currency. The latter member serves ex officio. The gradual phaseout will provide thrifts with an opportunity to adjust their lending portfolios to achieve earnings that will enable them to pay market rates of interest on all of their savings and time deposits and to adjust to an environment in which all institutions compete for funds on a fully competitive basis. At the end of the six-year phaseout period, all federal interest rate ceilings will be terminated.

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

JHJ:VVM:AFC:pjt (#V-244)
bcc: G.C. Office (C-108)
Mr. Schwartz (365)
Legal Files (2)
Mrs. Mallardi

WILLIAM L. DICKINSON
2ND DISTRICT, ALABAMA

WASHINGTON OFFICE:
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WASHINGTON, D.C. 20515

2ND DISTRICT COUNTIES:

BARBOUR	CRENSHAW
BULLOCK	DALE
BUTLER	GENEVA
COFFEE	HENRY
CONECUH	HOUSTON
COVINGTON	MONTGOMERY
PIKE	

Action assigned Mr. Bradfield

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

August 31, 1981

#244

WALTER J. BAMBERG
FIELD REPRESENTATIVE

DISTRICT OFFICES:
ROOM 301 FEDERAL COURT BUILDING
15 LEE STREET
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MONTGOMERY, ALABAMA 36104

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100 WEST TROY STREET
PHONE: AREA CODE (205) 794-9680
DOTHAN, ALABAMA 36303

COMMITTEES:
ARMED SERVICES
HOUSE ADMINISTRATION

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

Dear Mr. Volcker:

I would appreciate your advising me under what authority--statutory or otherwise--the Federal Reserve System Board of Governors regulates interest rates in the United States. Your cooperation in furnishing me this information at your earliest convenience would be appreciated.

With kindest regards, I am

Sincerely,

WM. L. DICKINSON

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

November 10, 1981

The Honorable Lloyd Bentsen
United States Senator
912 Federal Building
Austin, Texas 78701

Dear Senator Bentsen:

Thank you for your letter of October 2 requesting comment on correspondence you received from Ms. Dorothy E. F. Caram. Ms. Caram expressed concern over a report of the possible consolidation of all the Federal Economic Institutions under one Board. I believe that Ms. Caram may be referring to the possibility of consolidating the five Federal depository institutions supervisory agencies.

During the past several decades, there have been periodic discussions of consolidating the three Federal bank regulatory agencies (the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency). The most recent Congressional consideration of this issue occurred during February 1979, when hearings were held on a bank consolidation bill introduced by Senator Proxmire. The Federal Reserve testified in opposition to this bill. No Congressional action was taken on the bill during the Ninety-Sixth Congress.

During the last several months, there have been press reports of possible proposals to consolidate some or all of the existing Federal bank and thrift regulatory agencies. So far, however, no bills to consolidate the agencies have been introduced in the Ninety-Seventh Congress, although legislation introduced by Senator Garn (S. 1721) does contain a proposal to merge the three Federal deposit insurance funds.

In her letter, Ms. Caram seems to believe that the consolidation proposal would apply to thrift institutions, banks, credit unions and mortgage companies, and would result in a concentration of economic power in the United States in the hands of a few people. However, as discussed above, the consolidation proposals relate only to the regulatory agencies, not to individual financial institutions.

In her letter, Ms. Caram also mentions a vacancy on the Federal Home Loan Bank Board (FHLBB). Since this is an area outside the Federal Reserve's jurisdiction, I have referred your letter to the FHLBB for further response.

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

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn
Assistant to the Board

cc: Congressional Liaison Office
Federal Home Loan Bank Board

SHT:AFC:CO:vcd (#V-290)

bcc: Mr. Talley
Mr. Ryan
Mrs. Mallardi ✓

Action assigned Mr. Ryan

LLOYD BENTSEN
TEXAS

COMMITTEES:
FINANCE
ENVIRONMENT AND PUBLIC WORKS
JOINT ECONOMIC

United States Senate
WASHINGTON, D.C. 20510

October 2, 1981

1296

Mr. Paul S. Volcker, Chairman
Federal Reserve System
Constitution Avenue between
20th and 21st Streets, N.W.
Washington, D.C. 20551

Dear Mr. Chairman:

I recently received the enclosed constituent inquiry concerning a vacancy on the Federal Home Loan Bank Board. I would very much appreciate your providing me with any pertinent information you might have regarding the matter.

Your kind assistance is greatly appreciated.

Sincerely,

Lloyd Bentsen

Lloyd Bentsen

Enclosure

PLEASE REPLY TO:

912 Federal Building
Austin, Texas 78701

DR. AND MRS. PEDRO C. CARAM
3106 ABERDEEN WAY
HOUSTON, TEXAS 77025

Mr. Butler

SEP 1 1 1981

September 8,1981

Senator Lloyd Bentsen,
United States Senate
Washington, D.C. 20510

Dear Senator Bentsen:

I recently returned from the monthly meeting of the Federal Home Loan Bank of Little Rock Board of Directors, and was concerned by a report of the possible consolidation of all the Federal Economic Institutions under one Board. This movement,that would concentrate all the economic power in the hands of a few people,is very frightening to me and to the other members of the Board. Not only would the thrift institutions cease to exist, but all the credit unions, mortgage companies, and banks would also be absorbed and changed from what we recognize today. Since our economic strength, through our system of free enterprize, has great bearing on the economy of the world, I wonder if foreign investors would then have greater voice on the economic life of our country and of the world as a whole? I strongly urge you to work toward the perservation of our economic institutions as they exist today and which give so many the opportunity of sharing in our country's wealth.

Also, I am aware that a position on the Federal Home Loan Bank Board is available. This Democratic vacancy would certainly be well filled by the appointment of a person such as Judge Alvis Vandygriff, who is presently Savings and Loan Commissioner for the State of Texas. Judge Vandygriff is a most knowledgeable and qualified candidate who has served many years in the Savings and Loan industry. I know that he would be a great addition to the Board in Washington,bringing expertise to the deliberations and actions of the Board.

Sincerely,

Dorothy Caram

Dorothy E.F.Caram.
Public Interest Director,
Federal Home Loan Bank of Little Rock

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

NINETY-SEVENTH CONGRESS

2129 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, D.C. 20515

September 28, 1981

N288

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

Dear Mr. Chairman:

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

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

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

Thank you for your assistance.

Sincerely yours,

Bill

J. William Stanton

JWS/gwm

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

NINETY-SEVENTH CONGRESS

2129 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, D.C. 20515

September 17, 1981

MEMO TO: All Members of the Committee on Banking, Finance and Urban Affairs

FROM: Fernand J. St Germain, Chairman

SUBJECT: Field Hearings on the Economy

)ct. 19
St. Paul/
Minneapolis

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

Seattle, Friday, November 6

Tucson, Saturday, November 7

Chicago, Monday, November 9

Atlanta, Friday, November 13

Providence, Monday, November 23

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

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

NINETY-SEVENTH CONGRESS

2129 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, D.C. 20515

FOR IMMEDIATE RELEASE:

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

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

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

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

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

(more)

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

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

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

# # # #

November 9, 1981

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

Dear Bill:

Thank you for your letter of October 28 concerning the dividend paid on Federal Reserve Bank stock.

As you are aware, since the 6 percent dividend on Federal Reserve Bank stock is specified in the Federal Reserve Act (12 U.S.C. § 289), legislative action would be required to change the dividend. I can only agree it's outmoded, and something of a problem. However, in my judgment, a change of that type is likely to raise a host of other questions--which may or may not be equally good ideas. We have not planned any initiative at the moment, but may want to next year. I'd be delighted to hear any reactions you might have.

Sincerely,

S/ Paul

CO:DJW:PAV:pjt (#V-318)
bcc: Mike Bischoff (w/copy of incoming)
Mrs. Mallardi (2)

Cong. Liaison Office will prepare reply

J. WILLIAM STANTON
11TH DISTRICT, OHIO

2466 RAYBURN BUILDING
WASHINGTON, D.C. 20515
PHONE: AREA CODE 202, 225-5306

COMMITTEE ON
BANKING, FINANCE AND
URBAN AFFAIRS

COMMITTEE ON
SMALL BUSINESS

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

DISTRICT OFFICES:
170 NORTH ST. CLAIR STREET
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MANTUA, OHIO 44255
PHONE: AREA CODE 216, 274-8444

October 28, 1981

#318

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

Dear Paul:

The enclosed correspondence from our mutual friend, Bill Gradison, was brought to my attention today.

We have all been very busy, but I was wondering if the Board has some comment on changing the 6% interest that members receive on their stockholdings.

Best regards,

Bill

William Stanton

WS:c

BILL GRADISON
1ST DISTRICT, OHIO

RON ROBERTS
ADMINISTRATIVE ASSISTANT

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

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TELEPHONE: (513) 684-2456

OCT 22 1981

The Honorable J. William Stanton
Ranking Republican
House Banking, Finance & Urban Affairs Comm.
2129 Rayburn House Office Building
Washington, D.C. 20515

Dear Bill:

Enclosed is a letter from a constituent of mine, Joseph F. Rippe, Chairman of the Board of Provident Bank. Mr. Rippe is concerned that the six percent interest member banks receive on their Federal Reserve stock holdings is insufficient. I would appreciate receiving the Committee's views on this issue and information on the status of legislation designed to modify this Federal Reserve Act provision.

Thank you for your consideration of this request.

Sincerely,

Bill

Bill Gradison
Representative in Congress

BG/sb
Enclosure

MS

The Provident Bank
One East Fourth Street
Cincinnati, Ohio 45202
513/579-2266

JOSEPH F. RIPPE
Chairman of the Board
Chief Executive Officer

September 16, 1981

Honorable Willis D. Gradison
United States House of Representatives
1117 Longworth House Office Building
Washington, D. C. 20515

Dear Bill:

The banking industry is facing some of the highest funds' costs and operating expenses in its history. In order to survive under these conditions and to earn a fair profit it is necessary for bankers to re-examine the asset side of their balance sheets to determine if the funds invested in all asset categories are being employed to their best advantage.

Such an analysis of the statement of condition of a bank which belongs to the Federal Reserve System reveals a singular glaring asset category which in today's markets is not yielding an adequate rate of return. I refer to its investment in the stock of the Federal Reserve System. By Section 7 of the Federal Reserve Act (copy enclosed) member banks receive an annual dividend on their stock of <u>six per cent</u> (6%). In order to borrow money this nation's strongest corporations pay almost 3-1/2 times the rate that Fed members receive as dividends on their Federal Reserve stock.

The Federal Reserve recently increased the charges it makes for services it renders to member banks. Many of these services were formerly free. We now pay interest on deposits of the central bank. These formerly earned no interest.

At a time when competition for funds and deregulation are combining to run up the cost of bank deposits, it seems to me that a six percent fixed return on this stock is unjust. I especially believe this when the Fed is able to pay all its expenses and dividends and still return to the U. S. Treasury over 90% of its annual revenues.

Anything which you can do to investigate and correct this inequitable

situation will earn for you the eternal gratitude of this country's bankers.

Yours very truly,

Joe

SEP 21 1981

Dear Joe

Joseph F. Rippe
Chairman of the Board
and Chief Executive Officer

JFR/pd

SECTION 7. DIVISION OF EARNINGS

1. Dividends and surplus fund of reserve banks

Sec. 7. After all necessary expenses of a Federal reserve bank shall have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of 6 per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met, the net earnings shall be paid into the surplus fund of the Federal reserve bank.

[U. S. C., title 12, sec. 289. As amended by Acts of Mar. 3, 1919 (40 Stat. 1314); June 16, 1933 (48 Stat. 163).]

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Citation Information

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Citations: Letter to Richard Bolling from Paul Volcker, November 6, 1981.

November 5, 1981

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

Dear Chairman Garn:

Thank you for your letter of November 2. I am pleased to enclose responses to the written questions in connection with the hearing held on October 29.

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

Sincerely,

S/ Paul

Enclosures

1a. If we do prop up the ailing thrift industry through the emergency powers, aren't we just begging for another "temporary" problem the next time we have a dip in the business cycle?

The problems facing thrift institutions are much more related to inflation and its implications for high and unstable interest rates than to the business cycle in the ordinary sense. Assuming a reasonable degree of success in dealing with inflation, the problem, although plainly serious, will turn out to be largely transitional. But it is of course true that, after its current experience, the industry should not return to a position where it is so highly dependent upon a particular configuration of interest rates as in the past.

The emergency powers in the Regulators' bill address the "temporary" or transition problem that thrifts and certain banks face while (1) they add higher yielding (and variable rate) assets to their portfolio as older assets are repaid and (2) public policies to reduce inflation--and hence interest rate--have a chance to work. During that transition, the bill will facilitate assistance to otherwise viable institutions and the acquisition by stronger institutions of those depositories who are unlikely to be able to return to viability in a reasonable period of time.

The bill purports to do no more, but, obviously, the first priority must be to get through the transition period so there can be a long run. I believe, partly as a result of lending liberalization already enacted or new regulations, such as variable rate mortgages, thrifts are better placed today to deal flexibly with the future than when the present problems originated. Of course, there has not been sufficient time for

most thrifts to effectively utilize the powers they have, and many thrifts in the past had not seen the need for using the flexibility they have. We do not oppose still further liberalization. On the other hand, we do not feel legislation stopping short of all the powers of S. 1720 is "begging" for another problem, nor would those powers be particularly relevant during the current transitional period.

1b. Why not permit thrifts to offer commercial loans to expand their earning potential? You fear that banks would change to thrift charters. Would you support the bill if we revised it to ensure that thrifts engaged in commercial lending were subject to the same intrastate branching and other restrictions as commercial banks?

I believe that institutions offering essentially similar services should be subject to similar regulatory treatment, and, should thrifts be provided with the full range of asset and liability powers provided in S. 1720, intrastate and other highly significant restrictions should promptly be reviewed and revised to provide that equality. In some cases, that might imply more liberal treatment for banks in branching or other powers; in other cases, "commercial bank type" restrictions on thrifts.

However, the question of thrifts having full commercial lending authority is broader than eliminating the regulatory advantages the proposed bill would provide to thrifts over banks with respect to branching, interest rate differentials, access to governmental credit and permissible activities of holding company affiliates. Basically, we are doubtful that full commercial lending powers would have much significance for thrifts' earnings potential over time; the market is already highly competitive, and earnings margins are probably at least as low as on traditional thrift lines of business. As I indicated in my testimony, the expansion of thrift powers will, in any event, do little to rectify their short-run earnings problems--and may exacerbate them to the extent that thrifts expand too rapidly into areas in which they lack the necessary management expertise.

The issue, as we understand it, is rather flexibility; returns on very short-term or floating rate commercial loans can be in line with fluctuations in market and short-term deposit rates. However, flexibility can be (and already has been) enhanced in other ways that seem to us more consistent with a less abrupt change in the focus of the thrift industry, or, to put it another way, more consistent with their traditional role. Thus, I would favor granting thrifts broader consumer lending and consumer deposit taking powers, while confining commercial lending authority to that consistent with helping to meet the needs of local, small business. Such an evolutionary approach would keep their community orientation, and capitalize on existing management capabilities.

1c. On October 28, State Banking Commissioners appeared before us. Commissioner Mulligan (of Massachusetts) stated:

"The current plight of the nation's thrift industry presents an evident and compelling legislative and regulatory lesson. Depository institutions should not be locked into narrow ranges of investment opportunities. Never again should financial institutions be legislated and regulated into an investment posture totally dependent upon a single economic scenario."

Do you agree with that statement? Mutual savings banks in Massachusetts, which are not in the same troubled condition as mutuals in other areas, have had limited commercial lending powers since 1955 (greatly expanded in 1980). They have used such powers principally to round out their customer relationships and obtain some extra earnings, not to turn away from the traditional role in housing finance. In fact, they have only 1/2 percent of their aggregate assets in corporate loans.

Do you agree that the added powers will enable thrifts to round out their customer relationships, thereby maintaining their competitive ability and earnings potential?

I certainly would agree that thrift institutions should not be restricted by legislation or regulation to an investment posture which depends upon a "single economic scenario," namely, an upward sloping yield curve and substantial interest rate stability. However (as indicated in the previous answer), the increased asset powers granted under the Deregulation and Monetary Control Act together with the recent regulatory decisions allowing more flexibility in the use of adjustable rate mortgages, once they are fully utilized by the institutions, go a very considerable distance in providing the needed flexibility in the asset portfolio. In addition, recent DIDC actions, if adopted, would grant institutions additional flexibility in offering longer-term

deposits and hence allow institutions to better match the maturities on their assets and liabilities.

As you have pointed out, Massachusetts' savings banks have had limited commercial lending powers for some time, which they have used primarily to round out customer relationships. This would not be inconsistent with the "family bank" approach I suggested. However, with only 1/2 percent of their portfolio in such assets, it is hardly conceivable that that commercial lending authority accounts for their less troubled situation today. Indeed, the main reasons these institutions remain more profitable than the average thrift institution are related to their unique position in their local markets and to their liability composition rather than to their asset powers.

Massachusetts' MSBs have been able to maintain a higher proportion of low-rate passbook type deposits, and a lower proportion of market rate MMCs and other short term borrowings than the average thrift institution, consequently, Massachusetts' MSBs have lower net interest expenses than the average thrift. Moreover, the average Massachusetts institution has a much lower proportion of its assets in mortgages and a much higher proportion in cash and securities than does the average thrift. This combination has reduced their overall exposure to interest rate risk and thus explains their superior earnings performance. The lesson plainly is a great deal depends on management and its perceptions of risk, and we cannot substitute law for good judgement.

2. In your testimony, you indicated your support of S. 1508 (Section 702 of S. 1720). As you are aware, the FDIC has suggested that the FDIC be given the authority to determine what deposits would be classified as international banking facility deposits and exempt from insurance assessments. Additionally, the FDIC suggests that a two-year sunset be placed on the exemption of IBF deposits from insurance assessments. In your opinion, should the FDIC or the Federal Reserve Board determine which deposits qualify as IBF deposits? Why? Wouldn't a two-year sunset prevent a parity between IBF deposits and deposits at overseas branches of United States banks? Likewise, wouldn't the sunset have a chilling effect on the establishment of IBF's by United States banks when the deposits may be subject to insurance assessments in two years?

The Board believes that IBF deposits should be accorded the same treatment as deposits at foreign branches. Such treatment will insure that IBFs are able to compete with foreign branches on a fully competitive basis. In order to preserve this competitive position, consistent with the needs of monetary policy, we believe that it is desirable for the Board alone to retain the authority to define what types of obligations qualify as IBF deposits. If another agency were to define an IBF deposit differently from that of the Board (or differently define them for insurance purposes), such action could create obvious problems for the operations of IBFs. However, I presume the regulatory authorities could reasonably be expected to reach consistency if the FDIC formally could determine which deposits were free from insurance assessment (not which deposits were eligible for IBFs).

We do not foreclose the possibility of the FDIC assessing both the IBF and foreign branch deposits at some time in the future. However, we are concerned that a two-year sunset on

the IBF deposit insurance exemption could adversely affect the willingness of institutions to establish IBFs since their benefits could be enjoyed fully only during that limited period. In order to accommodate the desire for a future overall review of the possibility of assessing foreign branch deposits and IBF deposits, we would recommend that the legislation not include a permanent exclusion for IBFs but be flexible enough to have whatever treatment is accorded foreign deposits at foreign branches. This would assure that, on appropriate review by the Congress of the broader question of assessments on foreign branch deposits, IBFs would receive the same treatment as foreign branch deposits.

3. Please comment on the Administration's proposal that securities activities of banks be conducted through subsidiaries of bank holding companies, rather than by the bank itself.

   What would be the impact of this approach on banks which are not part of holding companies, and on smaller institutions?

As in the case of thrift powers, I would also prefer an evolutionary approach to banks' stock and bond mutual fund activities. Banks have, subject to regulation, operated commingled trust accounts in a manner consistent with public policy considerations. We believe they could be expected to operate commingled agency accounts, subject to relevant restrictions, particularly on advertising, similar to those now applicable to commingled trust accounts. In this way, the account management could be efficiently integrated with the existing trust department operations. This approach would give us experience with expanded bank securities powers in the light of the "Glass-Steagall" concerns, including potential conflicts of interest, concentration of resources, and safety and soundness.

In my testimony, I urged that, if full mutual fund powers were given to banks and thrifts, those powers be exercised through a separate affiliate. My principal concerns were that a mutual fund offered directly by a bank, with aggressive sales effort, might become too closely associated by the public with the sponsoring bank so that poor performance by the former would erode confidence in the latter and that opportunities for conflict of interest or self-dealing might be less easily controlled. The dangers would also be reduced somewhat by forbidding use of the bank's name in the title of the mutual fund.

For municipal bond underwriting, an important advantage of the separate affiliate is that it creates more equal tax treatment for bank and nonbank market makers. However, I am inclined to the view that a separate affiliate would not be essential in the light of experience with underwriting general obligations. For instance, I doubt any significant increase in risk due to underwriting activities, and bank acquisition of the securities of any one issuer would be subject to the same limitations relative to capital that have been established to prevent undue risk concentration in lending.

More importantly, a requirement to establish a separate affiliate could be a significant deterrent to market participation by many small- to medium-sized institutions, whose municipal underwriting activities are confined to a few local or regional issues each year. These institutions would face the expense and inconvenience of setting up the affiliate, capitalizing it separately, and adapting to a new set of regulators. If these costs are sufficient to deter them from securities activities, many small local governments could face a shrinkage in the number of dealers willing to underwrite general obligation issues as well as no increase in competition for revenue bonds.

The current system for regulating bank participation in general obligation markets, in which bank regulators are responsible for oversight of the compliance of bank dealer departments with rules established by the Municipal Securities Rulemaking Board, has worked satisfactorily. In addition, I

support the rules suggested by the proposed legislation for protecting against conflicts of interest in transactions between an institution's underwriting activity and its trust department, investment portfolio, or other normal banking functions, and I would extend these rules to general obligations as well as revenue bonds. I believe they can be adequately enforced in the context of departments within institutions.

The inequity of tax treatment remains a problem, and a separate affiliate offers some other regulatory advantages. While in this instance we do not believe they outweigh the disadvantages, particularly for smaller- and medium-sized banks, perhaps a distinction by bank size or activity could be developed as a workable compromise.

4. The Administration has recommended that authority to operate commingled agency accounts initially be provided to banks, but not to savings and loan associations, savings banks and credit unions.

   Do you believe that this is appropriate, or should comparable powers be given to all depository institutions at the same time?

I favor all depository institutions with trust departments being given the authority to offer commingled agency accounts for investments in longer-term securities, with the same constraints on advertising and sales techniques and other protections. Congress gave trust powers to federally chartered savings and loan associations in the Monetary Control Act.

5. During the recent consideration of the so-called regulators bill by the House Banking Committee, a provision was added that requires the FDIC to provide greater indemnification to the FSLIC for any losses that occur involving a savings bank that has voluntarily converted to a Federal charter. Do you believe that this is appropriate action in light of present economic conditions and the state of the industry?

We believe that it is appropriate for the FDIC to indemnify the FSLIC against losses that might be incurred as a result of the conversion of a mutual savings bank to Federal charter. We believe that as a matter of principle the FSLIC should be indemnified by the FDIC for losses occurring as a result of events that took place before a mutual savings bank converted to a Federal charter. It seems to us that the exact provisions for such an indemnification are best left to the insurance agencies and is not an area that we have any particular expertise to comment on.

6. The thrift industry is having a difficult time coping with current economic conditions. Interest rates have reached record highs. Housing starts are down. Does the DIDC have any plans to reevaluate its removal of the ceiling on IRA accounts and does it plan to evaluate its overall deregulation strategy in light of general economic conditions?

As you know, the DIDC has recently reconsidered its earlier decision to increase the passbook ceiling because of the current difficulties of thrifts. In addition, a large number of the members of the House Banking Committee have asked the DIDC to postpone removal of ceilings on IRA/Keogh accounts, scheduled to become effective December 1, at least until that Committee has reviewed the decision.

My view at the time of the decision was that it is likely to increase the deposit flows of thrift institutions, should not substantially adverse the earnings position and is consistent with the responsibilities of the DIDC, even though I personally expressed some preference for a floating ceiling. I have undertaken to review the evidence anew, but, unless the new analysis suggests substantial difficulties not apparent earlier, I do not plan to ask for full DIDC reconsideration. I believe the entire strategy of DIDC must, by necessity, be subject to review in the light of developing market conditions. As I noted in my recent testimony before you, market developments require that we move as rapidly as possible to deregulate deposit rate ceilings consistent with the viability of thrifts. The latter problem is why the Federal Reserve opposed bank and thrift

authority to operate money market mutual funds at the present time; in the Board's view this would intensify the pressure on thrift earnings and would be tantamount to complete elimination of deposit rate ceilings all at once.

Action assigned Mr. Ettin

United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, D.C. 20510

#321

November 2, 1981

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

Dear Mr. Chairman:

Your appearance during the Committee's recent hearings on financial institutions legislation was appreciated. Your prepared statement and oral testimony will be of assistance to the Committee as it continues its consideration of such legislation.

In order to complete the hearing record, the Committee would appreciate your answers to the enclosed questions. To facilitate prompt printing of the hearing record, please submit your response by November 9, 1981. If you have any questions regarding the enclosure, please contact John Collins or Lamar Smith of the Committee staff at 202-224-7391.

Sincerely yours,

Jake Garn

Jake Garn
Chairman

JG:jcr
enclosure

CHAIRMAN VOLCKER

1. You view the emergency powers provisions as necessary to take care of "temporary" problems within the depository system. The purpose of my bill is to combine the short-term solution, which Congress is famous for, with long-term solutions.

   a. If we do prop up the ailing thrift industry through the emergency powers, aren't we just begging for another "temporary" problem the next time we have a dip in the business cycle?

   b. Why not permit thrifts to offer commercial loans to expand their earnings potential? You fear that banks would change to thrift charters. Would you support the bill if we revised it to ensure that thrifts engaged in commercial lending were subject to the same intrastate branching and other restrictions as commercial banks?

   c. On October 28, State Banking Commissioners appeared before us. Commissioner Mulligan (of Massachusetts) stated:

      "The current plight of the nation's thrift industry presents an evident and compelling legislative and regulatory lesson. Depository institutions should not be locked into narrow ranges of investment opportunities. Never again should financial institutions be legislated and regulated into an investment posture totally dependent upon a single economic scenario."

      Do you agree with that statement? Mutual savings banks in Massachusetts, which are not in the same troubled condition as mutuals in other areas, have had limited commercial lending powers since 1955 (greatly expanded in 1980). They have used such powers principally to round out their customer relationships and obtain some extra earnings, not to turn away from the traditional role in housing finance. In fact, they have only 1/2 percent of their aggregate assets in corporate loans.

      Do you agree that the added powers will enable thrifts to round out their customer relationships, thereby maintaining their competitive ability and earnings potential?

2. In your testimony, you indicated your support for S. 1508 (Section 702 of S. 1720). As you are aware, the FDIC has suggested that the FDIC be given the authority to determine what deposits would be classified as international banking facility deposits and exempt from insurance assessments. Additionally, the FDIC suggests that a two-year sunset be

placed on the exemption of IBF deposits from insurance assessments. In your opinion, should the FDIC or the Federal Reserve Board determine which deposits qualify as IBF deposits? Why? Wouldn't a two-year sunset prevent a parity between IBF deposits and deposits at overseas branches of United States banks? Likewise, wouldn't the sunset have a chilling effect on the establishment of IBF's by United States banks when the deposits may be subject to insurance assessments in two years?

3. Please comment on the Administration's proposal that securities activities of banks be conducted through subsidiaries of bank holding companies, rather than by the bank itself.

   What would be the impact of this approach on banks which are not part of holding companies, and on smaller institutions?

4. The Administration has recommended that authority to operate commingled agency accounts initially be provided to banks, but not to savings and loan associations, savings banks and credit unions.

   Do you believe that this is appropriate, or should comparable powers be given to all depository institutions at the same time?

5. During the recent consideration of the so-called regulators bill by the House Banking Committee, a provision was added that requires the FDIC to provide greater idemnification to the FSLIC for any losses that occur involving a savings bank that has voluntarily converted to a Federal charter. Do you believe that this is appropriate action in light of present economic conditions and the state of the industry?

6. The thrift industry is having a difficult time coping with current economic conditions. Interest rates have reached record highs. Housing starts are down. Does the DIDC have any plans to reevaluate its removal of the ceiling on IRA accounts and does it plan to evaluate its overall deregulation strategy in light of general economic conditions?

Mrs. Mallardi
(V-205)

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

PAUL A. VOLCKER
CHAIRMAN

November 5, 1981

The Honorable Thomas A. Daschle
House of Representatives
Washington, D. C. 20515

Dear Mr. Daschle:

Some time ago, you requested the Board of Governors' views on the appropriate deposit level for a permanent reserve exemption for small depository institutions. The Board has recently had the occasion to take a formal position on the matter, and I want to inform you of it.

A bill recently introduced by Senator Garn (S. 1720) would exempt from reserve requirements institutions with total deposits of less than $5 million. Since such institutions currently hold less than 1 percent of total deposits at all depository institutions, subjecting these small institutions to reserve requirements contributes little to monetary control. Consequently, the Board would support this exemption in the light of the burden for small institutions.

This approach has certain drawbacks. First, if deposits at an institution just below the cutoff grew sufficiently to put that institution just above the cutoff, all deposits would become subject to reserve requirements, thus making the marginal reserve requirement on the deposit increase quite high. Second, a reserve exemption for institutions with less than $5 million in total deposits may give them a competitive advantage relative to institutions above the cutoff.

These disadvantages could be dealt with by an alternative method for reducing the reserve burden for smaller institutions. This approach would be to exempt from reserve requirements the first $2 million of reservable deposits of <u>all</u> institutions. Since the average institution with about $5 million in total deposits has about $2 million in reservable deposits, such a technique would give roughly the same benefit to these smaller institutions as would an exemption based on total deposits without creating the competitive inequities noted above. It would, however, result in somewhat larger costs in terms of revenue losses, since all institutions' reservable deposits would be reduced. If the reserve-free tranche were much higher than $2 million, questions might be raised about the implications for monetary control.

I should note that pending Congressional action, the Board has elected to continue the deferral of reporting and reserve requirements for institutions with less than $2 million in total deposits until May 1982. However, without legislation, the Board does not have the authority to make this deferral a permanent exemption.

I hope you find these comments helpful.

Sincerely,

S/Paul A. Volcker

FJ:TDS:EE:DJW:PAV:cm (V-205)

bcc: Mr. Jensen
Mr. Simpson
Mr. Ettin
Mrs. Mallardi (2)

Action assigned Mr. Ettin

• TOM DASCHLE
1ST DISTRICT, SOUTH DAKOTA

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(605) 225-8823

July 13, 1981

1205

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

Dear Chairman Volcker,

During your tenure as Chairman of the Depository Institutions Deregulation Committee, the Committee on separate occassions deferred application of the reserve requirement for nonmember institutions with less than $2 million total deposits in order to lessen the burden on these institutions as well as Federal Reserve Banks. In your letter to me dated May 7, 1981, concerning the most recent decision of the Committee to continue this deferral until November, 1981, you indicated your belief that consideration should be given to legislation which would provide a permanent statutory exemption for these institutions as they hold only one-half of one percent of all deposits and application of the reserve requirement to these institutions would not appreciably improve monetary control.

In this regard, Mr. Chairman, I'm writing to solicit your further views on a permanent exemption and the conduct of monetary policy. In general, at what deposit level do the burdens of reserve requirement compliance for depository institutions and Federal Reserve Banks outweigh possible benefits for the conduct of monetary policy? More specifically, would the conduct of monetary policy be appreciably improved or hindered if a permanent exemption was provided for institutions with deposits of less than $5 million, less than $10 million, or less than $15 million?

I appreciate receiving your previous opinion on the provision of a permanent exemption and I look forward to receiving your further views on this matter.

Sincerely,

Thomas A. Daschle

Thomas A. Daschle
Member of Congress

Mrs. Mallardi
(V-262)

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

PAUL A. VOLCKER
CHAIRMAN

November 5, 1981

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

Dear Mr. Evans:

Thank you for your letter of September 16, expressing your concern about the current level of interest rates.

I am keenly aware of the uneven effects of monetary restraint and the painful adjustments that high interest rates impose. Housing construction is severely depressed, small businesses are being progressively squeezed, and the auto industry is in deep trouble. If the Federal Reserve could find a way to bring inflation under control without restraining money and credit growth, we would certainly use it. Unfortunately, I'm afraid we have to face the fact that no painless cure exists. To enjoy the benefits of a stable price level in years to come, one essential ingredient is discipline on monetary growth.

I think you will agree that inflation has placed a severe burden on most Americans. Senior citizens and others who rely on fixed incomes have watched their savings shrink, and, in many cases, disappear entirely. First-time homebuyers have been priced out of the market by skyrocketing house prices. Moreover, past experience indicates that inflation has retarded the growth of production, employment, and income. Therefore, it is imperative that the Federal Reserve remain firm in policies to restore greater price stability. And budgetary restraint would help a great deal on both the interest rate and price fronts.

We are now seeing a little progress in the inflation battle; in the first nine months of 1981 the CPI rose 5.4 percent, a substantial improvement over the 8.3 percent in the same period last year. But we still have a long way to go, and if we let up now all the ground we have gained could be lost very quickly.

Restraint on money and credit growth is not the equivalent of high interest rates -- in time, it is the route toward getting rates lower, and keeping them there. Long-term interest rates are still so high because many lenders expect double-digit inflation to continue; if we significantly expanded money and credit, we would fuel these expectations and raise rates on mortgages and long-term bonds. I would also observe that short-term interest rates are substantially -- 3 to 5 percent -- below their recent

peaks. The fact that those declines have not been fully reflected in the long-term markets is one gauge of the depth of inflationary and budgetary concerns in the credit markets.

At this juncture, the Federal Reserve has very little choice but to avoid excessive monetary growth. We do so in the conviction that over time we will all be better off with a stable price level, and that progress in that direction is essential to sustained growth.

Sincerely,

S/Paul A. Volcker

SW:PKC:JSZ:PAV:cm (V-262)

bcc: Mr. Clark
Ms. Watt
Mrs. Wing
Mrs. Mallardi (2)

Action assigned Mr. Kichline

BANKING, FINANCE AND URBAN AFFAIRS COMMITTEE

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

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6TH DISTRICT, INDIANA

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WASHINGTON, D.C. 20515
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September 16, 1981

#262

Mr. Paul A. Volcker
Chairman
Federal Reserve Building
Constitution Avenue, NW
Washington, D.C. 20551

Dear Mr. Volcker:

I share the deep concern, if not alarm, of my colleagues, constituents, and fellow Americans about today's record breaking interest rates. I cannot urge you stongly enough to take immediate action to ease the disasterous effect these interest rates are having on the lives of the American people.

Our economy simply cannot withstand the prolonged imposition of interest rates exceeding 20%. Home sales, automobile purchases are at a virtaul standstill. Small businesses are trying to survive day to day in hope of a healthier economic atmosphere in the future. Other businessses are under a severe contraction. This decline means lost jobs with little hope of new employment unless business is encouraged by more favorable interest rates.

The Federal Reserve simply must respond to the appeal of the American people. We must work together to increase productivity provide new jobs, and reduce inflation. It is unfair to frustrate the dreams, threaten the livelihood, and darken the hopes of Americans by refusing to respond to their plea.

Sincerely,

Dave Evans

DAVE EVANS
Member of Congress

DE/dr

DAN GLICKMAN
FOURTH DISTRICT—KANSAS

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CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

November 3, 1981

Honorable Donald T. Regan
Chairman, Depository Institutions
Deregulation Committee
15th & Pennsylvania Avenue, N. W.
Washington, D. C. 20220

Dear Secretary Regan:

I have today written Chairman St. Germain of the House Banking Committee urging that he schedule hearings on implementation by the DIDC of the financial deregulation plan phase-in authorized by the last Congress. I did so both because of specific concerns that have been brought to my attention by officials of various financial institutions in my home state and because I am concerned that the statute we adopted failed to provide specific enough guidance as far as how that phase-in should proceed. Until such time as oversight hearings are arranged, I would urge you and the DIDC to reassess regulations now scheduled to go into effect and to consult with the Committee as further actions in that regard are planned.

I would particularly note that I have heard from a number of officials with Kansas financial institutions about the potential impact on, in many cases, already weak financial institutions of regulations scheduled to become effective December 1 regarding IRA's and Keogh accounts, including a provision for a penalty-free rollover of those accounts to higher yielding accounts. It is my understanding that a group of representatives of the Kansas savings and loan industry met with DIDC staff during a recent visit to Washington. According to the Kansans present at that meeting, they felt that it had served as an enlightening experience for the DIDC representatives with regard to some of the problems they are facing. In light of that fact, it would seem prudent for the DIDC to review those regulations with an eye toward delaying their implementation or appropriate amendments thereto to take into account the financial realities facing all too many financial institutions today.

A strong, viable financial community is absolutely essential if we are to get our economic house back in order. I urge the DIDC to consider the viability of the financial institutions as these regulatory changes are phased in.

With best regards,

Dan Glickman

DG:sf

cc: DIDC Membership

Mrs. Mallardi
(V-226)

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

November 3, 1981

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

Dear Mr. Seiberling:

This is in further response to your letter of August 7 requesting our views with respect to correspondence you received from Mr. Langdon P. Marvin, Jr. I regret the delay in responding to your letter, but, as indicated in our letter of August 19, Mr. Marvin's letter involved a matter of some complexity that required an investigation by the Federal Reserve Bank of New York.

Mr. Marvin states that the Bank of New York, co-trustee of two trusts, has refused to supply information regarding the status of the trusts. He also states that the bank has been depleting the principal of the "marital" trust, designated "MVM Trust No. 1", even though the corpus of this trust was transferred to him by an appointment of the primary beneficiary, his mother, on September 16, 1980. The results of our inquiry are summarized below.

The correspondence files of the Bank of New York (the "Bank") disclose that the Bank has not altogether ignored Mr. Marvin's requests for information. The Bank's files contain several letters from the Bank's counsel to Mr. Marvin's counsel. In the case of the residuary trust (MVM Trust No. 2), wherein the contingent interest of Mr. Marvin is not disputed by the Bank, the requested information was supplied.

The Bank has informed us that it does not believe that Mr. Marvin is a person interested in the corpus of the marital trust (MVM Trust No. 1) under the Surrogate's Court Procedure Act (SCPA) of New York. Consequently, the Bank believes it was acting properly in withholding information concerning this trust pursuant to its responsibility of maintaining the confidentiality of its relationship solely with interested persons. With reference to the power of appointment that Mr. Marvin holds, the Bank has indicated that Mr. Marvin, or his attorney, will be

furnished with the requested information as provided under Section 2309 of the SCPA upon a judicial determination that the power of appointment is valid. In this regard, the Bank has indicated that: (a) prior to this complaint and a letter dated August 31, 1981, from Lawrence Weston Krieger, Esq., it had not been aware of the power of appointment; (b) since being made aware of the power of appointment, it has ceased to invade the corpus of MVM Trust No. 1 for the benefit of Mrs. Marvin; and (c) it is the Bank's intention to initiate an action in the Surrogate's Court of New York County requesting that the power of appointment be set aside as invalid. The results of this action will, of course, determine Mr. Marvin's rights to the information requested.

Mr. Marvin's right to compel the Bank as a fiduciary to disclose information about the marital trust is a question for judicial determination. In this regard, Section 2102 of the SCPA provides for proceedings for relief against a fiduciary to supply information concerning assets or affairs of an estate relevant to the interest of the petitioner. Further, SCPA Article 22, and more specifically Section 2205, covers the area of compulsory accounting of a fiduciary on a court's initiative, or on petition; and who may petition. This is not to say that Mr. Marvin is legally entitled to the information requested, but rather that procedures exist under the SCPA by which he and his attorney may file for judicial relief.

The Federal Reserve Bank of New York will continue to monitor the situation and will ensure that the Bank complies with its responsibilities after the proper determinations are made by the court.

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

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn
Assistant to the Board

DRV:AFC:vcd (V-226)

bcc: Don Vinnedge
Jack Ryan
Mrs. Mallardi

August 19, 1981

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

Dear Mr. Seiberling:

I am writing to acknowledge receipt of your letter of August 7 requesting comment on correspondence from Mr. Langdon P. Marvin, Jr.

Mr. Marvin alleges that The Bank of New York, co-trustee of two trusts in which he is an interested party, has refused to supply information regarding the status of the trusts. He also states that the bank has been depleting the principal of one of the trusts, and that the principal of this trust should be transferred to his control because of an appointment made by his mother pursuant to the terms of the trust instrument.

We have requested the Federal Reserve Bank of New York to look into this matter, and I expect to have a response to you in the near future.

Sincerely,

(Signed) William R. Maloni

William R. Maloni
Special Assistant to the Board

CRL:DRV:CO:vcd (V-226)

bcc: Chuck Lewellen
Don Vinnedge
Jack Ryan
Mrs. Mallardi

Action assigned Jack Ryan

JOHN F. SEIBERLING
14TH DISTRICT, OHIO

COMMITTEES:
JUDICIARY
INTERIOR AND
INSULAR AFFAIRS

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

#226

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August 7, 1981

Hon. Paul A. Volcker
Chairman, Board of Governors
Federal Reserve System
Constitution Ave. & 21st St., N.W., Room 2046-B
Washington, D.C. 20551

Dear Mr. Chairman:

Enclosed is a letter to me dated July 31, 1981 from my friend and classmate, Langdon P. Marvin, Jr.

If Mr. Marvin's assertions are correct--and I have no reason to question them--then it seems to me they raise serious questions about the Bank of New York's attitude toward its obligation to provide information, as required by law concerning its administration of property held by it as a fiduciary. Apparently, it has wholly failed to do this despite repeated requests for such information by Mr. Marvin and by attorneys acting in his behalf.

I have no basis, other than the documents enclosed with his letter, for evaluating Mr. Marvin's claim that the bank is improperly depleting the principal of a trust which it administers and which has been assigned to him by his mother. However, that issue appears to be entirely separate from the question of the bank's failure to supply him with the requested information or even to offer him an explanation for its failure to do so. I would appreciate anything you could do, within established policy, to ensure that the bank meets its obligations in that regard, including extending the minimum courtesies that anyone in Mr. Marvin's situation would seem to be entitled to.

Sincerely,

John Seiberling

John F. Seiberling
Member of Congress

/wjs
Enclosures

HARVARD UNIVERSITY
Cambridge, Massachusetts 02138

Langdon Parker Marvin, Jr.
[redacted]

July 31, 1981

The Honorable John F. Seiberling
House of Representatives
1225 Longworth Building
Washington, D. C.

Dear John:

A very serious situation has arisen throughout the past year respecting my father's will, my mother's exercise of the appointment power under that will, and the obdurate obstructionism of the Bank of New York (Elliott Averett, Chairman, (212-530-1784, 48 Wall Street, New York, New York, 10005) and its agents or attorneys.

The most serious and relevant letters and documents are enclosed. They indicate failure by the Bank of New York, in the better part of a year to provide information required by laws and regulations, and the continued depletion of the fund appointed to me by the Bank's paying out principal as well as income from my fund.

I was told by a trust officer of the Bank that these letters have been "administratively lost", (emphasis supplied) but surely not all of them, and I attach a file. In the case of Mr. Griffin's letter of October 17, 1980, he sent both an original and a photocopy at different times.

Even without my mother's exercise of the appointment power, I have been and am entitled to the information requested on the assets and yield of what are known to the Bank of New York as "MVM Trust No. 1", "MVM Trust No. 2" etc., as being a person interested in the principal of those two trusts, and under 2309 of Surrogates Court Procedure Act of New York among other requirements the regular provision of such information to interested persons requesting it is made as a condition for the Bank's receiving commissions.

As to the matter of the Bank depleting and paying out

principal from "MVM Trust No. 1". Mrs. Marvin's appointment of this fund to her only son, dated September 16, 1980, is recorded with the Surrogates Court in New York City. All attempts to engage in a colloquy with the Bank of New York by myself and my friends and attorneys have been broken off by the Bank or its attorneys.

It seems clear the appointment gave and gives me the corpus of this fund, and puts on me the responsibility to see my mother receives the income for her life.

I have arranged with two suitable trust companies that she will receive the income every two weeks.

Should my mother need capital, she of course can draw on her inter-vivos or personal trust, "MVM Trust No. 3" (also located at the Bank of New York) , without the discretion of the Bank. She has (or should have) use of some rentals on the large property in Maine of which she is life tenant. She has other sources of capital and income which have gone unreported and untapped.

So my mother has alternative sources for capital, alternative to the depletion of my fund by the Bank of New York.

Thank you for your attention to this matter.

Sincerely,

Langdon Parker Marvin, Jr.

October 17, 1980

Bank of New York
Trust Department
48 Wall Street
New York, New York 10005

Dear Sirs:

On behalf of Langdon Parker Marvin, Jr., a prospective beneficiary under the will of his late father, I would like to receive a statement of the assets and estimated annual yield, of the so-called "children's trust" (your Mary V. Marvin "Trust No. 2), of the so-called "Marital deduction" trust (your "Trust No. 1"), and of the intervivos trust (your "Trust No. 3").

Very truly yours,

WILLIAM T. GRIFFIN

WTG:JAG

BCC: Mr. Langdon P. Marvin
c/o Mr. Fried
[redacted]

DUPLI-MEMO

GRAYARC COMPANY INC. BROOKLYN, N. Y. 11232

from the desk of

WILLIAM T. GRIFFIN 7/19/81

TO

L. P. Marvin
To Congressman
John T. Gribberling
Wash. D.C. 20515

Cc. Wilder
Herewith copy of
Oct. 17, 1980 letter to
Bank of New York.
W.T.G.

SPECIAL DELIVERY

Mr. L. P. Marvin
c/o Congressman John T. Gribberling
Washington, D.C.
20515
Cc: Wilder

STATEN ISLAND, N. Y. 10301

STATEN ISLAND
JUL 21

PERRY, WEINBERG, WELS, WALDMAN & RUBENSTEIN
6 EAST 43RD STREET, NEW YORK, N.Y. 10017

March 12, 1981

Elliott Avery, Esq.
Bank of New York
48 Wall Street
New York, New York 10005

Re: Trusts u/w Langdon Parker Marvin

Dear Mr. Avery:

On behalf of Langdon Parker Marvin, Jr., a beneficiary under the will of his late father, I would appreciate having the most recent readily available information on the present principal of the trusts which the bank has identified as

Mary V. Marvin Trust No. 1 (Marital trust)
Mary V. Martin Trust No. 2 (Children's trust)
Mary V. Martin Trust No. 3 (Personal or inter vivos trust).

Sincerely yours,

Richard H. Wels

RHWWjs

GUGGENHEIMER & UNTERMYER
80 PINE STREET, NEW YORK, N Y 10005
TELEPHONE DIGBY 4-2040

CABLE ADDRESS MELPOMENE NEW YORK
TELEX-126278

June 1, 1981

The Bank of New York
48 Wall Street
New York, New York

Re: Trust Under the Will of
Langdon Parker Marvin

Dear Sirs:

I represent Langdon P. Marvin, Jr., a residual principal beneficiary under the will of Mr. Langdon Parker Marvin. I understand that the Bank of New York is Trustee under that will.

Mr. Marvin has not received any information with respect to the status of the trust for several years. Would you be good enough to send me a copy of the trust's most recent annual statement showing the principal assets on hand and income received.

If you have any difficulty in complying with this request in the very near future, will you please communicate with me.

Very truly yours,

George Minkin

George Minkin

GM/ak

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Citation Information

Document Type: Legal documents

Number of Pages Removed: 16

Citations: Power of Appointment, Mary Vaughan Marvin, September 22, 1980.

Last Will and Testament of Langdon Parker Marvin, May 21, 1954.

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

November 3, 1981

PAUL A. VOLCKER
CHAIRMAN

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

Dear Chairman St Germain:

Thank you for your letter of November 2 requesting comment on a draft bill that would exempt time deposits of international banking facilities ("IBFs") from deposit insurance and assessments under the Federal Deposit Insurance Act. As you indicated, on October 29, I expressed the Board's general support for a substantially similar provision in S. 1720 before the Senate Committee on Banking, Housing and Urban Affairs.

Before commenting on the specific provisions of the draft bill, I would like to reemphasize that the Board believes that the establishment of IBFs at United States banking offices will enhance the international competitive position of banking institutions located in the United States and, in addition, hopefully increase domestic employment in the financial sector of the economy.

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

There also are two other considerations which played a significant role in the Board's analysis of the provisions of the draft bill which you enclosed, that is, the need for deposit insurance and the competitive impact of insurance assessments. On the first point, the minimum denomination of IBF deposits is $100,000, and in almost all cases would be expected to exceed the maximum level of deposit insurance. In addition, depositors with resources of this magnitude are not generally in the class that needs the protection of deposit insurance, but are more in the category of the sophisticated investors able to protect their interests through knowledge of the marketplace.

With respect to the second point, the international financial marketplace is highly competitive and the imposition of insurance assessments on IBF deposits would put U. S. banks at a competitive disadvantage against their foreign counterparts who are not subject to this cost. The competitive environment was also one of the reasons for the Board's decision to exempt IBF deposits from reserve requirements. In this regard, the narrow margins in international financial markets make it all the more important to avoid putting U. S. banks at a competitive disadvantage by adding unnecessarily to their operating costs.

Consequently, the Board believes it is both necessary and desirable to exclude IBF deposits from deposit insurance and assessment. However, the Board also believes it would be desirable to draft the proposed legislation to provide the same treatment for IBF deposits that is established for foreign branch deposits and to not provide for a permanent exemption from deposit insurance for such deposits. This would allow for a continuing evaluation of the insurance treatment of deposits at foreign branches and facilitate the submission of proposals for Congressional consideration.

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

Sincerely,

S/Paul A. Volcker

PSP:vcd (V-320)

bcc: Mr. Pilecki
Mr. Bradfield
Legal Records (2)
Mrs. Mallardi (2)

U.S. HOUSE OF REPRESENTATIVES

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

WASHINGTON, D.C. 20515

November 2, 1981 #320

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

Dear Mr. Chairman:

The Subcommittee on Financial Institutions Supervision, Regulation and Insurance will hold hearings this coming Wednesday, November 4, on a bill to be introduced today, which if enacted, would exempt international banking facility deposits from FDIC insurance requirements.

A copy of the draft bill is enclosed and as discussed by members of our respective staffs a written statement expressing the views of the Fed will be sufficient for the Committee's purposes.

It is my understanding that in your appearance before the Senate Banking, Housing and Urban Affairs Committee that you expressed on that occasion the Board's support for Section 702 of S. 1720.

Sincerely,

Fernand J. St Germain

Fernand J. St Germain
Chairman

FJStG:gSj
Enclosures

SCHUME017

97TH CONGRESS
1ST SESSION

H. R. 4879

IN THE HOUSE OF REPRESENTATIVES

Mr. SCHUMER introduced the following bill; which was referred to the Committee on _____

A BILL

To amend the Federal Deposit Insurance Act to clarify the treatment of international banking facility deposits for purposes of deposit insurance assessments.

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

SHORT TITLE

SECTION 1. This Act may be cited as the ''International Banking Facility Deposit Insurance Act''.

INTERNATIONAL BANKING FACILITY DEPOSITS

SEC. 2. Section 3(l)(5) of the Federal Deposit Insurance Act (12 U.S.C. 1813(l)(5)) is amended to read as follows:

''(5) such other obligations of a bank as the Board of Directors, after consultation with the Comptroller of the Currency and the Board of Governors of the Federal Reserve System, shall find and prescribe by regulation to be deposit liabilities by general usage, except that the following shall not be a deposit for any of the purposes of this Act or be included as part of the total deposits or of an insured deposit:

''(A) any obligation of a bank which is payable only at an office of such bank located outside of the States of the United States, the District of Columbia, Puerto Rico, Guam, American Samoa, and the Virgin Islands; and

''(B) any international banking facility deposit, including an international banking facility time deposit, as such term is from time to time defined by the Board of Governors of the Federal Reserve System in Regulation D or any successor regulation issued by the Board of Governors of the

1 Federal Reserve System.''.

2 EFFECTIVE DATE

3 SEC. 3. The amendment made by section 2 shall take

4 effect on the date of the enactment of this Act.

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

November 2, 1981

PAUL A. VOLCKER
CHAIRMAN

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

Dear Mr. Volkmer:

Thank you for your letter of October 7 concerning high interest rates. I understand and sympathize with your views about the detrimental effects of high interest rates on the economy, and particularly on the construction, real estate, and automobile industries and on farming. But I think that it is important to keep in mind that inflation and heavy government borrowing are major contributing factors to these high interest rates.

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 am convinced that lasting relief from the high interest rates that are constraining economic activity can be assured only by curbing 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 believe that we now 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 assure a healthier economic environment for us all.

I appreciate your giving me the benefit of your thoughts on these issues.

Sincerely,

S/Paul A. Volcker

AK:RMF:JSZ:RS:pjt (#V-294)
bcc: Mr. Fisher
Mr. Kling
Ms. Wing
Mrs. Mallardi (2)

Action assigned Jim Kichline

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

DISTRICT OFFICES:
LEE VIOREL
DISTRICT ADMINISTRATOR
ROOM 370
FEDERAL BUILDING
HANNIBAL, MISSOURI 63401
(314) 221-1200

535 RUE ST. FRANCOIS
FLORISSANT, MISSOURI 63031
(314) 837-1688

200 N. 2ND STREET
ST. CHARLES, MISSOURI 63301
(314) 723-1665

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

October 7, 1981

Mr. Paul A. Volcker, Chairman
The Federal Reserve System
Federal Reserve Building
Constitution Avenue and 20th Street
Washington, D. C. 20551

Dear Paul:

Home builders, realtors, and automobile dealers are in serious financial trouble bacause high interest rates have caused the cost of these itmes to reach all-time high rates. The demand for these items however has continued unabated and is building. This pent-up demand could be met by slightly increasing the money supply and an accompanying reduction in interest rates.

Like many members of congress, my district's businesses and farmers have been severely strained by the shortage of money caused by the high interest rates and, many of the job-producing, tax-revenue producing operations are now on the verge of bankruptcy.

To counter this likelihood and to allow a true recovery of the economy I urge you to review the tight-money policy the Federal Reserve Board has followed and increase the money supply to at least the upper level allowed by the Federal Reserve Board Policy, preferably by reducing the amount banks need to hold in reserve.

I urge you to carefully consider this action as I believe it will help restore economic health to the ailing construction, real estate, and automobile industries. With best wishes, I am

Sincerely yours,

Harold L. Volkmer

Harold L. Volkmer
Member of Congress

HLV/dlm/am

November 2, 1981

The Honorable Beryl Anthony, Jr.
House of Representatives
Washington, D.C. 20515

Dear Mr. Anthony:

I am pleased to respond to your recent wire in which you urged reconsideration of decisions made by the Depository Institutions Deregulation Committee at its meeting on September 22. As you may know, I voted against this increase at the time it was first approved by the Committee. I am pleased to note that since you sent your wire the Committee reconsidered the issue and voted to postpone indefinitely the one-half percentage point increase in ceiling rates on passbook savings accounts that would have become effective on November 1, 1981.

I want to assure you that I understand and agree with the concerns that prompted your wire, and I will keep them in mind at future meetings of the Committee.

Sincerely,

S/Paul A. Volcker

NB:RS:pjt (#V-304)
bcc: Mr. Bernard
Mrs. Mallardi (2)

Action assigned Mr. Bernard

VOLCKER

#304

*** MESSAGE REC18 ***

FED RES BD DC

WU INFOMASTER 1-010485C289 10/16/81
ICS IPMWGWF WSH
01201 10-16 1156A EDT
TWX 7108229235 FED RES BD DC
4-016729S289 10/16/81
ICS IPMMTZZ CSP
2022253772 TDMT WASHINGTON DC 94 10-16 1055A EST
PMS PAUL VOLCKER CHAIRMAN RPT DLY MGM, DLR
FEDERAL RESERVE BOARD
20 AND CONSTITUTION AVE NORTHWEST
WASHINGTON DC 20551
IN LIGHT OF CURRENT ECONOMIC CONDITIONS I STRONGLY URGE YOU TO POSTPONE IMPLEMENTATION AND RECONSIDER ACTIONS TAKEN AT YOUR SEPTEMBER 22 MEETING OF THE DIDC. THE HOUSING INDUSTRY IS IN THE WORST CONDITION SINCE WORLD WAR II AND IN THE FOURTH DISTRICT OF ARKANSAS HOUSING IS IN THE WORST SHAPE IN MEMORY. THE SEPTEMBER 22ND DECISION WILL NOTHING TO HELP SAVINGS AND LOANS AND IN FACT MAY WELL EXACERBATE THE PROBLEMS THEY FACE. POSTPONEMENT OF YOUR ACTIONS WILL ALLOW CONGRESS TO EXERCISE ITS OVERSIGHT RESPONSIBILITIES AND EXAMINE THE POTENTIALLY DAMAGING IMPACT OF THESE DECISIONS.
CONGRESSMAN BERYL ANTHONY JR
4TH DISTRICT ARKANSAS
(213 CANNON HOUSE OFFICE BLDG WASHINGTON DC 20515)
213 CANNON HOUSE OFFICE BLDG
WASHINGTON DC 20515
1059 EST

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

November 2, 1981

PAUL A. VOLCKER
CHAIRMAN

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

Dear Chairman Garn:

As you know, we have been putting a good deal of effort into simplifying all of our regulations, including those which implement consumer protection statutes. Over the long run, the Congress may also be able to reduce the burden through statutory amendments. However, for now the major burdens are something we will have to live with. As a result, we have also been trying to identify other innovative ways to ease the burden of compliance. One technique we are trying is the issuance of staff commentaries on certain regulations, which will centralize in one place the various separate staff interpretations and, to the extent we can present them in simple English, provide readily understandable answers to common questions raised by covered institutions.

Enclosed for your information are two such efforts. The first is a commentary to Regulation E, which implements the Electronic Fund Transfer Act. Through structuring the commentary in the question-and-answer format, providing an index, and doing our best to write plainly and simply, we hope that we have taken a major step to ease compliance for those who genuinely want to understand and comply with the law, but who may have simply had difficulty with its complexity.

The second staff commentary is on Regulation Z, which implements the Truth in Lending Act. We hope it will help alleviate the difficulties creditors have had in understanding their responsibilities under the Act and regulation. The commentary is designed to replace over 1,500 individual interpretations, and we hope it will be the sole vehicle for interpreting the regulation in the future.

Both commentaries are rather formidable looking, which at first blush may seem odd given their intent. However, they reflect the inherent complexity of the underlying law, something

which ultimately can be rectified only by Congressional action. Creditors have also impressed on us the importance of the commentaries being complete and detailed so that they can avoid some of the costs of implementation. The commentaries are official interpretations, and provide protection from civil liability for institutions acting in conformity with them. In both commentaries the staff has sought to provide interpretations that minimize compliance burdens, to the extent permitted by the Act and regulation, while not giving up important consumer protections. We have also tried, wherever possible, to set objective standards so that both financial institutions and their enforcement agencies can more easily determine whether, and how, the regulation applies to individual transactions.

We would, of course, be pleased to brief you or your staff more thoroughly on the commentaries if you desire it.

With regard to the Regulation Z commentary, I am very aware of your expression of concern about the coverage of real estate brokers under Truth in Lending when they arrange seller financing. This is a troublesome issue, and the Board has had a full discussion of it. As a result of that discussion, we decided to seek further public comment on the question. Since that time you have, of course, introduced S. 1720, which would resolve the issue legislatively. To assist you in your deliberations on the bill, we would be pleased to furnish you with the information we receive from the public during the comment period.

Sincerely,

S/ Paul

Enclosures

GG:RS:vcd (V-211)

bcc: Mr. Garwood
Mrs. Mallardi (2)

August 19, 1981

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

Dear Chairman Garn:

Thank you for your letter of July 24 concerning the treatment of real estate brokers as creditors under the Truth in Lending Act.

We are in the process of looking into the concerns raised in your letter, and I expect to have a response to you in the next few weeks.

Sincerely,

S/ Paul

CO:vcd (V-211)

bcc: Mr. Garwood
Ms. Rechter
Mrs. Mallardi (2)

Action assigned Janet Hart

United States Senate

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

July 24, 1981

#211

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

Dear Mr. Chairman:

Chief among my long-term objectives, as you know, have been efforts to ease the regulatory burdens for both business and the consumer. I take pride in the passage last year of the amendments simplifying the Truth in Lending Act because it represents the culmination of years of hard work on the part of the Federal Reserve Board and the Congress. The improvements in the Act are numerous and, generally speaking, will serve to ease the burdens of this important law on both consumers and creditors. The Federal Reserve Board also has done an extremely commendable job in revising and simplifying Regulation Z within the constraints of the new Act.

However, it has come to my attention that in the course of resolving the "multiple creditor" problem that arose under the original Act, we have imposed a new and extremely burdensome obligation upon real estate brokers. As a result of the new definition of "creditor", real estate brokers now are considered "arrangers of credit" and are obligated to provide all truth in lending disclosures whenever another otherwise qualified "creditor" is not involved in the transaction.

This result was clearly not the focus of the Senate Banking Committee when we began the task of simplifying truth in lending in 1977, nor when we discussed the specific problem of "mutiple creditors". The affordability problems posed by today's high mortgage rates, when coupled with current limited mortgage credit availability, have forced the development of new mortgage financing techniques unanticipated by Congress during its revision of the Truth in Lending Act.

"Creative financing", the generic term used to identify all such new mortgage financing techniques, was generally not utilized during the time period which culminated in the passage of the TIL Simplification Act in March of 1980. Today

I understand that over 90 percent of the NATIONAL ASSOCIATION OF REALTORS members report using creative financing techniques at least to some extent and this usage is increasing. Current estimates indicate that over one half of all resale transactions now involve the use of some form of creative financing.

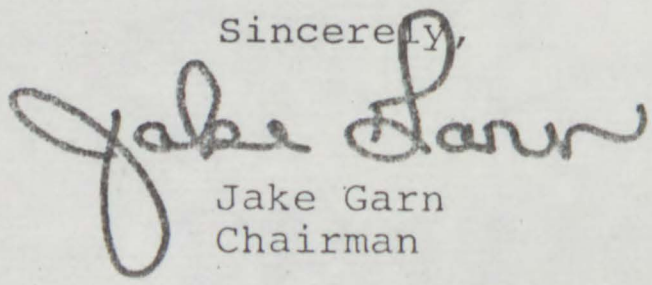
The stark economics of the housing market now require that real estate brokers use creative financing techniques to provide favorable mortgage financing for their clients. In doing so, brokers will be forced under the new Regulation Z definition of "arranger of credit" to assume a burden which they are ill-prepared to perform.

The average real estate firm, usually 6 to 10 brokers, does not now nor will it soon have the expertise to effectively provide the disclosure requirements of truth in lending. While brokers bring real estate expertise to the transaction, they are ill-equipped to provide creditor expertise, even in seller-financed transactions.

The net result of the "arranger of credit" application to the real estate broker will not be more effective consumer protection; it will likely produce unavoidable compliance errors by real estate practitioners who should not be subject to truth in lending requirements.

I encourage you to reconsider the treatment of real estate brokers as creditors under the Truth in Lending Act and to attempt to find a more effective and less burdensome solution to this problem prior to the April 1, 1982 effective date of these new provisions.

Sincerely,



Jake Garn
Chairman

JG/bce

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

November 2, 1981

PAUL A. VOLCKER
CHAIRMAN

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

Dear Dale:

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 may know, the DIDC took action in recent days 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 housing market. 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

NB:RS:pjt (#V-310)
bcc: Mr. Bernard
Mrs. Mallardi (2)

Action assigned Mr. Bernard

United States Senate

COMMITTEE ON
ENERGY AND NATURAL RESOURCES
WASHINGTON, D.C. 20510

October 16, 1981

#310

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

Dear Paul:

I am writing to express my deep concern over the action of the Depository Institutions Deregulation Committee on September 22, 1981, which increased the maximum interest rate payable on passbook savings by one-half percent, created a new IRA/Keogh account, and set up a new formula for setting money market certificate rates. Each of these decisions, unless reversed or delayed pending further consideration and study, is potentially devastating to many financial institutions, particularly savings and loan associations.

When Congress passed the Depository Institutions Deregulation and Monetary Control Act last year, broad authority was given to your committee to increase gradually the maximum allowable interest rates and make other changes designed to provide investors with a better rate of return. The bill contained an important provision, however, which was designed to ensure that the financial well-being and stability of the financial institutions would be protected. Section 204(b) of the act states:

> "The Deregulation Committee shall work toward providing all depositors with a market rate of return on their savings <u>with due regard for the safety and soundness of depository institutions</u>."

The September 22nd decisions by your committee will jeopardize the continued existence of many financial institutions in Arkansas and other states and will cost savings and loan associations millions of dollars. The increased rate on passbook savings will result in a $500 million drain on their resources next year. And, the decision to start a new four-week averaging formula for setting money market certificate rates will be almost as costly. Finally, although the exact cost of the new IRA/Keogh accounts cannot be determined, the fact that there

will be no interest limitation on them is enough to warrant further consideration. Many financial institutions simply cannot withstand these losses.

Historically, the savings and loan associations have been important institutions in virtually every community in this country. They have provided the financing for millions of Americans to acquire one of the most important assets a family can own -- a home. I think you will agree that the continued viability of our savings and loan associations is of paramount importance and should be one of the top priorities on the domestic agenda. Without these instituations, millions of young persons in this country may never be able to buy a home and I'm afraid that your decisions will hasten their demise and not improve their financial situation so that they can continue to make housing loans.

For all of these reasons, and because the savings and loan associations of this country have already suffered unprecedented losses, I request that you reverse these decisions or delay their implementation indefinitely so that their precise effect can be determined.

Thank you for your consideration of this request.

Sincerely,

Dale

Dale Bumpers

DB:tcl