Congressional
January - February 1982 [1]

Congressional
January-February1982

February 26, 1982

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

Dear Mr. Chairman:

I am writing to you in connection with the debt restructuring loan made by the Hunt brothers and by Placid Oil Company in 1980 which was related to silver market developments in the winter and spring of that year. I would like to inform you that Placid will announce a refinancing of this loan today.

You will recall that the original loan was undertaken in the context of concern by participating banks and others that a failure to restructure this debt could have unsettling influences on markets and on institutions. I interposed no objection to the loan in consideration of covenants contained in the loan agreements relating to orderly sales of silver and avoidance of speculation in commodities, thus assisting in assuring consistency of the loan with the Special Voluntary Credit Restraint Program then in effect.

At various times over the past year, there have been reports of attempts by Placid Oil Company to refinance this loan. I have stated when asked that I would consider any steps which had the effect of significantly altering the purposes and protections of the original loan covenants to be clearly inconsistent with the understanding that formed the basis for my decision not to object to the debt restructuring. Late last year I was informed that the borrowers were proposing to refinance the loan in a manner that involved commitments to maintain the purposes and protections of the existing loan covenants by means of an enforceable agreement with private parties that would remain in effect regardless of whether the underlying loan remained outstanding.

In considering--at the request of both lenders and borrowers--the private financial restructuring arranged by the borrowers on this basis, I have paid close attention to assuring that the original commitments to sell the silver in an orderly manner and to avoid speculation are being preserved and protected in the new arrangements. I believe the public policy protections of the 1980 loan are being maintained

and I have been assured that the new agreements will be carried out in good faith without reservation or qualification. In this connection, I am enclosing for your personal information a recent exchange of correspondence that I have had with the participants in this loan.

Because the new arrangements appear to be fully consistent with maintaining the purposes and protections of the 1980 covenants, I have interposed no objection.

Sincerely,

S/Paul A. Volcker

Enclosure

IDENTICAL LETTERS SENT TO:

The Honorable Henry S. Reuss
Chairman
Joint Economic Committee
House of Representatives

The Honorable William Proxmire
United States Senate

The Honorable Edward Jones
Chairman
Subcommittee on Conservation, Credit
and Rural Development
Committee on Agriculture
House of Representatives

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

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

MB:mam
2/25/82

Wolfe

February 26, 1982

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

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Sincerely,

S/Paul A. Volcker

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Subcommittee on Commerce,
Consumer, and Monetary Affairs
Committee on Government Operations
U.S. House of Representatives

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

MB:mam
2/25/82

February 26, 1982

The Honorable Pete V. Domenici
Chairman
Committee on the Budget
United States Senate
Washington, D.C. 20510

The Honorable Ernest F. Hollings
Ranking Minority Member
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Chairman Domenici and Senator Hollings:

Thank you for your letter of February 23 regarding my appearance before the Committee on the Budget at hearings on the First Concurrent Budget Resolution for FY 1983.

I am looking forward to being with you on March 2 at 10:00 a.m.

Sincerely,

S/Paul A. Volcker

CO:pjt (#V-45)
bcc: Susan Lepper
K Messrs. Kichline and Zeisel
Mrs. Mallardi (2)

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

PAUL A. VOLCKER
CHAIRMAN

February 26, 1982

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

Dear Chairman English:

In accordance with the requirements of the Freedom of Information Act, I am submitting the Annual Report of the Federal Open Market Committee of the Federal Reserve System covering the implementation of its administrative responsibilities under the Act during the calendar year 1981.

Sincerely,

Paul A. Volcker

Enclosure

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

PAUL A. VOLCKER
CHAIRMAN

February 26,1982

The Honorable Paul Laxalt
Chairman
Subcommittee on Regulatory Reform
Committee on the Judiciary
United States Senate
Washington, D. C. 20510

Dear Chairman Laxalt:

In accordance with the requirements of the Freedom of Information Act, I am submitting the Annual Report of the Federal Open Market Committee of the Federal Reserve System covering the implementation of its administrative responsibilities under the Act during the calendar year 1981.

Sincerely,

Paul A. Volcker

Enclosure

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

PAUL A. VOLCKER
CHAIRMAN

February 26, 1982

The Honorable George H. W. Bush
President of the U. S. Senate
Washington, D. C. 20510

Dear Mr. Vice President:

In accordance with the requirements of the Freedom of Information Act, I am submitting the Annual Report of the Federal Open Market Committee of the Federal Reserve System covering the implementation of its administrative responsibilities under the Act during the calendar year 1981.

Sincerely,

Paul A. Volcker

Enclosure

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

PAUL A. VOLCKER
CHAIRMAN

February 26, 1982

The Honorable Thomas P. O'Neill, Jr.
Speaker of the House of Representatives
Washington, D. C. 20515

Dear Mr. Speaker:

In accordance with the requirements of the Freedom of Information Act, I am submitting the Annual Report of the Federal Open Market Committee of the Federal Reserve System covering the implementation of its administrative responsibilities under the Act during the calendar year 1981.

Sincerely,

Paul A. Volcker

Enclosure

February 25, 1982

The Honorable James C. Miller, III
Chairman
Federal Trade Commission
Washington, D.C. 20580

Dear Mr. Miller:

Enclosed for your information are three copies of the Board's seventh Annual Report on Section 18(f) of the Federal Trade Commission Act.

If you need additional copies, please let us know and we will be glad to furnish them.

Sincerely,

S/Paul A. Volcker

Enclosures

Identical letters also ~~xxx~~ sent to Chrmn. Isaac, FDIC, and Comptroller Conover, OCC.

bcc: Mrs. Mallardi (2)
Robin Fenner

February 25, 1982

The Honorable George H. W. Bush
President of the United States Senate
Washington, D.C. 20510

Dear Mr. Vice President:

The Board of Governors of the Federal Reserve System is pleased to submit its seventh Annual Report on the Board's functions with respect to Section 18(f) of the Federal Trade Commission Act.

Sincerely,

S/Paul A. Volcker

Enclosure

Identical letter also sent to Speaker O'Neill.

bcc: Robin Tenner
Mrs. Mallardi (2)

FEB 24 1982

The Honorable George H. W. Bush
President of the U.S. Senate
Washington, D.C. 20510

Dear Mr. Vice President:

In accordance with the requirements of the Freedom of Information Act, I am pleased to submit the Board's Annual Report covering the implementation of its administrative responsibilities under the Act during calendar year 1981.

Sincerely,

Paul A. Volcker

G.W.B.

Enclosure

President of the U.S. Senate,

received _____

by _____

RLArnold:nlf
2/23/82

FILE COPY

FEB 24 1982

The Honorable Thomas P. O'Neill, Jr.
Speaker of the House of Representatives
Washington, D. C. 20515

Dear Mr. Speaker:

In accordance with the requirements of the Freedom of Information Act, I am pleased to submit the Board's Annual Report covering the implementation of its administrative responsibilities under the Act during calendar year 1981.

Sincerely,

(signed) Paul A. Volcker

Enclosure

Speaker of the House of Representatives

Received _____

by _____

RLArnold:nlf
2/23/82

FILE COPY

FEB 24 1982

The Honorable Paul Laxalt
Chairman
Subcommittee on Regulatory Reform
Committee on Judiciary
United States Senate
Washington, D.C. 20510

Dear Chairman Laxalt:

In accordance with the requirements of the Freedom of Information Act, I am pleased to submit the Board's Annual Report covering the implementation of its administrative responsibilities under the Act during calendar year 1981.

Sincerely,

(signed) Paul A. Volcker

W.W.W.

Enclosure

JD:slb

FEB 24 1982

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

Dear Chairman English:

In accordance with the requirements of the Freedom of Information Act, I am pleased to submit the Board's Annual Report covering the implementation of its administrative responsibilities under the Act during calendar year 1981.

Sincerely,

(signed) Paul A. Volcker

Enclosure

JD:slb

Mrs Mallardi

FEB 24 1982

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

Dear Chairman English:

In accordance with the requirements of the Freedom of Information Act, I am pleased to submit the Board's Annual Report covering the implementation of its administrative responsibilities under the Act during calendar year 1981.

Sincerely,

(signed) Paul A. Volcker

Enclosure

JD:slb

Mrs. Mallardi
(V-31)

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

February 24, 1982

The Honorable Charles W. Stenholm
House of Representatives
Washington, D. C. 20515

Dear Mr. Stenholm:

Thank you for your letter of February 4 requesting comment on correspondence you received from your constituent, Mrs. Bernice Prescott, concerning the autonomy of the Federal Reserve Board.

The Board of Governors and the entire Federal Reserve System were created by passage of the Federal Reserve Act in 1913. Congress, in creating the Federal Reserve System, provided it with a substantial degree of independence in order to insulate monetary policy decisions from day-to-day political pressures. Members of the Board of Governors are appointed by the President, with the advice and consent of the Senate.

Although the Board is an independent agency, Congress does have ultimate authority over the Federal Reserve and oversees the activities of the System through relevant committees. The Board also maintains close communication with the Administration and is in continuous contact with officials of other government agencies. For example, frequent meetings are held with the Treasury, the Council of Economic Advisers, and the Office of Management and Budget to help evaluate the economic climate and to discuss objectives. Moreover, the general goals of the Federal Reserve have been set forth in the Full Employment and Balanced Growth Act of 1978, in which Congress laid out for the Federal Reserve, as well as for the President, the directives of promoting full employment, balanced growth of real income, adequate productivity growth, and reasonable price stability. In attempting to achieve these goals, which tend to be longer term in nature, the Federal Reserve establishes annual ranges for growth of monetary and bank credit aggregates. These ranges are presented in Monetary Reports to Congress each February and July, in which the Federal Reserve discusses how money and credit growth within these ranges will contribute to the achievement of longer-term goals. In addition, the Board is required by law to make an annual report to Congress,

and members of the Board, especially the Chairman, are called upon frequently to testify before Congressional committees.

As further background on the System, I am enclosing five pamphlets on the structure of the Federal Reserve System, which may be of interest to Mrs. Prescott.

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

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn
Assistant to the Board

Enclosures

CO:vcd (V-31)

bcc: Mrs. Mallardi

Co[redacted] Liaison Office will prepare [redacted]sponse

CHARLES W. STENHOLM
17TH DISTRICT
TEXAS

WASHINGTON OFFICE:
1232 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-6605

COMMITTEES:
AGRICULTURE
SMALL BUSINESS

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

DISTRICT OFFICES:
P.O. BOX 1237
STAMFORD, TEXAS 79553
(915) 773-3623

P.O. BOX 1101
ABILENE, TEXAS 79604
(915) 673-7221

#31

February 4, 1982

1982 FEB -8 PM 1:31

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

Dear Mr. Volcker:

Please find enclosed a copy of a letter I have just received from Mrs. Bernice Prescott in which she asks about the Federal Reserve System.

It would appear that she is interested in authority provisions for the system and its responsibility to Congress and the Administration. Any information you may be able to provide in this regard would be greatly appreciated.

Thanking you in advance, and with warm regards, I remain

Sincerely yours,

Charlie

Charles W. Stenholm
Member of Congress

CWS:fxc
Enclosure

Mrs. Bernice Prescott
[redacted]

January 29, 1982
[redacted]

Hon. Charles Stenholm
U.S. House of Representatives
Washington, D.C.

Dear Cong. Stenholm,

I received the copy of the Budget of the United States Government today, and I appreciate your cooperations in my efforts to better know and understand the functions of our government.

Now another question. Why is the Federal Reserve Board an autonomy? What constitutional amendment places it above the control of the executive and legislative branches of our government, and thus the people?

I have always considered the structure of our government - the three branches - to have been based on the architectural or engineering concept used by the buiders of the Egyptian Pyramids, each side of the triangle of equal strenghth and supportive or restrained by the other two sides, thus indestructive throughout time. In recent years the Supreme Court has tipped the triangle, and if other agencies or commissions are given autonomy or are other wise without controls by the people, will not the structure of our government collapse?

I fully support President Reagans proposal to return responsibilities and tax monies to the state and local governments for control. I would like to see another agency added to the list - the Environmental Protection Agency. Congressman Stenholm, the problems of environment and ecology varies with state and geographical location. If the states had control of their own problems, then we wouldn't be attempting to tell the industrial northeast how to handle their air pollution, and they wouldn't be telling us what to do with our coyotes.

Thanks again for the publication and good luck in the year ahead.

Sincerely,

Mrs. Bernice Prescott

February 19, 1982

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

Dear Chairman Garn:

The Board recently considered the issue of whether real estate brokers should be considered "arrangers of credit" under the revised Truth in Lending Act when they arrange for homeowners to finance the sale of their homes. If so, the brokers would be required to provide Truth in Lending disclosures to the home purchasers. The issue arose as a result of the 1980 Truth in Lending Simplification and Reform Act, which for the first time imposed disclosure responsibilities on those who arrange for credit to be extended by nonprofessional extenders of credit. We have carefully revieved the legislative history and are unable to determine whether the Congress in fact intended for real estate brokers to be considered arrangers of credit for this purpose.

Under current mortgage market conditions, an increasing number of home sales are being financed in whole or in part by the seller. The seller may take a first mortgage, or the buyer may assume the remaining principal balance of the existing mortgage with the seller providing additional financing through a second mortgage. Frequently, the seller financing has a payment schedule comparable to a 30-year mortgage but the balance is due in 3 to 7 years. As a result, there often is a final "balloon" payment of a large portion of the principal amount of the note.

Truth in Lending disclosures, if required, would provide some benefit to the consumer, particularly by highlighting the size and due date of any balloon payment. However, the only person who could be required to provide such disclosures is the real estate broker that arranges the sale, since the original homeowner is a nonprofessional extender of credit and exempt from Truth in Lending. The Board is aware, however, that requiring disclosures by brokers when they arrange such transactions would dramatically increase coverage of the act, since there are as many as 2 million real estate licensees in the country. Truth in Lending would be a new burden on an already burdened industry and would cause information to be disclosed that, in major part, would duplicate the contract of sale, note, and mortgage.

The issue thus involves a difficult balancing of benefits to consumers against burdens to real estate brokers, and the ultimate decision will affect a large number of individuals and numerous transactions. Absent clear guidance from the Congress on the matter, the Board is reluctant to proceed at this time with a regulatory amendment bringing brokers under the regulation -- particularly since the Senate now has under consideration a bill (S.1720) that would permanently exempt them. Furthermore, the Board believes that the question is particularly well suited to legislative, rather than regulatory, resolution.

The Board therefore has amended the definition of "arranger of credit" in the revised Regulation Z (which implements the Truth in Lending Act) to exclude real estate brokers from coverage, for the time being, giving the Congress the opportunity to indicate its desire on this issue. The Board plans to reconsider the question in early 1983 if the Congress has not acted by that time.

I have enclosed a memorandum prepared by the Board's staff that discusses arguments made for and against coverage in over 3,000 comment letters that the Board has received on the issue. The comments themselves are, of course, also available for your review, and we will be pleased to assist you in any way we can to resolve this difficult issue.

A copy of this letter is being sent to the chairmen and ranking minority members of the relevant congressional committees and subcommittees.

Sincerely,

S/Paul A. Volcker

Enclosure

Identical letters also sent to: Chrman. Chafee, Senators Williams and Dodd; Chrman. St Germain and Chrmn. Annunzio, Cong. Stanton and Paul.

SZeisel: EMaland:klg
12/19/82

Should Real Estate Brokers Have Truth in Lending Responsibilities in Connection with "Seller Financing" of Homes?*

BACKGROUND

In 1980, Congress amended the Truth in Lending Act to require disclosures by persons who arrange financing extended by a nonprofessional credit extender. 1/ Before the 1980 revisions, a person who arranged credit extended by another person was not a creditor unless the primary credit extender was also a "creditor." This change raised the prospect that real estate brokers who assist with seller financing in home sales might be required for the first time to give Truth in Lending disclosures to home buyers.

However, congressional intent regarding the treatment of real estate brokers is unclear. Although the staff analysis accompanying the Federal Reserve Board's draft simplification bill, which was submitted to Congress in 1977, recognized that real estate brokers might indeed be arrangers of credit, Congress changed the statutory language somewhat without indicating its intent as to the treatment of real estate brokers.

In October 1981, the Federal Reserve Board decided to seek public comment on the question of the proper treatment of brokers under the implementing Regulation Z. 2/ More than 3,000 comments were received in response to a proposed regulatory amendment that defined "arranger of credit" to include real estate brokers who arrange seller-financed transactions.

---

* Prepared by the staff of the Federal Reserve Board, February, 1982.

1/ Title VI of the Depository Institutions Deregulation and Monetary Control Act of 1980, Pub. L. No. 96-221, 94 Stat. 170, March 31, 1980.

2/ 46 FR 51920 (Oct. 23, 1981).

DISCUSSION

The commenters included real estate agents and their trade associations, financial institutions, consumer groups, law firms, Federal Reserve Banks, and a few individuals. The commenters were overwhelmingly opposed to covering real estate brokers, with only about 45 favoring the proposal. Two form letters from realty agencies and related groups, which opposed the proposal, accounted for about 60% of the comments. The comments supporting the proposal came predominantly from financial institutions, as well as a few consumer groups, law firms, and individuals. All of the Federal Reserve Banks commented, and their responses were split, with five supporting the proposed amendment and seven opposing it. Letters also were received from more than 30 members of Congress; some opposed the proposal, others forwarded constituents' letters. During the comment period, the question also was discussed at some length by the Board's Consumer Advisory Council. Many members of the Council voiced support for the proposal. At an earlier time, the Council's Legislation Committee had reached a consensus supporting the coverage of real estate brokers.

The proposal requested comment on several alternatives, including the exemption of real estate brokers, the establishment of partial disclosure requirements, and a delayed effective date. Most commenters favored either an exemption for brokers or a delayed effective date. Many of them referred to a letter written to the Board by Senator Garn in July, 1981, in which he stated that real estate brokers were not the focus of the Senate Banking Committee's discussions at the time the definition of creditor was amended. A small number of commenters addressed the partial disclosure option. A few favored requiring a warning to highlight the necessity of refinancing a balloon payment, but there was little support for requiring that some, but not all, of the Truth in Lending disclosures be given.

ARGUMENTS

The following pages contain the major arguments raised by the commenters.

Home purchasers would benefit from receiving Truth in Lending disclosures describing the seller-financed portion of their obligations. As some commenters noted, the disclosures are particularly valuable in these cases because the purchase of a home often involves large amounts of money and represents one of the most important credit decisions most people make. Since this type of financing is "nontraditional" and poses special risks, there may be a greater need than usual to ensure that the parties clearly understand and appreciate the obligations being undertaken. The credit terms of most current seller financing appear to be fairly simple -- often level monthly payments of interest and principal based on a long-term amortization schedule or payments of interest only, with a balloon payment at the end of three to seven years. Even in such relatively straightforward transactions, Truth in Lending disclosures would provide some information that may not be in the contract document (for example, the amount of the final balloon payment, the total finance charge, and whether or not the obligation is assumable). Disclosures also would highlight the credit cost information and provide it in uniform terminology (for example, in terms of the "annual percentage rate"). (The attachment to this memorandum contains a sample note and disclosure statement.) Moreover, even though most current seller financing is uncomplicated, more complex and innovative features (such as variable rates, graduated payments, front-end fees, and private mortgage insurance) could develop in the future. In some of these cases, the annual percentage rate would differ from the contract interest rate.

The purposes of the Truth in Lending Act would not be promoted by requiring disclosures by real estate brokers in seller-financed transactions. A number of commenters asserted that the main purpose of Truth in Lending disclosures, to allow consumers to compare credit terms, would not be furthered by these disclosures. Buyers who obtain seller financing usually turn to that arrangement because they are unable to secure conventional financing from an institutional lender. Therefore, seller financing is their only choice, and buyers have nothing with which to compare the terms of this financing.

Furthermore, many commenters mentioned the simplicity of most seller-financed transactions. Most of these transactions contain no hidden costs, such as points or loan origination fees, that would be figured into the annual percentage rate. As a result, the disclosed annual percentage rate is the same as the simple interest rate contained in the note. Almost all of the disclosures, in fact, would duplicate terms in the note. Although the amount of a large balloon payment would probably appear only in the Truth in Lending disclosures, the utility of disclosing the amount alone is open to question. As some commenters argued, the real risk of a balloon payment to consumers is that refinancing will not be available on satisfactory terms when the balloon comes due, and Truth in Lending disclosures give no information or explicit warning about refinancing conditions.

The real estate industry is already burdened with many problems without the additional burden of compliance with Truth in Lending. The commenters pointed out that many real estate agencies are small businesses. They argued that the cost of training salespeople to provide Truth in Lending disclosures and possibly hiring attorneys to avoid disclosure liability might seriously threaten their ability to stay in business during these already difficult times.

In addition, commenters alleged that if some brokers decided to refrain from arranging seller-financed transactions to avoid Truth in Lending responsibilities, home sales would be further depressed. Consumers could also be harmed because of higher fees charged by brokers to recoup the cost of making Truth in Lending disclosures.

The responsibilities of compliance may be no more than those imposed on other creditors subject to the act. Although a new group of businesses for the first time would need to train their personnel to provide disclosures and accept liability for any errors made, commenters pointed out that this is the same requirement made of all others subject to the act. If the credit terms remain simple, the calculations required by the regulation would not be difficult, and the Board's model forms would simplify the problem of designing proper disclosure statements.

Coverage of real estate brokers would create serious operational problems which would require detailed interpretations of the regulation. This result would be contrary to one of the Board's goals in implementing the Truth in Lending amendments, which was to provide clear, simple rules not needing detailed interpretations. Some of the problems that would arise include, for example: how to apply the numerical test for coverage (to each broker, salesperson, or firm);3/ who is the party legally responsible for disclosure, particularly when more than one broker is involved (listing or selling broker, firm, salesperson, or principal broker); and when the disclosures should be given (if there are several offers and counter-offers that may be exchanged before a contract is finally accepted). These issues would need to be addressed in detail in the staff commentary to Regulation Z and could require periodic revisions as new issues and problems develop.

3/ A person must arrange credit secured by a dwelling more than 5 times a year to be covered by revised Regulation Z. 46 FR 20848.

In some cases, a Truth in Lending violation by the real estate broker might create a cause of action against the home seller. In some jurisdictions, a serious error on the Truth in Lending statement might permit the buyer to sue the seller for fraud or misrepresentation by the seller's agent. If successful, the buyer could rescind the contract of sale or collect monetary damages from the seller. Fraud could also be asserted as a defense to a debt action or foreclosure and, even if unsuccessful, could complicate the proceedings.

Difficult enforcement problems would be created by imposing Truth in Lending requirements on real estate brokers. It is estimated that as many as two million real estate salespeople and brokers are licensed in this country. Although some work for large real estate firms, many are either sole practitioners or work for very small offices. Commenters claimed that it would be impossible for a federal agency (in this case the Federal Trade Commission) to monitor Truth in Lending compliance by brokers because of both their numbers and the lack of structure in the industry. They also contended that the conduct of real estate brokers is already monitored, and can be better monitored, at the state level by several means, such as licensing statutes, contract law, ethics codes, and educational requirements of state real estate commissions.

A Truth in Lending disclosure statement, residential sales agreement, note, and deed of trust based on a hypothetical sale of a home are contained in this attachment. If real estate brokers were considered "arrangers of credit," the disclosure statement would have been given to the purchaser by the real estate broker prior to the sales agreement having been signed by all parties.

In this hypothetical transaction, a home was sold for $150,000 with a $30,000 downpayment. The purchaser assumed a first deed of trust note for $75,000 at 7% interest. The second deed of trust was taken back by the seller to secure a five year "balloon" note for $45,000 at 13% interest, to be repaid in monthly installments of interest only. The attached disclosure statement reflects only the seller-financed transaction.

[illegible] Realty Co.
Washington, DC

Federal Truth in Lending Statement

ANNUAL PERCENTAGE RATE The cost of your credit as a yearly rate.	FINANCE CHARGE The dollar amount the credit will cost you.	Amount Financed The amount of credit provided to you or on your behalf.	Total of Payments The amount you will have paid after you have made all payments as scheduled.	Total Sale Price The total cost of your purchase on credit, including your downpayment of $105,000-
13 %	$29,250-	$45,000-	$74,250-	$179,250-

You have the right to receive at this time an itemization of the Amount Financed.
☐ I want an itemization. ☒ I do not want an itemization.

Your payment schedule will be:

Number of Payments	Amount of Payments	When Payments Are Due
59	$487.50	Monthly beginning November 1, 1981.
1	$45,487.50	October 1, 1986.

Insurance
Credit life insurance and credit disability insurance are not required to obtain credit, and will not be provided unless you sign and agree to pay the additional cost.

Type	Premium	Signature
Credit Life	N/A	I want credit life insurance. _____ Signature
Credit Disability	N/A	I want credit disability insurance. _____ Signature
Credit Life and Disability	N/A	I want credit life and disability insurance. _____ Signature

You may obtain property insurance from anyone you want that is acceptable to N/A If you get the insurance from you will pay $_____.

Security: You are giving a security interest in:
☒ the goods or property being purchased.
☐ (brief description of other property).

Filing fees $ $15- **Non-filing insurance** $ _____

Late Charge: If a payment is late, you will be charged $_____/_____% of the payment.

Prepayment: If you pay off early, you
☐ may ☒ will not have to pay a penalty.
☐ may ☐ will not be entitled to a refund of part of the finance charge.

Someone buying your house may, subject to conditions, be allowed to assume the remainder of the mortgage on the original terms.

See your contract documents for any additional information about nonpayment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

_____
e means an estimate

EQUAL HOUSING OPPORTUNITY

Residential Sales Agreement For District of Columbia Property

9/9/1981
DATE OF CONTRACT

1. RECEIVED FROM _____

a deposit of Five Thousand and xx/100---------- Dollars ($ 5,000.00

in the form of check (CASH/CHECK/NOTE) and if in the form of cash or check, shall be deposited by the undersigned Agent in _____ (INTEREST/NON-INTEREST) bearing escrow account in a bank or savings and loan institution within _____ days of acceptance of this contract. The deposit shall be applied as part payment of the purchase price of the premises known as _____

_____

Lot _____, Square _____, Subdivision _____, Washington, D.C with improvements thereon, including (cross out if not applicable) built-in heating plant and air-conditioning system, window air-conditioning units, all plumbing and lighting fixtures, kitchen equipment, including range, refrigerator, built-in dishwasher and disposal, all wall-to-wall carpeting, cornices, curtain rods and drapery rods, awnings, T.V. antennas, screens, storm doors and windows, venetian blinds, shades, indoor shutters, trees, shrubs and plants, Washer and dryer not to convey.
if installed on the premises as of the above date upon the following terms of sale:

Total Price of property One Hundred Fifty Thousand and xx/100---------- Dollars ($ 150,000.00

Purchaser agrees to pay Thirty Thousand and xx/100---------- Dollars ($ 30,000.00) cash at settlement of which sum this deposit shall be a part. If the deposit exceeds the down payment, any excess shall apply first to settlement costs and the balance shall be refunded to Purchaser at settlement.

2. FINANCING

a. First Trust: Purchaser is to ASSUME a first deed of trust in lender's usual form secured on said premises of (PLACE/TAKE TITLE SUBJECT TO/ASSUME)

$ 75,000.00 due in 20 years and bearing interest at the rate of 7.0 percent per annum or, in cases other than assumptions, the maximum prevailing rate at time of settlement, payable Five Hundred Eighty one and 47/100 Monthly Dollars ($581.47/month per month plus one twelfth of annual taxes, fire insurance, and private mortgage insurance, if required by lender.

b. Second Trust: The purchaser is to n/a a second deed of trust in lender's usual form secured on said premises of $ _____ due in _____ years and bearing interest at the rate of _____ percent per annum, payable _____ Dollars ($ _____) per month. (PLACE/TAKE TITLE SUBJECT TO/ASSUME)

c. Trust. The deferred purchase money amounting to $ 45,000.00 is to be secured by a second deed of trust in usual form on said premises to be paid in monthly installments of $ 487.50 or more, without penalty, at maker's option, including interest at the rate of 13.0 percent per annum each installment when so paid to be applied first to the payment of interest on the amount of principal remaining and the balance thereof credited to principal, which deed of trust Seller agrees to accept as part of the purchase price. In case of default on any payment, the entire amount then remaining unpaid shall immediately become due and payable. Said trust and note may not be assumed or title taken subject to said trust and note without the prior written consent of the note holder. The entire unpaid balance shall be due and payable in full within five years. In the event paragraph 2c. is applicable, this contract shall not be assigned without the prior written consent of the Seller.

3. CONVENTIONAL LOAN This contract is contingent on the ability of Purchaser to secure or receive a commitment for the herein described financing, to take title subject to any existing deeds of trust, or to obtain lender's approval of any assumption, if required, within forty-five (45) calendar days from the date of acceptance of this contract, which commitment or approval Purchaser agrees to pursue diligently. Purchaser reserves the right to increase the cash down payment and/or to accept a modified commitment for financing and if Purchaser elects to do so, he shall so notify Seller and Agents in writing within the term of this contingency. If, after making every reasonable effort, Purchaser is unable to obtain the specified financing or increase the cash down payment and/or accept a modified commitment for financing within the term of this contingency and notifies Seller of this fact in writing within the term of this contingency, this contract shall become null and void and Purchaser's deposit shall be refunded in full; provided however, that this contract shall remain in full force and effect, if Seller notifies Purchaser in writing that Seller will accept a purchase money mortgage upon the same terms.

4. FHA LOAN It is expressly agreed that, notwithstanding any other provisions of this contract, the Purchaser shall not be obligated to complete purchase of the property described herein or to incur any penalty by forfeiture of earnest money deposit or otherwise unless the Seller has delivered to the Purchaser a written statement issued by the Federal Housing Commissioner setting forth the appraised value of the property (excluding closing costs) of not less than $ _____ which statement the Seller hereby agrees to deliver to the Purchaser promptly after such appraised value statement is made available to the Seller. The Purchaser shall, however, have the privilege and option of proceeding with consummation of the contract without regard to the amount of the appraised valuation made by the Federal Housing Commissioner. The appraised valuation is arrived at to determine the maximum mortgage the U.S. Department of Housing and Urban Development will insure. HUD does not warrant the value or the condition of the property. The Purchaser should satisfy himself that the price and the condition of the property are acceptable.

5. LOAN FEES If a new loan is to be placed under this contract, Purchaser agrees to pay a loan origination fee of 1% of the principal sum of the loan on FHA and VA loans ~~or n/a~~ on all other loans. Seller agrees to pay a loan placement fee of n/a % of said loan. The loan placement fee is based on the present mortgage money market and it is further agreed that Purchaser and Seller will comply with any reasonable change in said fee at the time of settlement, provided this change is due to a change in the mortgage money market. Lender's inspection fee, if applicable, shall be paid by Seller. Purchaser agrees to pay private mortgage insurance premiums as required by Lender.

6. D.C. SOIL DISCLOSURE REQUIREMENTS The characteristic of the soil on the subject property as described by the Soil Conservation Service of the United States Department of Agriculture in the Soil Survey of the District of Columbia published in 1976 and as shown on the Soil Maps of the District of Columbia is: USC -4

For further information, the Purchaser can contact a soil testing laboratory, the District of Columbia Department of Environmental Services, or the Soil Conservation Service of the Department of Agriculture.

7. EXAMINATION OF TITLE AND COSTS Property is to be conveyed in the name(s) of _____
THE PURCHASER HAS THE RIGHT TO SELECT THE TITLE ATTORNEY, TITLE INSURANCE COMPANY, OR SETTLEMENT OR ESCROW COMPANY. Purchaser hereby authorizes the undersigned Agent to order promptly the examination of title, a survey, and the preparation of all necessary conveyancing papers through ___ _____ and agrees to pay the settlement charges in connection therewith, tax certificate, conveyancing, notary fees, survey, lender's fees (exclusive of inspection fee), and recording charges except those incident to clearing existing encumbrances. The 1% D.C. Transfer Tax will be paid by the Seller and the 1% Recordation Tax will be paid by the Purchaser. Seller hereby agrees to pay any costs incurred if upon examination the title should be found defective and it is not remedied as herein stated, including a reasonable fee for services rendered to him.

8. SETTLEMENT Within On or before Sept. 15, 1981 days from date of acceptance hereof by Seller, or as soon thereafter as a report of the title can be secured, if promptly ordered, and/or survey, required, and/or loan processed, all if promptly applied for, Seller and Purchaser agree to make full settlement in accordance with the terms hereof.

9. TENANCY The property is sold and shall be conveyed free of any existing tenancy, except as follows:
n/a
Seller has delivered to the tenant all presale notices required by the current rent control regulations of the District of Columbia as amended, and, pursuant to that Act the Seller will promptly provide to the tenant notice of this contract after which tenant shall have a 15 day right of first refusal to purchase on the terms and conditions of the contract. If there is no existing tenancy, Seller agrees to give possession at the time of settlement, and if the Seller fails to do so and occupies said property, Seller shall become and be thereafter a tenant at sufferance of Purchaser, and hereby expressly waives all notice to quit provided by law.

10. AGENCY Seller recognizes _____ as Agents negotiating this contract and agrees to pay brokerage fee for services rendered amounting to six % of the sales price, and the party making settlement is hereby directed and authorized to deduct and pay this brokerage fee from the proceeds of the sale.

11. AGREEMENTS OF PRINCIPALS We, the undersigned, hereby ratify, accept and agree to this contract and acknowledge receipt of a copy thereof. The principals to this contract mutually agree that it shall be binding upon them, their heirs, executors, administrators, personal representatives, successors and assigns; that the provisions hereof shall survive the execution and delivery of the deed herein stated and shall not be merged therein; that this contract contains the final and entire agreement between the parties hereto, and neither they nor their Agents shall be bound by any terms, conditions, statements, warranties, or representations, oral or written not herein contained. The agents assume no responsibility for the condition of the Property nor for the performance of this contract by any or all parties hereto. ADDENDUM ATTACHED: _____ Yes ___X___ No.

ADDITIONAL PARAGRAPHS NUMBERED 12 THROUGH 25 SET FORTH ON THE REVERSE SIDE HEREOF ARE INCORPORATED HEREIN AND MADE A PART HEREOF AND ALL PARTIES ACKNOWLEDGE THAT THEY HAVE READ SAID PARAGRAPHS, AS INDICATED BY THEIR INITIALS ON REVERSE SIDE HEREOF.
THIS IS A LEGALLY BINDING CONTRACT. IF YOU DO NOT UNDERSTAND ALL OF THE TERMS OF THIS DOCUMENT SEEK COMPETENT LEGAL ADVICE BEFORE SIGNING IT.

_____ *Seller*

_____ *Seller*

_____ *Telephone: Residence* *Office*

_____ *(Address, if other than premises)*

_____ *Date of Acceptance*

_____ *Purchaser*

_____ *Purchaser*

_____ *Address of Purchaser*

_____ *Telephone: Residence* *Office*

of Seller, in which event Purchaser shall be relieved from further liability hereunder, unless Seller notifies Purchaser and Agents in writing within thirty (30) days after the date provided for settlement herein of his election to avail himself of any legal or equitable rights, other than the said liquidated damages, which he may have under this contract. In that event, the deposit shall be returned by the Agent holding the same to Purchaser and the Agent shall not be liable to Seller for return of said deposit. In the event the forfeiture of the deposit as liquidated damages or in the event of an award of damages by a court or a compromise agreement between Seller and Purchaser, Seller shall allow the Agents one-half thereof as compensation for services rendered, said amount not to exceed the amount of the full brokerage fee.

13. **TITLE** The property, including the personal property described in Paragraph One above, is sold free of encumbrances, except as stated herein. Title is to be good of record and marketable subject, however, to covenants, rights of way, easements, conditions and restrictions of record, if any.

14. **PERFORMANCE** Settlement is to be made at the office of the Attorney or the Title Company designated in Paragraph Seven. Delivery to the Attorney or to the Title Company of the cash payment and settlement costs as herein stated, the executed deed of conveyance and such other papers as are required of either party by the terms of this contract shall be considered good and sufficient tender of performance in accordance with the terms hereof. It is agreed that funds arising out of this transaction at settlement may be used to pay off any existing encumbrances, including interest, as required by lender.

15. **ADJUSTMENTS** Rents, taxes, water, sewer, insurance and interest on existing encumbrances, if any, and other operating charges are to be adjusted to date of settlement. Rent, security deposits, if any, plus interest shall be transferred to Purchaser at time of settlement. Taxes, general and special if any, are to be adjusted according to the certificate of taxes issued by the D.C. Department of Finance and Revenue, except that assessments for improvements completed prior to the date of acceptance hereof, whether assessment therefore has been levied or not, shall be paid by Seller or allowance made therefore at time of settlement.

16. **CONVEYANCE** Seller agrees to execute and deliver a good and sufficient special warranty deed. Purchaser agrees to have the deed of conveyance recorded promptly.

17. **INSURANCE** The risk of loss or damage to said property by fire or other casualty is assumed by Seller until the executed deed of conveyance is delivered to the Purchaser or is recorded by the Title Company or Attorney conducting the conveyance.

18. **PROPERTY CONDITION** Seller, at the time of settlement or occupancy (whichever occurs first), will leave premises free and clear of trash and debris and broom clean; and will leave the electrical, plumbing, heating, air-conditioning and any other mechanical systems and equipment included in this contract in operating condition; and will deliver the premises in substantially the same physical condition as of the date of acceptance of this contract. Purchaser has the privilege of a pre-settlement inspection of the premises. All notices of violations of municipal orders or requirements noted or issued by any department or agency of the District of Columbia or prosecutions in any courts on account thereof against or affecting the property at the date of acceptance of this contract shall be complied with by Seller and the property conveyed free thereof, with the exception of the means of egress regulations.

19. **TERMITE INSPECTION** Prior to the time of settlement, Seller shall order termite inspection and no later than the time of settlement, Seller shall pay the costs of termite inspection and provide to Purchaser a written certification from a licensed exterminator that, based upon a careful visual inspection of accessible areas of the house, there is no evidence of infestation of termites or wood-boring insects. If such infestation exists, Seller is to exterminate. Seller at his own expense and prior to settlement shall repair any prior or current visible damage caused by termites or wood-boring insects. If, however, the damage proves to be extensive, the Seller reserves the right to reconsider his acceptance of this contract, provided the termite inspection report is obtained and this determination is made within seven days after final acceptance of this contact.

20. **GENERAL FINANCING PROVISIONS**

(a) In the event that mortgages are used rather than deeds of trust, the word "mortgage" shall be substituted automatically.

(b) If this contract provides for the assumption of existing trust(s) or for purchase subject to existing trust(s), it is understood that the balance of such trust(s) and the cash down payment are approximate amounts. The terms and conditions of the existing trust(s) are contained on the addendum attached hereto. Any change(s) required by the lender in order that the trust may be assumed, will be subject to the Purchaser's consent, if assumption is promptly applied for.

(c) Trustees in all deeds of trust are to be named by the parties secured thereby.

(d) Seller shall allow inspections of all the premises and furnish any pertinent information required by Purchaser or his financing agency in reference to obtaining a loan commitment.

(e) Purchaser placing financing agrees to make application immediately and file all necessary papers that are required to complete processing and agrees that failure to do so within seven (7) days shall give Seller the right to declare the deposit forfeited or avail himself of any legal or equitable rights as provided in the paragraph labeled "FORFEITURE OF DEPOSIT/LIQUIDATED DAMAGES."

21. **VA LOAN** In the event that the Purchaser is placing a Veterans Administration guaranteed loan, the Veteran Purchaser's deposit shall be placed in an escrow account as required by Title 38, US Code, Section 1806. It is expressly agreed that, notwithstanding any other provisions of this contract, the Purchaser shall not incur any penalty by forfeiture of earnest money or otherwise or be obligated to complete the purchase of the property described herein, if the contract purchase price or cost exceeds the reasonable value of the property established by the Veterans Administration or the Purchaser is not approved by the Veterans Administration and the lending institution. In the event the Certificate of Reasonable Value is less than the amount of the contract price the Purchaser shall have the privilege and option for five days after receipt of the VA appraisal to proceed with the consummation of this contract without regard to the amount of reasonable value established by the Veterans Administration by giving the Seller notice of his intention to do so by the method provided in Paragraph 22 hereof. In the event that he shall not so elect, then the Seller shall have the privilege and option of reducing the contract price to the VA appraised value. This option must be exercised by the Seller, within seven (7) days after delivery to the Purchaser of the VA appraisal, by giving the Purchaser notice of his intention to do so by the method provided in Paragraph 22 hereof. If the Seller elects to reduce the contract price to the appraised valuation, the Purchaser covenants and agrees to be bound to proceed with consummation hereof at the appraised valuation price. If the Seller does not elect to reduce the price after the Purchaser's refusal to consummate this contract at its full price, then this contract shall be null and void. This contract is contingent on the approval of the house and the Purchaser by the Veterans Administration and the lending institution. If the aforesaid approval is not obtained, it is expressly agreed that the Purchaser shall be refunded his deposit, and the contract shall be null and void.

22. **FHA/VA/CONV/GPC REQUIREMENTS** If FHA, VA, Conventional or Government Programmed Conventional (GPC) financing is being placed herein, any outstanding sewer and water tap fees shall be paid in full by Seller, if said Agency or lending institution requires payoff of such fees as a condition of financing. Seller agrees to comply with reasonable FHA, VA, Conventional or GPC requirements or repairs where applicable.

23. **CONSUMER REPORT AUTHORIZATION** Purchaser hereby authorizes the Agent to disclose to Seller or any lender the credit information provided to the Agent by Purchaser. In the event that terms of this contract require Seller to take back financing from Purchaser, this contract of sale shall be contingent upon approval of a satisfactory Consumer Report (Credit Report) by Seller within 10 days after receipt of said report by Seller. If Seller does not approve the credit standing of Purchaser, and Purchaser is so notified in writing by Seller within 10 days after receipt of the Consumer Report, this contract shall be null and void and the deposit returned to Purchaser. Purchaser hereby authorizes the Agent to order and obtain a Consumer Report from a Consumer Reporting Agency to be used only in connection with this transaction. Further, in the event the Agent is acting on behalf of a creditor, Seller or other party directly affected by said transaction, Purchaser hereby authorizes the Agent to forward all or any portion of the information contained in the Consumer Report to the creditor, Seller or other party directly involved. Cost of said Consumer Report is borne by Purchaser. Except as stated herein, the Consumer Report is confidential and the information contained therein shall not be knowingly released to others without the written consent of Purchaser.

24. **NOTICES** All notices required or permitted herein shall be in writing and effective as of the date on which such notice is mailed in any United States Post Office, by certified or registered mail, postage prepaid, or hand-delivered to Seller at the property address, to the Agents or Purchaser at the addresses designated herein, or to such other addresses as the parties may designate in writing from time to time.

25. **THE PROFITS FROM THE SALE OF RESIDENTIAL PROPERTY OTHER THAN THE PRINCIPAL RESIDENCE MAY BE SUBJECT TO THE "RESIDENTIAL REAL PROPERTY TRANSFER TAX ACT OF THE DISTRICT OF COLUMBIA." IT IS IMPORTANT THAT YOU DETERMINE YOUR TAX LIABILITY, IF ANY, IN CONNECTION WITH PROPOSED SALES OF PROPERTY.**

26) Purchaser is entitled to a walk through inspection 24 hours prior to settlement.

Initials of:

Seller _____

Seller _____

Purchaser _____

Purchaser _____

Given for a deferred purchase money and secured by a Deed of Trust on

Placed by Trustees

NOTE

$45,000.00

Washington, D.C.
September 15, 1981

For Value Received ("Borrower")
jointly and severally, promise to pay to the order of
("Note holder") the sum of Forty-five Thousand and No/100 Dollars ($45,000.00), with interest from the date hereof until paid at the rate of Thirteen per centum (13%) per annum.

Said principal and interest payable in monthly installments, of interest only, in the amount of Four Hundred Eighty-seven and 50/100 Dollars ($487.50), commencing on the 1st day of November, 1981 and continuing on the 1st day of each and every month after date until paid. On October 1, 1986, the then unpaid balance of principal and interest shall be and become due and payable.

Principal and interest payments shall be made in the form of a certified or cashiers' check, and made payable to the Note holder.

And it is expressly agreed that if default be made in the payment of any one of the aforesaid installments when and as the same shall become due and payable, and shall remain uncured for Thirty (30) days after written notice thereof to Borrower, then and in that event the unpaid balance of the aforesaid principal sum and accrued interest shall at the option of the Note holder at once become and be due and payable.

Borrower reserves the right to prepay this loan in any amount, at any time, during the length of the loan, without penalty.

This Note may not be assumed or title taken subject to without the prior written consent of the Note holder.

This is to certify that this is the Note described in a Deed of Trust to the Trustees named hereon and bearing even date herewith. Said Note and Deed of Trust having been executed in my presence.

Note one of two

This Deed of Trust, made this 15th day of September, 1981, by and between

hereinafter referred to as "Grantor," and

, hereinafter referred to as "Trustees";

Whereas, Grantor is justly indebted unto

in the principal sum of Forty-five Thousand and No/100

Dollars ($ 45,000.00), purchase money
(Insert Type Of Transaction)

for which amount the Grantor has signed and delivered his promissory note of even date herewith payable to the order of

in the principal amount of Forty-five Thousand and No/100----------

Dollars ($ 45,000.00) bearing interest at the rate of Thirteen percent (13.0 %) per annum until paid, on the following terms and obligations:

Said principal and interest payable in monthly installments, of interest only, in the amount of Four Hundred Eighty-seven and 50/100 Dollars ($487.50), commencing on the 1st day of November, 1981 and continuing on the 1st day of each and every month after date until paid. On October 1, 1986, the then unpaid balance of principal and interest shall be and become due and payable.

Principal and interest payments shall be made in the form of a certified or cashiers' check, and made payable to the Note holder.

And it is expressly agreed that if default be made in the payment of any one of the aforesaid installments when and as the same shall become due and payable, and shall remain uncured for Thirty (30) days after written notice thereof to Grantor, then and in that event the unpaid balance of the aforesaid principal sum and accrued interest shall at the option of the Note holder at once become and be due and payable.

Grantor reserves the right to prepay this loan in any amount, at any time, during the length of the loan, without penalty.

This Deed of Trust and the Note secured hereby may not be assumed or title taken subject to without the prior written consent of the Note holder.

Now, Therefore, This Deed of Trust Witnesseth: That to secure the prompt payment of said indebtedness and all charges and advances as in said promissory note and as herein provided, the Grantor, in consideration of the sum of One Dollar in hand paid by said Trustees at and before the sealing and delivering of these presents, the receipt of which is hereby acknowledged, does hereby grant and convey in fee simple unto the Trustees the land and premises lying and being in the District of Columbia, and described as follows:

together with all the improvements in anywise appertaining, and all the estate, right, title, interest, and claim, either at law or in equity or otherwise however, of the Grantor, of, in, to, or out of the said land and premises;

In Trust to permit said Grantor to use and occupy the said described land and premises and to receive the rents, issues, and profits thereof, until default be made in the payment of any indebtedness hereby secured and in the performance of the conditions and obligations made and stipulated in the said promissory note or in the performance of any covenant or agreement contained in this trust; and upon the full payment of all of said note and any extensions or renewals thereof, and interest thereon, and all moneys advanced or expended as provided for in said promissory note or as herein provided, and all other costs, attorney's fees, charges, commissions, and expenses, at any time before the sale herein provided for to release and re-convey the said land and premises unto and at the cost of the Grantor or the party or parties then claiming under said Grantor.

The Grantor, for himself and his successors and assigns, covenants and agrees as a part of this trust, as follows:

1. That he will pay the indebtedness evidenced by the note secured hereby, all taxes and assessments relating to the land and premises herein described, ground rents, all charges against the property, and all other sums which are required to be paid by him under the terms of said promissory note or this Deed of Trust, including costs, expenses and attorney's fees incurred by the Trustees or the holder of said note with respect to this trust, the said note or the land and premises herein described, and in default of any such payment the holder of said note may pay the same, and any sum or sums so paid shall be added to the debt hereby secured, shall be payable on demand, shall bear full legal interest, and shall be secured by this Deed of Trust.

2. That he will keep the said premises in as good order and condition as they are now and will not commit or permit any waste thereof, reasonable wear and tear accepted; and that he will not act or fail to act in any manner which will jeopardize the lien of this Deed of Trust.

3. That he will keep the improvements now existing, or hereafter erected on said land, insured against loss by fire and other hazards, casualties and contingencies in such amounts and for such periods as may be required by the holder of said note, and will pay promptly, when due, any premiums on such insurance. All insurance shall be carried in companies approved by the holder of said note and the policies and renewals thereof shall be held by said holder and have attached thereto loss payable clauses in favor of and in form acceptable to the holder of said note. In event of loss he will give immediate notice by mail to the holder of said note, who may make proof of loss if not made promptly by the Grantor, and each insurance company concerned is hereby authorized and directed to make payment for such loss directly to and to the order of the holder of said note, and the insurance proceeds or any part thereof may be applied by such holder at his option either to the reduction of the indebtedness hereby secured or to the restoration or repair of the security property. In the event of sale under the terms of this Deed of Trust or other transfer of title to said security property in extinguishment of the indebtedness secured hereby, all right, title and interest of the Grantor in and to any insurance policies then in force shall pass to the purchaser or grantee.

4. That in the event the ownership of the security property becomes vested in a person other than Grantor, the holder of said note may, without notice to the Grantor, deal with such successor or successors in interest with reference to this instrument and the indebtedness secured hereby in the same manner as with Grantor, and any extension of the time of the payment of the indebtedness or any other modification of the terms of the indebtedness at the instance of the then owner shall not relieve the Grantor of his liability on the note hereby secured or from the performance of any of the covenants and agreements contained herein whether said extension or modification be made with or without the consent of the Grantor.

5. That the irrevocable power to substitute one or more of the trustees named herein or substituted therefor is expressly reserved to the holder of the note secured by this Deed of Trust to be

exercised any time hereafter no matter how often without notice and without specifying any reason therefor by filing for record among the land records where this instrument is recorded a Deed of Appointment, and thereupon all of the title and estate, powers, rights and duties of the trustee thus superceded shall terminate and shall be vested in the successor trustee or trustees. The Grantor and the Trustees herein named or that hereafter may be substituted hereunder expressly waive notice of the exercise of this power, the giving of bond by any trustee, and any requirement for application to any Court for the removal, substitution or appointment of a trustee hereunder.

6. That each Trustee acting hereunder shall be paid a fee of Fifteen and No/100 Dollars ($ 15.00) for each document which he is required to execute under the terms of this Deed of Trust.

7. That his failure to perform any of his obligations under this Deed of Trust or under said note shall constitute a default and all indebtedness secured hereby shall immediately become due and payable at the option of the holder of said note. Any time thereafter, at the request of the holder of said note, the Trustees shall have the power and it shall be their duty to sell said land and premises or any part thereof at public auction, in such manner, at such time and place, upon such terms and conditions, and upon such public notice as the Trustees may deem best for the interest of all concerned, consisting of advertisement in a newspaper of general circulation in the county or city in which the security property is located for at least once a week for two successive weeks or for such period as applicable law may require and, in case of default of any purchaser, to re-sell with such postponement of sale or re-sale and upon such public notice thereof as the Trustees may determine, and upon compliance by the purchaser with the terms of sale, and upon judicial approval as may be required by law, convey said land and premises in fee simple to and at the cost of the purchaser, who shall not be liable to see to the application of the purchase money; and from the proceeds of sale: FIRST, to pay all proper costs and charges, including but not limited to court costs, advertising expenses, auctioneer's allowance, the expenses, if any, required to correct any irregularity in the title, premium for Trustees' bond, auditor's fee, attorney's fee, and all other expenses of sale incurred in and about the protection and execution of this trust, and all moneys advanced for taxes, assessments, insurance, and with interest thereon as provided herein, and all taxes due upon said land and premises at time of sale, and to retain as compensation a commission of five percent (5%) on the amount of said sale or sales; SECOND, to pay the whole amount then remaining unpaid of the principal of said note, and interest thereon to date of payment, whether the same shall be due or not, it being understood and agreed that upon such sale before maturity of the note the balance thereof shall be immediately due and payable; THIRD, to pay liens of record against the security property according to their priority of lien and to the extent that funds remaining in the hands of the Trustees are available; and LAST, to pay the remainder of said proceeds, if any, to the Grantor, his heirs, personal representatives, successors or assigns upon the delivery and surrender to the purchaser of possession of the said land and premises, less costs and expenses of obtaining possession.

8. That if the security property shall be advertised for sale, as hereinabove provided, and not sold, he will pay all costs in connection therewith including, but not limited to advertising, attorney's fees and a Trustees' commission of 2½% of the then unpaid principal balance of the indebtedness, and the same shall be secured in like manner as other charges and expenses relating to the execution of this trust and bear interest at the rate stated in said note.

9. That he warrants specially the property herein conveyed and that he will execute such further assurances thereof as may be requisite.

The provisions of this Deed of Trust shall be binding upon and inure to the benefit of Grantor, his heirs, personal representatives, successors and assigns, the Trustees and any successor or substitute trustee or trustees, and the holder of the note hereby secured. Whenever used herein, the singular shall include the plural, the plural the singular, and the use of any gender shall be applicable to all genders.

WITNESS the following signatures and seal:

[SEAL]

Witness:

_____

_____

February 19, 1982

The Honorable J. Bennett Johnston
United States Senate
Washington, D. C. 20510

Dear Senator Johnston:

Thank you for your letter of January 14 expressing your concern about a Board proposal to clarify Regulation Z's definition of an "arranger of credit". For your information,,I am enclosing a press release describing a Board action taken last week affecting realtors.

As you know, the Board took up the question of the coverage of brokers who arrange seller financing of homes in response to the 1980 amendments to the Truth in Lending Act, which left the matter unclear. On February 12, the Board excluded realtors from coverage until "early in 1983" to allow Congress to address the matter.

Sincerely,

S/Paul A. Volcker

Enclosure

WRM:NS:vcd (V-11)

bcc: Maureen English
Mrs. Mallardi (2) ✓

Action assigned Janet Hart

J. BENNETT JOHNSTON
LOUISIANA

United States Senate
WASHINGTON, D.C. 20510

1982 JAN 22 PM 9 13

#11

January 14, 1982

The Honorable Paul Volcker
Chairman, Federal Reserve Board
Federal Reserve Building
Constitution Avenue between 20th and 21st St.
Washington, D.C. 20551

Dear Chairman Volcker:

I am writing to express my grave concern over reported proposals by the Federal Reserve Board to classify real estate brokers who facilitate seller-financing as "creditors" under the Truth and Lending Act.

In my view, such a characterization will reduce the supply of mortgage credit and will exacerbate the problems now faced by the housing industry. As you well know, the extraordinarily high interest rates available for mortgage financing can be reduced in most instances only through special concessions provided by sellers. It is not only reasonable but logical to expect brokers to communicate the positions of both the buyer and seller with respect to such concessionary financing of home sales. These communications should not be the basis of subjecting a real estate broker to the requirements and penalties of the Truth and Lending Act.

Although I have not yet had the opportunity to review proposals in this area, I have been informed by several constituents with expertise that the regulation is undesirable. Therefore, I urge you to make every possible effort to avoid characterizing customary communications by real estate brokers from the "buyer" or "seller" as "providers" covered under the Truth and Lending Act.

With kindest regards, I am

Sincerely,

J. Bennett Johnston
United States Senator

JBJ:wnq

February 19, 1982

The Honorable Millicent Fenwick
House of Representatives
Washington, D. C. 20515

Dear Ms. Fenwick:

Thank you for your letter of December 24 expressing your concern about a Board proposal to clarify Regulation Z's definition of an "arranger of credit". For your information, I am enclosing a press release describing a Board action taken last week affecting realtors.

As you know, the Board took up the question of the coverage of brokers who arrange seller financing of homes in response to the 1980 amendments to the Truth in Lending Act, which left the matter unclear. On February 12, the Board excluded realtors from coverage until "early in 1983" to allow Congress to address the matter.

Sincerely,

S/Paul A. Volcker

Enclosure

WRM:NS:vcd (V-1)

bcc: Maureen English
Mrs. Mallardi (2)

February 19, 1982

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

Dear Chairman Hamilton:

Thank you for your letter of February 1 regarding correspondence from your constituents concerning the "arranger of credit" issue. For your information, I am enclosing a press release describing a Board action taken last week affecting realtors.

As you know, the Board took up the question of the coverage of brokers who arrange seller financing of homes in response to the 1980 amendments to the Truth in Lending Act, which left the matter unclear. On February 12, the Board excluded realtors from coverage until "early in 1983" to allow Congress to address the matter.

Sincerely,

S/Paul A. Volcker

Enclosure

WRM:NS:vcd (V-26)

bcc: Maureen English
Mrs. Mallardi (2)

Congress of the United States

JOINT ECONOMIC COMMITTEE

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

WASHINGTON, D.C. 20510

February 1, 1982

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

Dear Mr. Chairman:

I have received a number of comments from constituents regarding the impact of a provision in the 1980 revisions to the Truth-in-Lending Act. These revisions take effect on October 1, 1982, and one of them may have a particularly debilitating impact on the housing industry and market.

After October first, anyone who arranges more than five home mortgages in a year must comply with the TIL Act. In a situation not forseen in 1980, this provision will require many real estate agents and brokers to comply with the extensive provisions of TIL for the first time. This compliance includes the risk of lawsuit should these persons fail to adhere tightly to the provisions of the TIL law. It was not envisioned by Congress in 1980 that such individuals would even be subject to this law -- a law designed to apply specifically to financial intermediaries. Yet, the spectacular rise in mortgage rates since then and the resulting widespread use of so-called "unconventional financing" for homes have forced realtors to act as arrangers of credit and subjected them to the new TIL.

As you know, most residential sales currently involve some form of unconventional financing. And, while the future course of interest rates is not known, there is a high probability that mortgage rates will not subside to more traditional levels for a good period yet. The looming application of TIL provisions to realtors in that environment could well close the door to unconventional financing and add a major depressant to an already hard-hit industry. At best, such an application will result in a sharp jump in home closing costs as realtors scramble for accountants and attorneys to meet the dictates of TIL -- assuming they can first find affordable insurance for their legal exposure under TIL.

I believe your staff is reviewing this situation now and the Board itself will address it shortly. I encourage the Board to accept remedial modifications to the TIL Act. A variety of steps are open to you in this regard, including an increase in the threshold for individual arrangers of credit to (say) 20 to 25 loans annually. Another option is to limit the legal exposure of real estate agents and brokers under the TIL Act. I hope you will be able to head off this unintended and potentially disastrous situation.

If I can be of help to you and the Board in this matter, please call me or have your staff contact George Tyler at 224-5171.

Thank you.

Sincerely,

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

Wolfe

February 18, 1982

The Honorable John D. Dingell
Chairman
Committee on Energy and Commerce
U.S. House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

Thank you for your letter of February 5, 1982, concerning margin requirements on stock index futures contracts.

I am enclosing a letter I wrote to Commodities Futures Trading Commission Chairman Johnson yesterday to inform him of the Board's view reaffirming that it has authority to establish margins for trading in stock margin index futures contracts. However, the Board did not believe it was necessary at this time to establish margin rules in view of the recent action by the Kansas City Board of Trade to establish a higher level of margins.

As I informed Chairman Johnson, I have directed the Board staff, in cooperation with the CFTC staff, to keep developments in the markets under review, with a view to learning from experience in the market whether Federal Reserve margin regulations are required and if so at what levels. In the meantime, we have formulated a possible regulatory framework and will ask formally for public comment.

In order to assure that a framework for regulation will be available in the event that there is an immediate need for it, the Board shall publish shortly a proposed margin requirement framework for public comment. Based on this comment, we should be in a position to act expeditiously if the situation should require.

Sincerely,

Paul A. Volcker

Enclosure

MB:nan
Identical letters sent to Senator Riegle and Representatives Rosenthal and Glickman

Wolfe

February 18, 1982

The Honorable Bob Dole
United States Senate
Washington, D. C. 20510

Dear Bob:

Enclosed is a copy of the letter I sent to Phil Johnson yesterday concerning margins on stock index futures contracts. I think that you will find that the approach taken by the Board is consistent with the views expressed in your letter to me of February 11, 1982.

The Board has asserted its jurisdiction in this area, but has refrained from establishing regulations so that we can proceed deliberately to determine whether or not, in the light of experience, any margin requirements established by regulation are necessary. This course was made feasible by the action of the Kansas City Board of Trade to establish a higher level of margin requirements on a self-regulatory basis.

As you can see from my letter to Phil, our two agencies worked cooperatively on this issue. For the future, I have asked my staff to work with the CFTC staff to monitor developments. Within the next six months we will review the situation based on the experience gained from market operations. In the meantime we have formulated a possible regulatory framework and will ask for public comment.

I appreciate your views and look forward to keeping you informed of developments.

Sincerely,

PAUL

Enclosure

MB:mma

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

February 18, 1982

PAUL A. VOLCKER
CHAIRMAN

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

Dear Chairman Garn:

In my recent appearance before the Senate Banking Committee, I agreed to provide for the record information on the fluctuation in growth rates of money in the United States compared with other industrial countries, which I am pleased to enclose. The data can be presented and analyzed from a number of perspectives. Even allowing for the technical difficulties involved in making such international comparisons, they all appear to demonstrate the same point: U. S. monetary aggregates rank at or near the top of the league in terms of low variability.

The enclosed two tables illustrate this point. The first table presents the lowest and highest monthly growth rates for M1 in 1980 and 1981. It also shows the range covered by those rates. The second table presents the same information for the same years using quarterly observations. In both tables the growth rates are presented at annual rates, as is unfortunately customary in the United States. This presentation, of course, tends to exaggerate differences.

The monthly results show that U. S. M1-B (shift adjusted) showed a narrower range of fluctuation in 1980 and 1981 than did the most nearly comparable aggregate in any other country except Italy. In the quarterly results, which in general exhibit much lower variability, only France and Germany had a range in 1981 approximating that in the United States. In 1980, France and Italy had a much narrower range of quarterly fluctuation in M1 growth, while the range in most of the other countries, with the significant exception of Switzerland, was close to that in the United States.

In interpreting these results, it is important to remember that complete stability in the growth of monetary

aggregates is not an objective of monetary policy in the United States or in any of these major foreign countries. On the other hand, slower medium-term growth in the monetary aggregates (and monetary authorities abroad are increasingly looking at more than one aggregate even though they continue to target on at most one) is widely recognized as a necessary condition for a sustained reduction in inflation. In this connection, one might note that Italy, the one country that does "better" than the United States in three out of the four comparisons presented in the enclosed tables, has had one of the highest rates of growth of M1 (measured, for example, over 12 months or four quarters) and one of the highest rates of inflation in recent years.

I hope that these comparisons help the Committee to appreciate the difficulty of short-term aggregate control and the absence of an obvious link between our current economic problems and the short-term variability of our monetary aggregates.

Sincerely,

S/ Paul

Enclosures

EMT:NS:vcd

bcc: Mr. Truman
Mrs. Mallardi (2)

Table 1

Monthly Changes in Narrow Money in Selected Industrial Countries
1980-1981
(Percentage change from previous month, annual rates)

	1980			1981[1/]		
	Low	High	Range	Low	High	Range
Canada	-17	35-3/4	52-3/4	-40	87-1/2	127-1/2
France	-11-1/2	30	41-1/2	- 6-1/2	37-1/2	44
Germany	-16-1/4	30-3/4	47	-32	28-1/4	60-1/4
Italy [2/]	- 4-1/4	24-1/2	28-3/4	- 6-3/4	16-1/2	23-1/4
Japan	-39-1/2	51-3/4	91-1/4	-44	93-3/4	137-3/4
Switzerland [2/]	-22	27-1/2	49-1/2	-42	14	56
United Kingdom	-17-3/4	43	60-3/4	-29-1/2	58-3/4	88-1/4
United States [3/]	-15-3/4	21-1/4	37	-10	19-1/2	29-1/2

1/ Data are available through December 1981 except for the following countries: France (November), Italy (October), and Switzerland (September).
2/ Seasonally adjusted by Federal Reserve Board staff.
3/ M1-B shift adjusted.

Table 2

Quarterly Changes in Narrow Money in Selected Industrial Countries
1980-1981
(Percentage change from previous quarter, annual rates)

	1980			1981 1/		
	Low	High	Range	Low	High	Range
Canada	2	17	19	-18-3/4	6-1/2	25-1/4
France	6-1/4	10-1/2	4-1/4	11-1/2	15-1/2	4
Germany	-2-1/2	11-1/4	13-3/4	- 4-3/4	1-1/2	6-1/4
Italy 2/	6-1/4	15-1/4	9	2-1/2	15-3/4	13-1/4
Japan	-10	7-1/2	17-1/2	3/4	22	21-1/4
Switzerland 2/	-23-1/2	5-1/4	28-3/4	-13-3/4	-1-1/4	12-1/2
United Kingdom	- 6	11-1/2	17-1/2	1	21-1/4	20-1/4
United States 3/	- 3-1/4	14	17-1/4	- 1	5-3/4	6-3/4

1/ Data are available through December 1981 except for the following countries: France (November), Italy (October), and Switzerland (September).
2/ Seasonally adjusted by Federal Reserve Board staff.
3/ M1-B shift adjusted.

February 17, 1982

The Honorable Mark O. Hatfield
Chairman
Committee on Appropriations
United States Senate
Washington, D. C. 20510

Dear Chairman Hatfield:

Thank you for your letter of February 10 concerning my testimony at your economic overview hearings.

I look forward to appearing before your Committee on March 4 at 9:30 a.m.

Sincerely,

S/Paul A. Volcker

CO:vcd (#V-33)

bcc: Messrs. Kichline and Zeisel
Ms. Lepper
Mrs. Mallardi (2)

Messrs. Kichline and Zeisel doing statement

United States Senate

COMMITTEE ON APPROPRIATIONS
WASHINGTON, D.C. 20510

February 10, 1982

1982 FEB 12 11:15

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

Dear Mr. Volcker:

I am writing to confirm arrangements made by our staffs for your testimony before the Senate Committee on Appropriations on March 4.

The Committee will conduct a series of economic overview hearings in order to gain an understanding of the economic conditions likely to prevail in the coming year, as well as an understanding of the President's economic plan. For this purpose, the President's chief economic spokesmen, including Secretary Regan, David Stockman, and Dr. Murray Weidenbaum, will testify before the Committee on February 24 and 25.

In addition, the Committee is anxious to have your view of the appropriate monetary policy of the Federal Reserve Board for the coming year, and your forecast for interest rates for the same period. We very much appreciate your altering your schedule in order to provide us this assessment at 9:30 on March 4. For your information, distinguished outside economists will present their views on the economy before the Committee on March 5.

Our hearing on March 4 will take place in room 1114 of the Dirksen Senate Office Building. Please provide at least 40 copies of your testimony no later than noon on March 2. In order to have copies to distribute to the press and others attending the hearing, please provide an additional 60 copies of your statement by the evening of March 3.

Again, thank you for your willingness to accommodate the Committee's schedule. We look forward to your testimony.

Warm personal regards.

Sincerely,

Mark O. Hatfield
Chairman

MOH:dmk

February 17, 1982

John J. Salmon, Esq.
Chief Counsel
Committee on Ways and Means
House of Representatives
Washington, D. C. 20515

Dear Mr. Salmon:

Thank you for your letter of February 12 inviting me to appear before the Committee on Ways and Means at hearings on the President's economic program, including tax and spending cut proposals.

I am looking forward to being with the Committee on February 23 at 9:30 a.m.

Sincerely,

S/Paul A. Volcker

CO:vcd (V-34)

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

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

February 16, 1982

PAUL A. VOLCKER
CHAIRMAN

The Honorable Paula Hawkins
United States Senate
Washington, D. C. 20510

Dear Senator Hawkins:

I am pleased to supply responses to the three written questions you submitted following my appearance before the Joint Economic Committee on January 26.

(1) Given the tremendous difficulty the Federal Reserve Board has in actually controlling the money supply, are you now ready to consider returning to the gold standard?

Answer: There have been sharp fluctuations in money growth when measured on a weekly or monthly basis, reflecting not only some difficulties in exercising short-run control over the money stock, but also judgments by the Federal Reserve that efforts to force money to adhere closely to a narrow growth path on a week-to-week basis would involve unnecessary and ill-advised wrenching of the financial markets. Short-run movements in the monetary aggregates have little impact on the economy, and may even reverse themselves without aggressive action by the Federal Reserve. The Federal Reserve does have the ability to achieve desired growth of the money supply over periods that are relevant to economic performance and results. The more difficult problems for monetary policy, in my view, involve setting the appropriate targets for money growth in an era of rapid evolution in financial practices and instruments, rather than meeting these targets once chosen.

The gold standard, of course, would provide little help in this regard. The quantity of money would be tied to the stock of gold, without regard to the changing needs of our economy. Moreover, the historical experience of the U. S. with a gold standard demonstrated not stability in money growth but dramatic fluctuations--over periods measured in years not months. Inflows and outflows of U. S. gold holdings automatically arose from divergent U. S. and foreign economic developments as well as from new discoveries, and the stock of money registered quite substantial swings over time. As a consequence, the price level was subject to sustained periods of inflation and deflation lasting

a decade or longer. Real economic activity was also destabilized by the monetary fluctuations associated with the operations of the gold standard.

In light of this experience, and in the expectation that financial changes will continue at a rapid pace, I believe that discretion and judgment remain essential to managing the country's basic supply of liquidity. Reasoned exercise of such judgment will assure expansion of the money stock over time to achieve our nation's goals of price stability and sustained economic growth.

(2) I have sponsored a bill, the Federal Reserve Amendment of 1981. Do you think that broadening the membership on the Board of Governors to include small businessmen and others now being crippled by high interest rates will make the Board more responsive and more effective?

Answer: Board membership should reflect a variety of backgrounds, so that in arriving at its decisions the Board has the benefit of many different viewpoints and experiences. A number of existing statutory provisions already reflect Congress' wishes in this regard. For example, only one Board member may serve at any one time from any one of the twelve Federal Reserve districts. In addition, in making appointments to the Board, the President must give due regard to a fair representation of financial, agricultural, industrial and commercial interests as well as the geographical divisions of the country.

Further specification of membership qualifications is unnecessary and would unduly restrict the President and Senate in selecting the best possible man or woman to serve on the Federal Reserve Board. Moreover, I believe we already have a responsive and effective Board of Governors--one that has tackled the difficult problems we face with courage and intelligence and has set a course for monetary policy to benefit Americans from all regions and walks of life.

(3) You are calling now for additional spending cuts to lower the deficit and to help slow inflation.

The budget of the Federal Reserve Board has skyrocketed 800 percent from $77 million to $791 million in the last 30 years. Do you think it's now time for Congress to exercise closer budgetary control over the Federal Reserve Board?

Answer: In forming the Federal Reserve Act of 1913, the Congress carefully considered the question of the degree to

which the Federal Reserve would operate within the framework of the federal government. In this connection, the Congress decided to exempt the central bank from the political pressures that so frequently attach to the appropriations process. Congress has seen fit to preserve this form of independence over the years.

The Federal Reserve System has not taken this exemption as a license to spend unwisely. On the contrary, the operations of the Board and the Reserve Banks have been conducted in a highly responsible and financially conservative manner. All spending is subject to supervision and review by the Board of Governors.

Expenses of the Reserve Banks from 1950 to 1980 increased at an average annual rate of only 8.1 percent compared to a 9.1 percent average annual increase in federal government outlays and a 10.4 percent increase in the legislative branch's expenses. When the expenses in the Federal Reserve are adjusted for the impact of inflation, the average annual rate of increase drops to less than 4 percent. This modest growth in expenses should be viewed in light of the rapidly growing workload during this period and the increased responsibilities imposed by Congress. For example, in 1950 the System processed 2 billion checks, whereas in 1980 the System processed over 15 billion checks, a 700 percent workload increase in this operation alone. In the same period, processing of currency and coin increased close to 150 percent, and the volume of funds transfers grew from 1 million annually to over 43 million annually. In addition, the huge task of acting as the federal government's fiscal agent and banker doubled in the last 30 years, as measured by the number of issues, redemptions and exchanges of U. S. government securities. These increases in workload were accomplished with less than a 1 percent average annual increase in employment.

The work of the Federal Reserve in the fields of monetary policy and bank regulation has also expanded during this time period, especially in the area of bank holding company and consumer regulations.

In conclusion, I do not feel it is necessary for Congress to exercise closer budgetary control over the Federal Reserve. The Federal Reserve System remains fully attentive to the needs of the public, the financial community, the Treasury, and other government agencies, while demonstrating operating efficiency and economy.

I hope this information is useful.

DLK:JLK:ADeB:JMD:vcd (#V-22)
bcc: Mrs. Mallardi (2)
Ms. DeBeer
Messrs. Kohn, Kichline
and Denkler
cc: Mr. James K. Galbraith

Sincerely,

S/Paul A. Volcker

Action assigned Mike Prell

Congress of the United States

JOINT ECONOMIC COMMITTEE

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

WASHINGTON, D.C. 20510

February 1, 1982

#22

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

Dear Mr. Chairman:

At the request of Senator Paula Hawkins, I am forwarding the attached additional questions, with the request that you submit written responses for the Record.

Sincerely,

James K. Galbraith

James K. Galbraith
Executive Director

JKG:jm

QUESTIONS FOR CHAIRMAN VOLCKER:

(1) Given the tremendous difficulty the Federal Reserve Board has in actually controlling the money supply, are you now ready to consider returning to the gold standard?

(2) I have sponsored a bill, the Federal Reserve Amendment of 1981. Do you think that broadening the membership on the Board of Governors to include small businessmen and others now being crippled by high interest rates will make the Board more responsive and more effective?

(3) You are calling now for additional spending cuts to lower the deficit and to help slow inflation.

The budget of the Federal Reserve Board has skyrocketed 800 percent from $77 million to $791 million in the last 30 years. Do you think it's now time for Congress to exercise closer budgetary control over the Federal Reserve Board?

February 16, 1982

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

Dear Mr. Nichols:

I appreciate your consideration in forwarding the position of the Alabama Bankers Association on deregulatory issues facing the Depository Institutions Deregulation Committee. In keeping with your request, I am asking the Committee's Executive Secretary to make the Alabama Bankers Association correspondence with you a part of the public record. The next meeting of the Committee is scheduled for March 22, 1982.

Sincerely,

S/Paul A. Volcker

cc: Mr. Steven L. Skancke
Executive Secretary
Depository Institutions Deregulation Committee

NB:vcd (#V-25)

bcc: Mr. Bernard (w/copy of incoming)
Mrs. Mallardi (2)

BILL NICHOLS
3RD DISTRICT, ALABAMA

2417 RAYBURN BUILDING
WASHINGTON, D.C. 20515
PHONE: (202) 225-3261

COUNTIES:
AUTAUGA LEE
CALHOUN LOWNDES
CHAMBERS MACON
CLAY RANDOLPH
CLEBURNE RUSSELL
COOSA TALLADEGA
ELMORE TALLAPOOSA

Action assigned Mr. Bernard

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

COMMITTEE ON
ARMED SERVICES

DISTRICT OFFICES:
FEDERAL BUILDING
ANNISTON, ALABAMA
PHONE: 236-5655

FEDERAL BUILDING
OPELIKA, ALABAMA
PHONE: 745-6222

115 EAST NORTH SIDE
TUSKEGEE, ALABAMA
PHONE: 727-6490

#25

February 3, 1982

1982 FEB -4 AM 10:52

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

Dear Mr. Volcker:

On behalf of the 315 member banks of the Alabama Bankers Association, I am pleased to transmit their position to the Depository Institutions Deregulation Committee urging the following:

1. oppose any legislation to delay action by DIDC
2. ask members of DIDC to exercise their current mandate to deregulate deposit rate ceilings
3. take no action to interfere with the DIDC consideration scheduled for March 22,1982

I would respectfully request that the Alabama Bankers Association's Mailgram to me be made a part of the public record and comment prior to the DIDC's March meeting.

Sincerely,

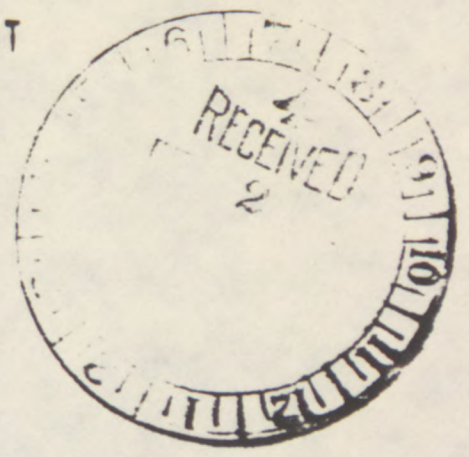
Bill Nichols, M.C.

BN:cm
Enclosure

C E AVINGER ALABAMA BANKERS ASSN
PO BOX 427
MONTGOMERY AL 36195

western union Mailgram

4-022541S032 02/01/82 ICS IPMRNCZ CSP WSHB
2058341890 MGM TDRN MONTGOMERY AL 75 02-01 0103P EST



REPRESENTATIVE BILL NICHOLS
2417 RAYBURN HOUSE OFFICE BLDG
WASHINGTON DC 20515

THE 315 MEMBER BANK OF THE ALABAMA BANKERS ASSOCIATION URGE YOU TO CONTACT DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE TO CONTINUE MANDATE OF CONGRESS; 1)OPPOSE ANY LEGISLATION TO DELAY ACTION BY D IDC; 2)ASK MEMBERS OF DIDC TO EXERCISE THEIR CURRENT MANDATE TO DEREGULATE DEPOSIT RATE CEILINGS; 3)TAKE NO ACTION TO INTERFERE WITH THE DIDC CONSIDERATIONS SCHEDULED FOR MARCH 22, 1982
C E AVINGER ALABAMA BANKERS ASSN

13:03 EST

MGMCOMP

TO REPLY BY MAILGRAM, SEE REVERSE SIDE FOR WESTERN UNION'S TOLL - FREE PHONE NUMBERS

February 12, 1982

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

Dear Mr. Wolf:

Thank you for your recent letter expressing concern over the federal government's Reduction in Force ("RIF") and its possible impact on employees of the Board of Governors of the Federal Reserve System.

While the Board has generally followed the reduction programs of the Executive Branch by reducing its own staff, we do not utilize the federal government's RIF program. Rather, the Board follows its own Personnel Placement Program ("PPP") in instances where employees are displaced by changing personnel requirements arising from the revision, reduction, or elimination of a function or program.

A total of 58 positions were abolished at the Board during 1981. All but 17 of these positions were vacant at the time of abolishment. In its concern for minimizing the impact on individual employees, the Board achieved most of the reductions by retraining and reassigning employees to more critical positions. Only three employees were formally placed in the PPP. Of these, one employee, who was given substantial placement assistance by our Personnel Division, voluntarily separated upon accepting another position within her commuting area. The remaining two employees chose to retire rather than accept reassignment and were separated at year-end. Fourteen other employees, who were identified in positions to be abolished, were assisted in securing other positions at the Board before it was necessary to formally place them in the PPP. We do not anticipate any additional displacement of employees during 1982.

While the Board has increased its focus on filling positions from within, we have contacted many of the agencies experiencing significant cutbacks in an effort to assist in their outplacement activities. For your information, I am enclosing a listing of positions for which the Board is actively seeking external candidates.

Again, we appreciate your interest and support.

Sincerely,

S/Paul A. Volcker

ETM:vcd (V-19)
bcc: Mr. Weis
Mr. Mulrenin
Mrs. Mallardi (2)
Enclosure

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 3, 1982

Career Opportunities

The following represents recurring opportunities at the Board. Candidates interested in applying for these positions should send a completed SF-171 and/or resume to the Board of Governors of the Federal Reserve System, Division of Personnel, 20th & C Streets, N.W., Stop 156, Washington, DC 20551.

Title	Grade Range (GS Equivalency)	Contact
Secretary/Clerk Typist/Stenographer	FR 2-6	Kathy Warehime
Research Assistant/Economist	FR 7-14	Linda Inman
Financial Analyst	FR 7-13	Juanita Johnson
Attorney	FR 11-13	Brada Panther
Programmers	FR 7-13	Brada Panther

An Equal Opportunity Employer

Action assigned Mr. Denkler

FRANK R. WOLF
10TH DISTRICT, VIRGINIA

PLEASE RESPOND TO
ADDRESS CHECKED

WASHINGTON OFFICE:
☐ 414 CANNON BUILDING
WASHINGTON, D.C. 20515
(202) 225-5136

CONSTITUENT SERVICES OFFICES:
☐ 1651 OLD MEADOW RD.
SUITE 115
MCLEAN, VIRGINIA 22102
(703) 734-1500

☐ 19 E. MARKET ST.
ROOM 4B
LEESBURG, VIRGINIA 22075
(703) 777-4422

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

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

January 26, 1982

1 19

Mr. Paul A. Volcker
Chairman
Federal Reserve System
Twentieth St. and Const. Ave. N.W.
Washington, D.C. 20551

Dear Mr. Volcker:

I have become increasingly concerned about the degree of effort and commitment that is being made by a number of federal agencies to assist federal employees who face a reduction-in-force (RIF). As you know, a number of highly qualified and dedicated federal workers are now or will soon face a RIF. In a sense, these people are innocent victims of the dramatic change in government policy that this Administration has undertaken. Because of this fact, I believe that the government has a special obligation to provide the maximum amount of assistance and counseling to minimize the impact of any RIF and help place RIFed employees either within or outside of the government.

Last August, the President asked his Cabinet to take it upon themselves to minimize the impact of RIFs on federal workers. While many departments and agencies have established out-placement programs and encouraged their employees to participate in the Voluntary Inter-agency Placement Program (VIPP), I am receiving reports that some agencies are not aggressively working to help RIFed workers. In fact, I am told that a few agencies have continued to hire new employees from outside government when qualified candidates who have been RIFed were available within the same agency.

I want to make you aware of one office that is working especially hard to avoid RIFing its employees. The Office of Noise Abatement Control at the Environmental Protection Agency Headquarters has not been funded for Fiscal Year 1983. To date the agency has placed 57 out of 92 employees and has yet to issue the first RIF notice. The management of this office made a commitment to its employees to help them find new employment. The advantages of this effort to

the government are several. First, the morale of the office is high. The employees do not feel abandoned and alone and they recognize that the RIF does not reflect on their worth as people. Second, there is a substantial savings to the government. For those employees who are placed, the government will save the expenses related to severance pay, payout of accrued annual leave and unemployment compensation. The withdrawal of funds from the federal retirement programs should be reduced. Third, the office is not paralyzed. It continues to function and provide a product even though it is being phased out.

The key to the success of the work of this office lies in the commitment to help RIFed employees on the part of management. They have formed a task force to actively pursue positions for the office's workers.

I am writing to appeal to you to make a personal commitment to do everything within your power to help RIFed employees at your agency to find suitable employment. You can set the tone and example within your agency. With an aggressive program of out-placement you can be satisfied that you have participated in reshaping the direction of government without imposing a hardship on skilled federal workers.

In addition, I would appreciate it if you would provide me with a report on the efforts your agency is making to help place RIFed employees within the agency, elsewhere in the government and in the private sector. I would like to know what vacancies now exist within your agency and what types of positions are available. It would be helpful if this information could be available by February 15.

I hope you agree with me that the government has an obligation to assist RIFed employees and that you will do as much as you can to help them find satisfying jobs.

Thank you for your assistance.

Sincerely,

Frank R. Wolf
Member of Congress

FRW/rp

CM (V-12)

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

February 11, 1982

PAUL A. VOLCKER
CHAIRMAN

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

Dear Mr. Paul:

Thank you for your recent letter in which you request a chronology of the changes in the monetary aggregates published by the Federal Reserve from 1970 to the present. The monetary aggregates that the Federal Reserve publishes have been changed several times since 1970.

In January 1970, the Federal Reserve published a single monetary aggregate, representing assets that could be used directly as payments media. It included demand deposits at commercial banks other than interbank and U.S. government deposits, foreign demand balances at Federal Reserve banks, and currency outside the Treasury, Federal Reserve banks, and commercial banks.

In April 1971, this measure was designated M1 to distinguish it from two broader monetary aggregates--M2 and M3--that were introduced at that time. These broader aggregates included other liquid assets not regarded as payments media themselves but convertible to media of exchange with varying degrees of ease. Specifically, M2 contained, in addition to M1, commercial bank savings deposits and time deposits other than negotiable certificates of deposit issued in denominations of $100,000 or more (large CDs) by a panel of large commercial banks. The M3 measure included, in addition to M2, savings and time deposits at thrift institutions.

Two additional monetary aggregates--M4 and M5--were established in April 1975 that incorporated negotiable large CDs--the only major commercial bank deposit liability until then not included in the monetary aggregates. M4 was defined as M2 plus large CDs while M5 was M3 plus large CDs.

Beginning around the mid-1970s, the behavior of the narrow money stock was influenced by the growing availability of interest-bearing transaction accounts. Authority to offer negotiable-order-of-withdrawal (NOW) accounts was given first to depository institutions in New England beginning in 1974 and later extended to depository institutions in New York and New Jersey in 1978 and 1979, respectively. In addition, in late 1978, federally insured commercial

banks and mutual savings banks nationwide were given regulatory approval to offer automatic transfer service (ATS) accounts. Because NOW and ATS accounts entered the monetary aggregates at the M2 level--in savings deposits--the introduction of these accounts tended to damp M1 growth as funds were shifted to them from demand deposits. In recognition of potential distortions to M1 at the time NOW accounts were authorized in New York State and ATS was authorized nationwide in late 1978, an additional measure of narrow money, called M1+, was introduced in December 1978. This aggregate included M1, savings deposits at commercial banks, NOW accounts at banks and thrifts, credit union share drafts, and demand deposits at mutual savings banks. M1+ was viewed as a supplemental measure of transactions balances during the period of adjustment to ATS acocunts, as its behavior was not affected by shifts from demand deposits and ordinary passbook accounts at commercial banks to ATS accounts.

A major redefinition of the monetary aggregates--described more fully in the attached article--was made in February 1980 as continued changes in the payments mechanism and in the character of certain financial assets reduced the usefulness of the old measure. Four newly defined monetary aggregates--M1-A, M1-B, M2 and M3--replaced the old M1 through M5 measures, as well as M1+. In addition, a very broad measure of liquid assets--L--was adopted. M1-A was very similar to the old M1 aggregate except that M1-A excluded demand deposits held by foreign banks and official institutions. M1-B included M1-A and interest-earning checkable deposits at all depository institutions--NOW accounts, ATS accounts, and credit union share draft balances. Travelers' checks issued by nonbanks were included in M1-A as of July, 1981, when adequate data for this component became available.

The new M2 measure consists of M1-B, savings and small denomination time deposits held at all depository institutions, money market mutual fund shares, and overnight and continuing contract repurchase agreements (RPs) issued by commercial banks and certain overnight Eurodollar deposits held by U.S. residents other than banks. Redefined M3 consists of the new M2 measure plus large denomination time deposits at all depository institutions (including negotiable CDs) and term RPs issued by commercial banks and thrift institutions. Finally, the very broad measure of liquid assets, L, contains, in addition to M3, other Eurodollar holdings of nonbank U.S. residents, savings bonds, bankers acceptances, commercial paper, and marketable liquid Treasury obligations. Due to lags in data availability, L cannot be calculated on a timely basis.

In 1981, the Federal Reserve published a "shift-adjusted" measure of M1-B in recognition of newly opened NOW accounts, authorized nationwide at the end of 1980. An article describing the construction of shift-adjusted M1-B, as well as benchmark and seasonal revisions made to the money stock in 1981, is enclosed.

In light of evidence that the public's adjustment to nationwide NOWs was largely complete by year end 1981, the Federal Reserve ceased calculating a shift-adjusted measure as of January 1982. At the same time, the M1-A measure--which by that time excluded over $78 billion in transaction deposits--was dropped and M1-B was redesignated M1.

Enclosed are tables indicating the monthly, quarterly and annual growth rates of the new aggregates from 1959 through 1981.

I hope this information is useful to you.

Sincerely,

Paul

Enclosures

Action assigned Mr. Kichline

RON PAUL
22ND DISTRICT, TEXAS

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

COMMITTEE ON BANKING,
FINANCE, AND URBAN AFFAIRS

RANKING REPUBLICAN
SUBCOMMITTEE ON GENERAL OVERSIGHT

MEMBER, UNITED STATES GOLD
POLICY COMMISSION

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

CONSTITUENT SERVICE CENTERS:

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

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

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

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

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

January 21, 1982

#12

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

1982 JAN 25 PM 12:33

Dear Mr. Volcker:

I would like to have, as soon as possible, a brief but thorough chronology of the changes in money stock aggregates calculated by the Federal Reserve from 1970 to the present.

Such a chronology should include a description of all the aggregates calculated in 1970, plus all the deletions, additions, and definitional changes since then.

If you would wish to include an explanation of why each of the changes was made, please do so.

Thank you for your cooperation.

Sincerely,

Ron Paul

Ron Paul
Member of Congress

RP/jr

Paul A. Volcker

February 8, 1982

Senator Garn

Mr. Chairman:

Enclosed is the note you requested which reviews, in summary form, my serious concerns about S. 1080.

Paul

Enclosure

IMPACT OF S. 1080 ON THE FEDERAL RESERVE

S. 1080 establishes extensive and complex rulemaking procedures, gives to the Executive branch the right to supervise and review the process of establishing major rules, and subjects emergency actions taken for good cause to retroactive review in accordance with these procedures. Executive oversight is inconsistent with the monetary policy role of the Federal Reserve, and the rulemaking requirement would seriously hamper the implementation of monetary policy. Problems also arise in the supervision of safety and soundness, and bank holding company and interest rate deregulation.

Executive Oversight Should Not Apply To the Federal Reserve

--For well known reasons, Congress made the decision at the inception of the Federal Reserve to insulate the money-creation and credit-regulation processes from the Executive functions of financing the government. Long experience had demonstrated--and subsequent experience confirms--that the separation of these two functions makes a vital contribution to a more stable and effective domestic monetary system.

--Monetary policy is carried out, in part, through rules affecting

reserve requirements,

discount window operations,

margin credit, and

interest on deposits.

These rules would be subject to S. 1080, but the effective conduct of monetary policy, and the related ability to fulfill the role of lender of last resort, requires a high degree of discretion and a minimum

amount of rigidity in the form of complex procedural rules. S. 1080 would prevent independent, timely and effective action that is responsive to quickly changing market situations.

--There is no need to apply S. 1080 to the macroeconomic policymaking involved in monetary policy, and in fact it does not apply to the formulation of budgetary or other fiscal policies. Congress has established procedures to regulate economic policy formulation; and in the case of monetary policy it has established elaborate procedures for review and oversight.

Effect on Safety and Soundness

The Federal Reserve and other agencies have major responsibilities for the safety and soundness of banking institutions. In order to carry out this role, they must be able to act quickly for good cause in emergency situations. The present thrift industry problems facing the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board illustrate the situation in which banking regulatory agencies must have the flexibility to take emergency action in the interest of individual financial institutions and in the interest of avoiding repercussions on the economic system generally. S. 1080 would seriously hamper the ability of banking regulatory agencies to react promptly and effectively.

Banking Deregulation

The Federal Reserve has authority under the Bank Holding Company Act to allow bank holding companies to engage in additional activities. Application of S. 1080 to this process would substantially delay consideration of new activities for bank holding companies and subject proposed rules to establish new activities to years of adminstrative procedures and judicial review. A similar situation would apply to the deposit interest ceiling deregulatory process established by Congress through the DIDC.

February 10, 1982

The Honorable George Bush
President of the United States Senate
Washington, D. C. 20510

Dear Mr. Vice President:

The Board is pleased to submit its Monetary Policy Report to the Congress pursuant to the Full Employment and Balanced Growth Act of 1978.

Sincerely,

S/Paul A. Volcker

Enclosure

DJW:vcd

bcc: Mrs. Mallardi (2)

Identical letter sent to The Honorable Thomas P. O'Neill, Jr.
Speaker of the House of Representatives
(w/two copies of report)

February 10, 1982

The Honorable Howard H. Baker, Jr.
Majority Leader
United States Senate
Washington, D. C. 20510

Dear Senator Baker:

The Board of Governors of the Federal Reserve System is pleased to forward to you its Monetary Policy Report to the Congress pursuant to the Full Employment and Balanced Growth Act of 1978.

Sincerely,

S/Paul A. Volcker

Enclosure

DJW:vcd
bcc: Mrs. Mallardi (2)

IDENTICAL LETTERS SENT TO THOSE ON ATTACHED LIST

Senate

Howard H. Baker, Jr.
Majority Leader (S-233 Capitol Bldg.)

Robert C. Byrd
Minority Leader (S-208 Capitol Bldg.)

Ted Stevens
Majority Whip (S-229 Capitol Bldg.)

Alan Cranston
Democratic Whip (S-148 Capitol Bldg.)

Strom Thurmond
President Pro Tempore (209 RSOB)

Jake Garn, Chairman
Committee on Banking, Housing
and Urban Affairs (5300 DSOB)

Harrison A. Williams
Ranking Minority Member
Committee on Banking, Housing
and Urban Affairs (5300 DSOB)

Robert Dole, Chairman
Committee on Finance (2227 DSOB)

Russell B. Long
Ranking Minority Member
Committee on Finance (2227 DSOB)

Pete V. Domenici, Chairman
Committee on the Budget (208 Carroll Arms Annex)

Ernest F. Hollings
Ranking Minority Member
Committee on the Budget (208 Carroll Arms Annex)

Roger W. Jepsen, Vice Chairman
Joint Economic Committee (G-133 DSOB)

Lloyd Bentsen
Senate Ranking Minority Member
Joint Economic Committee (G-133 DSOB)

House

Jim Wright
Majority Leader (H-148 Capitol Bldg.)

Robert H. Michel
Minority Leader (H-230 Capitol Bldg.)

Thomas S. Foley
Majority Whip (H-107 Capitol Bldg.)

Trent Lott
Republican Whip (~~2400~~ 1422 RHOB)

Fernand J. St Germain, Chairman
Committee on Banking, Finance
and Urban Affairs (2129 RHOB)

J. William Stanton
Ranking Minority Member
Committee on Banking, Finance
and Urban Affairs (2129 RHOB)

James R. Jones, Chairman
Committee on the Budget (214 HOB Annex I)

Delbert L. Latta
Ranking Minority Member
Committee on the Budget (214 HOB Annex I)

Henry S. Reuss, Chairman
Joint Economic Committee (G-133 DSOB)

Clarence J. Brown
House Ranking Minority Member
Joint Economic Committee (G-133 DSOB)

Walter E. Fauntroy, Chairman
Subcommittee on Domestic Monetary Policy
of House Banking Committee (H2-179 HOB Annex II)

Dan Rostenkowski, Chairman
Committee on Ways and Means (1102 LHOB)

Barber B. Conable
Ranking Minority Member
Committee on Ways and Means (1102 LHOB)

Benjamin S. Rosenthal, Chairman
Subcommittee on Commerce, Consumer
and Monetary Affairs of House Gov't. Opers. (B-377 RHOB)

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

February 8, 1982

PAUL A. VOLCKER
CHAIRMAN

The Honorable Thomas J. Downey
House of Representatives
Washington, D.C. 20515

Dear Mr. Downey:

I want to thank you for your letter of January 6 concerning the appointment to the Federal Reserve Board of a representative of small business.

As you state, the law provides for appointments to the Board to be made by the President--not by the Federal Reserve Board--with the advice and consent of the Senate. In this regard, there are certain statutory guidelines that the President must follow in appointing Board members. For example, only one Board member may be selected to serve at one time from any one of the 12 Federal Reserve districts. In addition, the President must give due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country in appointing Board members.

I appreciate your concern and I do think it important that existing law be faithfully observed and that Board membership reflect a variety of backgrounds and geographic representation. However, in my judgment it would not be advisable to narrow the representational requirements in the Act any further. I believe that the President and the Senate should not be overly restricted in selecting the best possible man or woman to serve on the Federal Reserve Board.

Sincerely,

S/ Paul

AFC:NS:DJW:pjt (#V-4)
bcc: Mrs. Mallardi (2)

Response will be prepared by Cong. Liaison Office

THOMAS J. DOWNEY
2ND DISTRICT, NEW YORK

1111 LONGWORTH HOUSE OFFICE BUILDING
TELEPHONE: (202) 225-3335

DISTRICT OFFICE:
4 UDALL ROAD
WEST ISLIP, NEW YORK 11795
TELEPHONE: (516) 661-8777

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

COMMITTEE ON
WAYS AND MEANS

SUBCOMMITTEES:
TRADE
PUBLIC ASSISTANCE AND
UNEMPLOYMENT COMPENSATION

SELECT COMMITTEE ON AGING

January 6, 1981

#4

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

Dear Chairman Volcker:

As you know, the economic difficulties of recent months have created strong support in the Congress for the addition of a representative of small business to the Board of Governors.

My purpose in writing is simply to request your position on this matter recognizing fully that the prerogative for making appointments lies with the President. Upon being approached for my support I was surprised to find that this idea had received little consideration in the past despite the direct affect the Board's decisions have on small businesses. I do not believe that small business is attempting to counter stated policy with this effort as much as it is attempting to ensure appropriate discussions of its relationship to monetary policy before decisions are made. I respect the Federal Reserve System's independence completely, but before adding my voice to those calling for a mandate on this I had hoped to have the benefit of your views.

Thank you very much in advance for any comments you would care to provide.

Sincerely,

Tom Downey

THOMAS J. DOWNEY
Member of Congress

TJD:cb

February 5, 1982

The Honorable Margaret M. Heckler
House of Representatives
Washington, D.C. 20515

Dear Mrs. Heckler:

As you know, the Federal Reserve does not ordinarily disclose its relationships with private depository institutions. However, in response to your request for an analysis of the concerns that Mr. Robert Spiller recently expressed regarding access of The Boston Five Cents Savings Bank to the Federal Reserve discount window, a staff review of the record in that respect is enclosed.

The record demonstrates that the Federal Reserve Bank of Boston, consistent with the Monetary Control Act and the Board's related policy guidelines, has offered credit to The Boston Five Cents Savings Bank on the same terms and conditions available to commercial banks. Indeed, since August of last year, twenty-six thrift institutions have participated in the extended credit program available to depository institutions subject to protracted liquidity strains. These institutions have received loans under the program totaling $622 million. The volume of borrowing has apparently been limited by the easing in market conditions that developed over the latter months of last year which tended to moderate liquidity pressures on depository institutions and the Federal Home Loan Bank System.

I can assure you that The Boston Five Cents Savings Bank has received access to the discount window on the same terms as any other similarly situated depository institution, thrift or commercial bank.

Sincerely,

S/Paul A. Volcker

FS:WRM: (#V-24)
bcc: Mr. Struble (w/copy of incoming)
Mrs. Mallardi (2)

Enclosure

Review of Discount Window Contact
with the Boston Five Cents Savings Bank

Mr. Spiller of the Boston Five Cents Savings Bank suggests that the Federal Reserve Bank of Boston has, contrary to the Monetary Control Act, administered the discount window in a way that discriminates against thrift institutions, particularly those that are not members of the Home Loan Bank System. His views appear to reflect a misconception of the basis on which access to the discount window is available to member commercial banks as well as to other institutions.

Federal Reserve credit is provided to eligible borrowers under two broad programs, both of which are designed essentially to ameliorate strains on the borrower's liquidity. Adjustment credit is available to meet temporary needs for funds or to cushion briefly more persistent fund outflows while an orderly adjustment is being made in the borrower's assets or other liabilities. Extended credit is provided when more protracted strains on liquidity positions appear to be developing with little prospect for correction over the near term.

Reasons for adjustment borrowing that are considered appropriate generally include: the temporary accommodation of unexpected increases in loan demands the coverage of sudden, unanticipated deposit outflows; and the need to counter temporary and unexpected difficulties in obtaining funds from the money market. Among the reasons that are considered inappropriate are: borrowing to finance lending in the federal funds market; borrowing to acquire securities or money market paper at a profit; and borrowing to refinance outstanding indebtedness with other lenders at a lower interest cost.

The Boston Five's initial request to borrow from the Federal Reserve came in the early fall of 1980, not long after the Board's Regulation A (which governs access to the discount window) had been revised (as required by the Monetary Control Act) to allow for borrowing by nonmember depository institutions on the same terms and conditions as borrowing by member banks. Because the bank was a net supplier of funds to the money market at the time, it was evident that any credit it borrowed from the Federal Reserve Bank was likely to be reloaned in the money market at a profit, or be used to repay outstanding more costly debt of other lenders. Since such uses would have run directly counter to our guidelines for adjustment credit borrowing, this initial Boston Five request was turned down. Officials at the Bank were advised, however, that if their institution's liquidity position should subsequently come under pressure, adjustment credit assistance would be readily available.

Starting in May 1981, the Boston Five did begin to experience occasional unanticipated strains on its liquidity and, from time to time thereafter, it obtained adjustment credit from the Boston Reserve Bank at the basic discount rate. During the early fall, the duration of the Bank's borrowing began to spill over into successive statement weeks. Because the Boston Five is a large institution with total deposits in excess of $500 million, it therefore became subject (in these spillover weeks) to the 3 percent discount rate surcharge then applicable to large institutions--where they draw on the discount window in successive statement weeks or in more than 4 of the most recent 13 statement weeks. After early October, the Boston Five avoided borrowing at the surcharge rate. The Boston Five's

1981 borrowing record shows 18 individual adjustment credit loans totaling about $83 million.

In late summer, after the Federal Reserve announced that it was establishing discount rates on extended credit to meet liquidity strains at savings and other institutions with longer-term assets, officials at the Boston Five expressed interest in obtaining such credit. At that time the program provided credit to eligible borrowers for the first 60 days at the then prevailing basic discount rate of 14 percent (which was appreciably below the prevailing charges on borrowings from private money market lenders). For borrowings under the program that extended beyond 60 days (to 150 days), the charge during the additional period was 15 percent; and for borrowings that extended beyond 150 days, the charge was increased to 16 percent--in all cases below the 17 percent overall rate then applicable to adjustment borrowings that were subject to the surcharge.

The extended credit program for depository institutions with longer-term assets was established to alleviate problems that are very different from those addressed by the adjustment credit program. Extended lending is designed essentially to assist firms facing protracted strains on liquidity arising from net fund outflows. The immediate credit needs of institutions confronted with such liquidity strains are often sizable, and the likely timing of repayments on loans arranged to cope with these strains is uncertain.

Since the volume of high powered reserves that might be released through extended credit lending appeared to be potentially very large at the time the program began to be implemented last summer, the Federal

Reserve established guidelines designed to assure that credit would be advanced only when it was clearly needed and would be repaid as soon as alternative sources of funds might again become available. To assure that these guidelines were effective, prospective borrowers were required, among other things, to continue seeking funds from usual market sources to the extent funds could be reasonably obtained. In addition, they were expected, while borrowing from the Federal Reserve, to forego increases in investments and to limit increases in loans to already outstanding commitments plus whatever minimum volume of expanded lending might be required to retain a competitive foothold in their local credit market. Users of extended credit were also required to provide more frequent and complete reporting on their current and prospective cash positions.

When the Boston Five first sought credit under this extended lending program, it clearly was not being confronted with severe liquidity pressures. Nevertheless, the Bank did provide evidence suggesting that it might experience significantly larger fourth quarter drains on its liquidity reserves than had previously been anticipated, and that reflows of funds to cover this need might not be forthcoming from usual sources for some weeks ahead. In light of this evidence the Boston Reserve Bank indicated that it was prepared to enter into an extended credit agreement with the Boston Five to help cover its relatively protracted credit needs should they in fact arise. Because the general objective of the extended lending program is to meet different and more protracted needs than the regular adjustment credit program in which the Boston Five had previously been involved, arrangements for making these longer-term loans consistent with the guidelines set down by the Board had to be worked out.

A feature of such arrangements to which management of the Boston Five has registered special objection is the requirement that prospective users of the program draw on alternative sources of funds, to the extent they are reasonably available, before coming to the window. Application of this guideline to savings banks and savings and loan associations that are members of the Federal Home Loan Bank System means that they are required to seek assistance from their FHL Bank before turning to the Federal Reserve. In the early fall of 1981, at the request of the Home Loan Bank System, because of general pressure on the liquidity of the Home Loan Banks, the Federal Reserve and the FHL Banks agreed to share in meeting the added credit needs of institutions that were members of the FHLB System.

Borrowers like the Boston Five that are not members of the FHLB System are also expected to maintain their access to alternative sources of funds, such as bank lines of credit, to the extent this can be reasonably accomplished. Commercial banks--whether members or not--are subject to the same guideline. The Boston Five posed a special problem in this regard because it had apparently cancelled the last of its regular credit lines with commercial banks sometime after passage of the Monetary Control Act on the presumption that any unexpected needs for credit in the future could be fully accommodated instead through borrowing at the Federal Reserve discount window. Staff at the Boston Reserve Bank questioned the wisdom of this decision from the start, suggesting that any prudently managed depository institution should maintain regular back-up credit lines with a special industry lender or private lenders. It is clearly a sound banking practice for institutions without a special industry lender to maintain some external source of liquidity.

When the Boston Five recently requested extended credit, the Boston Federal Reserve, therefore, indicated that while it was prepared to cover most of the Bank's projected need, the Boston Five should seek to reestablish credit lines with commercial banks to cover a part of it. Staff at the Boston Fed recognized that it might be difficult to reestablish bank credit lines after they had been allowed to lapse. The staff felt, however, that the Boston Five should at least make the effort to do so, since other users of extended credit were being required to place reasonable reliance on alternative sources of funds before coming to the Federal Reserve. The Reserve Bank was prepared to withdraw this requirement if the credit was not reasonably available, and its position in this regard was carefully explained in meetings with Boston Five officials. However, the Boston Five apparently never attempted to determine the availability and cost of such alternative sources.

Perhaps the misunderstanding that has arisen between Mr. Spiller and the Boston Reserve Bank--as to whether the Boston Five has been subject to different treatment than member commercial banks--is attributable to a failure to draw a clear distinction between the adjustment and extended credit programs. In its use of adjustment credit the Boston Five has been asked to operate within the same administrative guidelines as member banks. And in its request for access to extended credit, it has been asked to work out the same type of operating agreement and adhere to the same operating guideline as other users of that program throughout the country.

Mr. Spiller also objected to the provision in the letter of understanding which the Boston Reserve Bank has requested him to sign (in

order to qualify for extended credit) that would permit the Reserve Bank, upon written notice, to modify the terms of the agreement on which such credit would be provided. It is standard practice for regulatory authorities to include such language in lending agreements in order to gain protection in the event of a deteriorating financial situation.

Federal Reserve Board Staff
January 13, 1982

Response being prepared by Bill Maloni & Fred Struble

MARGARET M. HECKLER
U.S. REPRESENTATIVE
10TH DISTRICT, MASSACHUSETTS

DISTRICT OFFICES:
ONE WASHINGTON STREET
WELLESLEY, MASSACHUSETTS 02181
235-3350

30 LIBERTY LANE
TAUNTON, MASSACHUSETTS 02780
824-8611

POST OFFICE BUILDING
FALL RIVER, MASSACHUSETTS 02720
679-2109

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

JOINT ECONOMIC COMMITTEE
INVESTMENT, JOBS AND PRICES SUBCOMMITTEE
AGRICULTURE AND TRANSPORTATION SUBCOMMITTEE

VETERANS' AFFAIRS COMMITTEE
EDUCATION, TRAINING AND EMPLOYMENT SUBCOMMITTEE
HOSPITALS AND HEALTH CARE SUBCOMMITTEE

SCIENCE AND TECHNOLOGY COMMITTEE
SCIENCE, RESEARCH AND TECHNOLOGY SUBCOMMITTEE

CONGRESSWOMEN'S CAUCUS,
CO-CHAIR

February 2, 1982

#24

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

Dear Chairman Volcker:

It has recently come to my attention that there is some uncertainty among thrift institutions on the question of equal access to the Federal Reserve's Discount Window, as provided for by the Monetary Control Act of 1980.

Robert J. Spiller, President and Chief Executive Officer of the Boston Five Cent Savings Bank of Boston, Massachusetts, has apparently sought clarification from the Federal Reserve of the criteria established to provide for this access by non-member depository institutions. He is concerned with what he believes are inequities in the way the Monetary Control Act is being administered, and in addition to contacting the Federal Reserve he has contacted me.

I would greatly appreciate it if you would provide me with some background material and other information that will help me address Mr. Spiller's concerns about the Discount Window.

Thank you for your attention in this matter.

Sincerely,

Margaret M. Heckler

MARGARET M. HECKLER
MEMBER OF CONGRESS

MMH:prg

February 4, 1982

The Honorable Shirley Chisholm
House of Representatives
Washington, D.C. 20515

Dear Ms. Chisholm:

Thank you for your recent letter suggesting that the Board use its good offices to arrange a meeting between commercial banks and National Peoples Action to discuss an "Affordable Line of Credit" for neighborhood groups.

Last year, the Board was asked by Mrs. Gale Cincotta of National Peoples Action to sponsor such a meeting and although members of the Board are sympathetic to the plight of home buyers, small businessmen and farmers, we felt it would be inappropriate to convene the type meeting requested.

Since the Federal Reserve is the primary regulator of the nation's large banks or their holding companies, a meeting held under Board auspices would have overtones of pressure to allocate credit to particular segments of the economy. There was also a concern that a meeting of the type proposed might raise anti-trust questions.

Mrs. Cinootta subsequently asked the Board's Consumer Advisory Council to sponsor such a meeting and the Council discussed the request for more than two hours at its meeting last week. Many members of the Council felt that the Council lacked authority to sponsor such a meeting but they adopted a motion to place on the next agenda a discussion of the implications under the Community Reinvestment Act of the current economic environment. The Council will invite written submissions from a broad spectrum of community organizations. The Council's next meeting is scheduled for April 28-29.

Sincerely,

S/Paul A. Volcker

XX
JRC:pjt (#V-6)
bcc: Mr. Coyne
Mrs. Mallardi (2)

Identical ltr. also sent to: Cong. Biaggi, Richmond, Weiss, Bingham, Solarz, Peyser, & Schumer

Action assigned Joe Coyne

Congress of the United States

House of Representatives

Washington, D.C. 20515

1982 JAN 18 PM 9:51

January 14, 1982

#6

The Honorable Paul A. Volcker
Chairman
Federal Reserve Board
Twentieth Street and Constitution Avenue, NW
Washington, D.C. 20551

Dear Chairman Volcker:

High interest rates are having a devastating impact on New York City's neighborhoods.

Thousands of our constituents cannot afford new homes or loans to improve their present homes. Apartment buildings in our districts have been abandoned because property owners cannot afford loans to upgrade their buildings. Neighborhood preservation groups have had to cut back their rehabilitation efforts because of the high cost of money. Small businesses have reduced their operations or closed down for lack of affordable capital. In short, New York City's neighborhoods are hurting, and our colleagues from other states inform us conditions are no different in the neighborhoods of their cities.

We understand the tight money policy of the Federal Reserve Board is intended to reduce inflation. We believe, however, that the Federal Reserve should not ignore the impact of its policy on the neighborhoods of our country. We commend the Federal Reserve for taking part in public meetings around the country to hear testimony from neighborhood residents on the impact of high interest rates on their communities.

Now that the problems are being heard, it is time to develop solutions. National Peoples Action has asked the Federal Reserve to convene a meeting of twenty leading commercial banks to discuss creating an affordable line of credit for housing, small business, and small farmers. This strikes us as a good next step. We understand members of the Federal Reserve Board felt it inappropriate to convene such a meeting, and suggested that one of the banking associations sponsor a meeting which the Federal Reserve would attend. Apparently the banking associations approached by National Peoples Action have also been reluctant to sponsor a meeting.

It seems to us valuable time is being wasted. Surely some way can be found to arrange a meeting that would be acceptable to all parties. We strongly urge the Federal Reserve Board to use its good offices to break the logjam and bring about a meeting between National Peoples Action and the commercial banks to begin discussions on creating an affordable line of credit.

Sincerely,

Shirley Chisholm
Shirley Chisholm

Jonathan Bingham
Jonathan Bingham

Mario Biaggi
Mario Biaggi

Stephen Solarz
Stephen Solarz

Fred Richmond
Fred Richmond

Peter Peyser
Peter Peyser

Ted Weiss
Ted Weiss

Charles Schumer
Charles Schumer

V-14

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

PAUL A. VOLCKER
CHAIRMAN

February 3, 1982

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

Dear Senator Glenn:

I am pleased to respond to your request of January 25, 1982, for additional views regarding the Executive oversight provisions of the Regulatory Reform Act (S. 1080). I welcome your amendment, applicable to independent agencies, requiring that Executive Branch reviews of major rules be completed within 120 days and limiting Presidential action to nonbinding advisory recommendations. Nevertheless, I remain very seriously concerned about the impact of this legislation both in rigidifying the flexibility needed to conduct monetary policy, and in changing the long-standing division of functions between the Federal Reserve and the Executive Branch of the government in this area.

In its effort to improve regulatory procedures S. 1080 establishes extensive and complex rulemaking procedures, gives to the Executive Branch the right to establish additional procedures for the implementation of "major rules," and subjects even emergency actions to retroactive review in accordance with these preestablished procedures. There are numerous monetary policy actions that would fall within the scope of S. 1080. For example, monetary policy is carried out, in part, under rules made in connection with the operation of the Federal Reserve's discount window, through which loans are made to banks and thrifts for short-term, seasonal and extended borrowing needs, and through which the Federal Reserve carries out its functions as lender of last resort. Another example can be illustrated by rules establishing reserve requirements, a basic tool for influencing the level of the money supply and the availability of credit. Other examples of monetary policy actions include rules relating to margin credit and interest on deposits.

The very fact that the rulemaking involved in carrying out these functions would be subject to the extensive and elaborate procedural requirements of the bill gives me cause for great concern. The proper conduct of monetary policy and the ability to fulfill the role of lender of last resort requires a high degree of discretion and a minimum amount of rigidity in the form of complex procedural rules that would hamstring independent, timely and effective action that is responsive to the quickly changing needs of the economy. I very much doubt whether the changes in regulatory procedures contained in S. 1080 were ever intended to apply to the formulation of monetary policy.

The provisions on Executive oversight, even to the extent they are made only advisory, compound the problems described above of

procedural delays in the taking and implementing of decisions that must be carried out immediately in order to have their proper market impact, while, at the same time, raising the fundamental question of the appropriate division of responsibilities for the carrying out of monetary policy.

Congress made the decision at the inception of the Federal Reserve in 1913 to establish it as an independent entity in order to emphasize the insulation of the credit regulation process from the function of financing the government. Long experience had demonstrated--and subsequent experience continues to demonstrate--that the separation of these two functions makes a vital contribution to a more stable and effective domestic monetary system.

S. 1080, as it now stands, would undermine these basic principles that have guided the formulation of monetary policy. I believe that this is an inadvertent result from a bill designed with the intention of improving regulatory procedures but not aimed at changing fundamental relationships that have been established by Congress and have become an essential part of the fabric of economic policy formulation.

For all of the reasons I have described I would like to suggest an additional amendment that excludes the Federal Reserve's monetary policy functions from the scope of S. 1080.

We have been in touch with the Office of Management and Budget on this amendment. They concur in my view that the provisions of S. 1080 were not intended to cover monetary policy and they have informed us that the Administration will support an amendment removing monetary policy as formulated by the Federal Reserve Board from the scope of the bill.

Sincerely,

Paul A Volcker

United States Senate

COMMITTEE ON
GOVERNMENTAL AFFAIRS
SUBCOMMITTEE ON ENERGY, NUCLEAR
PROLIFERATION AND GOVERNMENT PROCESSES
WASHINGTON, D.C. 20510

#14

January 25, 1982

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

Dear Mr. Chairman:

Last fall you wrote Chairman Roth expressing your agency's concerns regarding the executive oversight provisions of the Regulatory Reform Act (S. 1080). As you may be aware, that legislation is expected to be considered by the Senate in early February.

Recognizing the serious intrusion on the independence of agencies such as your own that these provisions might cause, I introduced an amendment to the bill to mitigate this impact when S. 1080 was taken up by the Governmental Affairs Committee. My amendment was adopted unanimously, but for parliamentary reasons, it will be necessary for me to reintroduce such an amendment when S. 1080 comes before the Senate next month.

In conjunction with Senate consideration of the bill, I would greatly appreciate your providing me with any further views you may have concerning the executive oversight provisions of S. 1080, with reference, specifically, to the text of the bill to be taken up for Senate floor action (the "consensus" bill, technically referred to as printed amendment 640). In addition, I would be most grateful if you would provide two or three examples of major rulemaking activity by your agency where independence of agency decision-making might be adversely affected by Presidential action pursuant to the authority conferred by S. 1080. I would also be most interested in receiving your views on the effect of section 8 of the bill on this subject.

Inasmuch as Senate action on S. 1080 is expected within the next two weeks, I would request that you provide the foregoing information at the earliest feasible time.

Best regards.

Sincerely,

John Glenn

JG/lst
Enclosure

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

February 3, 1982

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:

Thank you for your letter of December 7, 1981, inquiring about the concerns of Mr. F.H. Stringham over the Federal Reserve's charges for currency and coin transportation.

The Monetary Control Act (Title I, P.L. 96-221) ("Act") provides that the Federal Reserve is required to establish fee schedules for its services. The Act enumerates the services for which fees shall be provided, including Federal Reserve currency and coin services. During the Congressional debate on the Act, Senator Proxmire indicated that the pricing of coin and currency services "is intended to cover services such as coin wrapping, transportation and the internal operating activities associated with the provision of these services. No charges are required for services of a governmental nature, such as the disbursement and receipt of new or fit coin and currency." (126 Cong. Rec. 3168, March 7, 1980) It is clear from the legislative history of the Act that Congress intended that the Federal Reserve charge for the costs of transporting coin and currency.

In developing its fee schedule for that service, the Board recognized that charging outlying banks for full cost of transportation would be inconsistent with the principle established by the Act that an adequate level of services be made available nationwide. As a result, the Federal Reserve transportation fee schedule is composed of a uniform national fee per bag of currency or coin and a per-stop fee generally related to the distance involved and contains a temporary ceiling on the per-stop portion. This approach was adopted in order to ameliorate sudden adverse cost impacts on outlying institutions and to allow these institutions some additional time to adjust to the new charges. This ceiling, however, is scheduled to remain in effect for a period not to exceed two years. In the interim, a variety of methods of reducing transportation costs to high-cost locations will be explored by the Reserve Banks.

Because the Board recognizes the concern expressed by Mr. Stringham, we have proceeded cautiously and with a degree of protection against unanticipated, large, cost impacts. However, any decision to eliminate the requirement for imposing charges for coin and currency transportation would have to be made by Congress.

Sincerely,

S/ Paul

GTS:LEG:pjt (#V-393)
bcc: Gov. Gramley
Gil Schwartz
Mr. Meeder
Mr. Hamilton
Mrs. Mallardi (2)
Legal Records (2)

Mr. John Balles, FRB--San Francisco
Mr. Grant Holman, FRB--Salt Lake City

Action assigned Mr. Allison

United States Senate

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

December 7, 1981

4393

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

Dear Mr. Chairman:

Enclosed is a copy of a letter that I have received from a constituent of mine, F. H. Stringham, President, Valley Bank and Trust Company, Salt Lake City, Utah, concerning the proposal of the Federal Reserve to charge banks and other financial institutions transportation charges for shipping coin and currency to offices of such institutions.

I shall appreciate very much receiving from you a full and complete explanation for this proposed action in order that I may properly respond to Mr. Stringham.

Sincerely yours,

Jake Garn

Jake Garn
Chairman

JG:jcr
enclosure

VALLEY BANK AND TRUST COMPANY

2510 SOUTH STATE STREET

SALT LAKE CITY, UTAH 84115

(801) 973-5040

October 22, 1981

The Honorable Jake Garn
United States Senate
4293 Dirksen
Senate Office Building
Washington, D. C. 20510

Dear Senator Garn:

The Federal Reserve System has sent out for comment, a proposal to charge banks and other financial institutions, transportation charges for shipping coin and currency to all of the financial institutions offices.

I just attended a joint meeting of the Branch Board of Directors and the Board of Governors in Washington, D. C. and I raised the question to one of the Board of Governors as to why they were doing this.

I pointed out that certainly one of the important duties of the Fed was to see that there was adequate coin and currency in circulation to facilitate the flow of commerce and that I felt it had never been the intent of Congress that there should be charges associated with its distribution. I further pointed out that this was very discriminatory, particularly to those financial institutions offices in the outlying areas and could very likely lead to a deterioration in the quality of currency in these areas.

His response was that the attorneys for the Fed had looked very carefully at the legislation passed last year by Congress which mandated and required the Fed to price their services and felt that they had to, under that legislation.

I cannot believe we've reached such a point in our economic existance that now merchants will have to pay for the use and availability of coin and currency or be subsidized by the banks involved.

Very truly yours,

VALLEY BANK AND TRUST COMPANY

Fred

F. H. Stringham
President

FHS:sk

3/3 ?

February 3, 1982

The Honorable Bill Bradley
United States Senate
Washington, D. C. 20510

Dear Senator Bradley:

Thank you for your recent letter concerning the invitation from the Mid-Atlantic American Accounting Association. Because of scheduling conflicts, I have been forced to send regrets to the Association's invitation.

Perhaps we could get together for lunch some day when you are free.

Sincerely,

I'll call your office.

bcc: Mrs. Mallardi

JRC:tjf

BILL BRADLEY
NEW JERSEY

United States Senate

WASHINGTON, D.C. 20510

Feb. 1

January 15, 1982

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

Dear Mr. Chairman:

I have been advised that an invitation was recently extended to you to address the Mid-Atlantic American Accounting Association luncheon this spring. This Association is a group of accounting educators which meets annually to hear presentations of topical interest to the profession.

Your comments would add greatly to the occasion. While I know the demands on your time are extraordinary, if your schedule permits, I would urge you to give this invitation your favorable consideration.

Sincerely,

Bill Bradley
United States Senator

BB/de

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

PAUL A. VOLCKER
CHAIRMAN

February 2, 1982

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

Dear Mr. Weaver:

Thank you for your recent letter concerning the meeting in Portland with Oregon Fair Share.

The Board was represented at the meeting by Theodore E. Allison, staff director for Federal Reserve Bank Operations, and Griffith L. Garwood, deputy director of the Division of Consumer and Community Affairs.

Other Federal Reserve representatives at the meeting were Kent Sims, Senior Vice President of the Federal Reserve Bank of San Francisco, William Burke, Vice President of the Federal Reserve Bank of San Francisco, and Angelo Carella, Vice President in Charge of the Portland Federal Reserve Branch.

Sincerely,

cc: Mrs. Mallardi
#11
JRC:tjf

C O P Y

JIM WEAVER
4TH DISTRICT, OREGON

COMMITTEES:
AGRICULTURE
INTERIOR AND INSULAR AFFAIRS

JOE RUTLEDGE
ADMINISTRATIVE ASSISTANT

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

WASHINGTON OFFICE:
LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-6416

DISTRICT OFFICES:
FEDERAL BUILDING
211 EAST 7TH AVENUE
EUGENE, OREGON 97401
(503) 687-6732

FEDERAL BUILDING
333 WEST 8TH STREET
MEDFORD, OREGON 97501
(503) 779-2351

12 January 1981

#11

Mr. Paul A. Volcker, Chairman
Federal Reserve Board

Dear Mr. Volcker:

I am writing in support of a request by Oregon Fair Share, the Oregon AFL-CIO, the International Woodworkers of America and Congressman Ron Wyden. The above have requested that the Board of Governors of the Federal Reserve send a representative to a hearing on interest policy in Portland, Oregon on Saturday, January 30th from 1 to 3 PM.

I concur with their opinion that it would be most helpful to have a representative of the Board present at this event. As you know, Oregon is among the three states most severely affected by the current economic downturn. I believe that it would benefit both the Board and the citizens of the state of Oregon to enter into a dialogue on present monetary and interest policies.

Sincerely,

Jim Weaver

Jim Weaver, M.C.

J.W./pad

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

February 2, 1982

The Honorable Robert W. Kasten, Jr.
United States Senate
Washington, D. C. 20510

Dear Senator Kasten:

Thank you for your letter of January 26 on behalf of State Representative Patricia Smith concerning the Board's recently published proposal to clarify Regulation Z's definition of an "arranger of credit". This issue is inherently difficult and one to which the Board has given considerable thought. On the one hand, no one is anxious to propose additional government regulations. On the other, there is a legitimate concern that the interests of both buyers and sellers be adequately protected in a transaction as significant as the sale of a home. The Board is now struggling to find a reasonable solution to this problem, which, as you may know, arose from recently enacted legislation intended to simplify the Truth in Lending Act.

Under the amended Truth in Lending Act, a person who regularly arranges for the extension of consumer credit from those who do not regularly extend credit may be subject to the disclosure requirements of the Act. The Board's proposal (enclosed) would amend the definition of "arranger of credit" in revised Regulation Z to describe more clearly an arranger of credit and, if adopted, would cover real estate brokers who arrange more than five seller-financed transactions. In the proposal, the Board specifically requested comment on whether such real estate brokers should be considered arrangers of credit and subject to disclosure responsibilities under the amended Truth in Lending Act.

As you are aware, S. 1720, introduced by Senator Garn, includes a provision that would exclude arrangers of credit from the Truth in Lending Act. This would serve to relieve real estate brokers involved in seller-financed transactions from disclosure responsibility under the Act. Although no action was taken on this provision by Congress prior to adjourning for the Christmas recess, legislation was adopted (H. R. 4879) delaying the effective date of the amended Truth in Lending Act from April 1 to October 1, 1982, which would provide Congress more time to change the law if that is determined to be desirable.

The Board appreciates your taking the time to share your constituent's views. I can assure you that these comments will receive the fullest consideration.

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn
Assistant to the Board

Enclosure (P.R. dated 10/20/81)

(MPE:DS):vcd (V-17)

bcc: Maureen English (w/copy of incoming)
Mrs. Mallardi

Reply will be prepared by CLO

United States Senate

COMMITTEE ON APPROPRIATIONS
WASHINGTON, D.C. 20510

1983 JAN 28 PM 9:24

January 26, 1982

#17

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

Dear Chairman Volcker:

Please find enclosed a copy of a letter from State Representative Patricia Smith questioning the advisability of designating real estate brokers as "arrangers of credit" in creative financing transactions.

Please comment on her letter and provide any rationale for this regulation. A copy of the regulation would be helpful.

Thank you for your prompt attention.

Best regards,

Robert W. Kasten, Jr.

Enclosure
RWK:blz

PATRICIA SPAFFORD SMITH
Representative, 75th District

6 West, State Capitol
Madison, WI 53702
Tele: (608) 266-2519

Wisconsin Legislature
Assembly Chamber

Legislative Hotline
(toll-free) 1-800-362-9696

823 Burgs Park
Shell Lake, WI 54871
Tele: (715) 468-7769

December 3, 1981

Senator Robert Kasten
328 Russell Senate Office Building
Washington, D.C.
20510

Dear Senator Kasten:

Several real estate brokers in my district expressed their concern with the Federal Reserve Board's new Reg. Z which defines home brokers as "arrangers of credit" in seller financed transactions when they arrange more than five transactions in one year.

This additional regulation will only serve to bog down the already beleaguered real estate industry. Without owner financing, the real estate business won't move anywhere. We shouldn't force real estate brokers to choose between acting as a lender or being forced out of business.

The Federal Reserve Board should revise its definition of "arranger of credit" as it applies to real estate brokers. Any assistance you can provide will be appreciated.

I look forward to hearing from you in this matter.

Sincerely,

Pat Smith

Patricia Spafford Smith
Representative, 75th District

PSS:mks

February 3, 1982

The Honorable David O'B. Martin
House of Representatives
Washington, D.C. 20515

Dear Mr. Martin:

Thank you for your letter of January 19 enclosing a copy of a letter addressed to Chairman Volcker from your constituent, Mr. Frank A. Augsbury.

For your information, I am pleased to enclose a copy of Chairman Volcker's response to Mr. Augsbury.

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

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn
Assistant to the Board

Enclosure (Ltr. dtd. 1/27/82)
CO:pjt (#V-7)
bcc: Mrs. Mallardi

As soon as Chairman signs letter to Mr. Augsbury that Secretary's Office is preparing letter will be prepared by Cong. Liaison Office to Congressman Martin

DAVID O'B. MARTIN
30TH DISTRICT, NEW YORK

COMMITTEE ON INTERIOR
AND
INSULAR AFFAIRS

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

41

January 19, 1982

1982 JAN 20 PM 10:25

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

Dear Mr. Volcker:

I am attaching hereto a copy of a letter addressed to you by Mr. Frank A. Augsbury, Jr. of Ogdensburg, New York. Mr. Augsbury has numerous major business interests throughout the Northeast. His family-owned Hall Corporation of Canada operates one of the largest commercial fleets sailing in the Great Lakes-St. Lawrence Seaway System.

I point this out to illustrate to you that his comments are written from the perspective of a successful international businessman who has some very real concerns about high interest rates.

I would appreciate your assessment of his comments. I know he looks forward to hearing from you, as well.

Respectfully yours,

Dave Martin

David O'B. Martin
Member of Congress

DM/dbb
Attachment

FRANK A. AUGSBURY, JR.
Executive Offices
100 Lafayette Street
Ogdensburg, New York 13669

January 15, 1982

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

Dear Mr. Volcker:

Once again I would like to call to your attention how disastrous high interest rates have been to the nation. There is very little indication that inflation is decreasing and unemployment is rising on a daily basis!

The principals of management are planning, organization and control. Businessmen, such as I, cannot plan properly when interest rates fluctuate as much as 10 per cent over a short period like a yo-yo.

Accordingly, if we are going to have incentive and motivation to take the risks which is a prerequisite of doing business, we much have to the best of our ability solid facts to deal with on a regular basis. In our own business we have to borrow $28 Million regularly for inventory financing requirements. It's almost impossible to determine what to do when we have such a tremendous influx in interest rates which, in our opinion, are simply unreasonable.

Any relaxation on the part of the Federal Reserve Board in having a fixed interest rate which both the public and private sectors can count on, whether it be high, average or low, would be gratefully appreciated; or we are not going to be able to develop meaningful programs which would be beneficial to all, including stockholders, management, employees and the ability to pay taxes to the Internal Revenue Service.

Please advise us either by personal letter or by a speech to the nation as to what we can expect for the long term period so that 1982 will not be as disastrous as 1981.

With great appreciation for the difficult undertaking which you are attempting, and with every good wish for a happy, healthy and successful New Year,

Yours very sincerely,

Frank A. Augsbury, Jr.

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

February 2, 1982

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

Dear Mr. Archer:

Thank you for your letter of January 22 on behalf of Ms. Mollie Alexander concerning the Board's recently published proposal to clarify Regulation Z's definition of an "arranger of credit". This issue is inherently difficult and one to which the Board has given considerable thought. On the one hand, no one is anxious to propose additional government regulations. On the other, there is a legitimate concern that the interests of both buyers and sellers be adequately protected in a transaction as significant as the sale of a home. The Board is now struggling to find a reasonable solution to this problem, which, as you know, arose from recently enacted legislation intended to simplify the Truth in Lending Act.

Under the amended Truth in Lending Act, a person who regularly arranges for the extension of consumer credit from those who do not regularly extend credit may be subject to the disclosure requirements of the Act. The Board's proposal (enclosed) would amend the definition of "arranger of credit" in revised Regulation Z to describe more clearly an arranger of credit and, if adopted, would cover real estate brokers who arrange more than five seller-financed transactions. In the proposal, the Board specifically requested comment on whether such real estate brokers should be considered arrangers of credit and subject to disclosure responsibilities under the amended Truth in Lending Act.

As you are aware, S. 1720, introduced by Senator Garn, includes a provision that would exclude arrangers of credit from the Truth in Lending Act. This would serve to relieve real estate brokers involved in seller-financed transactions from disclosure responsibility under the Act. Although no action was taken on this provision by Congress prior to adjourning for the Christmas recess, legislation was adopted (H. R. 4879) delaying the effective date of the amended Truth in Lending Act from April 1 to October 1, 1982, which would provide Congress more time to change the law if that is determined to be desirable.

The Board appreciates your taking the time to share the views of your constituent. I can assure you that these comments will receive the fullest consideration.

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn
Assistant to the Board

Enclosure (P. R. dated 10/20/81)

(MPE:DS):vcd (V-13)

bcc: Maureen English (w/copy of incoming)
Mrs. Mallardi

Action assigned Janet Hart

BILL ARCHER
7TH DISTRICT, TEXAS

MEMBER:
WAYS AND MEANS
COMMITTEE

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

WASHINGTON OFFICE:
1135 LONGWORTH
HOUSE OFFICE BUILDING

DISTRICT OFFICE:
FEDERAL OFFICE BUILDING
HOUSTON, TEXAS 77002

January 22, 1982 #13

Dear Chairman Volcker:

I am enclosing a letter and article which I received today from one of my constituents, Mollie Alexander.

I would appreciate your comments on her letter. I thank you for your attention to this matter and look forward to your reply. With best regards,

Sincerely,

Bill Archer
Member of Congress

Paul Volcker
Chairman
Federal Reserve Board
Board Building, #2046
20th & Constitution, N.W.
Washington, D.C. 20551

1982 JAN 25 PM 12:32

1-13-82

JAN 22 1982 REC # 30654

FA: Mollie

CO:

PARA:

To: REP. BILL ARCHER
FROM: M. M. ALEXANDER
[redacted]

RE: REAL ESTATE AGENT RESPONSIBILITY
TRUTH-IN-LENDING

I reacted to this, first, as a citizen reading an article on the business page — then, as a person who holds a real estate license. Believe me, it is as a plain ordinary citizen that I make these comments. It is no wonder that our country is in financial trouble if this is what the Fed. Res. Bd. is sitting around doing.

Any home buyer or seller is advised, always, that they should consider using a lawyer, first of all. Second, anyone considering owner-financing should certainly not have to have the Fed. Res. Bd. to legislate the use of their brains to use an accountant to assist — or any number of professionals available. Why doesn't some gov't agency legislate a law for my dentist to remind me to have my teeth checked & require that he devise a means to get me to his office.

THIS PROPOSAL IS INSANE!! (over)

PERSONAL

I will assure you that the majority of the population cannot & never will understand mathematics. I happen to be lucky that it comes easy to me, but to expect Realtors to suddenly become Loan Officers is an OUTRAGE.

I called Walter Johnson, who is the President of Allied Bank (and I am naming names on purpose) about my personal banking on one occasion, and he adamantly told me that 1½% interest per month service charge was NOT 18% per year — that it was 1½% per year! Does that say anything regarding the Fed's proposal.

I am sending this to you, rather than to the Fed Res. Bd., as I have always found you to be an extremely effective "instrument" of intelligent accomplishment.

Thank you

And I AM truly concerned, after reading the enclosed article, about the quality of our Reserve Board — "FRIGHTENED" might be a better word.

Removal Notice

Citation Information

Document Type: Newspaper article

Number of Pages Removed: 2

Citations: Teeley, Sandra Evans. "Truth-In-Lending Proposal Stirs a Storm in Real Estate Industry." *Houston Chronicle*, January 13, 1982.

Mrs Wallands

FEB 24 1982

The Honorable Paul Laxalt
Chairman
Subcommittee on Regulatory Reform
Committee on Judiciary
United States Senate
Washington, D.C. 20510

Dear Chairman Laxalt:

In accordance with the requirements of the Freedom of Information Act, I am pleased to submit the Board's Annual Report covering the implementation of its administrative responsibilities under the Act during calendar year 1981.

Sincerely,

(signed) Paul A. Volcker

Enclosure

JD:slb

Mrs Mallardi

The Honorable Thomas P. O'Neill, Jr.
Speaker of the House of Representatives
Washington, D. C. 20515

Dear Mr. Speaker:

In accordance with the requirements of the Freedom of Information Act, I am pleased to submit the Board's Annual Report covering the implementation of its administrative responsibilities under the Act during calendar year 1981.

Sincerely,

(signed) Paul A. Volcker

Enclosure

Speaker of the House of Representatives

Received _____

by _____

RLArnold:nlf
2/23/82

United States Senate

WASHINGTON, D.C. 20510

February 13, 1982

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

Dear Mr. Volcker:

Thank you for sending me a copy of the Monetary Policy Report.

Your thoughtfulness in providing me with this publication is greatly appreciated. I am certain that the information it provides will be of beneficial use to me and my staff as relevant matters come before the Senate.

With kindest regards and best wishes,

Sincerely,

Strom Thurmond

Strom Thurmond

ST/f

NORMAN D. DICKS
6TH DISTRICT, WASHINGTON

COMMITTEE:
APPROPRIATIONS

SUBCOMMITTEES:
DEFENSE
INTERIOR

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

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February 1, 1982

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

Dear Mr. Chairman:

Thank you for meeting with me for breakfast on January 27th. I appreciated having the opportunity to share with you the details of Washington State's economic situation.

I know you agree that an unemployment rate in excess of 10 percent is appalling. I hope you will exercise your authority to ease the restrictions on the money supply which are holding interest rates up. Some relaxation of the controls might enable the forest products and housing industries to begin their recoveries, allowing them to rehire many of the employees they have laid off during the last year.

Again, I appreciated the chance to meet with you. I hope 1982 will bring both lower interest rates and a reduced federal deficit.

Sincerely,

Norm Dicks

NORMAN D. DICKS
Member of Congress

NDD:gwc

P.S. I really enjoyed our meeting and urge you to keep an open dialogue going with members.

February 1, 1982

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

Dear Chairman Rosenthal:

I am pleased to reply to your letter to Chairman Volcker requesting certain information and documents relating to the Board's August 25, 1981 approval of the applications of Credit and Commerce American Holdings, N.V., Willemstad, Netherlands Antilles, Credit and Commerce American Investment, N.B., Amsterdam, The Netherlands, and FGB Holding Corporation, Washington, D.C., for permission to become bank holding companies by acquiring control of Financial General Bankshares, Inc., Washington, D.C. In response to your letter, the staff has prepared a memorandum, which is enclosed, addressing the questions raised in your letter.

With respect to the information furnished in response to question number one of your letter, it should be noted that Applicants have requested confidential treatment for the identity of certain of the investors in Credit and Commerce American Holdings. This information has to date been afforded confidential treatment by Board staff and by those federal and state regulatory agencies to which it has been made available, including the New York State Banking Department. Accordingly, it is being provided to the Subcommittee for its use with the expectation that it will not be publicly released.

I hope the enclosed memorandum is useful to you and the Subcommittee.

Sincerely,

/s/

Michael Bradfield
General Counsel

JK:DJW:pjt (#V-305)
bcc: Mr. Bradfield
Mr. Keller
Mr. Mannion
Mrs. Mallardi
Legal Records (2)
Enclosure

STAFF MEMORANDUM ON QUESTIONS BY
HON. BENJAMIN S. ROSENTHAL RELATING TO
APPLICATIONS TO ACQUIRE CONTROL OF
FINANCIAL GENERAL BANKSHARES, INC.

By letter of October 16, 1981, Chairman Benjamin S. Rosenthal of the Commerce, Consumer, and Monetary Affairs Subcommittee of the House Committee on Government Operations has asked the Board to provide certain information and documents relating to the Board's August 25, 1981 Order approving applications by Credit and Commerce American Holdings, N.V. ("CCAH"), Netherlands Antilles, Credit and Commerce American Investment, N.B. ("CCAI"), Amsterdam, The Netherlands, and FGB Holding Corporation ("FGB"), Washington, D.C. (hereinafter "Applicants"), to become bank holding companies by acquiring Financial General Bankshares, Inc. ("FG"), Washington, D.C.[1/]

Before responding to the specific questions raised by Chairman Rosenthal's letter, it should be noted that in processing these applications the Board determined that it would be appropriate to hold a meeting at the Board's offices to be attended by representatives of the investor group, counsel for the Applicants, and representatives of the banking supervisory offices for each of the states in which FG has a subsidiary bank.[2/] This proceeding was held at the Board on April 23, 1981.

1/ 67 Federal Reserve Bulletin 737 (1981).

2/ FG has subsidiary banks in the States of Maryland, New York, Tennessee, and Virginia, as well as the District of Columbia. With the exception of the Commissioner of Banking for the State of Tennessee, the bank regulatory department of each of these States and the Comptroller of the Currency were represented at the meeting.

The purpose of this meeting was to enable representatives of those states in which FG has subsidiary banks, as well as Board staff and representatives from the Federal Reserve Bank of Richmond, to meet and address questions to representatives of the investor group and their attorneys. The transcript of this meeting was made part of the record upon which the Board based its decision, and the non-confidential portions of the transcript have previously been made available to the Committee's staff.

The questions set forth in Chairman Rosenthal's letter are repeated below, followed by the staff's response.

QUESTION #1:

> Please provide the following information about each and every investor known to the Federal Reserve to be participating in the purchase of Financial General:
>
> a. Name, nationality, and country of residence (if different from nationality);
>
> b. Amount of investment in Financial General, CCAH, and/or CCAI;
>
> c. Other business interests or investments in the U.S.; and
>
> d. Investment in, loans from, and/or other involvement in the affairs of Bank of Credit and Commerce International (BCCI).

ANSWER #1:

In responding to this question, the Board staff has determined that information regarding shareholders who own or control less than 5 per cent of the shares of CCAH warrants confidential treatment. The reason for this determination is that such information is not requested either by the Board's section 3(a)(1) application form (Form F.R. Y-1) or its "Annual Report of Domestic Bank Holding Companies" (Form F.R.

Y-6). The F.R. Y-1 only requires information on principals, who for the purposes of these applications would be the investors owning 10 per cent or more of the outstanding voting shares of CCAH, while the F.R. Y-6 would require the holding company to list each shareholder of record who, directly or indirectly, owns, controls or holds with power to vote 5 per cent or more of any class of the bank holding company itself. Since the Board does not ordinarily require the filing of information with respect to shareholders of less than 5 per cent of the outstanding voting shares of a bank holding company, Board staff believes it appropriate not to reveal the identity of these investors. However, one of the less than 5 per cent shareholders participated in the meeting and Applicants have permitted the release of his identity; accordingly, the requested information is provided with respect to him.

With respect to those shareholders who own 5 per cent or more of the shares of CCAH, but less than 10 per cent of its shares, it should be noted that Applicants have requested confidential treatment for the identity of these shareholders and to date the Board has not made this information publicly available. This information, together with all of Applicants' submissions, have been made available to the appropriate federal and state regulatory authorities, including the New York State Banking Department. Board staff believes that in providing this information to the Subcommittee it is not waiving the Board's authority to withhold this information from the public if a request were made pursuant to the Freedom of Information Act. Accordingly, Board staff believes that the Subcommittee should not release this information to the public.

a&b.

Name	Nationality	Amount of Investment (Millions of $)	% Ownership of CCAH
Kamal Adham	Saudi Arabia	32.3	19.02
Abdullah Darwaish (financial advisor to Mohammed bin Zaid al Nahyan)	Abu Dhabi	23.3	13.72
Abu Dhabi Investment Authority	Abu Dhabi	14.0	8.24
Stock Holding Company, S.A. (personal holding company for Rashid bin Saeed al Maktoum)	Luxembourg Dubai	14.0	8.24
Abdul Raouf Khalil	Saudi Arabia	14.0	8.24
Crescent Holding Company, S.A. (personal holding company for Rashid bin Rashid al-Maktoum)	Luxembourg Dubai	14.0	8.24
Mashriq Holding Company, S.A. (personal holding company for Hamad bin Mohammed, al Sharqi)	Luxembourg Fujeirah	13.0	7.66
Faisal Saud al Fulaij	Kuwait	12.2	7.18
Humaid bin Rashid al Naomi	Ajman	12.0	7.07
Ali Mohammed Shorafa	Abu Dhabi	11.0	6.48
El Sayed El Sayed El Gohari	Saudi Arabia	1.0	0.59

(There are 3 other shareholders, each owning less than 5 per cent of the shares of CCAH).

c. It is staff's understanding, on the basis of submissions and statements on behalf of Applicants' investors, that none of the investors owns or controls, outside of FG's shares, more than five per cent of the voting shares of any United States bank or corporation.

d. Counsel for Applicants has filed with the Board, on a confidential basis, the shareholdings of certain of Applicants' investors with respect to Bank of Credit and Commerce International (Luxembourg), S.A. ("BCCI"). Staff is of the opinion that such information warrants confidential treatment.

Staff has no knowledge of loans from, or other involvement in the affairs of, BCCI on the part of Applicants' principals. It should also be noted that pages 55-56 and 77-81 of the transcript of the April 23, 1981 meeting, which has previously been submitted to the staff of the Subcommittee, addresses the relationship between BCCI and the investors.

QUESTION #2:

Please provide a statement giving the following information about the confidential supplement or supplements to the application:

a. The identities of all individuals and/or business entities for which information was provided in the confidential supplement(s);

b. The exact nature of the items of information provided by each such party; and

c. The nature of and reasons for any omissions of any items of information requested by the Federal Reserve for inclusion in the confidential supplement(s).

ANSWER #2:

a. Information with respect to each of the investors was provided in confidential supplements to the applications. These investors are listed in answer 1a & b., with the exception of three of the less than 5 per cent investors.

b. 1. Kamal Adham - personal balance sheets and income statements, certification as to ownership of real property and its worth, description of certain real property holdings, bank statements regarding account balances, and bank letter of reference.

2. Abdullah Darwaish (Mohammed bin Zaid al Nahyan) - see answer 2(c).

3. Stock Holding Company (Rashid bin Saeed al Maktoum) - balance sheet.

4. Abdul Raouf Khalil - balance sheet, income statement, balance sheet for certain controlled investments.

5. Crescent Holding Company (Rashid bin Rashid al-Maktoum) - see answer 2(c).

6. Mashriq Holding Company (Hamad bin Mohammed, al Sharqi) - see answer 2(c).

7. Faisal Saud al Fulaij - balance sheet, income statement, schedule of real estate ownership, list of marketable securities, bank letter of reference.

8. Humaid bin Rashid al Naomi - see answer 2(c).

9. Ali Mohammed Shorafa - balance sheet, income statement.

10. El Sayed El Sayed El Gohari - balance sheet, income statement, statements of real estate investments, corporate investments, and deposit accounts.

c. Applicants stated that they were unable to provide information with respect to investors in certain instances where the information was personal financial information that was not ordinarily maintained nor readily available. In such instances, however, Applicants provided estimates of the net worth of the investors.

QUESTION #3:

Please provide copies of all letters to the applicants, investors, their attorneys, or other parties, or any other similar documents, that specify what information was being requested by the Federal Reserve, either:

a. for inclusion in the confidential supplement(s), or

b. in any other form about the personal background and business affairs of each and every investor.

ANSWER #3:

The letters seeking financial or personal information about the investors include an October 22, 1980 letter (Attachment A), and an April 17, 1981 letter (Attachment B). In addition, at the April 23, 1981 meeting, questions were asked regarding the investments of each of the investors attending the meeting (Messrs. Adham, Fulaij, Khalil and Gohari). See pages 106-13 of the transcript. At that meeting, it was also stated that further information would be provided after consummation of the proposal in order that the Board's staff could determine if there were any common investments that would result in an entity being an "affiliate" of FG for the purposes of section 23A of the Federal Reserve Act (12 U.S.C. § 371c). See pages 171-72 of the transcript.

QUESTION #4:

Please state whether any borrowed funds are being used to finance the acquisition of Financial General. If so, please state:

a. The source of the funds and the principal loan terms;

b. whether the persons and/or institutions providing loan funds are receiving any contingent rights (such as rights exercisable on default under the loan) or options or warrants exercisable at the lender's discretion to obtain an equity ownership position in Financial General, CCAH, and/or CCAI; and, if such contingent rights, options, or warrants will be outstanding;

c. The exact terms and conditions of any such contingent rights, options, or warrants.

ANSWER #4:

CCAH will borrow no more than $50 million, and its principals will provide from personal funds an estimated $170 million to acquire Financial General for a total of approximately $220 million.

a. The loan agreement is with the Banque Arabe et Internationale d'Investissment ("BAII"), Paris, France. BAII is a European consortium bank, with $2.4 billion assets as of December 31, 1980, which is owned by a group of American, European and Middle Eastern banks and investment companies. It is anticipated that the loan will be syndicated with BAII acting as the agent bank.

The principal loan terms are as follows:

Interest Rate: 3 or 6 months LIBOR rate plus 1 1/2 per cent.

Fees: One per cent flat management fee and one-half per cent per annum commitment fee.

Maturities: a 10-year maturity with principal payments starting at $5 million in the fourth year increasing to $11 million in the tenth year.

b&c. The lending institutions will have no equity ownership rights such as options or warrants in FG. The lenders will receive all, and not less than 51 per cent, of the voting shares of FG as security for the loan. The loan will be unconditionally and irrevocably guaranteed by three or more of the shareholders of CCAH. For payment of interest and principal on the loan, the lenders will look first to CCAH, second to the guaranteeing shareholders, and third to the shares of FG in the case of default by both CCAH and the shareholders.

(For more details see Attachment C, BAII's loan commitment letter, transmitted to the Board by letter dated June 22, 1981.

QUESTION #5:

The Federal Reserve stated in its order approving the application that "the Board expects Applicants to serve as a continuing source of strength to FG and its subsidiary banks. . . " In support of this statement, please provide

a. a statement of how the Board expects the applicants to serve as a continuing source of strength and what formal commitments have been made by the applicants in order to meet the Board's requirements on this subject; and

b. copies of all correspondence between the Board and/or the Federal Reserve Bank of Richmond and the applicants or their attorneys pertinent to the subject of how the applicants will serve as a source of continuing strength to Financial General and its subsidiary banks.

ANSWER #5:

a. In the subject applications, Applicants have demonstrated to the Board's satisfaction their capabilities and willingness to be a continuing source of strength to Financial General and its subsidiaries through the proposed contribution of $12 million equity capital and the appointment of capable individuals to senior management and the board of directors of FG. The $12 million equity capital contribution will increase FG's consolidated capital position (equity + reserves/assets + reserves) from 7.8 per cent to 8.3 per cent, which is in excess of the 6.8 per cent average for peer bank holding companies with assets between $1-5 billion.

Applicants will appoint four prominent individuals to the board of directors of FG. Mr. Clark Clifford will be Chairman of the Board. Mr. Clifford is a Washington lawyer who has served in a number of important government positions including Special Counsel to the President of the United States and Secretary of Defense. The other individuals appointed as directors will be Mr. Stuart Symington, Mr. Elwood R. Quesada and Mr. James M. Gavin. Mr. Symington served 24 years in the United States Senate; before that, he was Chairman of the Board of Emerson Electric Manufacturing Company. Mr. Quesada is a retired Lieutenant General in the Air Force and is Chairman of the Board of L'Enfant Plaza Properties. Mr. Gavin served as Ambassador to France, and has been President and Chairman of the Board of Arthur D. Little, Inc.

Applicants have selected as FG's President and Chief Executive Officer a person who has substantial experience in the management of large bank holding companies. Confidential treatment has been requested by Applicants for the name of the individual selected to be President and CEO of FG. Staff is of the opinion that this information warrants confidential treatment.

The $50 million acquisition debt will increase the combined parent holding companies debt/equity ratio to .42:1. Applicants committed to protect the capital position of FG and the subsidiary banks until the parent debt/equity position is reduced to the more modest level of .3:1 by committing:

1. That no more than $50 million acquisition debt would be incurred without prior approval of the Board.
2. That the $12 million capital injection into FG would be used only for the purpose of strengthening the holding company and subsidiary banks.
3. That no debt will be used to acquire the class A shares of FG after consummation that would raise the combined parent debt/equity ratio above .41:1.
4. That FG will pay no dividends to Applicants in any quarter that would cause its consolidated equity + reserves/assets + reserves ratio to fall below the peer average of 6.8 per cent.

b. Two pieces of correspondence from Applicants are attached. Attachment D is a copy of a letter dated June 15, 1981, from Applicants setting forth the financial commitments Applicants made to the Board. Attachment E is Applicants' discussion in their application of the financial and managerial impact of, as well as the convenience and needs associated with, the acquisition of FG.

QUESTION #6:

The Board's approval order states that "The proposed transaction would provide FG with $12 million in new capital." In support of this statement, please provide (if not already provided fully in answer to question 5):

a. a statement of how this sum will be employed to provide additional capital to the individual subsidiary banks of FG, including the specific dollar amounts to be contributed to each bank; and

b. copies of all relevant correspondence between the Board and/or Federal Reserve Bank of Richmond and the applicants or their attorneys regarding the specific amounts of new capital to be invested in Financial General and in each and every individual subsidiary bank.

ANSWER #6:

a. The Board did not require that Applicants decide precisely how management would use the $12 million equity capital contribution to FG. The total capital position of the subsidiary banks is satisfactory so there is not a current need for additional capital in the banks. Applicants have committed not to use the $12 million capital to acquire FG's class A common stock after consummation and, as discussed in question 5 above, to use the capital for the purpose of strengthening the holding company and subsidiary banks.

b. See Answer 5b.

QUESTION #7:

Please provide cassette tapes, minutes, and (where available) printed transcripts of those portions of all Board meetings held after July 1, 1979, whether open or closed, in which the proposed acquisition of Financial General was discussed.

ANSWER #7:

The only Board meetings at which these applications were discussed were the meeting of August 19, and 24, 1981. The minutes for these meetings are Attachments F and G to this memorandum.

Action assigned Jack Ryan with copies to Messrs. Bradfield and Wiles for coordination of reply

NINETY-SEVENTH CONGRESS

Congress of the United States

House of Representatives

COMMERCE, CONSUMER, AND MONETARY AFFAIRS
SUBCOMMITTEE
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS
RAYBURN HOUSE OFFICE BUILDING, ROOM B-377
WASHINGTON, D.C. 20515

October 16, 1981

#305

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

Dear Mr. Chairman:

The Commerce, Consumer, and Monetary Affairs Subcommittee, in connection with its continuing interest in foreign investment in U.S. banks, is currently reviewing the Federal Reserve Board's recent approval for certain foreign parties to obtain control of Financial General Bankshares. I am writing to request certain information and documents related to the Federal Reserve's approval of this application.

1. Please provide the following information about each and every investor known to the Federal Reserve to be participating in the purchase of Financial General:

   a. Name, nationality, and country of residence (if different from nationality);

   b. Amount of investment in Financial General, CCAH, and/or CCAI;

   c. Other business interests or investments in the U.S.; and

   d. Investment in, loans from, and/or other involvement in the affairs of Bank of Credit and Commerce International (BCCI).

2. Please provide a statement giving the following information about the confidential supplement or supplements to the application:

   a. The identities of all individuals and/or business entities for which information was provided in the confidential supplement(s);

   b. The exact nature of the items of information provided by each such party; and

c. The nature of and reasons given for any omissions of any items of information requested by the Federal Reserve for inclusion in the confidential supplement(s).

3. Please provide copies of all letters to the applicants, investors, their attorneys, or other parties, or any other similar documents, that specify what information was being requested by the Federal Reserve, either:

   a. for inclusion in the confidential supplement(s), or

   b. in any other form about the personal background and business affairs of each and every investor.

4. Please state whether any borrowed funds are being used to finance the acquisition of Financial General. If so, please state:

   a. the source of the funds and the principal loan terms;

   b. whether the persons and/or institutions providing loan funds are receiving any contingent rights (such as rights exercisable on default under the loan) or options or warrants exercisable at the lender's discretion to obtain an equity ownership position in Financial General, CCAH, and/or CCAI; and, if such contingent rights, options, or warrants will be outstanding,

   c. the exact terms and conditions of any such contingent rights, options, or warrants.

5. The Federal Reserve stated in its order approving the application that "the Board expects Applicants to serve as a continuing source of strength to FG and its subsidiary banks...." In support of this statement, please provide

   a. a statement of how the Board expects the applicants to serve as a continuing source of strength and what formal commitments have been made by the applicants in order to meet the Board's requirements on this subject; and

   b. copies of all correspondence between the Board and/or the Federal Reserve Bank of Richmond and the applicants or their attorneys pertinent to the subject of how the applicants will serve as a source of continuing strength to Financial General and its subsidiary banks.

6. The Board's approval order states that "The proposed transaction would provide FG with $12 million in new capital." In support of this statement, please provide (if not already provided fully in answer to question 5):

   a. a statement of how this sum will be employed to provide additional capital to the individual subsidiary banks of FG, including the specific dollar amounts to be contributed to each bank; and

   b. copies of all relevant correspondence between the Board and/or Federal Reserve Bank of Richmond and the applicants or their attorneys regarding the specific amounts of new capital to be invested in Financial General and in each and every individual subsidiary bank.

7. Please provide cassette tapes, minutes, and (where available) printed transcripts of those portions of all Board meetings held after July 1, 1979, whether open or closed, in which the proposed acquisition of Financial General was discussed.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:tb