Congressional
March-August 1982 [2]

FERNAND J. ST GERMAIN
1st District, Rhode Island

2108 Rayburn House Office Building
Washington, D.C. 20515
Tel: 202-225-4911

204 John E. Fogarty Building
Providence, R.I. 02903
Tel.: 401-528-4323

R.I. Toll Free Telephone
1-800-662-5110

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

CHAIRMAN,
BANKING, FINANCE AND
URBAN AFFAIRS COMMITTEE

Chairman, Subcommittee on Financial
Institutions Supervision,
Regulation and Insurance

#172

July 29, 1982

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1982 AUG -2 AM 9:30
RECEIVED
OFFICE OF THE CHAIRMAN

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

Dear Mr. Chairman:

This is to express my interest in the candidacy of Ms. Janet M. Scacciotti of Rhode Island for a position on the Federal Reserve Consumer Advisory Council.

Ms. Scacciotti is President and Chief Executive Officer of Guild Loan & Investment Company, a subsidiary of the second largest commercial bank in the State of Rhode Island. In addition to these duties, my constituent has numerous other responsibilities within the parent corporation and is a Director of the Rhode Island Share and Deposit Indemnity Corporation.

I recommend my constituent for your consideration. She is highly respected within her profession and, given her immediate involvement with the operation of consumer-oriented financial services will, I am confident, be a fine asset to the Consumer Advisory Council.

Sincerely,

Fernand J. St Germain
Member of Congress

FJStG:dMh

August 2, 1982

The Honorable Lindy (Mrs. Hale) Boggs
House of Representatives
Washington, D. C. 20515

Dear Mrs. Boggs:

In Chairman Volcker's absence, I would like to thank you for your letter of July 22 recommending Mr. David S. Willenzik as a member of the Board's Consumer Advisory Council. I can assure you that Mr. Willenzik's qualifications will receive full consideration when the Board makes the 1982 appointments to the Council. We will be in touch with you when the selections are made.

Again, thank you for your interest.

Sincerely,

/s/

Preston Martin

CO:vcd (V-170)

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

LINDY (MRS. HALE) BOGGS, M.C.
2D DISTRICT, LOUISIANA

COMMITTEE:
APPROPRIATIONS

PEG KAVALJIAN
ADMINISTRATIVE ASSISTANT

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

WASHINGTON OFFICE:
2353 RAYBURN BUILDING
WASHINGTON, D.C. 20515
(202) 225-6636

DISTRICT OFFICE:
1012 HALE BOGGS FEDERAL BUILDING
500 CAMP STREET
NEW ORLEANS, LOUISIANA 70130
(504) 589-2274

July 22, 1982

#170

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

Dear Mr. Chairman:

It has come to my attention that the Federal Reserve Bank of Atlanta has offered its nomination of Mr. David S. Willenzik for a position on the Federal Reserve Board Consumer Advisory Council. I am excited about this nomination and I would like to offer for your consideration the very positive impression that I have of Mr. Willenzik.

I am sure that, by this time, you have had the opportunity to review his biographical materials, so you are aware that he is a lifelong resident of New Orleans, Louisiana. He is an associate with a prestigious law firm in my Congressional District and he comes to me highly recommended by a full partner in that firm, who is a trusted friend. I am not personally acquainted with Mr. Willenzik, yet I feel equipped for recommending him because I have had the opportunity, for some years, to observe him as an active, professionally successful citizen in our community. He is recognized as having excelled in his legal specialization, banking and consumer regulatory compliance, and I feel it is important, too, to make note that he has not confined his fine work to New Orleans or even to Louisiana, but has achieved prominence on a national level, as well.

I am certain that the Board of Governors will want to give Mr. Willenzik every consideration in choosing individuals for the Consumer Advisory Council.

With every good wish and appreciation for your time,

Sincerely,

Lindy

Lindy (Mrs. Hale) Boggs, M.C.

LB:tr

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

July 29, 1982

PAUL A. VOLCKER
CHAIRMAN

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

Dear Mr. Wolf:

Thank you for sending me a copy of your recent letter to Secretary Regan regarding the idea of a Federal Letter of Credit Corporation, as propounded by Mr. E. Joseph West.

Mr. West clearly is attempting to address an important problem--that is, the high level of long-term interest rates and the impact of high long rates on financing patterns and the economy. Mr. West is, I think, correct in attributing at least part of the "blame" for high nominal interest rates to a reluctance of traditional institutional buyers of long-term fixed income obligations to take the plunge again today. Too many of these investors have suffered major capital losses in the past and they are afraid that they might experience reverses again by a renewed upswing in interest rates. But I think it's important to understand why these fears exist. One cause, I believe, is the fact that inflationary expectations for the long term have not been greatly lowered, owing to the fact that the recent abatement of inflation has been brief and postwar history shows cycles in inflation around a persistent uptrend. Another factor is the prospect of large and growing federal budget deficits extending into the indefinite future, with the implication that there will be a continuing pressure of Treasury borrowing in the credit markets.

It seems to me that our most urgent priority must be to address these fundamental causes of the sustained tension in the long-term debt markets. But that is not to say that we should not be looking to other means of improving financial and economic conditions. Unfortunately, I find myself somewhat less enthusiastic about Mr. West's proposal. I see a very troubling potential for the intrusion of the federal government into the allocation of capital in ways that would not be in keeping with our basic traditions and that could easily result in reduced economic efficiency. And at the same time, I think that there is reason to be skeptical about the degree to which such a device would be effective in lowering long-term rates generally. It's more likely that some borrowers would achieve savings (an implicit subsidy from the taxpayers), although, unless certain arbitrage constraints were laid down, much of the benefit could accrue to lenders in the form of extra profit. In general, the proposal's effects would not be dissimilar from those of any other long-term loan guarantee program--and, as you know, the proliferation and growth of federal loan guarantees and other credit assistance measures ~~have~~ come under considerable criticism.

As a final note on the proposal, given the allocative/subsidy nature of the proposal, I don't believe it appropriate that the Federal Reserve be given the responsibility for administering the program. The Discount Window is a distinctly different enterprise, being solely a mechanism for dealing with liquidity problems in the context of general economic and financial considerations.

I'm sorry to be so negative. I commend you and Mr. West for your interest and effort in seeking to deal with our economic difficulties, but I'm sure that you would want nothing less than my frank appraisal. If I can be of further assistance, please let me know.

Sincerely,

S/Paul A. Volcker

JLK:MJP:WRM:vcd (V-162)

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

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

July 21, 1982

#162

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

Dear Mr. Chairman:

I am enclosing a copy of a letter I recently sent to Secretary of Treasury Regan. As this matter pertains to your operation, I would appreciate your review and comments on the feasibility of this proposal to lower interest rates through the creation of a Federal Letter of Credit Corporation.

I believe this idea has a great deal of merit and would like to pursue it further. I would appreciate your reaction and attention to this idea.

If I can provide any additional information on this proposal, please let me know. I welcome your thoughts and input on this concept.

Many thanks for your assistance,

Sincerely,

Frank R. Wolf
Member of Congress

FRW:sjb
enclosures

FRANK R. WOLF
10TH DISTRICT, VIRGINIA

PLEASE RESPOND TO
ADDRESS CHECKED

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

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(703) 734-1500

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ROOM 4B
LEESBURG, VIRGINIA 22075
(703) 777-4422

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

COMMITTEES:
PUBLIC WORKS AND
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SUBCOMMITTEES:
AVIATION
WATER RESOURCES

POST OFFICE AND
CIVIL SERVICE

SUBCOMMITTEES:
CIVIL SERVICE
HUMAN RESOURCES
POSTAL OPERATIONS
AND SERVICES

July 23, 1982

The Honorable Donald T. Regan
Secretary
Department of the Treasury
Washington, D.C. 20220

RE: Establishment of a FEDERAL LETTER OF CREDIT CORPORATION to lower interest rates through the stimulation of long-term loans and investments.

Dear Mr. Secretary:

Many believe that success or failure of the Administration's Economic Recovery Package, which I support, may hinge on an aspect of the economy over which the President has no control -- the continuation of high interest rates. I am becoming increasingly concerned and am keenly aware that the nation's financial markets are generating similar doubts over the prospcets for realizing economic recovery without a lowering of the interest rates.

I would like to share with you an innovative proposal presented to me recently by a member of my Business and Development Advisory Council, Mr. E. Joseph West. Mr. West is a Chartered Financial Analyst associated with Drexel Burnham Lambert, Inc. and suggests that high interest rates may be due to the substantial shortening in average maturities of loans and investments by the nation's depository and lending institutions and is not due to high inflationary expectations in the market. Given this hypothesis, Mr. West's solution holds great interest for me as a catalyst in triggering interest rate decline.

A <u>Federal Letter of Credit Corporation</u> (FLOCC) would be established through legislation to issue Letters of Credit to qualified depository and lending institutions. FLOCC would guarantee certain financings (such as long-term public bond issues), <u>if</u> those institutions commit the raised funds to loans and/or investments of 20-year maturity or longer. The Federal Reserve Board, acting as the Fiscal Agent of the United States, would establish through regulation which institutions would qualify and for what amounts they would be eligible. It would be regulated in much the same manner as the Discount Window is regulated by the Fed. I believe Mr. West has a viable idea which could be the mechanism needed to reinstill confidence in long-term lenders and investors.

I am enclosing Mr. West's most recent letter to me which outlines his proposal in detail. I urge your careful and thoughtful consideration of this approach in resolving the problem of high interest rates.

The free-market characteristics of the proposal are interesting, and it might be noted that the size of any such Letter of Credit Program would decline with lower interest rates because the spread between agency paper and high-grade corporate paper would narrow substantially as rates dropped.

I request your advice, counsel, and personal attention to this proposal. I welcome your comments and would welcome the opportunity to meet with you on this matter.

With best regards,

Sincerely,

Frank R. Wolf
Member of Congress

FRW:sjb

Enclosure

cc: Chairman Paul A. Volcker
Counsellor Edwin Meese, III
The Honorable David Stockman
Mr. E. Joseph West

Drexel Burnham Lambert
INCORPORATED
MEMBER OF PRINCIPAL STOCK AND COMMODITY EXCHANGES

SUITE 800
INTERNATIONAL SQUARE
1850 K STREET, NORTHWEST
WASHINGTON, D.C. 20006
(202) 862-2877

E. JOSEPH WEST
CHARTERED FINANCIAL ANALYST

July 21, 1982

The Honorable Frank R. Wolf
Member of Congress
414 Cannon Building
Washington, D. C. 20515

RE: ESTABLISHMENT OF
FEDERAL LETTER OF CREDIT CORPORATION (FLOCC)
TO STIMULATE LONG-TERM LOANS
AND LOWER INTEREST RATES

Dear Frank:

In response to your request and as a follow-up to my letter of June 24 and our meetings of June 24 and 29, 1982, I have outlined below the main concepts behind the proposed establishment of the FEDERAL LETTER OF CREDIT CORPORATION and the associated amendments to the Federal Reserve Act to facilitate the Federal Reserve Bank(s) acting as Fiscal Agent for the newly-established FLOCC.

As you know from my previous correspondence, it is my hypothesis that the lack of correlation between the declining rate of inflation over the past two and one-half years and the still relatively-high (but slowly declining) rates of interest across the money market spectrum is due not to high inflationary expectations but to the substantial (and persistent) shortening in the average maturities of loans and investments by the nation's depository and lending institutions. This shortening of maturities has been particularly pernicious since the last major secular low in interest rates during 1976. This phenomenon has accelerated demand in the shorter-term money markets, thus creating very high <u>real</u> rates of interest.

It has been my suggestion that a mechanism and a national policy be established to incent our depository and lending institutions to make longer (and long) commitments such as mortgage loans, at lower than prevailing rates of interest. In the tradition of Federal National Mortgage Association and the V-Loan Program and the Small Business Administration, legislation should be drafted to establish a FEDERAL LETTER OF CREDIT CORPORATION, which would issue Letters of Credit guaranteeing certain financings (such as long-term bond issues) by qualified depository institutions, thus lowering their cost of funds by two to three percentage points, <u>if</u> those institutions commit the raised funds to loans and/or investments of 20-year or longer maturity. These LOCs would be similar to the Tax-Exempt Letter of Credit Financings popular for the past year or so in municipal finance, whereby large money-center banks with AAA credit guarantee (through a Letter of Credit) the public bond issues of relatively little known revenue authorities.

One could imagine the FLOCC being a public corporation with 15 directors (five appointed by the President of the United States), a public stock offering, and a requirement that applicants for LOCs be required to purchase nominal amounts of stock (as was the case at Fannie Mae in its earlier years). The FLOCC would earn income by charging fees for LOCs in the same manner as commercial banks do. FLOCC's guarantees would first be backed by its stockholders equity and ultimately by the United States Treasury. The Federal Reserve Board would act in its traditional role as Fiscal Agent and would promulgate Regulation CC to facilitate its role in the same manner as Regulation V was promulgated to facilitate the loan guarantees by various government agencies under the Defense Production Act and Executive Order 9112. Please refer to <u>Lending Functions of the Federal Reserve Banks: A History</u> by Howard H. Hackley (Board of Governors of the Federal Reserve System, May 1973). Various technical amendments to the Federal Reserve Act of 1913 should be considered to facilitate implementation.

Your role as a sponsor can take many forms, but initially it might be a letter of inquiry and request to Secretary Donald Regan with copies and appropriate cover letters to interested parties such as Chairman Paul A. Volcker, Counsellor Edwin Meese, and the Honorable David Stockman.

As in the past, I am at your service in the role of advisor or consultant on this or any other matter.

With best personal regards,

E. Joseph West

E. Joseph West
Chartered Financial Analyst

EJW:krw

July 28, 1982

The Honorable Claiborne Pell
United States Senate
Washington, D.C. 20510

Dear Senator Pell:

I appreciate your letter of July 23 recommending Ms. Janet M. Scacciotti as a member of the Board's Consumer Advisory Council. I can assure you that Ms. Scacciotti's qualifications will receive full consideration when the Board makes the 1982 appointments to the Council. We will be in touch with you when the selections are made.

Again, thank you for your interest.

Sincerely,

S/ Paul

CO:pjt (#V-163)
bcc: Mrs. Bray (w/copy of incoming)
Mrs. Mallardi (2)

United States Senate
COMMITTEE ON
RULES AND ADMINISTRATION
WASHINGTON, D.C. 20510

#163

July 23, 1982

The Honorable Paul Volcker
Chairman
Federal Reserve Board
20th Street & Constitution Avenue, NW
Washington, D.C. 20551

Dear Mr. Chairman:

I am writing on behalf of Ms. Janet M. Scacciotti, the President of Guild Loan and Investment Company in Providence, Rhode Island.

Ms. Scacciotti has applied for one of the vacancies on the Fed's Consumer Advisory Council. I believe she is eminently qualified to serve on the Council, and urge you to appoint her to this important policy position.

As President and Chief Executive Officer of Guild Loan and Investment Co., Ms. Scacciotti is responsible for management of a financial institution with assets of $225 million. Guild is a subsidiary of Old Stone Corporation, the second largest commercial bank in Rhode Island. In her position with Guild, Ms. Scacciotti has directed consumer-oriented financial services and become intimately familiar with the Fed's regulatory framework. She is one of the highest ranking women in the Rhode Island banking community.

I believe Ms. Scacciotti would enhance the work of the Consumer Advisory Council, and I very much hope that you will give her application every favorable consideration.

Warm regards.

Ever sincerely,

Claiborne Pell

Mrs. Mallardi
(V-156)

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

July 27, 1982

PAUL A. VOLCKER
CHAIRMAN

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

Dear Senator Proxmire:

I appreciate having the benefit of your views on the plans of the Federal Reserve Banks to present checks drawn on reserve city banks up to 12:00 noon beginning August 1, 1982.

As you are aware, the Federal Reserve System is committed to improving the efficiency of the payments system, and, as part of that effort, speeding check collection. This will reduce the amount of "float" in the banking system (not just Federal Reserve float), and incentives for "remote" disbursement to minimize the period between check payment and check collection will be reduced as well.

Continuing presentment up until 12:00 noon, together with a number of other steps to be initiated by the Federal Reserve in the near future, will contribute to the accomplishment of these objectives. Because presentment up until a later hour is a central element in the Federal Reserve's overall plans, the Reserve Banks began discussing this matter informally with the banking community several months ago, and in June officially notified all the affected banks that the change to 12:00 noon presentment would take effect on August 1, 1982.

Since that time, a number of banks and some of their corporate customers have indicated that there may be some transitional problems associated with 12:00 noon presentment. While we are sensitive to those problems, we also believe that they are manageable because the vast majority of checks will continue to be presented to city banks much in accordance with existing schedules and only a small percentage of checks will be presented as late as 12:00 noon. Indeed, noon will be the latest hour at which presentment will take place. In practice, presentment of checks by virtually all Federal Reserve offices will take place in advance of the noon limit. Moreover, while we recognize the later presentment hour will inconvenience some, the corollary is later deposit deadlines for many banks initiating the check collection process, which will be a distinct benefit. On balance, we believe the changes will be welcomed by most banks.

However, in order to ensure that these changes in check collection procedures are digested by banks and their customers with a minimal amount of difficulty--consistent with the general thrust of your suggestion--we have modified the schedule for implementation of later presentment in order to provide a further six week period over which the changes will be implemented.

Beginning August 2, the Reserve Banks will present checks to reserve city clearinghouses not later than 11:00 a.m., unless the Reserve Bank is currently presenting checks after that time. Federal Reserve offices in at least four Districts already present checks as late as 12:00 noon to some city banks, and offices in eight Districts present checks to some banks outside of the reserve city at 12:00 noon or later. Unless some unforeseen problems are encountered, the Reserve Banks will adopt the 12:00 noon presentment schedule on September 16, 1982. In the interim period, we estimate that about 90 percent of the banks affected by this change will receive their last presentment of checks from the Federal Reserve at about the same time as today or not later than one hour beyond the current schedule. I might also add that corresponding to the phased implementation of later presentment times, the Reserve Banks will also be phasing in later hours for the deposit of certain classes of checks at Federal Reserve Banks. During this phase-in period, it is possible that Federal Reserve float might increase but any such rise in Fed float will be temporary and of modest proportions.

I am also sensitive to the point you have made concerning the desirability of the Federal Reserve disclosing its longer run plans in payment services operations. In that respect, on July 29, E. Gerald Corrigan, President of the Federal Reserve Bank of Minneapolis, and Chairman of the System's Pricing Policy Committee, will hold a press conference to outline the future plans of the Federal Reserve in these areas. Later in the day, Mr. Corrigan will participate in a meeting with several hundred bankers arranged by the American Bankers Association on pricing of Federal Reserve services. If your staff is interested in attending these functions, please contact Joseph Coyne in our Public Affairs Office at 452-3215.

Again, thank you for your interest in this matter. I hope the actions I have cited are responsive to the concerns expressed in your letter.

Sincerely,

S/ Paul

EGC:MJH:NS:PAV:pjt (#V-156)
bcc: Mr. Hallmon
Mrs. Mallardi (2)

WILLIAM PROXMIRE
WISCONSIN

Action assigned Neal Soss

United States Senate

WASHINGTON, D.C. 20510

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1982 JUL 22 AM 9:26
RECEIVED OFFICE OF THE CHAIRMAN

July 21, 1982

#156

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

Dear Mr. Chairman:

I understand that effective August 1st, the Federal Reserve Bank plans to establish a uniform, nationwide time of 12:00 noon for the presentment of city items. This new policy is presumably intended to reduce Federal Reserve float and to provide the nation's banks with better credit availability.

It is hard to quarrel with these objectives. Indeed, as you know, I have been a strong supporter of efforts by the Fed to reduce float and to improve the efficiency of the nation's payment system. At the same time, I have talked to some bankers who seem to have a justifiable concern over the procedure which the Federal Reserve is using to implement its proposed new policy. In particular, concern has been expressed to me that the new policy is being adopted without adequate notice or opportunity for affected banks to comment.

Those banks who compete directly with the Federal Reserve Banks in clearing checks are especially concerned that this new policy might be part of a longrange plan of the Federal Reserve Banks to use their regulatory powers to enhance their market share. Such tactics would, of course, be directly contrary to the Monetary Control Act of 1980 which attempts to foster fair competition between the Federal Reserve Banks and commercial banks in the provision of payment and check clearing services.

Since there is no apparent urgency to the implementation of the proposed new policy, I would hope that the Federal Reserve could postpone its effective date for 30 days so that its impact on different segments of the banking community can be more adequately assessed. It would also be helpful if the Federal Reserve could disclose its longrange plans for changes in its check clearing and payment service operations.

Sincerely,

Bill Proxmire

William Proxmire, U.S.S.

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

July 27, 1982

PAUL A. VOLCKER
CHAIRMAN

The Honorable Glenn M. Anderson
House of Representatives
Washington, D.C. 20515

Dear Mr. Anderson:

Thank you for your recent letter regarding the policies of the Federal Reserve and the need for lower interest rates. As you know, there has been a noticeable decline in rates in the past couple of weeks, and the Federal Reserve has lowered its discount rate by one-half percentage point. Still, there's no denying that interest rates remain higher than most of us would like to see, and a further decline clearly is desirable.

The recent drop in rates came in the context of moderation in the pace of monetary expansion, and I believe that is a crucial fact. The Federal Reserve has it in its power to push down interest rates--particularly short-term rates--by pouring reserves into the banking system and fueling rapid growth of money, but such an approach almost inevitably will lead to greater inflationary pressures and heightened inflation expectations. Consequently, any relief from high interest rates achieved through such means will prove temporary, and before long the cost will be even higher rates and a deteioration of the economy. The only way the Federal Reserve can contribute to a <u>sustained</u> decline in interest rates is by maintaining the monetary restraint necessary to put the economy back on a noninflationary growth path.

But monetary policy is not the only factor bearing on interest rate developments. The demands of the federal government on the credit markets play a major role, and I have therefore stressed the importance of altering the course of fiscal policy in order to provide investors with the basis for a confident expectation that reasonable budgetary balance will be attained as the economy expands in the next few years.

I share your concerns about the impact that high interest rates are having on many segments of our population. The strains those rates are creating are evident to all, and they call for urgent action on the part of policymakers. I commend the Congress for the effort it is making now, and I believe that success in implementing firm budgetary action coupled with prudent restraint on money should create a healthier economy.

Sincerely,

S/Paul A. Volcker

MJP:JZ:pjt (#V-155)
bcc: Mr. Prell
Ms. Wing (2)
Mrs. Mallardi (2)

GLENN M. ANDERSON
32D DISTRICT, CALIFORNIA

2410 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-6676

300 LONG BEACH BOULEVARD
(P.O. BOX 2349)
LONG BEACH, CALIFORNIA 90801
TELEPHONE: (213) 548-2721

PLEASE ADDRESS REPLY TO MY:
☒ WASHINGTON OFFICE
☐ LONG BEACH OFFICE

Action assigned Mr. Kichline

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

COMMITTEES:
PUBLIC WORKS AND TRANSPORTATION
- CHAIRMAN, AVIATION SUBCOMMITTEE
- MEMBER, SURFACE TRANSPORTATION SUBCOMMITTEE
- MEMBER, WATER RESOURCES SUBCOMMITTEE

MERCHANT MARINE AND FISHERIES
- MEMBER, FISHERIES AND WILDLIFE CONSERVATION AND THE ENVIRONMENT SUBCOMMITTEE
- MEMBER, MERCHANT MARINE SUBCOMMITTEE
- MEMBER, PANAMA CANAL SUBCOMMITTEE

- MEMBER, NATIONAL TRANSPORTATION POLICY STUDY COMMISSION
- MEMBER, PORT CAUCUS
- MEMBER, SHIPBUILDING CAUCUS

July 15, 1982

#155

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1982 JUL 21 AM 8:52
RECEIVED OFFICE OF THE CHAIRMAN

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

Dear Mr. Volcker:

I am writing to express my deep and continuing concern over your Board's inaction to bring interest rates down to a level acceptable to the American consumer.

Respecting your legitimate concern over the need to control the rate of inflation, I feel that there comes a time when you must realize that the high interest rates in effect today are just as damaging to the consumer as double-digit inflation. Today, we see the housing industry in disarray, young married couples unable to acquire a home of their own, the automobile industry facing record low sales, and literally thousands of small, independently owned businesses collapsing.

Frankly, I can not see this country getting back on the track of economic prosperity as long as we face continuing high rates of interest. Hence, I urge you to immediately take any steps available to you to reduce interest rates so that Americans can once again purchase their homes, automobiles and other necessities of life which current high interest rates make impossible.

Sincerely,

GMAnderson

GLENN M. ANDERSON
Member of Congress

GMA/wj

July 27, 1982

The Honorable Dante B. Fascell
House of Representatives
Washington, D.C. 20515

Dear Mr. Fascell:

I appreciate your letter of July 16 recommending Mr. Walter S. Falk as a member of the Board's Consumer Advisory Council. I can assure you that Mr. Falk's qualifications will receive full consideration when the Board makes the 1982 appointments to the Council. We will be in touch with you when the selections are made.

Again, thank you for your interest.

Sincerely,

S/ Paul

CO:pjt (#V-152)

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

DANTE B. FASCELL
15TH DISTRICT, FLORIDA

COMMITTEES:
FOREIGN AFFAIRS
CHAIRMAN: INTERNATIONAL OPERATIONS SUBCOMMITTEE
MEMBER: INTERNATIONAL SECURITY AND SCIENTIFIC AFFAIRS SUBCOMMITTEE

GOVERNMENT OPERATIONS
MEMBER: LEGISLATION AND NATIONAL SECURITY SUBCOMMITTEE

COMMISSION ON SECURITY AND COOPERATION IN EUROPE
CHAIRMAN

CANADA—UNITED STATES INTERPARLIAMENTARY GROUP
CO-CHAIRMAN, U.S. DELEGATION

Cong. Liaison Office will prepare response

CHARLES R. O'REGAN
ADMINISTRATIVE ASSISTANT

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

July 16, 1982

#152

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

Dear Mr. Chairman:

It is with pleasure that I place in nomination the name of Mr. Walter S. Falk for the Consumer Advisory Council.

Mr. Falk has been a prominent member of Florida's financial community since 1947, when he founded the Metropolitan Mortgage Company in Miami. As president, he has supervised the company's overall operations, including loan origination, underwriting, servicing and placement of loans with investors.

In 1959, Mr. Falk was one of the principal supporters of the Florida Mortgage Brokerage Act, legislation designed to protect consumers from unscrupulous lenders by subjecting the industry to the scrutiny and regulation of the Florida Department of Banking and Finance. The act requires testing and licensing of mortgage brokers and mortgage solicitors in addition to requiring financial solvency and bonding. In tribute and acknowledgement of Mr. Falk's efforts in passage of this landmark legislation, he holds Mortgage Broker's License No. 1 in the State of Florida. Since the time of the bill's original passage, Mr. Falk has been an active proponent of improvements to the act, including the 1977 amendments which established the Florida Mortgage Brokerage Guarantee Fund, an industry-funded institution which can compensate an individual for damages suffered as a result of acts committed by a licensed mortgage broker or solicitor.

Mr. Falk is a past president of the Florida Association of Mortgage Brokers and the South Florida Mortgage Brokers Association, and was elected 1969's Outstanding Mortgage Broker in the State of Florida. In 1977, Mr. Falk was called upon by the Comptroller of the State of Florida to serve on his Special Subcommittee on Usury which was charged with the task of evaluating the impact of the State's then 10% usury ceiling on the availability of capital for consumers and financial institutions and to make recommendations to him and to the Governor.

In addition, Mr. Falk was a Director of the Central National Bank of Miami for eight years and currently serves as Chairman of the Board of Lincoln Savings and Loan Association.

Walter Falk's qualifications for the Federal Reserve's Consumer Advisory Council are outstanding. His experience in mortgage banking and his commitment to the consumer would be of great value and I urge you to give every possible consideration for appointment.

Sincerely,

Dante Fascell

DANTE B. FASCELL
Member of Congress

DBF/KS

July 27, 1982

The Honorable Lawton Chiles
United States Senate
Washington, D.C. 20510

Dear Lawton:

I appreciate your letter of July 20 recommending Mr. Walter S. Falk as a member of the Board's Consumer Advisory Council. I can assure you that Mr. Falk's qualifications will receive full consideration when the Board makes the 1982 appointments to the Council. We will be in touch with you when the selections are made.

Again, thank you for your interest.

Sincerely,

S/ Paul

CO:pjt (#V-157)
bcc: Mrs. Bray (w/copy of incoming)
Mrs. Mallardi (2)

CLO will prepare response

LAWTON CHILES
FLORIDA

COMMITTEES:
APPROPRIATIONS
BUDGET
GOVERNMENTAL AFFAIRS
SPECIAL COMMITTEE ON AGING
DEMOCRATIC STEERING COMMITTEE

United States Senate

July 20, 1982

#157

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1982 JUL 22 AM 9:26
RECEIVED OFFICE OF THE CHAIRMAN

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

Dear ~~Mr. Chairman:~~ Paul

I highly recommend Mr. Walter S. Falk to you for appointment to the Consumer Advisory Council. His qualifications are outstanding and I urge you to give him every possible consideration.

Mr. Falk has been a prominent member of Florida's financial community since 1947, when he founded the Metropolitan Mortgage Company in Miami. As president, he has supervised the company's overall operations, including loan origination, underwriting, servicing and placement of loans with investors.

In 1959, Mr. Falk was one of the principal supporters of the Florida Mortgage Brokerage Act, legislation designed to protect consumers from unscrupulous lenders by subjecting the industry to the scrutiny and regulation of the Florida Department of Banking and Finance. The act requires testing and licensing of mortgage brokers and mortgage solicitors in addition to requiring financial solvency and bonding. In tribute and acknowledgement of his efforts in passage of this landmark legislation, Mr. Falk holds Mortgage Broker's License No.1 in the State of Florida. Since the time of the bill's original passage, he has been an active proponent of improvements to the act, including the 1977 amendments which established the Florida Mortgage Brokerage Guarantee Fund, an industry-funded institution which can compensate an individual for damages suffered as a result of acts committed by a licensed mortgage broker or solicitor.

Mr. Falk is a pastpresident of the Florida Association of Mortgage Brokers and the South Florida Mortgage Brokers Association and for 1969 was elected Outstanding Mortgage Broker in the State of Florida. In 1977, Mr. Falk was called upon by the Comptroller of the State of Florida to serve on his Special Subcommittee on Usury which was charged with the task of evaluating the impact of the State's then 10% usury ceiling on the availability of capital for consumers and financial institutions and to make recommendations to him and to the Governor.

Honorable Paul A. Volcker
Page Two
July 21, 1982

In addition, Mr, Falk was a Director of the Central National Bank of Miami for eight years and currently serves as Chairman of the Board of Lincoln Savings and Loan Association.

Mr. Falk is committed to the consumer and I urge you to give him every possible consideration for appointment to the Consumer Advisory Council.

Sincerely,

LAWTON CHILES

LC/hbk

July 27, 1982

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

Dear Chairman St Germain:

I appreciate your letter of July 19 recommending Mr. Michael M. Van Buskirk as a member of the Board's Consumer Advisory Council. I can assure you that Mr. Van Buskirk's qualifications will receive full consideration when the Board makes the 1982 appointments to the Council. We will be in touch with you when the selections are made.

Again, thank you for your interest.

Sincerely,

S/ Paul

CO:pjt (#V-154)

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

CLO will prepare response

U.S. HOUSE OF REPRESENTATIVES

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

WASHINGTON, D.C. 20515

July 19, 1982

#154

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

Dear Mr. Chairman:

It is with a great deal of pleasure that I add my endorsement to that of my colleague, Bill Stanton, of Mike VanBuskirk as a member of the Consumer Advisory Council.

I recall very clearly Mike's interest in and grasp of consumer issues that came before the Subcommittees on Financial Institutions and Consumer Affairs during his service as Administrative Assistant to Congressman Wylie, a member of both Subcommittees. This exposure certainly well qualified Mike for his current association with Banc One of Columbus, Ohio.

As important as this legislative background is, however, I think for consideration of Mike as a member of the Consumer Advisory Council his current responsibilities with Banc One in the sensitive area of consumer relations preeminently qualifies him for membership on the Council. Many consumer groups who have occasion to come before the Committee, particularly the Subcommittee on Financial Institution Supervision, Regulation and Insurance, have expressed their respect for his knowledge of community goals, reflecting most favorably on Mike and Banc One.

I might add that the Staff Director of the Subcommittee on Financial Institutions Supervision, Regulation and Insurance, who has dealt with Mike on numerous occasions during his service with Banc One on national consumer legislative matters relating to financial institutions, enthusiastically concurs in my judgment of Mike's outstanding qualifications for membership on the Consumer Advisory Council.

Sincerely,

Fernand J. St Germain
Chairman

Congressional Mail
Priority Handling

Board of Governors of the
Federal Reserve System

Date: 8/2/82 Control No. V-174

To: Joe Coyne

Please review promptly the attached correspondence from ~~Senator~~/Congressman Tauke and let me have your suggestions in rough draft.

In order to meet the chairman's requirement for a response within five (5) working days, it will be necessary for me to have your reply by 8-11.

The final letter will be signed by:

(✓) Chairman Volcker
~~( ) Governor Martin~~
( ) Mr. Winn

Please indicate below the name and extension of the person who drafts the reply. When reviews are required within your Division, please complete these before forwarding the draft reply to me.

Reply drafted by:____________ Ext.______

If there are any problems or questions please give me a call; otherwise, please return this form directly to me with the draft reply and any attachments that are appropriate.

Carol O'Brien
Room B-2125A, Ext. 2735

FR 7 (Rev. 9/80)

TOM TAUKE
2ND DISTRICT, IOWA

CONGRESS OF THE UNITED STATES

COMMITTEES AND SUBCOMMITTEES:
ENERGY AND COMMERCE
FOSSIL AND SYNTHETIC FUELS
ENERGY CONSERVATION AND POWER
TELECOMMUNICATIONS, CONSUMER PROTECTION, AND FINANCE
SELECT COMMITTEE ON AGING
HUMAN SERVICES

July 27, 1982

#174

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1982 AUG -2 AM 9:38
RECEIVED OFFICE OF THE CHAIRMAN

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

Dear Mr. Chairman:

Last year, representatives of the Iowa Savings and Loan League had the privilege of meeting with David Stockman to discuss interest rates, the state of the economy, and other issues of particular importance to the savings and loan industry. This year, the Iowa Savings and Loan League is deeply interested in arranging a similar meeting with you to discuss these and other concerns.

Specifically, representatives of the Iowa Savings and Loan League would like to meet with you here in Washington at your convenience for approximately thirty minutes. If such a meeting could be arranged, I would be deeply appreciative, and I am sure that the representatives of the Savings and Loan League would greatly benefit from your discussion.

For further information about this request, please don't hesitate to contact me or my Administrative Assistant, Mrs. Pat Wichser, at 225-2911.

I am looking forward to your response, and I appreciate your consideration of this request.

Best wishes.

Sincerely,

Tom Tauke

Tom Tauke
Member of Congress

Handled by telephone. The Vice Chairman will handle
FRC 8/19/82

TT:jw

COMMUNICATIONS SHOULD BE DIRECTED TO THE OFFICE INDICATED.

☐ 319 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-2911

☐ 698 CENTRAL AVENUE
DUBUQUE, IOWA 52001
(319) 557-7740

☐ 1756 FIRST AVENUE, N.E.
CEDAR RAPIDS, IOWA 52402
(319) 366-8709

☐ 116 SOUTH SECOND STREET
CLINTON, IOWA 52732
(319) 242-6180

July 23, 1982

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

Dear Bill:

It was most thoughtful of you to recommend Mr. Michael M. Van Buskirk to be a member of the Board's Consumer Advisory Council. Mr. Van Buskirk is fortunate to have you as an advocate. Mr. Van Buskirk's credentials are most impressive and I can assure you that his qualifications will receive full consideration when the Board makes the 1982 appointments to the Council.

You may be sure that I will be in touch with you when our selections are made.

Sincerely,

S/ Paul

CO:WRM:pjt (#V-151)
bcc: Mrs. Mallardi (2)

J. WILLIAM STANTON
11TH DISTRICT, OHIO

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

COMMITTEE ON
BANKING, FINANCE AND
URBAN AFFAIRS

COMMITTEE ON
SMALL BUSINESS

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

DISTRICT OFFICES:
170 NORTH ST. CLAIR STREET
PAINESVILLE, OHIO 44077
PHONE: AREA CODE 216, 352-6167

MANTUA POST OFFICE
10748 NORTH MAIN STREET
MANTUA, OHIO 44255
PHONE: AREA CODE 216, 274-8444

July 13, 1982

#151

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

Dear Mr. Chairman:

It is my pleasure to endorse the nomination of Mr. Michael M. VanBuskirk to your Consumer Advisory Council.

I believe that Mike is well qualified to serve on this Council for several reasons. First, he would bring a unique perspective to the Council. Having served as the Administrative Assistant to Congressman Chalmers Wylie, he is familiar with the development of the basic consumer credit and financial disclosure statutes that fall within the purview of the Council. As you know, Congressman Wylie has served for many years as a member of the House Subcommittee on Consumer Affairs. This provided Mike with an exposure to and an understanding of many of the consumer statutes.

Second, as the Community Affairs Officer for Banc One Corporation of Columbus, Ohio, he is currently immersed in the application of these same statutes. His responsibilities bring him into contact with other lenders, individual consumers, consumers' organizations, community organizations, and State and Federal legislators.

Finally, his ties to the State of Ohio would compliment the geographic diversity of the Council members.

In conclusion, I strongly endorse Mike's nomination and appointment.

Sincerely,

Bill

J. William Stanton

JWS:jsd

cc: Ms. Dolores S. Smith

COMMITTEE ON
BANKING, FINANCE AND
URBAN AFFAIRS

SUBCOMMITTEES:
HOUSING
INTERNATIONAL FINANCE
INTERNATIONAL TRADE

COMMITTEE ON
INTERIOR AND
INSULAR AFFAIRS

SUBCOMMITTEES:
OVERSIGHT AND INVESTIGATIONS
WATER AND POWER RESOURCES

Congress of the United States
House of Representatives

JERRY M. PATTERSON
38TH DISTRICT OF CALIFORNIA

WASHINGTON OFFICE
2238 RAYBURN BUILDING
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-2965

HOME OFFICE
FEDERAL OFFICE BUILDING
34 CIVIC CENTER PLAZA, # 921
SANTA ANA, CALIFORNIA 92701
TELEPHONE: (714) 835-3811

#161

July 23, 1982

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

Dear Mr. Chairman:

On behalf of the Orange County Chamber of Commerce, and its President and Chief Executive Officer, Mr. Lucien Truhill, it is my pleasure to invite you to address the 20th Annual "Economic Outlook Conference" to be held in Anaheim, California on Wednesday, October 20th.

This Conference is the largest of its kind in the country today. It has consistently attracted major private sector and government leaders as speakers and participants. For instance, Dr. Richard Lesher, the President of the Chamber of Commerce of the U.S.A. will address this year's conference as will California U.S. Senatorial contenders Jerry Brown and Pete Wilson.

As you may know, Orange County has a population in excess of two million people; it is the 19th largest S.M.S.A. in the nation; and is served by five members of the House of Representatives. The O.C.C.C. has over 5,000 firms as active members this year and is one of the most aggressive chambers of commerce in the United States. They have sent out letters of invitation and brochures to approximately 40,000 persons in the business world and expect attendance at this conference to be in excess of 1500 persons.

telephoned regrets to M. Tredeny of Patterson's Staff. 8/13/82

It is my sincere hope that you can find time in your schedule to be the keynote speaker at this conference. If you could respond to me by phone or letter prior to August 10th, it would facilitate the O.C.C.C.'s final planning and printing arrangements. If you have questions or wish to inquire about scheduling or other arrangements, please call me at (202) 225-2965. In my absence, you may wish to speak to my Administrative Assistant, Duayne Trecker, who is working closely with Mr. Truhill and the Chamber staff on the program arrangements.

Hoping to see you on October 20th in Anaheim.

Cordially,

Jerry M Patterson

JERRY M. PATTERSON
U.S. Congressman

JMP:dth

July 21, 1982

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

Dear Senator Hawkins:

During the hearing before the Joint Economic Committee on June 15, you requested additional information on Federal Reserve System expenses, float reduction and pricing efforts, and automated clearinghouse pricing. For your information, I am pleased to enclose a copy of the information I have furnished to the Committee for inclusion in the record of the hearing.

Sincerely,

S/Paul A. Volcker

Enclosure

CO:pjt
bcc: Earl Hamilton
Ted Allison
Mrs. Mallardi (2)

Insert page 76 (JEC hearing 6/15/82)

In response to Senator Hawkins, Chairman Volcker subsequently furnished the following information for inclusion in the record of the hearing:

Federal Reserve System Expenses

By any measure, the Board of Governors during the past decade has maintained firm control over expenses of the Federal Reserve System, especially in light of its greatly expanded responsibilities during the period. Indeed, the rate of increase in the Board's expenses (6.8 percent annually on average from 1971 to 1981) has been less than that of either the Consumer Price Index (8.4 percent) or the GNP Deflator (7.2 percent).

Expenses for the System as a whole (all Reserve Banks and assessment for the Board of Governors) increased at an average annual rate of 9.8 percent. The implied average annual increase in real terms of around 2.6 percent (9.8 percent less than the GNP Deflator) has covered much larger average annual workload increases in areas where volume is measurable: commercial checks 7.5 percent, currency 5.1 percent, food stamp processing 3.6 percent, and funds transfers 20.8 percent. In "non-measurable" areas, Federal Reserve responsibilities also have grown significantly, mainly as a result of the Bank Holding Company Act amendments of 1970, the Consumer Credit Protection Act and other consumer related legislation, the International Banking Act, and the Depository Institutions Deregulation and Monetary Control Act. Supervision and Regulation resources were strained to handle work resulting from mergers of commercial banks and acquisitions by bank holding companies and the expanded role in inspection of bank holding companies, as well as from other industrywide changes in the commercial banking business. In the monetary policy area, there have been increasing demands for more frequent and timely statistical reporting as the public's awareness of the importance of monetary policy has increased.

We might also note that during this period, 1971-1981, when the Federal Reserve System's average annual increase in expenses was 9.8 percent, the nondefense budget of the federal government increased at a rate of 14.0 percent, and that of the legislative branch at a rate of 12.2 percent.

In the more recent period 1974-1981, the System's expense growth on an average annual basis was only 8.3 percent (versus the federal government's nondefense budget of 14.7 percent), and employment at Federal Reserve Banks decreased during the period by 11 percent (versus 3.8 percent growth for the federal government). (Between 1974 and 1979, our drop in employment was 13.6 percent; the passage of the Monetary Control Act in 1980 required additional employees mainly for maintaining the new reserve accounts required by the law and the implementation of pricing and billing procedures). Efficiency in check collection, the System's major production area, contributed greatly to our financial performance: the unit cost in this activity increased by only 6.6 percent between 1974 and 1981 unadjusted for inflation (the increase in inflation during these years was 68.6 percent).

From 1950 to 1981, total System expenses increased at an annual rate of 8.0 percent, approximately the average annual growth rate of the Gross National Product, which was 8.1 percent. During the same period, the federal government's nondefense budget outlays increased at a rate of 9.5 percent and those of the legislative branch at a rate of 10.4 percent. Of course, data on Federal Reserve System expenditures over such a long period are not meaningful without taking account of the qualitative and quantitative changes in our service levels and regulatory responsibilities during the period.

Float Reduction and Pricing Efforts

The Federal Reserve has made a major commitment to eliminating float. During the thirteen week period ending on June 2, 1982, average daily float was only $1.9 billion, compared to $4.8 billion during the thirteen week period prior to passage of the Monetary Control Act. Thus, in a little over two years, float has been reduced, through operational improvements, by 60 percent.

Indeed, the GAO in its recent report on Federal Reserve Check Clearing operations noted that the Federal Reserve had made significant reductions in float since enactment of the Monetary Control Act, indicating also, of course, that a substantial amount still remained. The Federal Reserve has retained its momentum in reducing float, and, since the GAO's report, float has been reduced by a further $.8 billion or 42 percent.

The System is also developing a comprehensive plan and timetable for eliminating and then pricing any remaining float. The plan will be completed and announced publicly during the summer of 1982 and will include both a timetable for further float reductions through operational improvements and a schedule for explicit pricing of any remaining float. We plan to have reduced float to well below $1 billion by early 1983, and we will continue to aggressively reduce and hold down float levels as the principal means of meeting the objectives of the Monetary Control Act.

Although the remaining float does result in a loss of revenue to the Treasury, compared to its complete elimination or full pricing, the Federal Reserve's projections of positive net revenues to the Treasury under the Monetary Control Act have been realized. The latest estimates of the MCA's impact on Treasury revenue, both for 1981 and prospectively for 1982, show a modest net increase in net Treasury revenues from the pricing and reserve requirement provisions of the Act.

Automated Clearinghouse Pricing

The Federal Reserve has adopted an incentive pricing strategy to stimulate use of the automated clearinghouse (ACH) services. Pricing for ACH services was implemented on August 1, 1981, and since that time commercial users of the ACH service have paid $727,000 for services that cost the Reserve Banks $6.2 million. The Board has decided to phase out its price incentives for the ACH service over the next three years. To achieve a smooth transition to a fully costed price, the Board plans to increase ACH prices in stages. When 1982 prices are implemented later this year, they will be set to recover 40 percent of the current full cost of production, including the private sector adjustment factor. The ratio will rise to 60 percent in 1983, 80 percent in 1984, and 100 percent in 1985.

The incentive pricing strategy will contribute to economic efficiency and continued technological innovation which in the long run will result in lower overall costs to society. If fully costed prices were implemented immediately, the price increase would be substantial and could very well cause many users of the ACH service to revert to paper checks. Our pricing strategy recognizes that the ACH service is attractive from the perspective of cost, security, and convenience and that it should be given a chance to grow. At the same time, it recognizes that the private sector should have the opportunity to assess the risks associated with developing competitive ACH systems. By gradually reducing the Federal Reserve's support to the ACH mechanism, the potential negative repercussions of a substantial, one-time, price increase can be avoided and some stimulus for future volume growth will be provided over the short run. In addition, during this time, the private sector will be able to evaluate the costs and benefits of the ACH service and thus decide whether competitive ACH facilities and networks would provide an adequate return on investment.

July 20, 1982

The Honorable Jim Wright
Majority Leader
House of Representatives
Washington, D.C. 20515

Dear Mr. Wright:

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:pjt

bcc: Mrs. Mallardi (2)

Identical letters sent to those on attached list.

House

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

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

Thomas S. Foley
Majority Whip (H-114 Capitol Bldg.)

Trent Lott
Republican Whip (1622 LHOB)

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 F. Fauntroy, Chairman
Subcommittee on Domestic Monetary Policy
of House Banking Committee (H2-109, 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)

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)

Donald W. Riegle, Jr.
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 (203 Carroll Arms Annex)

Ernest F. Hollings
Ranking Minority Member
Committee on the Budget

Roger W. Jepsen, Vice Chairman
Joint Economic Committee

Lloyd Bentsen
Senate Ranking Minority Member
Joint Economic Committee

July 20, 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:pjt

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 the report)

Mrs. Mallardi
V-145

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

July 15, 1982

PAUL A. VOLCKER
CHAIRMAN

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:

Thank you for your letter of June 30 requesting information for use by the Commerce, Consumer and Monetary Affairs Subcommittee in connection with its forthcoming hearings on foreign investments in U. S. banks. You indicated that you have directed your staff to review the adequacy of the Board's reporting requirements and regulatory standards which govern the U. S. activities of foreign organizations that control U. S. banks. As part of this review, you have requested a copy of the Annual Report of Foreign Banking Organizations, Form F.R. Y-7, filed by the Hongkong and Shanghai Banking Corporation for December 31, 1981, and access for the Subcommittee staff to inspect and take notes on their Foreign Banking Organization Confidential Report of Operations, F.R. 2068, and their Report of Intercompany Transactions for Foreign Banking Organizations and their U. S. Bank Subsidiaries, Form F.R. Y-8f.

Enclosed with this letter is a copy of the Annual Report (F.R. Y-7) filed by the Hongkong and Shanghai Banking Corporation for 1981. Arrangements have been made for members of your staff to have access to and inspect at the Board the quarterly F.R. Y-8f reports that have been filed. These reports of condition which are obtained as part of the bank supervisory process contain sensitive financial information. I note your assurances that the contents will be treated with caution and discretion by members of your staff, and I request that they not be disclosed in any manner.

As for the Confidential Report of Operations (the F.R. 2068) filed by the Hongkong and Shanghai Banking Corporation, the Board's policy to afford these reports the highest degree of confidentiality is based on our careful assessment of what is required to maintain effective supervision of foreign banks in the United States. When the Board prepared its reporting requirements for foreign banking organizations under the International Banking Act, the report forms were published in draft form in order to obtain comment from the affected parties on the scope of the information requested and the manner in which it was to be provided. Almost without exception, the comments received noted that much of the information requested was not available to the public even in the home countries of the reporting organizations where, in the context of the home country regulatory structure, its retention is believed to promote confidence in the strength of banking institutions. A number of foreign regulatory authorities emphasized the extremely confidential nature of some of the information and urged the Board to take this into account in determining the final reporting requirements and the protection that would be given to the information submitted.

The Board has taken a number of steps specially designed to ensure appropriate handling of this information. When the final reporting requirements were issued, the Board stated that the information contained in the F.R. 2068 was the kind ordinarily obtained through the examination process and the Board would hold that information confidential under the exemption contained in section (b)(8) of the Freedom of Information Act (5 U.S.C. 552(b)(8)). No exception has been made to application of this exemption. The Board has instituted strict security procedures for these reports to assure that access to them was limited on a need-to-know basis and that access was for supervisory purposes only.

Foreign banks and foreign supervisory authorities have accepted and rely upon the Board's assurances on these points. Given the location of these institutions outside the United States, the Board's effectiveness in exercising its supervisory responsibilities rests in large measure on the ability to conduct open and candid communication with them and with their home country supervisors. If foreign banks and foreign regulators have cause to believe that information submitted to the Board under a guarantee of confidentiality may be released to others outside the bank regulatory agencies, the Board's ability to obtain accurate data and full cooperation in the future will be hindered. As you know, the United States bank regulatory agencies have as a matter of longstanding policy declined requests for access to examination data and, in the circumstances under consideration here, I am convinced that any exception to that policy would be harmful to the objective of effective supervision of foreign banks in the United States.

Please contact Frederick R. Dahl of the Board's Division of Banking Supervision and Regulation (452-2726) about the arrangements for the F.R. Y-8f and for any other information about the reporting requirements applicable to foreign banking organizations.

Sincerely,

S/ Paul

FRD:NPJ:vcd (V-145)
bcc: Mr. Dahl
Ms. Jacklin
Mr. Bradfield
Mrs. Mallardi (2)

Enclosure

MAJORITY—(202) 225-4407

NINETY-SEVENTH CONGRESS

Congress of the United States

House of Representatives

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

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

#145

June 30, 1982

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

Dear Mr. Chairman:

As you know the Commerce, Consumer, and Monetary Affairs Subcommittee has scheduled two days of hearings on foreign investment in U.S. banks for August 17 and 18. In preparation for these hearings I have asked the subcommittee staff to review the adquacy of Federal Reserve reporting requirements and regulatory standards for, and supervision of, foreign bank holding companies, particularly as applied to holding companies with extensive other affiliated business activities.

Accordingly, in connection with this review I am requesting that the Federal Reserve provide

1. a copy of Hongkong and Shanghai Bank's annual report to the Federal Reserve (form F.R. Y-7) for calendar year 1981 or the most recent other fiscal year; and

2. access for the subcommittee staff to inspect and to take notes as needed on Hongkong and Shanghai Bank's

   a. Foreign Banking Organization Confidential Report of Operations (form F.R. 2068) for calendar year 1981 or the most recent other fiscal year; and

   b. Reports of Intercompany Transactions for Foreign Banking Organizations and Their U.S. Bank Subsidiaries (form F.R. Y-8f) for all calendar quarters since HSBC became subject to this reporting requirement.

The subcommittee recognizes the confidential and potentially sensitive nature of the information reported on forms 2068 and Y-8f and will treat the information they contain with caution and discretion.

I would appreciate a prompt response to this response, if possible no later than July 9.

Sincerely,

Benjamin S. Rostenhal
Chairman

BSR:dtv

July 15, 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:

As requested in your letter of June 24, I am pleased to enclose my responses to the questions posed in connection with your Subcommittee's continuing oversight review of foreign investment in the United States.

Sincerely,

S/ Paul

Enclosures

AFC:vcd (V-140)
bcc: Mr. Blattman
Mr. Kline
Mr. Ryan
Mrs. Mallardi (2)

I. Number of Banks

The state member banks that presently have retail banking facilities in Broward and/or Dade counties in Florida are:

1. Safrabank, Miami
2. Dadeland Bank, Miami
3. Southern Bank of Broward County, Broward County
4. First City Bank of Dade County, Coral Gables
5. Bayshore Bank of Florida, Miami
6. Plaza Bank of Miami, Miami
7. Sunset Commercial Bank, Miami
8. Hanover Bank of Florida, Plantation
9. Bank of Florida in South Florida, South Miami

Safrabank and Dadeland Bank have a greater than 25 percent foreign ownership interest.

II. Ownership of Individual Banks

BHC: Popular Bancshares Corp., Miami, Florida

Sub: Bank of Miami

a. No principal has had a greater than 25 percent ownership interest at January 1, 1975 or since.

b. N/A

c. USA

d. December 30, 1970

e. BHC owns 100.0 percent of Bank.

f. Company became a bank holding company as a result of amendments to the Bank Holding Company Act, effective December 30, 1970.

g. (1) On September 3, 1980, Bank acquired by merger, Inter-American Bank of Miami.
   (2) On June 15, 1982, BHC was involved in a change in control notification. As a result of the notification, Francisco E. Blanco (citizen of Spain; resident of the Netherlands Antilles) will own between 42.5 percent to 75.5 percent of BHC.

h. Head office of bank - Dade County; Branches - Dade

i. No change of control notice or application regarding bank or parent bank holding company submitted to Federal Reserve in 1981 or 1982 to date.

BHC: Barnett Banks of Florida, Inc., Jacksonville, Florida

Sub: Barnett Bank of Miami

a. No principal has had a greater than 25 percent ownership interest at January 1, 1975 or since.

b. N/A

c. USA

d. May 9, 1956

e. BHC owns 99.72 percent of Bank

f. (i)

g. (1) On January 1, 1977, acquired by merger:
   - a. Barnett Bank of Miami Beach
   - b. Barnett Bank of Miami
   - c. Barnett Bank of Bay Harbor Island
   - d. Barnett Bank of Westchester N.A.; Dade County
   - e. Barnett Bank of Midway, Miami

   (2) On July 1, 1981, acquired by merger:
   - a. Barnett Bank of Homestead
   - b. Barnett Bank of Broward County, Ft. Lauderdale

   (3) On December 31, 1981, acquired by merger:
   - a. First State Bank of Miami

h. Head office - Dade; Branches - Dade

i. Proposed acquisitions:
   1. Manatee County Bank
   2. Carrollwood Bank

BHC: Capital Bancorp, North Bay Village, Florida

Sub: Capital Bank

a. Abel Holtz owns 62.2 percent of BHC. Mr. Holtz has owned his interest (prior to 1975) before BHC formation on May 22, 1981.

b. USA

c. USA

d. BHC formed on May 22, 1981.

e. BHC owns 100.0 percent of Bank.

f. (i)

g. (1) On March 24, 1982, approval was granted to merge with First State Bank of Oakland Park, Florida.

   (2) On December 30, 1977, acquired by merger:
      a. Capital Bank of Kendale
      b. Capital Bank of Miami

   (3) On May 1, 1975, changed name from Bank of North Bay Village to Capital Bank of North Bay Village.

   (4) On December 30, 1977, changed name from Capital Bank of North Bay Village to Capital Bank.

h. Head office - Dade; Branches - Dade

i. No change of control notice or application regarding bank or parent bank holding company submitted to Federal Reserve in 1981 or 1982 to date.

BHC: Central Bancorp, Inc., Miami, Florida

Sub: Central Bank & Trust Co.

a. (1) From January 1, 1975 to June 1977, 37.2 percent was owned by Mrs. Candance Mossler.

(2) In 1977, 37.2 percent was transferred to the Estate of Mrs. Candance Mossler.

b. USA

c. USA

d. July 31, 1969

e. BHC owns 98.83 percent of Bank.

f. (i)

g. At November 1, 1978, approval granted to establish <u>de novo</u> insurance subsidiary. Currently not active.

h. Head office - Dade; Branches - Dade

i. BHC intends to create <u>de novo</u> bank in an unspecified county not currently located in.

BHC: Eagle National Holding Co., Miami, Florida

Sub: Eagle National Bank of Miami

a. Humberto Vegalara Rojas & Jaime Michaelson Vorive jointly own 87.9 percent of BHC prior to 1975.

b. Colombian

c. Curaco, Netherlands, Antilles1/

d. January 30, 1957

e. BHC owns 100.0 percent of Bank.

f. (i)

g. Bank's name changed on November 2, 1981, from "Central National Bank of Miami."

h. Head office - Dade; Branches - Dade

i. Banco de Colombia, S.A., Bogota, Colombia, and Banco de Colombia, S.A., Panama City, Panama, were granted approval (1/23/82) to acquire 93 percent of Bank.

1/ Eagle National has parent - "Sabrina Properties" chartered in Curaco.

BHC: Century Banks, Inc., Ft. Lauderdale, Florida

Sub: Century National Bank of Broward

a. (1) Marvin L. Warner - owns 42 percent of BHC.
   (2) No principals had a greater than 25 percent ownership interest between January 1, 1975 and April 1981.

b. N/A

c. USA

d. March 31, 1970

e. BHC owns 100.0 percent of Bank.

f. (i)

g. (1) On October 1, 1977, acquired by merger:
      a. Broward National Bank of Plantation
      b. Lauderdale Lake National Bank
      c. Century National Bank of Ft. Lauderdale

   (2) On July 1, 1978, acquired by merger:
      a. Century National Bank of Coral Ridge

   (3) On June 23, 1976, name changed from Broward NB of Ft. Lauderdale to Century National Bank of Broward.

h. Head office - Broward; Branches - Broward

i. A change in control notification giving Mr. Warner his 42 percent ownership interest was not disapproved by the Federal Reserve Board in April 1981.

BHC: Citizens & Southern Holding Co., Atlanta, Georgia

Sub: Citizens & Southern International Bank, Miami, Florida

a. No principal has had a greater than 25 percent ownership interest at January 1, 1975 or since.

b. N/A

c. Georgia

d. March 24, 1969

e. 100.0 percent

f. (i)

g. On December 31, 1981, location changed from Miami to Atlanta, Georgia.

h. Edge Corp. in Dade.

i. No change of control notice or application regarding bank or parent bank holding company submitted to Federal Reserve in 1981 or 1982 to date.

BHC: None

Sub: City National Bank of Hallendale, Broward

a. Leonard Abeso owns 34 percent and Samuel Friedland owns 37.1 percent of Bank since August 8, 1970.

b. USA

c. None

d. N/A

e. Board controls 76.5 percent of Bank.

f. ii - OCC

g. No changes in ownership or control.

h. Head office - Broward; Branches - Broward

i. No change of control notice or application regarding bank or parent bank holding company submitted to Federal Reserve in 1981 or 1982 to date.

BHC: Florida Commercial Bank, Inc., Miami, Florida

Sub: Commercial Bank & Trust Co.

a. No principal has had a greater than 25 percent ownership at January 1, 1975 or since.

b. N/A

c. USA

d. April 29, 1965

e. BHC owns 99 percent of Commercial Bank & Trust Co.

f. (i)

g. None

h. Head office - Dade; Branches - Dade

i. No change of control notice or application regarding bank or parent bank holding company submitted to Federal Reserve in 1981 or 1982 to date.

BHC: None

Sub: Continental National Bank, Miami, Florida

a. Charles Dascal directly owns 14.45 percent; controls 58.2 percent through voting trust.

b. USA

c. None

d. N/A

e. N/A

f. ii - OCC

g. No changes

h. Head office - Dade; Branches - Dade

i. No change of control notice or application regarding bank or parent bank holding company submitted to Federal Reserve in 1981 or 1982 to date.

BHC: None

Sub: County National Bank of South Florida, North Miami Beach, Florida.

a. No principal has had a greater than 25 percent ownership interest at January 1, 1975 or since.

b. N/A

c. None

d. N/A

e. N/A

f. (ii) - OCC

g. On June 1, 1981, Bank changed name from County National Bank of North Miami Beach.

h. Head office - Dade; Branches - Dade

i. No change of control notice or application regarding bank or parent bank holding company submitted to Federal Reserve in 1981 or 1982 to date.

BHC: Consolidated Bancshares, Inc., Hialeah, Florida

Sub: Consolidated Bank, N.A., Hialeah, Florida

a. (1) Jose Alvarez-Stelling acquired 80.1 percent of BHC in December 1977.
   (2) Prior to Jose Alvarez-Stelling, no principal had a greater than 25 percent ownership interest.

b. Venezulean

c. 1/

d. March 31, 1971

e. BHC owns 100.0 percent of Bank.

f. (i)

g. (1) On February 2, 1982, Bank acquired by merger - Deerfield State Bank, Deerfield Beach, Florida.
   (2) On September 1, 1977, Bank changed name from FNB in Hialeah, Florida, to FNB of Greater Miami.
   (3) On February 2, 1982, Bank changed name to Consolidated Bank, N.A., Hialeah, Florida.

h. Head office - Dade; Branches - Dade

i. No change of control notice or application regarding bank or parent bank holding company submitted to Federal Reserve in 1981 or 1982 to date.

1/ Consolidated's parent is Marsh Investment BV, Rotterdam, Netherlands. Marsh Investments BV's parent is Marsh Investments N.V., Curaco, Netherlands, Antilles.

BHC: Flagship Banks, Inc.

Sub: Flagship National Bank of Miami

a. No principal has had a greater than 25 percent interest at January 1, 1975 or since.

b. N/A

c. USA

d. October 25, 1966

e. BHC 99.0 percent of Bank.

f. (i)

g. (1) At May 1, 1978, name changed from Flagship FNB of Miami Beach.
   (2) At May 1, 1978, acquired by merger - Flagship FNB of Coral Gables.
   (3) At May 1, 1978, acquired by merger - Flagship National Bank of Miami.
   (4) In August 1978, sold Flagship Bank of Adventura, Dade County to Edmond Safra.

h. Head office - Dade; Branches - Dade

i. A change in control notification was not disapproved by the Federal Reserve Board in July 1981. Mr. Frank Smathers, Jr. sought to increase his ownership interest from 13.3 percent to 19.0 percent.

BHC: Great American Banks, Inc., North Miami Beach, Florida

Sub: Great American Bank

a. (1) From January 1, 1975 to July 1978, no principal had a greater than 25 percent ownership interest.
   (2) Marvin L. Warner owns 76.6 percent of ComBank, which owns 32.2 percent of BHC. ComBank acquired its controlling interest on July 5,1978.

b. USA

c. USA

d. April 13, 1971

e. BHC owns 99 percent of Bank.

f. (i)

g. (1) On November 30, 1979, acquired by merger - Great American Bank of Homestead.
   (2) On November 26, 1979, name changed from 1st American Bank of Dade County to Great American of Dade County.
   (3) On December 29, 1978, name changed from 2nd National Bank of North Miami to 1st American Bank of Dade County.
   (4) On December 29, 1978, Bank changed its charter from national to state non-member.

h. Head office - Dade; Branches - Dade

i. No change of control notice or application regarding bank or parent bank holding company submitted to Federal Reserve in 1981 or 1982 to date.

BHC: Landmark Banking Corp., Ft. Lauderdale, Florida.

Sub: Landmark First National Bank

a. No principal has a greater than 25 percent ownership interest at January 1, 1975 or since.

b. N/A

c. USA

d. March 31, 1979

e. BHC owns 99.73 percent of Bank.

f. (i)

g. On July 1, 1977, acquired by merger:
   1. Landmark Bank of North Ft. Lauderdale
   2. Landmark Bank at the Ocean, Ft. Lauderdale
   3. Landmark Bank of Plantation
   4. Landmark Bank of West Broward
   5. Landmark Bank of Pompano Beach
   6. Landmark Bank of Sunrise

h. Head office - Broward; Branches - Broward

i. No change of control notice or application regarding bank or parent bank holding company submitted to Federal Reserve in 1981 or 1982 to date.

BHC: Pan American Banks, Inc., Miami, Florida

Sub: Manufacturers National Bank, Hialeah, Florida

a. No principal has had a greater than 25 percent ownership interest at January 1, 1975 or since.

b. N/A

c. USA

d. BHC acquired Bank in November 1981.

e. BHC owns 100.0 percent of Bank.

f. (i)

g. (1) At December 31, 1977, acquired by merger:
    a. Pan Am Bank of Kendale Lake, Dade County
    b. Pam Am Bank of Miami
    c. Pan Am Bank of Dade County, North Miami Beach
    d. Pan Am Bank of Miami Beach
    e. Pan Am Bank of West Dade

   (2) At January 16, 1982, acquired by merger:
    a. Pan Am Bank of Palm Beach County, West Palm Beach

h. Head office - Dade; Branches - Dade

i. Proposed cash sale of Palm Beach Bank to, and subsequent merger with, Miami Bank.

BHC: Popular Bancshares Corp.

Sub: Northside Bank of Miami, Miami, Florida

a. No principal has had a greater than 25 percent ownership interest at January 1, 1975 or since.

b. N/A

c. USA

d. December 30, 1970

e. 100.0 percent

f. Company became a bank holding company as a result of amendments to the Bank Holding Company Act, effective December 30, 1970.

g. (1) On September 12, 1979, Bank changed name to "Inter-American Bank of Miami."
   (2) On September 30, 1980, Inter-American Bank of Miami merged with Bank of Miami.
   (3) On June 15, 1982, BHC was involved in a change in control notification. As a result of the notification, Francisco E. Blanco (citizen of Spain; resident of Netherlands Antilles) will own between 42.5 percent to 75.5 percent of BHC.

h. Head office - Dade; Branches - Dade

i. No change of control notice or application regarding bank or parent bank holding company submitted to Federal Reserve in 1981 or 1982 to date.

BHC: Pan American Banks, Inc.

Sub: Pan American Bank of Miami

a. No principal has had a greater than 25 percent ownership interest at January 1, 1975 or since.

b. N/A

c. USA

d. October 31, 1969

e. BHC owns 99.78 percent of Bank.

f. (i)

g. (1) At December 31, 1977, BHC acquired by merger:
   a. Pan Am Bank of Kendale Lake, Dade County
   b. Pan Am Bank of Miami
   c. Pan Am Bank of Dade County, North Miami Beach
   d. Pan Am Bank of Miami Beach
   e. Pan Am Bank of West Dade

   (2) At January 16, 1982, BHC acquired by merger:
   a. Pan Am Bank of Palm Beach County, West Palm Beach

h. Head office - Dade; Branches - Dade

i. Proposal approved on 11/81 for the acquisition of Manufacturers National Bank, Hialeah. Proposed cash sale of Palm Beach Bank to Miami Bank for subsequent merger into Miami Bank.

BHC: Safracorp., Miami, Florida

Sub: Safra Bank

a. Edmond L. Safra

b. Brazilian

c. USA

d. April 10, 1979

e. 100.0 percent

f. (i)

g. (1) On June 19, 1981, became member of Federal Reserve System.

   (2) Mr. Safra purchased 100 percent of Bank in August 1978 from Flagship Banks Inc. (Flagship Bank of Adventura).

h. Head office - Dade; Branches - Dade

i. No change of control notice or application regarding bank or parent bank holding company submitted to Federal Reserve in 1981 or 1982 to date.

BHC: Southeast Banking Corp., Miami, Florida

Sub: Southeast FNB

a. Charles E. Schmidt - 39.4 percent of outstanding preferred shares. Mr. Schmidt acquired these shares in 1981. Cede & Co. (non beneficiary fiduciary) holds 27.7 percent of common stock. Prior to 1981, Cede & Co. was a non beneficiary fiduciary for common shares totaling less than a 25 percent interest. No other principal had a greater than 25 percent ownership interest at January 1, 1975 or since.

b. USA

c. USA

d. October 2, 1967

e. BHC owns 99.87 percent of Bank

f. (i)

g. (1) At July 7, 1979, BHC acquired by merger:
    a. Southeast Bank of Dadeland, Dade County
    b. Southeast Bank of Tamiami, Dade County
    c. Southeast Bank of Westland, Hialeah
    d. Southeast Bank of Coral Way, Miami
    e. Southeast First NB of Miami, Miami

   (2) At October 1, 1980, BHC acquired Community Bank of Pinellas, Seminole, Florida.

   (3) At December 31, 1981, BHC acquired by merger:
    a. Southeast Bank of Panama City, Bay County
    b. Southeast NB of Bradenton, Bradenton
    c. Southeast Bank, Ft. Lauderdale
    d. Southeast Bank of Ft. Myers
    e. Southeast Bank of Ft. Pierce
    f. Southeast Bank of Jacksonville
    g. Southeast Bank of Pinellas, Largo
    h. Southeast Bank Trust Co., N.A., Miami
    i. Southeast National Bank of Naples
    j. Southeast Bank of Volusia, New Smyrna Beach
    k. Southeast Bank of Orange Park
    l. Southeast Bank of Orlando
    m. Southeast Bank of Pasco
    n. Southeast FNB of Sarasota
    o. Southeast Bank of Tampa
    p. Southeast Bank of Indian River, Vero Beach
    q. Southeast Bank of Wildwood
    r. Southeast Bank of Winter Haven

(4) At June 30, 1981, merged with its Orlando Bank, Forest City Bank.

h. Dade

i. (1) BHC has entered into agreement to acquire:
   a. Marion Bank
   b. Community Bank
   c. Coral Springs Bank
   d. Halifax Bank

   (2) A change in control notification was received on May 17, 1982. A group of 11 individuals, currently owning 9.97 percent of BHC, seeks to increase their aggregate ownership to 24.99 percent.

BHC: United Bancshares, Incorporated, Maimi, Florida

Sub: United National Bank of Miami

a. Gerald Katcher and Howard Scharlin each own 34 percent. No other principal has had a greater than 25 percent ownership interest between 1975 to 1982.

b. USA

c. USA

d. September 28, 1981

e. 100.0 percent

f. (i)

g. On October 30, 1978, Bank acquired by merger - Southeast NB of North Dade, Dade County.

h. Head office- Dade; Branches- Dade

i. No change of control notice or application regarding bank or parent bank holding company submitted to Federal Reserve in 1981 or 1982 to date.

Action assigned Mr. Ryan

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

June 24, 1982

#140

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

Dear Mr. Chairman:

I am writing to all three federal bank regulatory agencies, in connection with the Commerce, Consumer, and Monetary Affairs Subcommittee's continuing oversight review of foreign investment in the U.S., to request information about (a) the number and identities of foreign-owned banks in South Florida and (b) ownership information about certain specific banks in South Florida. Please provide the requested information by July 16, 1982.

I. Number of Banks

Please state the number of state member banks that presently have retail banking facilities in Broward and/or Dade counties in Florida. Please identify by name all of the above which are at least 25 percent foreign owned at the present time.

II. Ownership of Individual Banks

For each bank identified below that is currently or was at some time since January 1, 1975, either a state member bank or a holding company subsidiary, please provide the following information about every principal owner (those individuals owning 25 percent or more) of the bank or holding company (i) at January 1, 1975, and (ii) at all subsequent dates on which there was a change of principal or controlling ownership:

a. name

b. citizenship

c. if the control is exercised through a holding company, the country of holding company incorporation or domicile

d. date of acquisition of controlling interest

e. percent of ownership

f. whether the acquisition of controlling ownership was reviewed by (i) the Federal Reserve under the Bank Holding Company Act or the Change in Bank Control Act, (ii) another federal agency under the Change in Bank Control Act, or (iii) no federal agency.

In addition, for each state member bank or holding company subsidiary covered in the answers above please:

g. report any changes of name, charter changes, mergers, or other changes of status during the period January 1, 1975, to the present;

h. give the county in which the bank's head office is or was located and whether it has or had any retail banking facilities in Dade or Broward counties; and

i. state whether any proposed change of controlling ownership not already identified above has been the subject of any application or notice submitted to the Federal Reserve in 1981 or 1982.

The banks for which this information is requested are:

Bank of Miami
Barnett Bank of Miami
Capital Bank
Central Bank & Trust Co.
Central National Bank
Century National Bank of Broward
Citizens and Southern International Bank
City National Bank of Hallandale
Commercial Bank and Trust Co.
Continental National Bank
County National Bank
First National Bank of Greater Miami
Flagship National Bank
Great American Bank
Landmark First National Bank
Manufacturers National Bank
Northside National Bank
Pan American Bank of Miami
Safra Bank
Southeast First National Bank
United National Bank of Miami

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dtb

July 14, 1982

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

Dear Chairman Garn:

Thank you for your letter of July 6 requesting my testimony on monetary policy pursuant to the Full Employment and Balanced Growth Act of 1978.

I am looking forward to appearing before your Committee on Tuesday, July 20.

Sincerely,

S/ Paul

CO:vcd (V-149)

bcc: Mr. Axilrod (w/copy of incoming)
Mr. Prell "
Mr. Kichline "
Mrs. Mallardi (2)

July 14, 1982

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

Dear Chairman St Germain:

Thank you for your letter of July 12 requesting my testimony on monetary policy pursuant to the Full Employment and Balanced Growth Act of 1978.

I am looking forward to appearing before your Committee on Wednesday, July 21.

Sincerely,

S/ Paul

CO:vcd (#V-148)

bcc: Mr. Axilrod (w/copy of incoming)
Mr. Prell "
Mr. Kichline "
Mrs. Mallardi (2)

July 9, 1982

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

Dear Senator Proxmire:

I am pleased to respond to the questions posed in your letter of June 28 concerning the use of vehicles for official purposes.

As you know, section 638a of Title 31 of the U.S. Code applies to vehicles purchased with appropriated funds and, while the statute does not technically apply to the Federal Reserve, the Board policy on use of motor vehicles is consistent with its provisions.

Under Board policy, the six passenger motor vehicles operated by the Board to meet its official transportation needs may not be used for transportation of Board members or other Board employees between their residence and their place of employment, unless security requirements or exigent circumstances make such transportation essential. In accordance with this policy, these vehicles are available solely for official business and none is assigned to the exclusive use of any member of the Board or its staff.

For some time, transportation has usually been provided to and from my residence (which happens to be within walking distance) in accordance with the provisions of the policy concerning use of vehicles for security reasons. This transportation arrangement is one of several security measures that the Board put into place in response to threats directed towards me as Chairman of the Board. A security professional now typically accompanies me on all trips and all drivers have received special motor vehicle training to deal with threatening situations.

The annual cost of the specially trained drivers used for security purposes is $32,157. Overtime costs average an additional $5,000 per year. The drivers are, of course, available for business transportation during the day. Depreciation of the vehicles used for this transportation is estimated at about $125 per month and operating costs at about $145 per month.

I hope this satisfactorily answers the questions that you raised.

Sincerely,

S/ Paul

JD:MB:WRM:PAV:pjt (V-141)
bcc: Messrs. Denkler & Bradfield
Mrs. Mallardi (2)

United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WASHINGTON, D.C. 20510

June 28, 1982

#141

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1982 JUN 29 AM 9:03
RECEIVED
OFFICE OF THE CHAIRMAN

Mr. Paul A. Volcker
Chairman
Federal Reserve System
Twentieth St. & Constitution Ave., NW
Washington, D.C. 20551

Dear Mr. Volcker:

Title 31, Section 638a of the U.S. Code states that government automobiles may only be used for "official purposes", and that "official purposes" does NOT include being driven to and from home. In addition, cars may not be assigned for the exclusive use of officials. There are some exceptions to the law, namely the President, the Secretary of a Department (not under secretaries, heads of agencies, boards, etc.), doctors on out-patient duty, individuals on field service great distances from their offices, etc.

I would, therefore, like to make the following inquiries about the use of cars under your jurisdiction.

1) What officials by title, if any, are driven to and from home?

2) To what officials is a car assigned for his or her exclusive use?

3) If an official is driven to and from home, in view of Title 31, Section 638a, what is the specific legal jurisdiction for the practice? Please cite the precise language of the law or your rationale for permitting such a practice to exist.

4) What is the annual cost of the chauffeurs or drivers of such vehicles, including their overtime pay?

5) What is the annual cost of the vehicle in terms of depreciation, maintenance, gas, oil, etc.?

I would appreciate an early and prompt reply. It is my intention to make the replies a part of the public record.

Sincerely,

Bill Proxmire

William Proxmire, U.S.S.

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

July 9, 1982

PAUL A. VOLCKER
CHAIRMAN

The Honorable Gregory W. Carman
House of Representatives
Washington, D.C. 20515

Dear Mr. Carman:

Thank you for your recent letter asking for my views on a couple of recent pieces in The Wall Street Journal. Those pieces raise a number of issues, some of which pertain to the basic thrust of monetary policy and some of which are more technical in nature, involving the way policy is specified and implemented.

On the technical side, both the lead editorial and the column by Frank Morris reflect concerns about the shortcomings of monetary aggregates as intermediate targets. Especially in a world in which financial institutions and practices are changing rapidly, one clearly must be careful in using the various money stock measures as policy guides. A degree of flexibility in monetary targeting is essential, and this has been our approach. We have kept a close eye on other financial and economic developments to ensure that we were not led astray by any aberrant behavior in the basic money measures. This is not to say that we shouldn't be studying alternative approaches, including the use of other quantity or price variables as targets; research proceeds in the Federal Reserve System and elsewhere, and we can only hope that it will yield improved policy techniques.

I might note that the Journal's remarks about the good performance of the economy under the Bretton Woods agreement raise some questions in my mind. It is not at all clear that one can reasonably attribute that performance to the constraint of gold convertibility, as the article suggests. Indeed, it has been argued that that constraint was a loose one, with the result that the U.S. was able to focus its policies primarily on domestic concerns while dollar claims built up abroad--at least to the point where the credibility of the convertibility was weakened and the system was abandoned. But even if the Journal's analysis in this regard may be questioned, I do think exchange rate movements can provide some useful information about whether monetary policy is on the right track, and we do pay attention to them.

The Honorable Gregory W. Carman
Page Two

When it comes to the proper interpretation of Under Secretary Sprinkel's comments regarding monetary policy, I have no particular quarrel with the Journal's analysis, but I would suggest that questions on this score are best addressed to him.

I might say that we will be addressing many of these issues shortly in our mid-year monetary policy report to the Congress and in a response to the Joint Economic Committee's Recommendation No. 8 regarding monetary policy. And I expect we'll be discussing them when I appear before the Banking Committee in a few days. I look forward to seeing you then.

Sincerely,

S/ Paul

MJP:NS:pjt (#V-138)
bcc: Mike Prell
Mrs. Mallardi (2)

Action assigned Mr. Axilrod

GREGORY W. CARMAN
THIRD DISTRICT, NEW YORK

COMMITTEES:
BANKING, FINANCE AND URBAN AFFAIRS
SUBCOMMITTEES:
INTERNATIONAL TRADE, INVESTMENT AND MONETARY POLICY
HOUSING AND COMMUNITY DEVELOPMENT
GENERAL OVERSIGHT AND RENEGOTIATION
CONSUMER AFFAIRS

SELECT COMMITTEE ON AGING
SUBCOMMITTEES:
RETIREMENT INCOME AND EMPLOYMENT
HOUSING AND CONSUMER INTERESTS

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

WASHINGTON OFFICE:
1729 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-3865

DISTRICT OFFICE:
322A MAIN STREET
HUNTINGTON, NEW YORK 11743
(516) 549-8400

June 22, 1982

#138

The Honorable Paul A. Volcker
Chairman
Federal Reserve System
Twentieth Street and
Constitution Ave., N.W.
Washington, D.C. 20551

Dear Paul:

On June 22, 1982, the Wall Street Journal, on page 34, under the caption, "Review & Outlook, Bring Back Bretton Woods", discussed the need for studying an alternative price rule as a barometer in controlling the monetary supply. On the same page Frank E. Morris, the President of the Federal Reserve in Boston discussed the difficulty of no longer being able to measure monetary supply with any precision.

As a member of the Banking Committee I am most interested in obtaining your counsel concerning these matters. Apparently the Treasury is currently studying proposals to abolish the independence of the Federal Reserve Board. According to the Wall Street Journal, the result might be to cause a tighter, as opposed to an easier, monetary result. I would appreciate your comments concerning this aspect of the article, as well.

I have enclosed a photostatic copy of the articles referred to in this letter, for your convenience. Your attention to this matter is greatly appreciated.

Sincerely,

Gregory W. Carman
Member of Congress

GWC:KC
Enclosures

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Citation Information

Document Type: Newspaper articles

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Citations:

"Review & Outlook: Bring Back Bretton Woods." *Wall Street Journal,* June 22, 1982.

Morris, Frank E. "A Fed President Views the Money Supply." *Wall Street Journal,* June 22, 1982.

#147

HOUSE OF REPRESENTATIVES
WASHINGTON, D. C. 20515

STEVE NEAL
NORTH CAROLINA

July 9, 1982

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

Dear Paul:

I imagine that you at the Fed are taking into account the points made in the attached article. Do you think that you can accurately control "money" growth now? Does the idea expressed in the enclosed editorial make sense?

Best wishes,

Steve

STEPHEN L. NEAL
U. S. Congressman

SLN:jb
Enclosures

Call for breakfast

8/13/82
8 a.m.

July 8, 1982

The Honorable Alfonse D'Amato
Chairman
Subcommittee on Securities
Committee on Banking, Housing,
and Urban Affairs
Washington, D. C. 20510

Dear Chairman D'Amato:

Thank you for your letter of July 2 requesting a detailed report concerning Drysdale Government Securities.

I have asked Tony Solomon of the New York Reserve Bank to continue taking the lead role for the Federal Reserve System on this matter. He expects to be able to prepare a report to you by September 15.

Sincerely,

S/Paul A. Volcker

CO:NMS:dmg-b

#V-146

cc: Mrs. Mallardi (2)

JAKE GARN, UTAH, CHAIRMAN

JOHN TOWER, TEX.
JOHN HEINZ, PA.
WILLIAM L. ARMSTRONG, COLO.
RICHARD G. LUGAR, IND.
ALFONSE M. D'AMATO, N.Y.
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United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WASHINGTON, D.C. 20510

#146

July 2, 1982

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1982 JUL -8 AM 10: 00
RECEIVED
OFFICE OF THE CHAIRMAN

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

Dear Chairman Volcker:

This is to confirm the oral request made by members of the Subcommittee on Securities, at the hearing held on May 25, 1982, for a detailed report by the Federal Reserve Board on the circumstances surrounding the default of Drysdale Government Securities on May 17, 1982.

It would be most useful to the Subcommittee's deliberations if your report includes:

1. an explanation of the facts leading up to the default, and the events which followed it;

2. a description of the regulatory and supervisory tools which were available to deal with these events, including the precise nature and limits of direct regulation of all government securities dealers;

3. your analysis of the causes of the Drysdale situation, the potential dangers it posed, and the possibility of future disturbances in the government securities market, including the means by which market practices such as "blind brokering" are developed, policed, and altered (including the role of federal regulators in this process), and the powers which the federal regulators possess to detect, contain and correct market disturbances of any kind; and

4. a summary of any proposals you may be considering to strengthen your supervisory role over government securities dealers, and any recommendations you may have for legislative action.

We would appreciate your submitting this report to the Subcommittee by September 15, 1982. At that time, we will request that the Department of the Treasury and the Securities and Exchange Commission provide us with their comments on your report.

Thank you for your prompt attention to this matter.

Sincerely,

Al D'Amato

Alfonse D'Amato
Chairman
Subcommittee on Securities

cc: Honorable Donald T. Regan
Honorable John S.R. Shad

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

#146

July 2, 1982

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

Dear Chairman Volcker:

This is to confirm the oral request made by members of the Subcommittee on Securities, at the hearing held on May 25, 1982, for a detailed report by the Federal Reserve Board on the circumstances surrounding the default of Drysdale Government Securities on May 17, 1982.

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Thank you for your prompt attention to this matter.

Sincerely,

Al D'Amato

Alfonse D'Amato
Chairman
Subcommittee on Securities

cc: Honorable Donald T. Regan
Honorable John S.R. Shad

July 7, 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:

Thank you for your letter of June 29 inviting the Board to appear before your Subcommittee at hearings on foreign investment in United States banks.

Governor Henry C. Wallich is looking forward to appearing, on behalf of the Board, on August 18 at 9:30 a.m.

Sincerely,

S/ Paul

CO:vcd (V-142)

bcc: Messrs. Dahl, Gemmill, Bradfield, Ryan (w/copy of incoming)
Mrs. Mallardi (2)
Mrs. Veenstra

Cong. Liaison Office sent memo to Chairman
re Governor Wallich testifying

…AMIN S. ROSENTHAL, N.Y., CHAIRMAN
JOHN CONYERS, JR., MICH.
EUGENE V. ATKINSON, PA.
STEPHEN L. NEAL, N.C.
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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

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

MAJORITY—(202) 225-4407

#142

June 29, 1982

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

Dear Mr. Chairman:

The Commerce, Consumer, and Monetary Affairs Subcommittee has tentatively scheduled two days of hearings on foreign investment in U.S. banks for August 17 and 18. I am writing to request the testimony of the Federal Reserve on August 18 at 9:30 A.M. in Room 2247 of the Rayburn Building.

The Federal Reserve testimony should cover the following general topics:

1. Financial General: Federal Reserve approval of the application for foreign acquisition of control of Financial General Bankshares, including the standards applied by the Federal Reserve and the investigation of the financial affairs of the principal investors.

2. LITCO: The policy issues relating to government-owned banks that were presented in this case, and the standards applied in approving the application.

3. Foreign holding company supervision and examination: The scope and procedures of Federal Reserve supervision and examination of bank holding companies and how the supervision and examination of foreign bank holding companies differs from the supervision and examination of domestic bank holding companies.

4. Foreign individual ownership of U.S. banks: The performance and examination results of those foreign-owned U.S. banks that are controlled by individuals (whether directly or through a holding company), and the particular supervisory problems posed by foreign individual ownership.

In addition, the Board witness should be prepared to respond to questions about the acquisition of Crocker by Midland Bank and the proposed acquisition of Hibernia by an Indonesian applicant.

Requests for specific background information will be forwarded in separate letters.

As is specified by the rules of the House, please provide 100 copies of the Board's prepared statement at least 24 hours prior to the hearing.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dtv

July 7, 1982

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

Dear ~~Senator~~ Chairman Garn:

On behalf of the Board of Governors, I want you to know that we are appreciative of the comprehensive report on Federal Reserve Bank check clearing operations that has been prepared by the General Accounting Office. We are encouraged by the report's findings that the Federal Reserve has made reasonable judgments in exercising the discretion given to it by the Monetary Control Act over when and how to price specific services. The concerns raised by the GAO are being addressed in the context of market conditions, and in a manner consistent with our long range goal of improving the payments system; and we believe that substantial progress has been made in addressing them.

We believe that we have done well in implementing the pricing provisions of the Monetary Control Act. After only five months from the date specified by the Monetary Control Act to begin pricing, we implemented pricing for all services. Although we have not yet begun to price for float explicitly, substantial reductions in Federal Reserve float have been achieved since the Monetary Control Act was passed on March 31, 1980; and these reductions have had the effect of generating some $350 million in Federal Reserve revenues for the benefit of the Treasury.

We recognized at the outset, of course, that the transition from an environment of nonpriced and restricted access to one of pricing and open access would be marked by great uncertainty, most especially with regard to volume responses to our new prices. In fact, we began to address the price-volume-capacity issue as soon as pricing for check clearing and automated clearinghouse services was implemented in August 1981. And, as indicated, reduction of Federal Reserve float, and planning for explicit pricing of remaining float, have continually had a very high priority. Even so, the GAO report has helped to sharpen our focus on the key issues involved in pricing check clearing services, ACH services, and float.

In its earlier comments on the draft report, the Board stated that it did not agree fully with some of the conclusions and recommendations of the report. Rather than restate the views expressed in our letter to Mr. Anderson of January 12, 1982, a copy of which is attached to the final GAO report, we would like to take this opportunity to provide information on actions that have since been taken to address the concerns raised in the report. These actions relate to the revenue shortfall in the check clearing service, recovery of the cost of float, and phasing out of incentive prices for commercial ACH services.

Revenue Shortfall in the Check Clearing Service

The GAO report recommends that the Federal Reserve "review and modify prices, where appropriate, at least every 6 months until sufficient experience is gained to be certain the financial targets can be realized." Before turning to the substance of the recommendation, the Board wishes to emphasize that it does not agree that the revenue shortfall in the check service should be characterized as a subsidy. Prices were set to recover costs in the long run. However, because volume losses have been greater than expected, our current prices are not fully recovering costs. This should not be the case over the course of time. This situation is quite distinct from, for example, our automated clearinghouse pricing policy, which involves a decision by the Board not to charge during 1982 the full cost of providing the automated clearinghouse service.

Since we responded to the draft GAO report, numerous further actions have been taken to deal with the shortfall. The Reserve Banks have already modified some prices that were not consistent with their net revenue targets, and a thorough review is underway now of the entire check pricing schedule. Systemwide, prices for items that were underpriced--package sort, mixed cash letter and nonmachineable--were reviewed and new prices put into effect on April 1, 1982. The System also is reviewing commercial check costs, volumes and revenues to determine new fee schedules to be announced later this summer. On the District level, most of the Reserve Banks have reviewed and revised local check prices that were not set properly to achieve their own objectives of efficient check clearing services and full cost recovery. We believe this continual review process is a more efficient way of adjusting our fee schedules than a semiannual review would be since it enables the Reserve Banks to adjust their prices rapidly in response to local market conditions.

The report also recommends that the Board of Governors "compare actual volume and costs with prior estimates at least quarterly for each District and office and take necessary action to bring costs and revenue into line." We certainly agree with the thrust of this recommendation. Indeed, the System has adopted a management structure for its priced services activities that goes well beyond the GAO recommendation. Each Reserve Bank prepares an annual business plan which is approved by the Board of Governors as part of the annual budget review process that includes objectives for costs, revenues and volume by service for the entire year. In addition, the Reserve Banks report monthly on cost, revenue and volume experience. The Board staff monitors actual performance against plans, and, when actual performance differs significantly from the plan, works with the Reserve Bank to identify the cause of the divergence and steps that will remedy the situation.

The Board has also addressed the GAO recommendation for preparation of financial statements for use in the Annual Report to show clearly both the revenues and expenditures associated with priced services. We will publish annually, starting with 1982, revenues and expenses by major service line; and differences between revenues and costs plus the private sector adjustment factor will be delineated clearly.

The final GAO recommendation on check service pricing is that the Board should review the structure of check clearing prices to be certain that they make maximum contribution toward achieving efficient, unsubsidized check clearing services. As indicated, our check pricing review is nearing completion, and new prices will certainly attempt to achieve that objective.

Efforts to Recover the Cost of Float

The report recommends that the Board move immediately to set a definite timetable for pricing float at the interest rate for Federal funds. As the Board emphasized in its comments on the draft GAO report, we strongly believe that efficiency in the payments mechanism can be achieved by methods that put a substantial part of the burden of float reduction on the payor banks. Consistent with efforts to achieve that objective, the System has reduced float from an average daily level of $4.8 billion in the first quarter of 1980 to an average daily level of $1.9 billion in the thirteen week period from March 3 to June 2, 1982. In fact, the most recent numbers indicate that average daily float is currently in the area of $1.5 to $1.7 billion. We are developing a comprehensive and aggressive plan and timetable for the reductions in float, and for explicit pricing of float, which we expect to announce within the next month or so. We would like to supplement these comments at that time with a copy of the announcement.

Incentive Prices for Commercial Automated Clearinghouse Services

The report recommends that the Federal Reserve change its pricing policy for the commercial automated clearinghouse service. Specifically, the report suggests that 1982 ACH prices be set to recover full costs. Since we responded to the draft GAO report, the System's Pricing Policy Committee has conducted a thorough review of our ACH pricing policy. Based on that review, the Board has announced a phaseout of its incentive pricing policy for the ACH service over the next three years. To achieve a smooth transition to a fully costed price, the Board plans to increase its ACH prices in stages. When 1982 prices are implemented later this year, they will be set to recover 40 percent of the current full cost of production, including the private sector adjustment factor. The ratio will rise to 60 percent in 1983, 80 percent in 1984, and 100 percent in 1985.

There were several factors that led us to the conclusion that we should phase down our incentive pricing through 1985 rather than end it abruptly. First, if fully costed prices were implemented immediately, the price increase would be substantial and could very well cause many users of the ACH service to revert to paper checks. Second, more than 60 percent of all payments processed through the ACH are originated by the Treasury Department. Because of our obligation to provide fiscal agent services to the United States government as efficiently as possible, the Federal Reserve would continue to operate ACH facilities to disburse payments for the Treasury Department regardless of our policy towards commercial payments. Finally, one very necessary ingredient in the private sector's determination of whether to provide ACH services is a volume level of sufficient size to allow potential providers to offer ACH services at an attractive price. At present, commercial volume appears too low for anyone to produce ACH services profitably. The Board's incentive pricing policy has generally been supported by the banking industry; indeed, letters we have received in recent weeks indicate that there are many in the private sector who believe that the Federal Reserve is moving towards full cost recovery too rapidly.

We continue to believe that the ACH service is beneficial to the public from the perspective of security and convenience and that it should be encouraged to grow so that fully costed prices will be attractive relative to those of paper checks. At the same time, we recognize that the private sector should have the knowledge of Federal Reserve pricing intentions needed for planning the development of ACH systems. Thus, the Federal Reserve has decided to gradually reduce its support to the ACH mechanism, avoiding the potentially negative repercussions of a substantial, one-time, price increase and providing some stimulus for future volume growth over the short run. Moreover, the private sector during this time will be able to evaluate with greater certainty the costs and benefits of the ACH service and decide whether competitive ACH facilities and networks would provide an adequate return on investment.

The Board appreciates this opportunity to comment on the GAO's final report. As always, we stand ready, at your convenience, to provide additional information and to discuss any of the points made in this or previous responses.

Sincerely,

Identical Letter Sent to
The Honorable Jack Brooks
Chairman
Committee on Government Operations
Washington, D.C. 20515

The Honorable William V. Roth, Jr.
Chairman
Senate Committee on Government Affairs
Washington, D.C.

The Honorable Fernand J. St. Germain
Chairman
Housing Banking Committee
Washington, D.C.

EGH/emj

Mrs. Mallardi

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

July 7, 1982

The Honorable James J. Florio
Member of Congress
1 Colby Avenue
Stratford, New Jersey 08084

Dear Mr. Florio:

Thank you for your letter of June 3 enclosing correspondence from Mrs. James Hanacek requesting comment on an article by Sylvia Porter that recently appeared in newspapers across the nation. The article raises concerns about the growing trend toward "check truncation", that is, the practice of having the depositor's financial institution retain canceled checks rather than returning them to the depositor with his or her periodic statement. Based upon our experience to date, we believe that there are very few, if any, problems that have arisen from check truncation.

In recent years, depository institutions have encountered significantly increased operating costs due to increases in salaries, computer equipment, postage, and other expenses. The introduction of interest-bearing NOW accounts has also increased costs. Much of these increased costs are passed on to depositors in the form of service charges. In order to provide customers with lower cost services, depository institutions are increasingly turning towards check truncation in order to reduce the amount of paper that is handled. By retaining customers' checks, depository institutions are able to reduce handling and processing costs as well as postage expenses. As a result, the institution is in a better position to pass on these savings to the depositor. Ms. Porter's article recognizes that this is the principal benefit of the check truncation service.

Ms. Porter's article, however, cautions that depositors will have less ability to challenge errors if a paper check is not returned to the depositor. We do not believe that this is the case. First, in virtually all instances, the depositor retains a carbon copy of the check for his records. The carbon copy contains virtually all of the information that the original copy contains and can be used to identify and verify payments. Second, depository institutions are able to provide microfilm copies of the original in a timely fashion if additional questions arise. Such copies are generally accepted as proof of payment.

There has been no intention on the part of the Government agencies to keep the issue of check truncation quiet. Indeed, the National Credit Union Administration has adopted rules requiring federal credit unions that offer share draft (checking) accounts to truncate customers' checks. This rule was adopted after an extensive public comment period. Any rules that are adopted by federal agencies in this area are subject to the Administrative Procedure Act (5 U.S.C. §§ 551 *et seq.*), which requires, in most instances, that public comment be solicited before final rules are adopted. Accordingly, I would expect that any action by the agencies to accommodate check truncation would be considered only afer the public has had extensive opportunity to comment on the proposed rules. The Federal banking agencies do not have rules authorizing check truncation by commercial banks because the service is permitted under banks' authority to accept deposits, which is granted to them by statute. There are no plans under consideration by the banking agencies to require that commercial banks truncate checks.

Ms. Porter states that there will be a single location at which depositor records will be centralized. We are unaware of any proposals or plans to centralize information concerning depositors, and check truncation does not result in having information available in a central location. The process involved in check truncation is as follows. The customer's bank (or a bank earlier in the collection process) transcribes information from the check onto magnetic tape which is used to service the account. The bank uses the tape to place charges and credits against the account and to prepare an itemized account statement. Images of the front and back of the check are transferred to microfilm. The original checks are then placed in storage at the customer's bank. Should questions arise concerning particular payments, copies of the check could be made from the microfilm. The original checks are usually destroyed by the customer's bank after the passage of a certain time period, typically three to six months after they are paid.

Ms. Porter also mentions that check truncation makes it easier for the IRS to audit taxpayers. Check truncation does not have any effect on the ability of the IRS to audit returns nor upon financial privacy. Depository institutions already keep microfilm copies of checks regardless of whether or not the checks are returned to the depositor. Under the Bank Secrecy Act (12 U.S.C. § 1829b), each insured bank is required to make a microfilm or other reproduction of each check, draft or other similar instrument drawn on it and presented to it for payment under regulations of the Secretary of the Treasury (12 U.S.C. § 1829(d)(1)). The Department of the Treasury has issued the Financial Recordkeeping and Reporting of Currency and Foreign Transactions regulations (31 CFR Part 103) to implement this statute. While only checks of more than $100 are required to be microfilmed under the regulations, in practice depository institutions microfilm virtually all depositors' checks in the event a problem arises. In addition, the Right to Financial Privacy Act of 1978 (P.L. 95-630) provides substantive and procedural safeguards established by Congress to ensure that information concerning depositors' financial records is protected. These protections would apply regardless of where the checks are stored before they are destroyed.

The article also questions the move towards electronic banking, arguing that customers would be more vulnerable to loss of their funds. We believe that Congress already has addressed many of the consumer concerns that arise with regard to electronic funds transfers. The Electronic Funds Transfer Act (Title XX of P.L. 95-630; 15 U.S.C. § 1693) establishes consumers' rights, protections, and responsibilities with respect to the electronic transfers of funds. The protections afforded to customers under this Act and the Board's Regulation E (12 CFR Part 205) implementing the Act include specified disclosures of the terms and conditions of EFT transactions, written documentation of transactions, a specified error resolution procedure, and limited customer liability for unauthorized transfers.

We believe electronic funds transfer systems potentially have substantial benefits for customers and for the payments mechanism of the country. In this regard, EFT systems are more efficient than a paper-based payments system. This increased efficiency should result in lower costs to financial institutions that likely will be passed on to customers, given the highly competitive nature of the financial services industry.

I hope that the foregoing is helpful to you. Please let me know if I can be of further assistance.

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn
Assistant to the Board

(GTS:PSP:DJW:)CO:pjt (#V-125)
bcc: Mrs. Mallardi

Cong. Liaison Office will draft response

Congress of the United States

Washington, D.C. 20515

1 Colby Avenue
Stratford, NJ 08084

#125

June 3, 1982

Mr. Paul A. Volker, Chairman
Board of Governors of the
Federal Reserve System
Federal Reserve Building
Constitution Ave. Between 20th & 21st Sts.
Washington, D. C. 20551

Re: Mrs. James Hanacek
[redacted]

Dear Mr. Volker:

I have enclosed a self-explanatory letter delivered to me by the above named constituent.

I would be most interested in receiving your review and reply to this correspondence so that I may advise my constituent accordingly.

Please forward to me at my Stratford District Office the results of the action you have taken.

Thank you for your cooperation and interest in this matter.

Yours very truly,

J J Florio

JAMES J. FLORIO
Member of Congress

JJF/16/ch

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1982 JUN -7 AM 9:01
RECEIVED
OFFICE OF THE CHAIRMAN

May 29, 1982

Congressman, James J. Florio
1 Colby Avenue
Suite 1617
Stratford, New Jersey 08084

JUN 1 REC'D

Again, Congressman Florio, I turn to you for advices in the matter as per the attached article which appeared in the "Courier Post" on Thursday, May 27, 1982.

I have written a letter to Glendale National Bank in Voorhees Township, strongly opposing this type of bank procedures.

What annoys me is the fact that the banks are trying to keep this on the quiet side with no discussions amongst the public and I am alarmed that there is a possibility that this could become their way of doing business.

Could you inform me as to the possibility of any Committee that could oppose this change in banking procedures?

Thanking you in advance,

Sincerely,

Evelyn Hanacek

Evelyn Hanacek (Mrs. James)
[redacted]

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Citation Information

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Citations: Porter, Sylvia. "Banks May Keep Canceled Checks And Keep You Guessing." *Courier-Post* (Cherry Hill, NJ), May 27, 1982.

July 7, 1982

The Honorable Tom Harkin
House of Representatives
Washington, D. C. 20515

Dear Mr. Harkin:

Thank you for your recent letter regarding the problem of high interest rates. I agree with you that we need to do something to relieve the pressures holding up rates if we are to ensure a robust and balanced economic recovery.

I shall be reporting to the Congress in just a few days regarding the Federal Open Market Committee's decisions regarding objectives for monetary growth over the remainder of 1982 and in 1983. We are mindful of both the need to meet the liquidity requirements of the economy and the need to maintain the basic longer-range, anti-inflationary thrust of monetary policy. As I'm sure you can appreciate, translating these goals into quantitative targets is no simple matter, particularly in a world of rapidly changing financial practices that make even the definition of money somewhat ambiguous. But we shall do our best and I will present to the Congress the rationale for our decisions, as well as our view of the implications of our policy for the economy.

I should note that, even if further reduction of the FY 1983 federal deficit may be difficult, there is still much the Congress can do to alleviate tensions in financial markets. As I read the situation, it is not so much the FY 1983 deficit in itself that is so disconcerting to lenders and investors, it is the prospect of an ever-widening structural gap between federal outlays and revenues as one looks out over the years ahead. If the Congress could act now to alter decisively that trend--to ensure progress toward a balanced budget as the economy recovers--then fears that we will have either persistent "crowding out" or eventual inflationary monetary accommodation will subside. This should show through in interest rates, especially in the longer-term markets that are so important for home building and business capital formation.

In short, I believe the Federal Reserve and the Congress have important work to do if we are to solve the economic problems confronting us. I look forward to working constructively with you and your colleagues to that end.

Sincerely,

S/Paul A. Volcker

MJP:JLK:vcd (#V-143)
bcc: Mr. Prell
Ms. Wing
Mrs. Mallardi (2)

Action assigned Mr. Kichline

TOM HARKIN
5TH DISTRICT, IOWA

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

SPECIAL PHONE FOR THE
HEARING IMPAIRED
TTY-202-224-2793
TTY-202-224-6801

COMMITTEES:
AGRICULTURE
SCIENCE AND TECHNOLOGY

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

DISTRICT OFFICES:
P.O. BOX 264
213 POST OFFICE BUILDING
AMES, IOWA 50010
(515) 232-6111

BOX H
229 FEDERAL BUILDING
COUNCIL BLUFFS, IOWA 51502
(712) 325-5533

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

June 29, 1982 #143

Mr. Paul Volker
Chairman
Board of Governors
Federal Reserve System
Washington, D.C. 20551

Dear Chairman Volker:

Our country is in real trouble. With interest rates at their present level, I believe we can almost be assured that economic recovery will be very weak indeed. If rates continue to rise to even higher levels, there will be no recovery.

I need not tell you of the record unemployment or the depression in agriculture and the housing and auto industries, all highly sensitive to interest rates. Bankruptcies are at record levels. The weakness of many companies' balance sheets tells me that the bankruptcy rate could increase dramatically in the next six months.

The human suffering and fear is terribly real. Every day, marriages are destroyed by the pressure of today's economic realities. Families will remain apart long after our economy turns healthy again.

I understand that the monetary targets have been set as a mechanism to keep a damper on inflation. Many fear a change in the monetary targets could renew an increase in the inflation spiral. Some suggest that such a change would yield to higher interest rates. That will not happen. In real terms, adjusted for inflation, the prime rate is nearly ten points above inflation. Fear of inflation will not boost interest rates.

The Congress has now passed a budget resolution with an announced budget deficit of $103 billion. If the Congressional Budget Office assumptions are used, the deficit climbs to $116.4 billion. Many economists suggest that the less favorable CBO assumptions are also optimistic. That is clearly the factor increasing the rates.

Given the present reality, with a budget resolution passed and the President's position as it is, spending will not fall and taxes will not be raised beyond the requirements of that resolution. The earliest that one can expect to see substantial change in budget policy is next April. I do have hopes that there will be a real change at that time. However, that may be too late to save our economy from taking another serious dive.

The only hope the economy has is a change in the Federal Reserve's monetary policy. As you examine your monetary targets, I urge and implore that you adjust those targets upward.

Whatever the dangers of increasing monetary growth, they are small compared to the danger of leaving them where they are.

I appreciate your consideration in this matter.

Sincerely,

Tom Harkin

Tom Harkin
Member of Congress

TH/grb

July 7, 1982

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

Dear Bill:

For your information, I have recently forwarded to Chairman Garn of the Senate Banking Committee a revised Federal Reserve proposal to amend Section 23A of the Federal Reserve Act. The revision incorporates constructive comments that were received as a result of hearings on the legislation. I wanted you to have a copy of this revised proposal.

Sincerely,

S/ Paul

Enclosure
CO:DJW:pjt
bcc: Mrs. Mallardi (2)

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

July 2, 1982

PAUL A. VOLCKER
CHAIRMAN

The Honorable George M. O'Brien
House of Representatives
Washington, D.C. 20515

Dear Mr. O'Brien:

Thank you for your recent letter in which you request my views on the desirability of reducing interest rates by taking actions to speed up monetary growth, an idea that was suggested to you by one of your constituents, Mr. Asa Dempsey. In particular, you indicate that this might be appropriate once a budget was put in place.

The question of appropriate monetary growth is, of course, one that is reviewed frequently and carefully by the Federal Reserve, and target growth ranges are reported to Congress each February and July. The target ranges that were announced for 1982 in February were chosen to exert continued downward pressure of inflation while at the same time providing adequate scope for an economic recovery this year. Seeking lower interest rates by raising monetary growth objectives, as your constituent has suggested, runs the risk of heightening fears that the painful but real gains we have made against inflation will be reversed. Moreover, the ultimate result could very well be higher, not lower, interest rates. I would emphasize in this regard that a program of restrained growth in money and credit is not necessarily synonymous with a high interest rate policy. Quite the contrary, appropriate monetary restraint is needed to reduce the "inflation premium" component in interest rates and allow them to come down and stay down. At the same time, we must be cognizant of the motivations that underlie observed changes in money, and, in particular, try to distinguish between demand for money for transactions purposes in a period of economic expansion and demand for money for precautionary purposes in a period of economic uncertainty. From a longer term perspective, however, in order for interest rates to decline and be sustained at a lower level, it is critical that markets be convinced that efforts to lower inflation will not be abandoned. Such a change in attitudes will be hastened by a strong budget program that reduces significantly the federal government's claim on the nation's scarce savings.

I have recently discussed the Federal Reserve's conduct of monetary policy at greater length in a speech to the Economic Club of Chicago, a copy of which is enclosed.

I hope this information is useful to you.

Sincerely,

S/Paul A. Volcker

TB:TDS:JLK:CO:NS:pjt (V-134)
bcc: Messrs. Simpson, Brady
Ms. Wing, Mrs. Mallardi (2)
Enclosure (5/19/82 speech)

GEORGE M. O'BRIEN
17TH DISTRICT, ILLINOIS

COMMITTEE ON
APPROPRIATIONS

SUBCOMMITTEES:
LABOR, HEALTH AND HUMAN
SERVICES, EDUCATION

COMMERCE, JUSTICE, STATE
AND THE JUDICIARY
RANKING REPUBLICAN

Action assigned Mr. Kichline

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

WASHINGTON OFFICE:
2439 RAYBURN HOUSE OFFICE BUILDING
(202) 225-3635

DISTRICT OFFICE:
101 NORTH JOLIET STREET
JOLIET, ILLINOIS 60431
(815) 740-2040

TOLL FREE NUMBER
(800) 892-9371

June 16, 1982

#134

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1982 JUN 17 AM 8:58
RECEIVED
OFFICE OF THE CHAIRMAN

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

Dear Chairman Volcker:

A close personal friend and advisor in Illinois is Mr. Asa Dempsey, who is the president of the UAW local which operates the Ford stamping plant in my district. He is a very concerned person, not only about his union but also about the nation at large and has been of great assistance to me. At a recent meeting with some of the leaders of my community he voiced the comment that as soon as we got the budget in place whether there was any way we could persuade you to lessen the restraints on the money supply.

I thoughthis comments were very astute and I am taking the liberty of asking if you would please give me an expression of your view on this possible means of getting our interest rates down.

Cordially yours,

George M. O'Brien
Member of Congress

GMO: mbj

HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

HENRY J. HYDE
6TH DISTRICT, ILLINOIS

July 1, 1982

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

Dear Mr. Volcker:

I want to express my profound thanks for your personal contribution to the overwhelming success of our 6th District Advisory Council "Day in Washington" last Monday.

Everyone was extremely enthusiastic and, believe me, your time and effort will not be forgotten. All the members of your staff whom we worked with were extremely helpful, and I am sure your important message was very well received.

Please let me know when I can be of reciprocal help to you.

Warmest regards,

Henry

Henry J. Hyde

HJH:fcs

July 1, 1982

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

Dear Chairman Annunzio:

Thank you for your letter of June 25 regarding your Subcommittee's hearings on H. R. 6124, a bill to extend the Credit Control Act.

Vice Chairman Preston Martin will be pleased to appear on behalf of the Board on July 15 at 10:00 a.m.

Sincerely,

S/Paul A. Volcker

WRM:vcd (V-139)

bcc: Vice Chairman Martin
Mr. Axilrod
Mrs. Mallardi (2)

Cong. Liaison Office discussing appropriate witness with Committee staff

U.S. HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

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

ROOM 212 HOUSE OFFICE BUILDING ANNEX No. 1

WASHINGTON, D.C. 20515

June 25, 1982

A 139

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

Dear Mr. Chairman:

The House Consumer Affairs and Coinage Subcommittee of the House Banking, Finance and Urban Affairs Committee, plans to hold hearings on July 15 on H.R. 6124, to extend the Credit Control Act. I have enclosed a copy of the legislation.

I wish to invite you to appear before the Subcommittee on Thursday, July 15, at 10:00 a.m. The hearings will be held in Room 2128 Rayburn House Office Building. Your presentation should be limited to ten minutes; however, your written statement for the record may be of any length.

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

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

With every best wish,

Sincerely,

Frank Annunzio

Frank Annunzio
Chairman

Enclosure

I

97TH CONGRESS
2D SESSION

H. R. 6124

To reduce interest rates, control inflation, and ensure the availability of credit for productive purposes, and promote economic recovery by extending the Credit Control Act.

IN THE HOUSE OF REPRESENTATIVES

APRIL 20, 1982

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

---

A BILL

To reduce interest rates, control inflation, and ensure the availability of credit for productive purposes, and promote economic recovery by extending the Credit Control Act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 211 of the Credit Control Act (12 U.S.C. 1910) is hereby repealed.

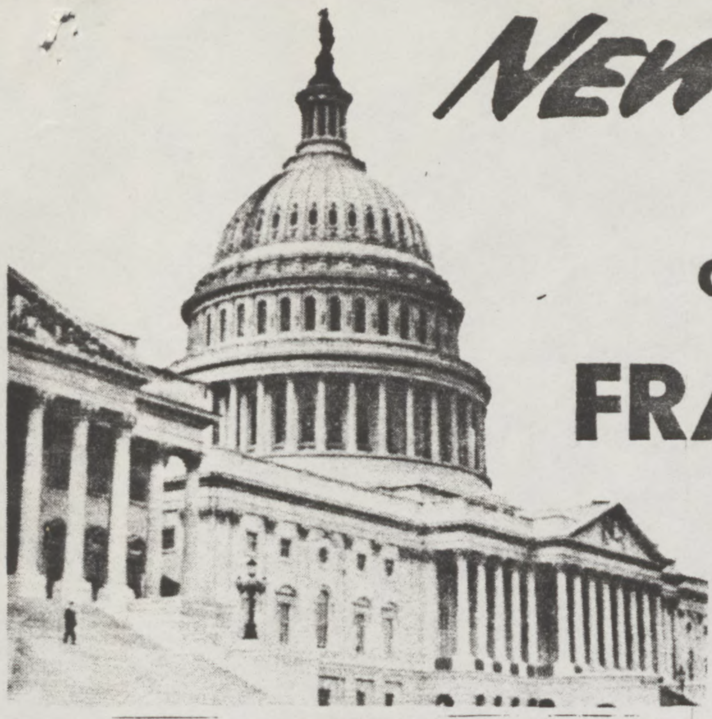
SEC. 2. (a) Section 205(a) of the Credit Control Act (12 U.S.C. 1904(a)) is amended to read as follows:

"(a) Whenever the President determines that such action is necessary or appropriate to reduce high levels of unemployment in any sector of the economy, or to prevent or control inflation or recession, the President may authorize the Board to regulate and control any or all extensions of credit.".

(b) Section 206 of the Credit Control Act (12 U.S.C. 1905) is amended by redesignating paragraphs (7) through (11) as paragraphs (8) through (12), respectively, and by inserting after paragraph (6) the following:

"(7) prescribe limitations with respect to credit for nonproductive purposes, including corporate takeovers, and otherwise ensure the availability of credit for productive and necessary purposes.".

○



NEWS RELEASE

from

Congressman

FRANK ANNUNZIO

11th Congressional District — Illinois

FOR RELEASE MONDAY, JUNE 28, 1982

CONTACT: Curtis A. Prins
Subcommittee on Consumer Affairs and Coinage
(202) 225-9181
Friday, June 25, 1982

CREDIT CONTROL HEARINGS SCHEDULED FOR JULY 14 AND 15

Hearings to extend the Credit Control Act will he held July 14th and 15th by the House Consumer Affairs and Coinage Subcommittee, its Chairman Frank Annunzio (D.-Ill.) announced today.

Although the Credit Control Act expires on June 30th, H.R. 6124, introduced by House Banking Committee Chairman Fernand St Germain and two dozen cosponsors, including Chairman Annunzio, would extend the Act on a permanent basis. In addition, new authority would be placed in the Act to prevent the use of credit for non-productive purposes such as unnecessary corporate takeovers.

"At a time when this country faces double digit unemployment, record high interest rates, and a near shutdown in the homebuilding and automobile industries, we cannot allow what credit is available in this country to be used to conduct bidding wars among corporate raiders," said Annunzio.

"In 1981, businesses borrowed $34 billion for takeovers and tied up another $70 billion in takeover loan commitments. These takeovers didn't create one new job or do anything to help the overall economic situation of the country.

"If we had taken that $34 billion and instead of using it for corporate raids it could have financed 5,666,667 automobiles priced at $6,000 each or it could have financed the purchasing of 566,667 homes costing $60,000 each. We could have turned the economy around if the money had gone for homes and automobiles, but not only did we not do that, but the takeover loans actually damaged our country.

"The prime rate is set by the demand for loan funds," Annunzio continued. "The prime rate is supposed to go down when there is no demand for loans, but because there was a demand for takeover loans, the prime rate was kept high, forcing consumers who needed loans to pay record high interest rates.

MORE

"Had this new provision in the Credit Control Act been in place last year, the prime rate could easily have been reduced by as much as 400 basis points. Instead, consumers are paying record interest rates now because corporate takeovers played Pac-Man with all the available loan funds."

The hearings will be held in Room 2128, Rayburn House Office Building and will begin at 10 a.m. each day. A complete witness list will be issued next week.

# # #

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

March 18, 1982

PAUL A. VOLCKER
CHAIRMAN

The Honorable Henry S. Reuss
Chairman
Joint Economic Committee
Washington, D. C. 20510

Dear Chairman Reuss:

Thank you for your letter of February 26 forwarding a copy of the Annual Report of the Joint Economic Committee. Your letter calls our attention in particular to Recommendation 8 of the Democratic Members of the Committee which calls upon the Federal Reserve to review various aspects of monetary policy and report to the Congress.

I approach your recommendation with mixed feelings. We start from common ground in believing that the techniques and procedures of monetary policy warrant periodic--indeed continuous--review to assure their suitability. Such reviews are, of course, valuable for our internal purposes and have obvious benefit in terms of the Federal Reserve's ability to communicate our policies to the Congress and the public and in turn satisfy the need for accountability. They are all the more significant in a period of rapid change and innovation in financial practices, encompassing financial instruments, institutions, and markets.

At the same time, the Report's characterization of recent evidence as indicating "fundamental flaws in the procedures of monetary formation and oversights" seems to me unwarranted on the basis of the evidence we have. Of course, it will never be possible to devise techniques which are good for all time, nor to reduce complexities to simplicities; every procedure for formulating and implementing monetary policy represents something of a compromise among competing objectives, and can be modified and improved over time. The real difficulties in the current situation lie not in the technical implementation of monetary policy, but rather in reorienting the modes of behavior throughout the economy away from an adaptation to inflationary expectations toward greater price stability. These difficulties are compounded to the extent almost exclusive reliance is placed on monetary policy to combat inflation, financial markets are burdened by excessive budgetary deficits, and by rigidities in the price-wage structure.

As you know, some of the technical issues of monetary policy were investigated in a major Federal Reserve study last year. The results were published in 1981 in a two-volume study, New Monetary Control Procedures: Federal Reserve Staff Study. This study received considerable professional attention and is the subject of continuing academic review and public discussion. I do not believe that it would be productive at this time for the Federal Reserve to convene a panel of outside advisers with disparate opinions in the thought that some new consensus would spontaneously emerge from such a discussion that has escaped the notice of those of us responsible for conducting policy. You are as aware as I of the variety of professional opinion and schools of thought, taking as their point of departure different analytic frameworks. I believe it far more likely that constructive criticism and analysis would emerge from a continuing process of reaction to concrete policy proposals, actions, and studies by the Federal Reserve.

To facilitate that process, and as part of our continuing effort to expose and test our thinking against that of others, I have asked our staff to address the specific points raised in your Report, drawing on available research findings and internal thinking, and to report their findings in convenient form. I intend to submit that report, including any recommendations to the Congress by the Board that are relevant, as part of our next regular Report to the Congress on Monetary Policy pursuant to the Full Employment and Balanced Growth Act of 1978.

The results of this study will, of course, be available to the public generally, as well as to professional specialists, and we will look forward to reviewing these issues with the Congress and others who are interested. I do want to thank you for your concern for the improved conduct of economic policy in general and monetary policy in particular, to which I hope the report I have described, addressing the particular questions you have raised, will contribute.

Sincerely,

S/ Paul

NS:PAV:vcd (V-53)

bcc: Mr. Axilrod
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 26, 1982 #53

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

Dear Mr. Chairman:

I am enclosing a copy of the Annual Report of the Joint Economic Committee, released yesterday. In it, the Democratic Members of the Committee call on the Federal Reserve to undertake a searching review of current procedures of monetary policy formation and oversight. The purpose of such a review would be to develop a more flexible and sophisticated framework within which the Federal Reserve can operate while enhancing the quality of information about monetary policy available to Congress and the public.

The specifics of our request are set out in Recommendation 8. I would appreciate an early response outlining the measures you deem appropriate to meet this request. Specifically, I would encourage you to consider calling on a distinguished panel of outsiders to provide advice to the Federal Reserve on it. We regard this recommendation as one of the key ingredients of a program to establish a more workable relationship between the Congress, the Administration and the Federal Reserve in the future.

Sincerely,

Henry S. Reuss

Henry S. Reuss
Chairman

P.S. I commend Recommendations 9 and 10 to your attention as well, for reasons that will be apparent.

Enclosure

Recommendation No. 7: End the Interest Rate Wars

In 1981, U.S. high interest rates damaged the world economy and undermined confidence in the economic leadership of the United States. These severe international repercussions must not be allowed to continue. High interest rate competition should be replaced by much closer international coordination of economic policy.

Recommendation No. 8: Improve Federal Reserve Accountability and Policy Coordination

For the past decade, evidence has mounted that there are fundamental flaws in the procedures of monetary formation and oversight. These flaws were only partly corrected by the shift from interest rate to monetary targeting in October 1979; indeed, that change has brought new difficulties to the fore. We call for the Federal Reserve to take a fresh look at the formation of monetary policy and report to the Congress. Such a report should have six specific objectives:

- To improve the quality of information about monetary policy objectives made available to the Congress and the public;

- To improve the coordination of monetary policy, fiscal policy, and other tools of economic policy;

- To provide guidelines for the conduct of monetary policy in times of rapid financial innovation and change in monetary instruments;

- To provide guidelines for the conduct of monetary policy in the face of supply shocks;

- To evaluate the instability in recent years of the demand for money, and recommend changes in monetary policy procedures that may be necessary as a result of this development; and

- To devise ways to guarantee that Federal Reserve policy takes full account of the legitimate interests of industry, agriculture, and commerce, including small business and housing, as stipulated in the Federal Reserve Act.

Recommendation No. 9: Very Short-Run Money Volatility is Not a Problem

We disagree with the view that very short-run volatility of money growth significantly damaged the economy in 1981. We urge that this criticism of the Federal Reserve be dispensed with.

STATEMENT OF REPRESENTATIVE STEPHEN L. NEAL

Mr. Chairman, it is hard to believe that this committee would consider giving the credit control powers of H. R. 6124 to any President. I'm particularly surprised that some of my fellow Democrats would want to give these powers to President Reagan.

Do we really want to give President Reagan and the Federal Reserve these broad powers to decide who gets credit and on what terms?

We have experience with credit controls in this country; that experience is almost totally negative.

Most recently, President Carter invoked controls effective March 14, 1980, and terminated them in July of that year. It is clear that those controls slowed economic activity, weakened market confidence and helped to push us into our current deep recession.

As controls were placed on retail credit, consumers purchased less, and companies began laying off employees. In the second quarter of 1980, with controls in place, our real Gross National Product declined at an annual rate of nearly 10 per cent (the highest rate for any three-month period since the Great Depression). Unemployment rose from 6.2 per cent in February to 7.6 per cent in July. The sudden drop in economic activity was frightening to behold.

The controls obviously had no lasting effects in in bringing down inflation or interest rates. In fact, once the controls were lifted [redacted] interest rates rose quickly.

Our experience, then, has been that credit controls disrupt the market system, result in slower sales and higher unemployment. Whatever short-run benefits controls may offer are overwhelmed by the weaknesses they create in our system.

I think that passing H. R. 6124 would be too great a risk to take with our troubled economy, particularly in these times and under this President.

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