Congressional
May - June 1982 [1]

Congressional
May-June 1982

Copy to Sen Weiss

June 28, 1982

The Honorable James Abdnor
United States Senate
Washington, D. C. 20510

Dear Senator Abdnor:

I read your letter to Secretary Regan on DIDC matters with interest. I have great reservations about the practicality of a state experiment such as you urge, but the issue is, of course, a real one. I must point out, however, that part of our concern is the potential damaging impact on bank earnings, at least in the short run.

Sincerely,

PAV:ccm

JAMES ABDNOR
SOUTH DAKOTA

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VERNON C. LOEN
ADMINISTRATIVE ASSISTANT

United States Senate

WASHINGTON, D.C. 20510

COMMITTEES:
APPROPRIATIONS
ENVIRONMENT AND PUBLIC WORKS
JOINT ECONOMIC

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
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OFFICE OF THE CHAIRMAN

June 22, 1982

Honorable Donald T. Regan
Secretary
Department of the Treasury
15th and Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Mr. Secretary:

You are no doubt aware that the South Dakota Banking Commission has applied for permission to create a new financial instrument called a "Super NOW Account."

It appears to me that a splendid opportunity exists to introduce America to an alternative to money market mutual funds. By allowing banks and thrift institutions to offer a similar service, new competition can add vitality to an otherwise lackluster climate that pervades the financial sector. Since the DIDC is reluctant to offer this instrument nationwide, a regional allowance of the Super NOW account would provide a very appropriate trial to prove the worthiness of the instrument.

South Dakota offers splendid advantages as the proving ground for such an instrument. I am confident that any kind of testing of the Super NOW will be successful, and I am also aware that the financial sector is anxious to become more competitive with alternative investment and saving opportunities. I wish to outline some of the points at issue on this matter:

1. South Dakota will not draw significantly credit resources from neighboring states; the extent to which that may take place is actually an indication for the need for this instrument nationwide. South Dakotans are now heavily involved in investments in money market funds. Why doesn't the DIDC recognize the hardship that was created when vast resources have been diverted from South Dakota banks to Boston, Chicago, New York and other financial centers?

Dear Senator Abdnor, I read your letter to Secretary Regan re DIDC matters with interest. I have great reservations about the particular state experiment you are, but the issue is, of course, a real one. I must point out however, that part of our concern is the potential damaging impact on bank earnings, at least in the short term. Sincerely,

Honorable Donald T. Regan
June 22, 1982
Page two

2. I challenge the notion that the offering of Super NOWs will substantially raise the cost of loanable funds. It is entirely conceivable that they may act as an incentive to save, which is critically needed if the U.S. is to meet its credit and investment needs in the future. As the supply of loanable funds increases, interest rates would actually decline if demands remains constant. Also, as a matter of equity to the saver, it is disheartening to realize that vast numbers of savers are currently uniformed as to saving alternatives. Many retired persons do not possess financial "savvy." Their assets deserve to earn higher interest than offered on passbook and demand deposits. Such transfers would, as you know, raise the cost to institutions, but only to a small extent, since passbooks and checking accounts amount to only a small portion of money resources.

3. The South Dakota Savings and Loan Board recognizes the need to become involved with more competitive innovations. If we continue to isolate them, they will indeed become extinct.

4. No economic argument can effectively justify the regulation of money flows as is the case today. Restrictions are causing inefficiencies that we cannot afford. This decade could well witness the demise of the banking and savings and loan industry, as we know it, not because of market forces edging out the non-productive and inefficient, but because government regulation would not allow existing institutions to compete in a dramatically changing industry.

The financial sector is watching your treatment of the South Dakota request with extreme scrutiny. Your decision either to allow or disallow this instrument even on a trial basis will need to be justified substantially. I urge you to give full consideration to offering the Super NOW Account. The all-important element of saving and investment depends on taking bold steps in providing competitive and practical instruments.

With best wishes,

Sincerely,

Jim Abdnor

JAMES ABDNOR
United States Senator

JA/djr
cc: Paul Volcker — William Isaac
Richard Pratt — Edgar Callahan
Hon. Jake Garn — Brent Beesley

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

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

June 25, 1982

Congressman Stanton thought you would be interested in his recent statements on the independence of the Federal Reserve and the expiration of the Credit Control Act.

Enclosures

June 24, 1982

MAINTAIN THE FEDERAL RESERVE'S INDEPENDENCE

BY HON. J. WILLIAM STANTON

Mr. Speaker:

I have been greatly troubled recently by numerous proposals to limit the independence of the Federal Reserve. From the perspective of eighteen years of service in the Congress, I can say with conviction that the last thing we need -- just as we stand on the threshold of economic recovery -- is is to tamper with the Federal Reserve which on the whole has served this Nation well.

It was not long ago that the late Wright Patman, a former Chairman of the House Banking Committee, launched a campaign to get Congress to assume more detailed direction over the conduct of monetary policy. There have been many others who called for legislation to reduce the Federal Reserve's freedom at times when the economy fared poorly. Bills specifying monetary growth targets, proposals to pressure the Federal Reserve by indirection to speed up the money supply, legislation to make the Board Chairman's term coterminous with that of the President, suggestions to abolish the Federal Open Market Committee, and initiatives to subject the Federal Reserve System to a GAO audit or to the appropriations process, are just a sampling of the ill-conceived "reforms" that have been floated by Members of both parties.

When this issue flared up once before several years ago, former Federal Reserve Board Chairman Arthur Burns cautioned us in these words: "...Congress has not only protected the Federal Reserve System from the influence of the Executive Branch; it also has seen fit to give the System a good deal of protection from transitory political pressures emanating from Congress itself."

It is understandable if politicans are tempted to cast the Federal Reserve in the role of a scapegoat. But, if that temptation is not resisted, we will all be worse off for it. Senator Carter Glass and the other framers of the Federal Reserve Act knew what they were doing nearly seventy years ago when they insisted on sheltering the Federal Reserve from the shifting political winds. The Congress should not be in the business now of directing our Nation's central bank to do whatever is popular today or whatever may produce the most votes tommorrow.

Let us not take lightly the tough job that the Federal Reserve has in today's economic climate. If it restrains the growth of the money supply to fight inflation and lower interest rates, it is accused of callous disregard for recession and unemployment. If, on the other hand, it overshoots its monetary targets even temporarily, the markets conclude that the Federal Reserve has caved in to political pressure and that we are back on another binge of inflation and rising interest rates. As a result, the Federal Reserve finds itself between the proverbial rock and a hard place in the discharge of its primary responsibility which is, let us remember, the achievement and preservation of a sound currency whose growth is consistent with the best possible growth of the economy.

Mr. Speaker, by anyone's measure we have made excellent progress in reducting inflation from its double digit levels which caused much suffering during the 1970's and which ultimately led to the recessions of 1980 and the one that afflicts us currently. As of May of this year, the Consumer Price Index rose only 3.7 percent over the previous three month period, and the Producer Price Index was flat during the same period, showing no increase whatsoever. This is a dramatic change from the painfully high rates of increase we experienced only a year ago.

Furthermore, and contrary to popular perception, interest rates, too, have come down. The federal funds rate, which hit a 1981 high of 19.10 percent during the month of June of that year, has declined to 14.24 percent as of June 18th this year. Three-month Tresury bills, which recorded a 1981 high of 16.29% in May a year ago, were quoted at 12.96% this past June 18th. The prime rate, which held consistently at 20.5 percent during July-September last year, currently stands at 16.5 percent. To be sure, long-term rates are still about where they were, and indeed all interest rates are far too high. But, if they have not declined further, it is in no small measure due to the skepticism of some people in the financial cummunity who persistently have questioned the resolve of this Government to stick to its guns.

The proposals bruited about the Congress and the stories coming from the Administration can only lend credence to this skepticism and thus contribute to the very uncertainty which is keeping interest rates at a record spread above the current rate of inflation. Those who propose tinkering with the money management of the Nation had better pause and ask themselves whether they are part of the problem or part of the solution.

If history teaches anything, it shows that inflation is triggered by an excessive growth of the money supply. Thus, the remedy calls for appropriate and consistent restraint in the growth of money and credit over the longer term to achieve the goal of sustainable economic growth at stable prices. To accomplish this, it is essential that we, the Congress, enact a credible budget and --more than that -- that we stand fast when appropriations bills are considered on the floor. The matching of our budget resolutions with legislative deeds is the only way I know in which we can assist the Federal Reserve to lower interest rates on a permanent basis.

We finally are receiving increasingly solid evidence that this recession has bottomed out and that we can look forward to an economic recovery which has eluded us too long. It would be tragic if political opportunism led us to tinker with our Nation's central bank in ways that would destroy our credibility and, consequently, abort or weaken the expected business revival. I close, therefore, Mr. Speaker by restating with all the force at my command that I intend to fight vigorously against any attempt to deprive the Federal Reserve of the freedom of action it needs for the proper discharge of the responsibilities wisely entrusted to it by our predecessors in 1913.

LET THE CREDIT CONTROL ACT EXPIRE

Hon. J. William Stanton

June 24, 1982

Mr. Speaker:

Next week, while most of us are home for the district work period, a mischevious piece of legislation will expire without much fanfare. I am referring to the Credit Control Act of 1969, which the Congress voted overwhelmingly to terminate on June 30th of this year.

Our only experience with credit controls under this Act came in the second quarter of 1980, and that experience proved to be an unmitigated disaster. Here are the facts:

- During the short, four-month period in which credit controls were in force, more than 1.5 million jobs were lost. General unemployment rose by 1½ percentage points, while unemployment among black and other minority workers climbed even higher, well over 2 full percentage points.

- The sharp decline in real economic growth in the second quarter of 1980, which coincides with the period of credit controls, stands in distinct contrast to the positive changes during the remaining quarters of that year. The almost 10 percentage point decline in our gross national product (GNP) in the second quarter was the worst on record since the 1930's.

- Credit controls failed to benefit those industries which they were supposed to help. Agriculture, housing, autos and retail business already were vulnerable, and with the advent of such controls these industries went into a real tailspin.

- Credit controls merely deal with symptoms, not with the root causes of the economic problems that affect us. As a result, the 1980 controls had no lasting effect on either inflation or interest rates. Once the controls were lifted, both the consumer price index (CPI) and short-term interest rates skyrocketed to their previous levels and soared beyond.

Mr. Speaker, there is nothing whatsoever in the record to suggest -- nor are there other reasons for expecting -- that this kind of legislation will serve us better or will be administered differently in the future. Former Federal Reserve Chairman Arthur Burns has stated that such powers grant the Federal Reserve "dictatorial powers over the economy" and he was right. Heavy-handed tinkering with our Nation's credit markets will only give us more of the same disappointing results.

In this regard, I find it highly curious that many of the Federal Reserve's severest critics want to turn around and make the very same Federal Reserve the supreme provider and arbiter of all credit in this country. Such benevolence we can ill afford, and I am confident that the Federal Reserve would be the first to agree.

In closing, let me say that I am sure that my colleagues who want to extend and amend the Credit Control Act are well-intentioned. We should not, however, resort to such artificial controls as an excuse to avoid or postpone the very real economic problems which confront us today. It would be easy to pass an extension of this Act and go home and tell our constituents that interest rates will decline as a result. But that, Mr. Speaker, would only be another false promise.

Extending this useless Act will <u>not</u> result in lower interest rates. Rather, the solution lies in restoring the Government's credibility that it is serious about reducing inflation and the further lowering of interest rates. This means that we must enact a strong program of credible budgetary restraint and adhere to a sound monetary policy which does not lose sight of the need for discipline to reduce interest rates.

June 25, 1982

The Honorable Rudy Boschwitz
United States Senator
210 Bremer Building
419 N. Robert Street
St. Paul, Minnesota 55101

Re: File 2147150006

Dear Senator Boschwitz:

Thank you for your letter of May 27 requesting comment on the enclosed correspondence from your constituent, Mr. Milton E. Gerdin. In his letter, Mr. Gerdin requests comment on a newspaper article which makes several observations on the economy and on the Federal Reserve System.

The discussion in the article that relates to the Federal Reserve System is rather wide ranging and largely in error. A detailed description of the Federal Reserve System and its operations, including the areas addressed in the article, may be found in the enclosed book, <u>The Federal Reserve System: Purposes and Functions</u>. I will confine my comments to a few of the article's assertions of particular interest to Mr. Gerdin; that the Federal Reserve System was created for the benefit of its member banks; that the Federal Reserve benefits from federal deficits since it earns interest on its holdings of government securities; and that the Treasury prints money for the Federal Reserve, charging it one percent.

The Federal Reserve System was created by Congress in the wake of a series of financial panics that resulted when the nation's banking system was unable to meet cyclical and seasonal shifts in the economy's needs for money and credit. Congress provided the Federal Reserve System with the capacity to act as a lender of last resort to the banking system, and gave it a substantial degree of independence in order to insulate monetary policy decisions from day-to-day political pressures. However, the System necessarily operates within the general framework of the nation's goals and objectives established within the government.

The Federal Reserve System is made up of twelve regional Federal Reserve Banks which are supervised by the Board of Governors in Washington. The Reserve Banks are corporate instrumentalities of the United States, and were established by Congress for public purposes.

The Board is an agency of the Federal Government, and its seven members are appointed by the President with the advice and consent of the Senate. The Board is required by law to make an annual report to Congress, and members of the Board, especially the Chairman, are called upon frequently to testify before Congressional committees.

As provided for by law, the stock of the Federal Reserve Banks is held entirely by commercial banks that are members of the Federal Reserve System. However, ownership of that stock is in the nature of an obligation incident to membership and does not carry with it the attributes of control and financial interest ordinarily attached to stock ownership in corporations that are operated for the purpose of making a profit. The amount of stock that member banks are required to own is specified by law. The stock may not be sold or pledged as security for loans, and dividends are limited by law to 6 per cent per year. If a Reserve Bank were liquidated, any surplus would go to the U.S. Government, not the stockholders.

In financing the federal deficit, the Treasury sells its debt to the general public. In implementing monetary policy, the Federal Reserve buys and sells government securities in the open market. When the Federal Reserve buys securities in the open market, it increases the supply of reserves available to depository institutions; when the Federal Reserve sells government securities, it decreases the supply of reserves. Since most depository institutions are required to hold a specified fraction of their deposit liabilities in the form of reserves with the Federal Reserve or in vault cash, control of the supply of reserves through open market operations is one of the principal instruments used by the Federal Reserve to regulate the supply of money. The Federal Reserve does not normally purchase debt directly from the Treasury.

The Federal Reserve is not operated for a profit and returns substantial sums to the U.S. Treasury each yaar. The earnings of the Federal Reserve System are derived chiefly from interest on U.S. Government securities held in the System's Open Market Account, which are acquired as a part of the System's monetary policy actions. The System returns all earnings in excess of expenses to the U.S. Treasury; in calendar year 1981 payments to the Treasury by the Federal Reserve amounted to more than $14 billion.

The cost of printing currency is financed by Federal Reserve earnings. In 1981, expenditures for printing, issuance and redemption of Federal Reserve notes on behalf of the Federal Reserve Banks amounted to $84.9 million. Virtually all paper currency and coin moves into and out of circulation through the Federal Reserve Banks. For example, when depository institutions need to replenish their supply of currency to meet the demands of their customers, they obtain currency by drawing down their reserve balances at Federal Reserve Banks; similarly, they dispose of excess currency by depositing it in their reserve accounts.

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

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn
Assistant to the Board

Enclosures

KHadjimichalakis/DELindsey/JLKichline:slb
(#V-122; D-82-00026)

bcc: Mr. Simpson
Mr. Lindsey
Ms. Hadjimichalakis
Ms. Wing

June 25, 1982

The Honorable Joseph G. Minish
Chairman
Subcommittee on General Oversight
and Renegotiation
Committee on Banking, Finance and
Urban Affairs
House of Representatives
Washington, D. C. 20515

Dear Chairman Minish:

Thank you for your letter of June 24 regarding your Subcommittee's hearings to evaluate the enforcement and utilization of the Bank Secrecy Act.

Mr. John E. Ryan, Director, Division of Banking Supervision and Regulation, will be pleased to appear on behalf of the Board on July 13 at 10:00 a.m.

Sincerely,

S/Paul A. Volcker

CO:vcd (#288)

bcc: Jack Ryan
Mrs. Mallardi (2)

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

PAUL A. VOLCKER
CHAIRMAN

June 25, 1982

The Honorable Charles E. Grassley
United States Senate
Washington, D. C. 20510

Dear Senator Grassley:

Thank you for your letter of June 15 asking me to keep you informed of any decision on the petition by the Iowa Superintendent of Banks concerning the merger agreement between Banks of Iowa and First Bank Systems.

I would like you to know that the Board has merger agreements of this type under intensive review because of the important questions raised about their consistency with the Bank Holding Company Act. You can be sure that you will be kept informed of the decision of the Board on the Superintendent's petition.

Sincerely,

(MB):CO:vcd (V-137)

bcc: Mrs. Mallardi (2)

June 23, 1982

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

Dear Chairman Garn:

Your letter of June 11 requested additional views concerning the thrift institution assistance legislation that is currently under consideration in Congress. The answers to the questions that you posed are enclosed.

I appreciate having the opportunity to present our views on the important issues raised in your letter. Please let me know if I can be of further help.

Sincerely,

S/ Paul

Enclosure

MB:PAV:pjt (#V-129)
bcc: Mr. Bradfield
Mrs. Mallardi (2) ✓
Legal Records (2)

Question 1. S. 2531 authorizes the FDIC and FSLIC to provide capital assistance for any insured institution that meets the eligibility criteria set forth in the bill. Therefore, if a commercial bank meets the criteria, it is eligible for assistance.

(a) What are your views on including commercial banks if they meet the eligibility criteria? Do you believe that is appropriate, or should the legislation be limited to only thrift institutions?

Answer: As a practical matter, I believe that there is a much less compelling case for including commercial banks within the scope of institutions eligible to receive capital assistance. Even if they were eligible, I would expect that there would not be many cases in which banks would justifiably make use of the new facilities, and there is no general problem in the industry comparable to that of thrifts.

I can recognize, as a matter of symmetry and equity, a case can be made that legislation designed to provide support for the financial system should provide similar treatment of all depository institutions suffering from the same problems which triggered the congressional decision to provide relief through a capital assistance facility. If this line of reasoning may lead the Congress to conclude that discretionary authority should be granted to include commercial banks, but, in that event, assistance in my view should be confined to only those institutions having asset structures closely comparable to thrifts--that is principally composed of mortgage loans.

(b) The House bill currently applies more lenient standards for commercial banks by qualifying them for assistance at higher net worth levels than the thrifts. Do you support or oppose that provision? Explain.

Answer: As I have noted above, even if discretion were granted to allow commercial banks to be eligible for capital assistance, there would be only a very few special circumstances which would give rise to a need to extend assistance. In this situation I would see no requirement for a different capital ratio for commercial banks than for thrifts in order to qualify for assistance. I recognize that if this approach were followed, commercial banks would not have ready access to this facility and again, as I have noted, this is in accord with what I would consider to be appropriate.

Question 2. Chairman Pratt opposes including nonfederally insured institutions within the scope of any capital assistance legislation.

(a) What is your agency's position on including state insured institutions?

Answer: The principle expressed by Chairman Pratt seems to be appropriate. State insured institutions have deliberately chosen not to operate under the federal scheme, which provides the benefits of federal deposit insurance and access to FHLBB credit, but imposes the burdens of a supervisory framework including regulation of interest rates and contributions to the insurance funds. Thus, there is no direct federal financial or supervisory responsibility for these institutions.

As a practical matter, in some cases failure of a non-insured institution might be damaging to the stability of insured institutions because of confusion or uncertainty in the public mind. For that reason, I would not oppose limited discretionary authority to the federal regulators to permit state insured institutions to participate in the capital assistance program. I believe that as a condition of eligibility such institutions should be required to secure federal deposit insurance, either immediately or after a grace period, and thereby become subject to all relevant federal regulations. The state insuring agencies or corporations should be required to participate equitably in the assistance. Preferably, arrangements should be instituted to fold state insurance funds into the federal system. The current situation points up the weaknesses and inequities in the existing situation at a time of distress.

(b) Describe the regulatory and supervisory complications, if any, that would be entailed by including state insured institutions within the capital assistance bill.

Answer: If such assistance is provided, it is essential that there be close cooperation between federal and state authorities both in order to obtain the information necessary to provide assistance and to assure that the assisted institution will operate in a manner consistent with its return to profitability under more normal market conditions. Conditioning assistance on qualifying, now or later, for federal insurance would also remove any barrier to a federal supervisory role which would be an essential part of capital assistance.

Question 3. Chairman Isaac recommends deleting the provision in the capital assistance bill that would limit capital assistance to 100% of losses because he believes it is unduly restrictive and inhibits flexibility. What is your view on that recommendation?

Answer: I would support Chairman Isaac's recommendation that additional flexibility be provided to allow capital assistance of more than 100 percent of losses for the "immediately preceding period." In particular, I would favor legislation that would permit, in carefully circumscribed instances, larger amounts of capital infusion if it would ultimately result in less cost to the insurance funds. For example, there may be specific situations in which it is desirable to raise the capital level of an institution with low capital to a specific level, such as 2 percent, and maintain it at that level for a period. Moreover, the erosion of an institution's relative capital position could be affected by factors other than operating losses and this also suggests a need for greater flexibility. Once an institution becomes eligible for assistance, it seems appropriate to allow the supervisory agency a degree of discretion in determining the appropriate amount of assistance that the institution needs.

Question 4. The House passed Capital Assistance Bill requires the insurance corporations to consult with the State supervisory of the State in which any state chartered institution is located with respect to the eligibility of such institutions. What are your views on that provision?

Answer: I would support a requirement that the state supervisor be consulted whenever a state chartered institution is seeking capital assistance. Close coordination is common today between state and federal regulators. Such procedures recognize the role that States play in maintaining a sound financial system. In contrast, lack of coordination of state and federal supervisory efforts could lead to unnecessary duplication of efforts or, possibly, to the agencies working at cross purposes. Requiring the agencies to draw on the expertise of the State supervisors in deciding whether to provide capital assistance would be a positive element in the process.

Question 5. What is your view on adding a provision of S. 2531 which would require the FHLBB and the FDIC to promulgate regulations implementing the provisions of the Capital Assistance Act?

Answer: I believe it would be desirable to provide the agencies with rulemaking authority. However, in many instances, the provisions of the bill seem to set forth a sufficient structure to implement this program. Accordingly, implementing regulations may not be necessary in all areas, and I do not favor requiring the agencies to develop regulations.

Question 6. Would the Fed approve the acquisition by a bank holding company of a thrift which was not on the verge of imminent collapse, but which would not be considered "healthy" under regulatory definitions of thrift net worth in effect two years ago?

(a) Do you think it would be beneficial to have a different and more liberal standard for voluntary mergers or acquisitions--which will not cost the insurance funds any money--as opposed to the standard for financial aid under the Regulators' Bill?

(b) Should there be a different standard for voluntary, as opposed to forced acquisitions?

Answer: Questions 6(a) and 6(b) appear to be closely related, and I will answer them together. As I advised Chairman Isaac in my letter setting forth the Federal Reserve's policy regarding bank holding company acquisitions of thrifts, the Board is prepared to consider proposals to acquire a financially troubled thrift institution in instances where the possibility of such an acquisition would significantly reduce the costs and risks involved and otherwise be consistent with the public interest. In determining whether an institution is in financial distress, the Federal Reserve has placed considerable reliance on the views of the institution's primary regulator. Thus, the Board is focusing the remedy of inter-industry acquisitions for the problems of the thrift industry on those institutions that are in serious need of assistance. However, this approach would not exclude "voluntary" mergers of the type you describe, and indeed the recent "Scioto Case" did not involve federal insurance funds. The standard is essentially one of net benefit to the public, which in our present approach, suggests that the acquired institution be seriously financially troubled, in our judgment and that of its supervisor, but not necessarily on the verge of "imminent collapse."

The Board's belief that it should only process applications to acquire financially troubled thrifts can be traced to its 1977 decision in the D.H. Baldwin case. In that instance the Board, in applying the balancing of public benefits and adverse effects required by section 4(c)(8) of the Bank Holding Company Act, denied a bank holding company proposal to acquire a thrift on the ground that such acquisitions could produce regulatory conflict, reduce procompetitive institutional rivalry, and undermine geographic limitations that apply to banking organizations. There is reason to believe that these adverse effects may have diminished somewhat in the last five years, partly as a result of broader thrift powers. However, the Board has taken the position at this time that the potential adverse effects of such acquisitions are clearly outweighed only in the situation of public benefits flowing from dealing with financially distressed institutions. This conclusion implies that a financially distressed criterion should be retained at present for voluntary mergers.

Question 7. In the Fed's recent approval of the acquisition of Scioto Savings Association by Interstate Financial Corporation, a bank holding company, the Fed imposed anti-branching requirements on the thrift.

(a) Do such anti-branching restrictions place the affected savings and loan at a competitive disadvantage compared to other thrifts?

Answer: In some proposals involving the acquisition of a thrift institution by a bank holding company a limitation of branching may well be appropriate if the Board is to fulfill its responsibility to balance public benefits and adverse effects under the Bank Holding Company Act. In the Scioto case, the thrift institution was not federally insured and proposed to pay interest rates greater than those that would be allowed for either a federally insured bank or thrift. Under such circumstances it would not be appropriate to allow the state insured thrift institution paying unregulated rates to in effect trade on the name of its newly affiliated bank or, in these circumstances, to branch in a manner that a banking institution could not. This limitation thus insures that the thrift institution would not have an undue advantage over banking organizations located in Ohio. In other cases, where a federally insured thrift is being acquired, the Board would have to consider in its overall evaluation of the application, whether intrastate branching or interstate branching would provide the institution with an unfair advantage, taking account of relevant state law.

(b) Do such restrictions, applied generally, remove an important incentive for bank holding companies to purchase thrifts, thereby making it more difficult to find willing merger partners?

Answer: Bank holding companies have an interest in acquiring thrift institutions in order to penetrate attractive new markets. This was demonstrated in the Scioto case where the restrictions on branching to assist in avoiding a competitive imbalance were not an impediment to consummation of the acquisition of a thrift by a bank holding company.

The factors that enter into the calculations of bank holding company decisions to bid on stressed thrift institutions are complex, and broader branching powers would, no doubt, constitute an additional positive factor in these calculations. Nevertheless, I would not regard branching limitations as a major impediment to bidding by bank holding companies for thrift institutions. In the light of this assessment, and until Congress changes the laws regulating these matters, fairness requires the Board to take into account the competitive impact of branching powers in carrying out its responsibilities for weighing public benefits against adverse factors in applying section 4(c)(8) of the Bank Holding Company Act. More generally, the Board has thought it inappropriate for a bank to exercise in an important way powers through a thrift acquisition (such as real estate development) not permitted bank holding companies generally.

Action assigned Mr. Axilrod

United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WASHINGTON, D.C. 20510

June 11, 1982 #129

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

Dear Chairman Volcker:

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

In order to complete the hearing record, the Committee would appreciate your answers to the enclosed questions. To facilitate prompt printing of the hearing record, please submit your response by June 18, 1982. If you have any questions regarding the enclosure, please contact John Collins or Beth Climo of the Committee staff at 224-7391.

Sincerely,

Jake Garn

Jake Garn
Chairman

JG:bck

Enclosure

1. S. 2531 authorizes the FDIC and FSLIC to provide capital assistance for any insured institution that meets the eligibility criteria set forth in the bill. Therefore, if a commercial bank meets the criteria, it is eligible for assistance.

(a) What are your views on including commercial banks if they meet the eligibility criteria? Do you believe that is appropriate, or should the legislation be limited to only thrift institutions?

(b) The House bill currently applies more lenient standards for commercial banks by qualifying them for assistance at higher net worth levels than the thrifts. Do you support or oppose that provision? Explain.

2. Chairman Pratt opposes including nonfederally insured institutions within the scope of any capital assistance legislation.

(a) What is your agency's position on including state insured institutions?

(b) Describe the regulatory and supervisory complications, if any, that would be entailed by including state insured institutions within this capital assistance bill.

3. Chairman Isaac recommends deleting the provision in the capital assistance bill that would limit capital assistance to 100% of losses because he believes it is unduly restrictive and inhibits flexibility. What is your view on that recommendation?

4. The House passed Capital Assistance Bill requires the insurance corporations to consult with the State supervisor of the State in which any state chartered institution is located with respect to the eligibility of such institutions. What are your views on that provision?

5. What is your view on adding a provision to S. 2531 which would require the FHLBB and the FDIC to promulgate regulations implementing the provisions of the Capital Assistance Act?

6. Would the Fed approve the acquisition by a bank holding company of a thrift which was not on the verge of imminent collapse, but which would not be considered "healthy" under regulatory definitions of thrift net worth in effect two years ago?

(a) Do you think it would be beneficial to have a different and more liberal standard for voluntary mergers or acquisitions -- which will not cost the insurance funds any money -- as opposed to the standard for financial aid under the Regulators' Bill?

(b) Should there be a different standard for voluntary, as opposed to forced acquisitions?

7. In the Fed's recent approval of the acquisition of Scioto Savings Association by Interstate Financial Corporation, a bank holding company, the Fed imposed anti-branching requirements on the thrift.

(a) Do such anti-branching restrictions place the affected savings and loan at a competitive disadvantage compared to other thrifts?

(b) Do such restrictions, applied generally, remove an important incentive for bank holding companies to purchase thrifts, thereby making it more difficult to find willing merger partners?

United States Senate

COMMITTEE ON APPROPRIATIONS
WASHINGTON, D.C. 20510

June 23, 1982

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

Dear Mr. Volcker:

The Committee on Appropriations recently received our printed copies of the Economic Overview Hearings for Fiscal Year 1983. In appreciation of your testimony, I am enclosing a copy of our hearings. Please feel free to contact Mrs. Becky Merson of the Committee staff if additional copies are needed. She can be reached at 224-7204.

Let me express a final thank you for your excellent contribution to our hearing.

Warm personal regards.

Sincerely,

Mark O. Hatfield
Chairman

MOH:DMm

June 29, 1982

The Honorable Les Aspin
House of Representatives
Washington, D.C. 20515

Dear Mr. Aspin:

Thank you for your June 23 letter regarding the Green Bay "Financial Fair."

As you are aware, the demands on my time during the early months of the year for Congressional testimony and meetings with members of Congress are extremely heavy. Consequently, I have attempted each year to reserve February and March for this purpose and avoid any out-of-town speaking commitments to the extent possible.

In view of this, I must regret the invitation to the Green Bay event.

With best regards.

Sincerely,

bcc: Mrs. Mallardi
#136

NPS:jc

LES ASPIN
1st District, Wisconsin

4[illegible] Cannon Building
Washington, D.C. 20515
202-225-3031

Joe C

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

Home Offices:
1661 Douglas Avenue
Racine, Wisconsin 53404
414-632-4446

210 Dodge Street
Janesville, Wisconsin 53545
608-752-9074

Kenosha
414-551-7414

June 23, 1982

#13B

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1982 JUN 24 AM 9:30
RECEIVED
OFFICE OF THE CHAIRMAN

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

Dear Chairman Volcker:

On behalf of the Green Bay News-Chronicle, I would like to request that you seriously consider being the keynote speaker at the 2nd Annual Financial Fair.

The Fair will be held in Green Bay, Wisconsin on Friday March 4, 1983 at 7:00 P.M. Over 500 local realtors, bankers, home builders, and businessmen will be in attendance.

This event has been very successful in the past and should give you a good opportunity to interact with businessmen in Wisconsin.

For more information about the event, contact Harriet Anderson, Marketing Director of the News-Chronicle, at (414)-432-2914.

I would appreciate your consideration of this matter.

Sincerely,

plus Proxmire

Les Aspin

Les Aspin
Member of Congress

LA/ms

HOUSE OF REPRESENTATIVES
WASHINGTON, D. C. 20515

RICHARD T. SCHULZE
5TH DISTRICT, PENNSYLVANIA

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1982 JUN 29 AM 9:03

RECEIVED
OFFICE OF THE CHAIRMAN

June 25, 1982

Dear Paul:

You have my sincere thanks for your participation in the 5th Congressional District Advisory League seminar this past Wednesday. I have already received many positive comments from the League members who believe their time was profitably spent.

The event was an important one for me as well, and I appreciate your taking time from your busy schedule to help make it the success that it was.

With warm personal regard, I am

Sincerely,

Dick

RICHARD T. SCHULZE
Member of Congress

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

RICHARD T. SCHULZE
5TH DISTRICT, PENNSYLVANIA

WAYS AND MEANS
COMMITTEE

Congress of the United States

House of Representatives • Washington, D.C. 20515

April 30, 1982

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

Dear Paul:

Thank you for accepting the invitation to speak to the 5th District Advisory Committee on Wednesday, June 23, from 11:30 am to 12:00 pm. I deeply appreciate your taking the time from your busy schedule to share your thoughts with these people.

We are awaiting responses to our room requests and I will be in contact with your office as soon as the arrangements have been finalized.

The Advisory Committee members would very much appreciate your addressing, for 10 minutes or so, fiscal matters generally emphasizing the subject of interest rates and a frank appraisal of the chances of a decrease in these rates in the months ahead. Following your remarks, a short Q & A session will be made available to the Committee members.

This Committee is comprised of business men and women and I am certain that you will find them to be an attentive and interested audience.

With best wishes, I am

B-318
Rayburn
w/ [illegible]

Sincerely

Dick

RICHARD T. SCHULZE
Member of Congress

RTS/ jw

PLEASE RESPOND TO:

☐ 2444 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-5761

☐ 2 EAST LANCASTER AVENUE
PAOLI, PENNSYLVANIA 19301
800-362-5652 (TOLL FREE)
215-648-0555

April 28, 1982

To: Chairman Volcker

Thru: Don Winn DW
From: Tony Cole

Congressman Dick Schulze's administrative assistant, Joe Westner, has contacted us with a request that you briefly attend a program the Congressman is presenting on Wednesday, June 23, for 35-50 businessmen from his district.

Schulze is a fourth-term Republican from suburban Philadelphia. He was formerly on the Banking Committee and is presently the ninth-ranking Republican on Ways and Means. Bob Michel, the Republican leader, Guy Vander Jagt, Chairman of the National Republican Congressional Committee, and Jim Baker will all be appearing. Frank Carlucci, Deputy Secretary of Defense, will also probably address the group.

Westner stated that the Congressman is very interested in your attendance and would, if necessary, contact you directly. He also stated that the Congressman would be satisfied with as little as 15-30 minutes of your time--hopefully sometime between 11 a.m. to noon. I checked with Sandy and there is a Board meeting scheduled for the 23rd and a Treasury luncheon at one o'clock.

Would you be willing to attend this program if your schedule permits?

Yes X No _____

Briefly

C 11

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

PAUL A. VOLCKER
CHAIRMAN

June 18, 1982

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

Dear Mr. Chairman:

I am writing to you concerning the provisions of Section 210 of S. 1720 which amend Section 23A of the Federal Reserve Act. This important section regulates transactions between a bank and its affiliates to assure they are within prudent limits and at arm's length.

Section 210 is based on a draft that was submitted to the Senate Banking Committee by the Board. Since the introduction of S. 1720 we have continued to work on perfecting the language of this provision and have developed a number of technical amendments.

In addition, we have received a number of substantive comments from both banking groups and the Treasury Department. We have studied these comments and have discussed them with members of your staff and the staff of the Treasury.

Based on this study and the staff discussions, we believe a number of significant improvements can be made in our previous proposal, and, at the suggestion of your staff, we have redrafted our original proposal to incorporate these improvements. I am enclosing a copy of this draft for your consideration.

Sincerely,

Paul

Enclosure

PROPOSED AMENDMENTS TO SECTION

23A OF THE FEDERAL RESERVE ACT

A B I L L

To amend section 23A of the Federal Reserve Act concerning transactions between member banks and their affiliates.

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

SECTION 1. This Act may be cited as the "Banking Affiliates Act of 1982".

SEC. 2. Section 23A of the Federal Reserve Act (12 U.S.C. 371c) is amended to read as follows:

"SEC. 23A. (a) RESTRICTIONS ON TRANSACTIONS WITH AFFILIATES.--

"(1) A member bank and its subsidiaries may engage in a covered transaction with an affiliate only if --

"(A) the covered transaction is made on substantially the same terms as those prevailing at the time for comparable transactions with other nonaffiliated companies;

"(B) in the case of any affiliate, the aggregate amount of covered transactions of the member bank and its subsidiaries will not exceed 10 per centum of the capital stock and surplus of the member bank; and

"(C) in the case of all affiliates, the aggregate amount of covered transactions of the member bank and its subsidiaries will not exceed 20 per centum of the capital stock and surplus of the member bank.

"(2) For the purpose of this section --

"(A) any transaction by a member bank with a director, officer, or other employee, or with any representative of an affiliate shall be deemed to be a transaction with that affiliate to the extent that the proceeds of the transaction are used for the benefit of, or transferred to, that affiliate; and

"(B) except in the case of a company that controls the member bank, any transaction with a subsidiary of an affiliate or with a subsidiary of that subsidiary shall be deemed to be a transaction with such affiliate.

"(3) A member bank and its subsidiaries may not purchase a low-quality asset from an affiliate.

"(b) DEFINITIONS.--For the purpose of this section --

"(1) the term 'affiliate' with respect to a member bank means--

"(A) any company that controls the member bank and any other company that is controlled by the company that controls the member bank;

"(B) a bank subsidiary of the member bank;

"(C) any company --

(i) that is controlled directly or indirectly, by trust or otherwise, by or for the benefit of shareholders who beneficially or otherwise control, directly or indirectly, by trust or otherwise, the member bank or any company that controls the member bank; or

(ii) in which a majority of its directors or trustees constitute a majority of the persons holding any such office with the member bank or any company that controls the member bank;

"(D) any company, including a real estate investment trust, that is sponsored and advised on a contractual basis by the member bank or any subsidiary or affiliate of the member bank; and

"(E) any company that the Board determines by regulation or order to have a relationship with the member bank or any subsidiary or affiliate of the member bank, such that covered transactions by the member bank or its subsidiary with that company may be affected by the relationship to the detriment of the member bank or its subsidiary;

"(2) the following shall not be considered to be an affiliate:

"(A) any company, other than a bank, that is a subsidiary of the member bank, unless a determination is made under paragraph (b)(1)(E) of this section not to exclude such subsidiary company from the definition of affiliate;

"(B) any company engaged solely in holding the premises of the member bank;

"(C) any company engaged solely in conducting a safe deposit business;

"(D) any company engaged solely in holding obligations of the United States or its agencies or obligations fully guaranteed by the United States or its agencies as to principal and interest; and

"(E) any company where control results from the exercise of rights arising out of a bona fide debt previously contracted, but only for the period of time specifically authorized under applicable State or Federal law or regulation or, in the absence of such law or regulation, for a period of two years from the date of the exercise of such rights or the effective date of this Act, whichever date is later, subject, upon application, for authorization by the Board for good cause shown of extensions of time for not more than one year at a time, but such extensions in the aggregate shall not exceed three years;

"(3)(A) a company or shareholder shall be deemed to have control over another company if —

"(i) such company or shareholder, directly or indirectly, or acting through one or more other persons owns, controls, or has power to vote 25 per centum or more of any class of voting securities of the other company;

"(ii) such company or shareholder controls in any manner the election of a majority of the directors or trustees of the other company; or

"(iii) the Board determines, after notice and opportunity for hearing, that such company or shareholder, directly or indirectly, exercises a controlling influence over the management or policies of the other company; and

"(B) notwithstanding any other provision of this section, no company shall be deemed to own or control another company by virtue of its ownership or control of shares in a fiduciary capacity, except as provided in paragraph (b)(1)(C) of this section or if the company owning or controlling such shares is a business trust;

"(4) the term 'subsidiary' with respect to a specified company means a company that is controlled by such specified company;

"(5) the term 'bank' includes a State bank, National bank, banking association and trust company";

"(6) the term 'company' means a corporation, partnership, business trust, association or similar organization and, unless specifically excluded, the term 'company' includes a 'member bank' and a 'bank';

"(7) the term 'covered transaction' means with respect to an affiliate of a member bank --

"(A) a loan or extension of credit to the affiliate;

"(B) a purchase of or an investment in securities issued by the affiliate;

"(C) a purchase of assets, including assets subject to an agreement to repurchase, from the affiliate, except such purchase of real and personal property as may be specifically exempted by the Board by order or regulation;

"(D) the acceptance of securities issued by the affiliate as collateral security for a loan or extension of credit to any person or company; or

"(E) the issuance of a guarantee, acceptance, or letter of credit, including an endorsement or standby letter of credit, on behalf of an affiliate;

"(8) the term 'aggregate amount of covered transactions' means the amount of the covered transactions about to be engaged in added to the current amount of all outstanding covered transactions;

"(9) the term 'securities' means stocks, bonds, debentures, notes, or other similar obligations; and

"(10) the term 'low-quality asset' means an asset that falls in any one or more of the following categories:

"(A) an asset classified as 'substandard', 'doubtful', or 'loss' or treated as 'other loans especially mentioned' in the most recent report of examination prepared by either a Federal or State supervisory agency;

"(B) an asset in a nonaccrual status;

"(C) an asset on which principal or interest payments are more than thirty days past due; or

"(D) an asset whose terms have been renegotiated or compromised due to the deteriorating financial condition of the obligor.

"(c) COLLATERAL FOR CERTAIN TRANSACTIONS WITH AFFILIATES.--

"(1) Each loan or extension of credit to, or guarantee, acceptance, or letter of credit issued on behalf of, an affiliate by a member bank or its subsidiary shall be secured at the time of the transaction by collateral having a market value equal to --

"(A) 100 per centum of the amount of such loan or extension of credit, guarantee, acceptance, or letter of credit, if the collateral is composed of —

"(i) obligations of the United States or its agencies;

"(ii) obligations fully guaranteed by the United States or its agencies as to principal and interest;

"(iii) notes, drafts, bills of exchange or bankers' acceptances that are eligible for rediscount or purchase by a Federal Reserve Bank; or

"(iv) a segregated, earmarked deposit account with the member bank;

"(B) 110 per centum of the amount of such loan or extension of credit, guarantee, acceptance, or letter of credit if the collateral is composed of obligations of any State or political subdivision of any State;

"(C) 120 per centum of the amount of such loan or extension of credit, guarantee, acceptance, or letter of credit if the collateral is composed of other debt instruments, including receivables; or

"(D) 130 per centum of the amount of such loan or extension of credit, guarantee, acceptance, or letter of credit if the collateral is composed of stock, leases, or other real or personal property.

"(2) Any such collateral that is subsequently retired or amortized shall be replaced by additional eligible collateral where needed to keep the percentage of the collateral value relative to the amount of the outstanding loan or extension of credit, guarantee, acceptance, or letter of credit equal to the minimum percentage required at the inception of the transaction.

"(3) A low-quality asset shall not be acceptable as collateral for a loan or extension of credit to, or guarantee, acceptance, or letter of credit issued on behalf of, an affiliate.

"(4) The securities issued by an affiliate of the member bank shall not be acceptable as collateral for a loan or extension of credit to, or guarantee, acceptance, or letter of credit issued on behalf of, that affiliate or any other affiliate of the member bank.

"(5) The collateral requirements of this paragraph shall not be applicable to an acceptance that is already fully secured either by attached documents or by other property having an ascertainable market value that is involved in the transaction.

"(d) EXEMPTIONS.--The provisions of this section, except paragraph (a)(1)(A), shall not be applicable to --

"(1) any transaction, except for the purchase of a low-quality asset which is prohibited, with a bank--

"(A) which controls 80 per centum or more of the voting shares of the member bank;

"(B) in which the member bank controls 80 per centum or more of the voting shares; or

"(C) in which 80 per centum or more of the voting shares are controlled by the company that controls 80 per centum or more of the voting shares of the member bank;

"(2) making deposits in an affiliated bank or affiliated foreign bank in the ordinary course of correspondent business, subject to any restrictions that the Board may prescribe by regulation or order;

"(3) giving immediate credit to an affiliate for uncollected items received in the ordinary course of business;

"(4) making a loan or extension of credit to, or issuing a guarantee, acceptance, or letter of credit on behalf of, an affiliate that is fully secured by --

"(A) obligations of the United States or its agencies;

"(B) obligations fully guaranteed by the United States or its agencies as to principal and interest; or

"(C) a segregated, earmarked deposit account with the member bank;

"(5) purchasing securities issued by any company of the kinds described in section 4(c)(1) of the Bank Holding Company Act of 1956;

"(6) purchasing assets having a readily identifiable and publicly available market quotation and purchased at that market quotation; and

"(7) purchasing from an affiliate a loan or extension of credit that was originated by the member bank and sold to the affiliate subject to a repurchase agreement or with recourse.

"(e) RULEMAKING AND ADDITIONAL EXEMPTIONS.--

"(1) The Board may issue such further regulations and orders, including definitions consistent with this section, as may be necessary to administer and carry out the purposes of this section and to prevent evasions thereof.

"(2) The Board may, at its discretion, by regulation or order exempt transactions or relationships from the requirements of this section if it finds such exemptions to be in the public interest and consistent with the purposes of this section.".

SEC. 3. Section 23A of the Federal Reserve Act, as amended by this Act, shall apply to any transaction entered into after the date of enactment of this Act, except for transactions which are the subject of a binding written contract or commitment entered into on or before , 1982, and except that any renewal of a participation in a loan outstanding on , 1982, to a company that becomes an affiliate as a result of the enactment of this Act, or any participation in a loan to such an affiliate emanating from the renewal of a binding written contract or commitment outstanding on , 1982, shall not be subject to the collateral requirements of this Act.

SEC. 4. Section 18(j) of the Federal Deposit Insurance Act (12 U.S.C. § 1828(j)) is amended by striking out ", within the meaning of section 2 of the Banking Act of 1933, as amended, and".

SEC. 5. Subsection 22(h)(6)(C) of the Federal Reserve Act (12 U.S.C. § 3756(6)(C)) is deleted and subsections 22(h)(6)(D)-(G) are redesignated as 22(h)(6)(C)-(F).

CM

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

PAUL A. VOLCKER
CHAIRMAN

June 18, 1982

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

Dear Mr. Chairman:

I appreciate your making available to my staff a copy of the bill in the nature of a substitute to H.R. 6016 which I understand you plan to offer at markup on June 22. I would like to suggest revisions to the substitute relating to its provisions on procedures and criteria for approval of bank holding company applications to participate in export trading companies ("ETC") as well as on the rules governing loans by banks to ETCs.

Procedures and Criteria for Approval

The bill adopts the procedure of prior notification of a proposed investment in excess of 5 per cent of the shares of an ETC, with automatic approval within a specified time absent Board objection. The procedure proposed in the substitute would be useful provided the holding company's investment remains relatively small and does not result in control of the ETC. However, where the investment is both large and results in control, a balancing process involving prior approval should be required. Since bank acquisition of a controlling investment in a commercial venture constitutes a significant departure from the policy of the Bank Holding Company Act, the need for it must be weighed against statutory criteria establishing the benefits which Congress wishes to achieve through bank participation in ETCs.

Thus, I propose, in addition to the normal safety and soundness criteria, two supplementary criteria to be used in deciding on applications for investment by bank holding companies in ETCs of 20 per cent or more of the voting shares:

(a) bank holding company participation would contribute substantially to the ETC's establishment or continued operation;

(b) there is a reasonable likelihood that bank holding company investment will bring about increased United States exports.

There is no need to authorize bank participation in a new area of commerical activity -- particularly one that is likely to be highly leveraged -- unless such participation indeed is needed to accomplish the overall policy purpose of increasing the formation and viability of export trading companies and their success in improving U.S. export performance.

I would also point out that the standards contained in the substitute bill governing a Board determination to disapprove of a proposed bank holding company investment in an export trading company are not fully adequate. The statutory criteria governing all Board decisions should include what is a standard and essential part of all determinations by the Board under the Act: an assessment of the financial and managerial resources of the banking and commercial entities involved. This criterion is essential to any prospective evaluation of the future effects of a proposed investment by a banking entity in a commercial activity. This assessment is especially necessary in light of the nature and scope of the activities in which bank holding companies would be authorized to engage indirectly through export trading companies.

Section 23A of the Federal Reserve Act

The substitute bill also makes a major change in the normal rules of prudence and safety concerning loans by banks to affiliated entities. Of great concern is proposed subsection 4(c)(14)(vi)(B)(ii) of the Act that would exempt from the collateral requirements of Section 23A of the Federal Reserve Act loans from a banking subsidiary to its affiliated export trading company. Exempting bank extensions of credit to an affiliated export trading company from the provisions of section 23A would be the only instance in which such extensions of credit to an affiliate engaging in nonbank activities would be so exempt. Furthermore, this exemption to a large extent would defeat the underlying purpose of utilizing the bank holding company structure for investments in export trading companies -- bank assets should not be directly put at risk by the new venture. Therefore, proposed subsection 4(c)(14)(vi)(B)(ii) of the Act should be deleted.

Finally, the substitute bill raises other problems, including name identification and level of permissible capital investment and lending, which I have asked my staff to bring to the attention of the Committee staff.

I urge you to consider favorably the enclosed draft language that implements the suggestions made in this letter.

Sincerely,

Paul A Volcker

Enclosure

Proposed amendment of subsection 4(c)(14) of the Bank Holding Company Act contained in the substitute bill:

"(14) shares of any company which is an export trading company whose acquisition (including each acquisition of shares) or formation by a bank holding company has been approved by the Board, except that such investments, whether direct or indirect, in such shares shall not exceed 5 per centum of the bank holding company's consolidated capital and surplus.

"(A) A bank holding company may acquire less than 20 per centum of the shares of an export trading company if such acquisition has not been disapproved by the Board pursuant to this subparagraph.

"(i) No bank holding company shall invest in an export trading company under this subparagraph unless the Board has been given sixty days' prior written notice of such proposed investment and within such period has not issued a notice disapproving the proposed investment or extending for up to another thirty days the period during which such disapproval may be issued.

"(ii) The period for disapproval may be extended for such additional thirty day period only if the Board determines that a bank holding company proposing to invest in an export trading company has not furnished all the information required to be submitted or that in the Board's judgment any material information submitted is substantially inaccurate.

"(iii) The notice required to be filed by a bank holding company shall contain such relevant information as the Board shall require by regulation, or by specific request in connection with any particular notice.

"(iv) The Board may disapprove any proposed investment if:

"(a) the Board finds that financial or managerial resources and future prospects of the export trading company or the bank holding company or its subsidiaries warrant disapproval;

"(b) such disapproval is necessary to prevent any adverse effects such as unsafe or unsound banking practices, undue concentration of resources, decreased or unfair competition or conflicts of interests; or

"(c) the bank holding company neglects, fails, or refuses to furnish all the information required by the Board.

"(v) Within three days after a decision to disapprove an investment, the Board shall notify the bank holding company in writing of the disapproval and shall provide a written statement of the basis for the disapproval.

"(vi) A proposed investment may be made prior to expiration of the disapproval period if the Board issues written notice of its intent not to disapprove the investment."

"(B) The Board may approve a bank holding company application to own or control 20 per centum or more of the voting shares of an export trading company if "(i) the Board has taken into consideration the financial and managerial resources, competitive situation, and future prospects of the bank holding company and the export trading company involved and any possible adverse effects such as conflicts of interests, unsafe or unsound banking practices, undue concentration of resources, risk of harm to the financial safety, soundness and stability of the bank holding company or its subsidiaries, and decreased or unfair competition; and

"(ii) the applicant bank holding company demonstrates to the satisfaction of the Board that (a) the investment would contribute substantially to the establishment or continued operation of the export trading company and (b) there is a reasonable likelihood that the bank holding company investment would bring about an increase in the level of exports of goods and services or in the penetration of foreign markets that otherwise would not occur.

V-115

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

PAUL A. VOLCKER
CHAIRMAN

June 17, 1982

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

Dear Mr. Chairman:

Your letter of May 20, 1982 raises important questions concerning the applicability of the Bank Holding Company Act to savings and loan associations. Under the law at the present time, savings and loan associations exercising powers authorized under Federal statutes are not considered to be banks for purposes of the Bank Holding Company Act and their parents are not regarded as bank holding companies--a point which I will elaborate below. However, a company owning more than one savings and loan association--a multiple S&L holding company--is subject, under the Savings and Loan Holding Company Act, to activity restrictions similar to those that apply to bank holding companies. A company that owns only one association--a unitary S&L holding company--on the other hand, is not subject to these restrictions, and this company may be a retail or industrial firm which would be barred from owning a bank.

You suggest that proposed legislation could undermine the basis for the existing exemption of S&Ls from the Bank Holding Company Act by providing those associations with lending and deposit-taking powers equivalent to those of commercial banks as well as additional asset powers that go beyond those that may be exercised by banks. Accordingly, you raise the logical and necessary question of whether the Bank Holding Company Act, which applies to companies whose subsidiaries take demand deposits and make commercial loans, should also be applicable to companies that own savings and loan associations with expanded powers.

S. 1720, a bill that includes expanded powers for thrifts, answers this question by exempting all institutions insured by the Federal Savings and Loan Insurance Corporation from the scope of the Bank Holding Company Act. It does, however, take the limited step of prohibiting unitary savings and loan holding companies from commencing or continuing, after a three-year grace period, activities that are barred to multiple S&L holding companies if any of their S&L subsidiaries do not have the major portion of their assets in home mortgages and certain other qualifying assets.

I have major questions about both the scope of the expanded powers for savings and loans contained in proposed legislation and the exemption of institutions with these powers from the Bank Holding Company Act. In my testimony last year on legislation that is now pending before the Congress, I raised a number of questions about the consistency of this proposal with the requirements of a sound banking system.

I have expressed questions about the extent and speed of the extension of full commercial banking powers (in some proposals, combined with powers well beyond those available to commercial banks) to savings and loans to improve their competitive position. I would note that expansion of powers for these institutions was contained in the Monetary Control Act, and these have typically not yet been fully utilized. My doubts are reinforced by my concern that the fully expanded powers of S. 1720 would create in effect a new class of banking institutions but with different asset and liability powers, different rules with respect to intrastate and interstate branching, different tax rules, different regulators, different access to official credit, and exemption from the Bank Holding Company Act.

Broader powers in some respects for savings and loans may be justified, but in the process I do not believe it appropriate to create a kind of parallel banking system for these institutions. Rather, efforts should be made to facilitate their entry into the structure that has built up over time and which works rather effectively. I am, of course, concerned about the competitive position of the thrifts but believe that added powers might logically fit within a general concept of largely community, family oriented institutions.

Such an approach, for example, could take advantage of full consumer credit and individual deposit taking powers, together with limited commercial loan powers, particularly designed to meet the needs of local smaller businesses. Institutions of this kind would fill a real need in the credit markets and, consistent with a community orientation, could also provide insurance and trust services for individuals. They could also deal with real estate and construction, the existing areas of expertise of thrift institutions.

Legislative action does seem to me necessary to deal with the immediate problems of the thrift institutions. I strongly support the Regulators' bill passed by the House and the capital assistance legislation of the general type also passed by the House, and in this context it may be appropriate to take this legislative opportunity to take a step towards the more modest "power" changes along the lines outlined above.

Implicit in the foregoing views is my firm belief that the law should continue to maintain a division between commerce and banking, as provided by the Bank Holding Company Act. This separation, enacted to prevent conflicts of interest, concentration of resources, and to assure that banking institutions remain as impartial providers of credit, has long been part of U.S. banking tradition, and seems to me sound.

Accordingly, if broader powers for thrifts are considered by Congress, I would urge that you also consider whether to apply the Bank Holding Company Act (or a parallel separate framework) to companies that control these institutions. I believe it would be a serious error for Congress to create new kinds of institutions with bank-like powers without maintaining the line between commerce and banking. Nor does it seem appropriate to, in effect, provide for varying powers for thrifts beyond the real estate area that are not considered suitable for commercial banks.

You have also addressed to me several questions about applying existing law to S&Ls. The language of the Bank Holding Company Act defines as a "bank" any institution that "accepts deposits that the depositor has a legal right to withdraw on demand and engages in the business of making commercial loans." 12 U.S.C. § 1841(c)(2). In the Wilshire case, about which you asked, the court ruled that the Board has the authority to determine that a deposit is a demand deposit within the meaning of the Bank Holding Company Act Act based on its substance rather than its form. Wilshire Oil Company of Texas v. Board of Governors, 668 F.2d 732 (3d Cir. 1981). In a recent opinion regarding the offering of NOW accounts by an industrial loan company subsidiary of a bank holding company, the Board found that NOW accounts are effectively deposits that the depositor has a legal right to withdraw on demand within the meaning of the Bank Holding Company Act. First Bancorporation (Beehive Thrift and Loan), 68 Federal Reserve Bulletin 253 (1982). A copy of the Board's order is enclosed.

In its order, the Board also determined that S&Ls that offer NOW accounts would not be regarded as "banks" under the Act since their lending activities historically have been concentrated in home mortgages and their commercial lending activities are generally limited. 68 Federal Reserve Bulletin at 254, n. 5. As a result of these and other considerations, the Board determined that the exercise of S&L lending activities presently authorized by federal statute generally does not constitute being engaged in the business of making commercial loans and that such institutions are not "banks" for purposes of the Act. Id. The Board would have to reevaluate its position if S&L commercial lending powers are significantly broadened and Congress does not address the status of S&L holding companies under the Act.

I hope you will find this information useful.

Sincerely,

S/Paul A. Volcker

Enclosure

BENJAMIN S. ROSENTHAL, N.Y., CHAIRMAN
JOHN CONYERS, JR., MICH.
EUGENE V. ATKINSON, PA.
STEPHEN L. NEAL, N.C.
DOUG BARNARD, JR., GA.
PETER A. PEYSER, N.Y.

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

MAJORITY—(202) 225-4407

NINETY-SEVENTH CONGRESS

Congress of the United States

House of Representatives

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

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

May 20, 1982

#115

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

Dear Mr. Chairman:

I am writing to request a clarification of the potential applicability of the Bank Holding Company Act to savings and loan associations.

As you know there are currently a number of proposals, both legislative and regulatory, to expand the asset powers of savings and loan associations. These proposals include, in particular, provisions to permit savings and loan associations or S&L service corporations to make commercial loans. In addition, many savings and loan associations are, as you know, subsidiaries of holding companies. Furthermore, in some notable cases the holding companies are operating corporations some of whose principal business activities are nonfinancial in nature and therefore not permissible for a bank holding company.

My principal questions are these:

1. Under what circumstances would a savings and loan holding company whose subsidiary savings and loan association was making or intended to make commercial loans, either directly or through a service corporation, be required to secure the approval of the Federal Reserve as a bank holding company and otherwise become subject to the Bank Holding Company Act?

2. If savings and loan holding companies whose subsidiary associations were making commercial loans were not subject to the Bank Holding Company Act, would this create a material disparity in regulatory treatment between bank holding companies and savings and loan holding companies regarding the authority to engage in nonfinancial business activities?

3. What is the Board's view regarding the desirability of making savings and loan holding company organizations subject to the same nonfinancial activities prohibition as bank holding companies?

4. Is the Board satisfied with the current statutory language of and authority granted by the Bank Holding Company Act to cover savings and loan holding companies whose subsidiary associations make commercial loans, or does the Board believe that some legislative change or clarification may be needed?

An institution that makes commercial loans is considered to be a "bank" for purposes of the Bank Holding Company Act if it "accepts deposits that the depositor has a legal right to withdraw on demand." The meaning and applicability of this phrase for defining the coverage of the Bank Holding Company Act were recently clarified by the U.S. Court of Appeals in the Wilshire Oil case in a way that could also be applicable to savings and loan associations. Therefore, in responding to the questions above, the Board's response should also address the following subsidiary questions:

5. What is the implication of the Wilshire Oil case for the savings and loan situation?

6. Does the Board interpret NOW accounts as fitting within the meaning of "deposits that the depositor has a legal right to withdraw on demand"?

Finally, if the Federal Reserve has been asked by any other agency, trade association, savings and loan association, bank, other corporation, or counsel for any of these for an interpretation on the question stated under no. 1 above, please (a) state who made the request, (b) provide copies of both the request and the Federal Reserve's response.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dtv

CM
V-114

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

June 16, 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:

On behalf of Vice Chairman Martin and myself, I want to thank you for your letter of May 13 enclosing your Newsday article, "What's Keeping Interest Rates Up?" We share your concerns about the performance of the economy, but find some disagreement with your interpretation of history and your prescription for current policy.

Looking back over the 1960s and 1970s, what strikes us as most significant is the consistent upward ratcheting of the inflation rate. While economic slowdowns were associated with a slowing in the rate of price increase, inflation accelerated to new high levels in each successive business expansion. Efforts to control inflation always floundered when the commitment to fiscal and financial restraint appeared to conflict with other goals. But an important lesson of post-war U. S. experience is that when policymakers take a short-range view that inflation is a lesser evil compared to unemployment and slow economic growth, the long-range result is not only an upward inflationary spiral but also a distortion and debilitation of the economy that results in increasingly poor employment and output performance as well.

The current emphasis upon monetary aggregates as policy guides evolved partly in the context of a growing recognition of this lesson by the Federal Reserve, Congress and the public. It was perceived that expressing monetary policy objectives in terms of money expansion rather than interest rates can provide a more reliable check against any inflationary bias in policy. The Federal Reserve's practice of announcing to Congress annual ranges for growth of monetary and credit aggregates dates from House Concurrent Resolution 133 in 1975; this practice was formalized by the Full Employment and Balanced Growth Act of 1978. Prior to October 1979, the Federal Reserve attempted to attain these ranges by adjusting a federal funds rate operating target. Growing doubts about the efficacy of this procedure for controlling money over annual periods led the Federal Reserve to shift emphasis, in late 1979, to reserves as the short-run operating target.

The Federal Reserve's implementation of policy along these lines does not embody an "inflexible devotion to the monetarist principle" or an "attachment to a rigid ideological position." The persistent criticism we get from monetarist economists certainly suggests we are not on such a path. Flexibility is ensured by specifying annual growth rate ranges for several monetary aggregates rather than a single growth rate for a single aggregate. The announced ranges are under continuing review and are subject to change should unexpected developments render them inconsistent with attainment of the nation's fundamental economic goals. We think such flexibility is essential in a world characterized by rapid change in financial institutions and practices.

In assessing the current situation, it is not an entirely fair characterization to say that "interest rates are essentially at their peaks...." Since last summer, Treasury bill rates have fallen 4 percentage points and some other short-term rates by still more. Longer-term yields, which typically fluctuate less over the cycle, also have retreated considerably from their 1981 highs. It is clear, however, that the current levels of interest rates are burdensome to borrowers and constitute an impediment to the kind of balanced, robust economic expansion we'd like to see.

The question is, how can those rates be lowered--and lowered on a sustainable basis? If the Federal Reserve were to abandon its current policies and simply pour reserves into the banking system, we could presumably push down very short-term interest rates for awhile. But what would be the effect on rates for instruments with maturities beyond a few months? The fact that those rates are now so high relative to the current inflation rate is largely a reflection of concerns that--especially in light of the federal budget picture--inflation will escalate once again. The "inflation premium" in rates remains large. The markets could well interpret such an action on our part as confirming their worst fears and suspicions about future inflation, with adverse effects on the inflation premium and the level of interest rates.

In this climate, "abandoning" the ranges for money growth and attempting to force short-term interest rates down "very substantially" does not seem warranted or even feasible. This would only intensify the fears that are buoying rates at present. In this regard, it should be emphasized that our restrained money growth policy is not synonymous with a high interest rate policy. Indeed, over time it is exactly the reverse as monetary restraint over time eliminates the inflation premium in interest rates and allows rates to come down and stay down. What we need to do is address the real causes of persistent high rates by convincing the markets that the problem of prospective huge federal deficits is being resolved, that the Federal Reserve will maintain its commitment to future monetary restraint, and that therefore the recent improvement in wage and price performance is not simply a temporary aberration.

The Federal Reserve intends to play its role in helping this process unfold. As I suggested earlier, in today's world we have to be alert to the possibility that our monetary targets may not be optimal, and we shall continue to monitor developments on that score. As you know, we'll be reporting our views on monetary growth objectives in the July monetary oversight hearings. Regardless of the numbers, however, what is important is that the basic longer-range thrust of policy be preserved so that we can establish the confidence needed to underpin a sound economic recovery.

Sincerely,

Paul

P.S. I am enclosing some testimony I gave yesterday. It reviews specifically the question of whether demands for liquidity, pushing money above our targets, should not to some extent been accommodated - and we have indicated we do not believe the current pattern undesirable - even though it alarms "pure" monetarists.

BENJAMIN S. ROSENTHAL, N.Y.,
CHAIRMAN
JOHN CONYERS, JR., MICH.
EUGENE V. ATKINSON, PA.
STEPHEN L. NEAL, N.C.
DOUG BARNARD, JR., GA.
PETER A. PEYSER, N.Y.

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

May 13, 1982 #115

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

Dear Mr. Chairman:

I thought the enclosed piece on high interest rates might be of interest to you. It expresses my views that interest rates are excessively high, that some of the responsibility for the persistence of high interest rates rests with the Federal Reserve, and that the Fed's Open Market Committee should alter its present policy.

Sincerely,

Benjamin S. Rosenthal
Chairman

Enclosure

BSR:dtb

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

PAUL A. VOLCKER
CHAIRMAN

June 16, 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:

In response to your Committee staff's request, I am pleased to address the issue of why the limitation on the issuance of eligible bankers' acceptances should be applied to all nonmember banks, as proposed in H. R. 6016, which is now being considered by your Committee. Subjecting all nonmember banks to the bill's limitations will contribute to the effectiveness of Federal reserve requirements and facilitate the conduct of monetary policy. The proposed legislation will also enhance competitive equality between national and state member banks and nonmember banks by establishing uniform rules relating to the issuance of eligible bankers' acceptances.

As you are aware, the Monetary Control Act of 1980 provides for uniform reserve requirements on all depository institutions and for an eight-year phase-in of the requirements for nonmembers. As the phase-in continues, reserve requirements will become more binding on nonmembers. This will provide an incentive to depository institutions to issue liabilities such as eligible bankers' acceptances that are exempt from reserve requirements. Information provided to the Committee staff indicates that there are at least 49 nonmember banks with assets of over $750 million that could reduce their reserve burden considerably if they were permitted to issue eligible bankers' acceptances without limit. Such a result would likely have an adverse effect on monetary policy and appear to be inconsistent with the intent of Congress that the burden of reserve requirements be borne equally by both member and nonmember depository institutions. Applying the limitation to both members and nonmembers will assist in the accomplishment of this objective and help assure that one class of depository institution does not gain an unfair competitive position over another.

I hope that this information is helpful to the Committee in its consideration of H. R. 6016. Please let me know if I can be of further assistance.

Sincerely,

S/Paul A. Volcker

GTS:vcd
bcc: Gil Schwartz
Legal Files (2)
Mrs. Mallardi (2)

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

June 15, 1982

PAUL A. VOLCKER
CHAIRMAN

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

Dear Carroll:

Thank you for your letter of May 25 on behalf of Mr. Lamonte Hornback, President of the First Hardin National Bank and Trust, Elizabethtown, Kentucky. Mr. Hornback expresses concern because he is required to pay for Federal Reserve services.

The Monetary Control Act of 1980 ("MCA") imposes reserve requirements on all nonmember depository institutions and reduces reserve requirements substantially for member banks. Under the MCA, the Federal Reserve also is required to charge for the services it provides to all depository institutions. The purpose of this requirement is to encourage the development of competition in the private sector for various Federal Reserve services. In addition, revenues collected by the Federal Reserve help reduce the loss of our income which we turn over to the Treasury due to the overall reduction in reserve requirements at member banks.

When the Board was first considering adoption of fee schedules for priced services, it examined the possibility of imposing a lower fee schedule for member banks due to the fact that until reserve requirements are fully phased in for nonmembers the reserve requirements of members would exceed those of nonmember institutions. However, the Board believed that it would be inappropriate to charge a lower price to member banks for several reasons. First, the reduction in reserve requirements for member banks immediately after the effective date of the MCA was quite substantial, outweighing for most member banks their cost of services. Second, a lower fee schedule for member banks could enable nonmembers to gain services at a lower cost by using a member bank as a correspondent. The member could thereby pass on its fee advantage to the nonmember.

Our review of First Hardin National Bank's situation indicates that the reduction in its reserve requirement cost was substantially in excess of the costs it has incurred as a result of Federal Reserve pricing of services, and we have discussed this matter with Mr. Hornback. We can appreciate

Mr. Hornback's concern with having to pay for Federal Reserve services; however, it appears that the net effect of the MCA has been beneficial to virtually all member banks.

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

Sincerely,

S/ Paul

EGH:MS:GTS:pjt (#V-119)
bcc: Mr. Hamilton
Ms. Smalley
Mr. Schwartz
Legal Records (2)

CARROLL HUBBARD
CONGRESSMAN
1ST DISTRICT, KENTUCKY

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

Action assigned Mr. Allison

AT LARGE MAJORITY WHIP

COMMITTEES:
BANKING, FINANCE AND URBAN AFFAIRS
MERCHANT MARINE AND FISHERIES
CHAIRMAN, SUBCOMMITTEE ON PANAMA CANAL/OUTER CONTINENTAL SHELF

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

#119

RECEIVED
OFFICE OF THE CHAIRMAN
1982 MAY 27 AM 9:01
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

May 25, 1982

Hon. Paul Volcker
Chairman, Board of Governors
Federal Reserve System
Twentieth Street and Constitution Avenue, NW
Washington, DC 20551

Dear Paul:

I have been contacted by a friend of mine, Lamonte Hornback, President and Chief Executive Officer of the First Hardin National Bank and Trust in Elizabethtown, Kentucky. I would appreciate your consideration of his concerns about actions of the Federal Reserve vis-a-vis banks.

I have enclosed a copy of his letter to me, for your information. Mr. Hornback opposes continuous regulation and levying by the Federal Reserve upon banks which are struggling to survive. He feels that relief from levying is needed.

Again, thank you for your attention to and consideration of this matter.

With best wishes for you, I am

Sincerely yours,

Carroll Hubbard

Carroll Hubbard
Member of Congress

CH/lll
Enclosure

FIRST HARDIN

NATIONAL BANK & TRUST

LAMONTE HORNBACK
President
and Chief Executive Officer

WALL STREET AT DIXIE AVENUE
ELIZABETHTOWN, KENTUCKY 42701
502/769-5941

May 7, 1982

COPY

MAY 10 1982

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

Dear Carroll:

I write this letter out of deep concern for our bank's relationship with the Federal Reserve System. The Federal Reserve continues to charge us reserve dollars up to 12% on demand deposits and they have now levied hard dollar charges for all of their services rendered to us. I could give you a breakdown on all of these charges, but I am sure you are already aware of them.

We need relief from this unfair levying by the Fed, particularly in a time when we are struggling for our life and our competitors are running unrestrained in every area.

Your help and response will be appreciated.

Very truly yours,

Lamonte

Lamonte Hornback
President

/jkr

June 11, 1982

The Honorable Walter E. Fauntroy
Chairman
Subcommittee on Domestic Monetary Policy
Committee on Banking, Finance and
Urban Affairs
House of Representatives
Washington, D.C. 20515

Dear Chairman Fauntroy:

Thank you for your letter of June 3, concerning the difficulties of Drysdale Government Securities, Inc. and the relationship of the securities markets and monetary policy. As you requested, I am pleased to enclose responses to the questions you posed.

I hope you find these comments helpful. At an appropriate time we will be pleased to share with you the results of our further consideration of the issues raised by the Drysdale situation.

Sincerely,

S/ Paul

Enclosure

NS:pjt (#V-123)
bcc: Mrs. Mallardi (2)

Question 1. For purposes of monetary policy and for purposes of an individual firm's financial integrity would it not be beneficial for the Federal Reserve to possess authority to establish capital ratios for all dealer-brokers based on some formula? Under what terms and conditions might changes in capital ratios be invoked were the Fed to possess or exercise such authority?

Answer: Open market operations involving government securities are at the core of the procedures and techniques used by the Federal Reserve in conducting monetary policy. Thus, in addition to its other benefits, an orderly government securities market is highly desirable from the perspective of implementing monetary policy measures. This market, for a variety of reasons, has traditionally not been subject to formal regulation by a government agency, although there has been a certain amount of informal surveillance. By and large this unregulated status has been acceptable; indeed, the unregulated status has been believed to have certain advantages in terms of the flexibility and performance of the government securities market. It would be premature to conclude on the basis of the Drysdale situation and other recent developments in that market whether government regulation is warranted. This question has been considered from time to time in the past, and it is appropriate to consider it again. If a conclusion is reached that government regulation is needed, establishing capital ratios for government securities dealers is only one of a number of techniques that might be used. We approach these questions with an open mind and are now developing more detailed information about what transpired and any lessons that may be drawn from it.

Question 2. Last Tuesday, the Federal Reserve undertook certain actions to reassure the securities market. Please describe these actions taken by the System and whether or not the desired result was achieved. Please be precise about the result that was sought.

Answer: During the day on Tuesday, May 18, the government securities market was beset by a variety of rumors and concerns arising out of the Drysdale situation. As New York Reserve Bank President Solomon stated during recent testimony before the Senate Subcommittee on Securities:

> "Beginning Tuesday morning, we had people working with Drysdale's books and records, such as they were, trying to develop a picture of Drysdale's financial affairs. By mid-day Tuesday the market uncertainty about clearing and financing arrangements seemed to be building. There was concern that investors and traders would pull away from the markets because of uncertainty about the magnitude of the problem, and that major securities firms would be threatened with losses that could jeopardize their ability to function. It was decided to hold an afternoon meeting with the twelve New York Clearing House banks. We told the banks that we were watching the Drysdale situation closely and stated that our discount window stood ready to assist commercial banks in dealing with unusual liquidity problems arising from the situation. Since there was some concern that the Drysdale matter might impede the flow of securities and related payments through the market we said that we would extend the day's deadlines for our securities and funds transfer systems to allow time for the smooth completion of the day's work. After the meeting with the banks, we conveyed the same message by telephone to the 36 primary dealers. During that call, each dealer was asked to keep us informed about its exposure in the Drysdale situation.
>
> "During the rest of the day, Federal Reserve officials had discussions with senior officials of Chase and Manufacturers Hanover reviewing the options for a resolution of the situation, to reduce or eliminate the uncertainty, and restore more normal conditions in the Government securities market."

With respect to open market operations, the conduct of the Federal Reserve's reserve-providing activities on Tuesday were essentially what they would have been in any event. As has been reported, we provided reserves that day. The amount involved was consistent with amounts indicated for the day and the week under calculations of reserve-provision needed to attain our objective, independent of the Drysdale situation. We did, however, conduct our open market operations slightly earlier in the morning than usual. If the market were behaving in a disturbed or disorderly fashion for reasons related to an extraenous or special situation such as Drysdale, we could have acted more forcefully, but as it turned out the market performed fairly well on Tuesday although the background mood was somewhat apprehensive. On Wednesday, as you know, the immediate situation was largely resolved by the decisions of Manufacturers Hanover and Chase to make interest payments due on account of securities borrowed by Drysdale and to take other actions to complete Drysdale-related securities transactions.

Question 3. Please indicate the nature of the effect that the events surrounding the Drysdale affair will have on the money supply numbers of that week and the following week or so.

Answer: As you know, the money supply statistics for Ml released on Friday, May 21, were for the banking week ending on Wednesday, May 12. Therefore, these figures were obviously unaffected by the Drysdale situation, which only came to market attention on May 17 and thereafter. We do not have any reason to believe that the money supply statistics for subsequent weeks were affected by the Drysdale situation. However, as you know, I have indicated in another context the possibility that uncertain conditions, whether in the economy at large in a period of recession or in sectors of the financial markets, may lead to an increased demand for liquid assets, including those in Ml. The extent of such a phenomenon is very difficult to determine, but it is a significant factor in our assessment of the monetary policy situation.

Question 4. In this last week, the Fed appeared to increase bank reserves. Please indicate whether this action represents some easing of the money supply, whether they are intended to assure the money markets in the aftermath of the Drysdale affair, have some other purpose or arise of some other event.

Answer: Recent Federal Reserve open market operations were essentially unaffected by the Drysdale situation, but rather represented reserve provisions consistent with the money supply targets established by the Federal Open Market Committee.

Question 5. There appears to be a large revision of loans to security dealers last week. Please indicate how long these large amounts of borrowed securities are expected to remain outstanding and, please, otherwise comment on security dealer loan activity.

Answer: Loans of securities are a routine part of Federal Reserve activity, although they are typically of relatively small magnitude. In the wake of the Drysdale situation, we acted to increase somewhat the flexibility of our procedures in securities lending so as to avoid unnecessary technical difficulties in the unwinding of Drysdale-related positions in specific securities. Under our usual procedures loans of securities must be adequately collateralized, must be repaid within 5 days, may not be used to cover short sales, and are subject to various position limitations. Greater flexibility regarding the latter two provisions was authorized for only a brief period of time, and the authorization has expired. From an average level of $203 million in the week ending May 12, 1982, the level of securities loaned by the Fed rose to $1.8 billion in the week ending May 26. It has since subsided to $188 million in the week ending June 2.

The aspect of this question relating to other security dealer loan activity is discussed as part of the reply to Question 8.

Questions 6 and 7. I understand the Primary Government Security Dealers Association met this past week to consider changes in short-term financing techniques used by the market for Treasury securities. Was the Federal Reserve System invited to participate in these meetings? If so, what recommendations did the System make, what comments did the System receive? If you did not participate, what recommendations do you have to offer?

Should there be a revision of the rules governing the relationships of institutions acting as "middlemen" or agents in government security transactions? What should these revisions be?

Answer: The Federal Reserve has participated in recent meetings at the invitation of the Primary Government Securities Dealers Association. Among the topics discussed were proposals to amend the market convention for pricing repurchase agreements so as to more adequately reflect the value of accrued interest on the securities involved. Various parties are also considering how the practice of "blind-trading" might be modified and the merits of alternative conventions. The practice of "blind-trading," which does not encourage market participants to focus on the ultimate identity of their trading partners, is a controversial aspect of the Drysdale situation. As I mentioned in response to Question 1, I think it is premature at this juncture to conclude definitively what market practices should be adopted to reduce the chances of a recurrence of a situation like Drysdale. We, along with other interested parties, are reviewing the issues expeditiously, and we plan to take what initiatives are necessary in considering these matters.

Question 8. The Drysdale affair will presumably lead many firms to reassess the volume of business they can maintain. In light of this, I would like your views on whether a failure to contract the volume of business poses any danger to the markets, and whether, if there is a contraction, any impact on the efficiency of the market to transfer and to buy-sell any particular volume of government debt. I would like you to answer this question in light of the projected potential deficits of the Administration. Additionally, I would like to know what effect either of the two scenarios noted above might have on any particular monetary policy which might be pursued. Please be as specific as possible.

Answer: Changes in market practices which may result from the Drysdale situation and subsequent events would seem likely to be in the direction of instilling a greater degree of caution and should, therefore, result in a sounder marketplace from a technical viewpoint. The government securities market has historically consisted of a relatively small number of reputable, well-known firms, typically engaging in a variety of types of transactions relating to government securities and often active in other markets as well, either directly or through affiliates. In the last few years, a number of new firms, without the track record of those well-established firms, have entered the market, sometimes for reasons relating to financial positioning or to take advantage of provisions of the tax law. While these newer firms may add liquidity and activity to the market, they are not generally ultimate investors in government securities. These firms seem now to be undergoing a process of rationalization, in some instances involving a curtailment of their activity or paying higher rates for financing, to reflect the enhanced awareness that transactions have risk even though the securities involved do not themselves have credit risk. The ultimate result of a firming of credit standards and a tightening of policies, practices, and procedures should be a more robust market less likely to be subjected to shocks such as Drysdale and better able to respond to any that occur. As with change in any market, some adjustment in the relative positions of market participants may occur in the process, but the market's overall capacity to handle the regular flow of government securities transactions should not diminish--and indeed may well be enhanced in the longer run. If anything, reduction in the volume of transactions or the liquidity of this market seems likely to reflect a more cautious attitude toward relatively speculative position-taking activities. On the other hand, the transition to a sounder market structure carries some risk if some market participants are unable to adjust their positions and operations quickly enough. So far, it appears that the process is happening at a deliberate pace and in a reasonable orderly fashion, and no effects on the implementation of monetary policy are anticipated.

I think the question of the ability of the market to absorb the amounts of new government securities required by huge prospective federal budget deficits exists quite apart from technical aspects of that market related to the Drysdale situation. As you know, I have commented repeatedly about the kind of economy, the kind of financial environment, and the range of interest rates that are implied by the federal budget deficit outlook unless decisive action is taken to bring it under better control. This is a matter of fundamental importance to continued progress toward reasonable price stability, to productive private sector investment, and to a sustainable economic recovery.

June 11, 1982

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

Dear Mr. Leach:

Thank you for your letter of June 8, 1982 asking me to keep you informed of any decision on the petition by the Iowa Superintendent of Banks concerning the merger agreement between Banks of Iowa and First Bank Systems.

I would like you to know that the Board has merger agreements of this type under intensive review because of the important questions raised about their consistency with the Bank Holding Company Act. You can be sure that you will be kept informed of the decision of the Board on the Superintendent's petition.

Sincerely,

S/ Paul

MB:mam

V-128
GC 191

bcc: S. Wolfe (2)
Cong. L.

Action assigned Mr. Bradfield

JIM LEACH
1ST DISTRICT, IOWA

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1982 JUN -9 AM 9:27
RECEIVED OFFICE OF THE CHAIRMAN

CONGRESS OF THE UNITED STATES

COMMITTEES:
BANKING, FINANCE AND URBAN AFFAIRS
FOREIGN AFFAIRS

#128

June 8, 1982

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

Dear Mr. Volcker:

I would appreciate being kept advised of any decisions that the Federal Reserve Board may make regarding the PETITION OF THE IOWA SUPERINTENDENT OF BANKING FOR A FORMAL RULING AS TO THE ISSUES PRESENTED FOR REVIEW REGARDING SALE OF STOCK AND ASSETS PURSUANT TO AGREEMENTS BETWEEN BANKS OF IOWA, INC. AND FIRST BANK SYSTEMS, INC. OF MINNESOTA AND THIRD PARTIES.

Sincerely,

J. Leach

Jim Leach
Member of Congress

JL:cm

cc: Thomas H. Huston, Superintendent
Iowa Department of Banking

June 11, 1982

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

Dear Chairman Reuss:

Thank you for your letter of June 8 regarding your Committee's hearing on the future of monetary policy.

I am looking forward to being with you on June 15 at 10:00 a.m.

Sincerely,

S/ Paul

CO:pjt (#V-127)
bcc: Mr. Soss
Mr. Kichline
Dana Johnson
MRS. MALLARDI (2)

Chairman will testify

Congress of the United States

JOINT ECONOMIC COMMITTEE

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

WASHINGTON, D.C. 20510

#127

June 8, 1982

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

Dear Mr. Chairman:

I am very pleased to learn that you will be able to appear before the Joint Economic Committee on Tuesday, June 15, 1982, to testify on the future of monetary policy. The hearing will begin at 10:00 a.m. in Room 2359 of the Rayburn House Office Building.

Please send 20 copies of your prepared statement to the Administrative Assistant, Joint Economic Committee, Room G-133, Dirksen Senate Office Building, Washington, D.C. 20510, to arrive at least 24 hours prior to your appearance. These copies will accommodate the Committee Members and staff. If you wish your statement to be disseminated to the press, please also bring an additional 80 copies on the day of your appearance.

On behalf of the Committee, I would like to express our appreciation for your cooperation and willingness to meet with us and look forward to benefiting from your views.

Sincerely,

Henry S. Reuss

Henry S. Reuss
Chairman

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

June 11, 1982

PAUL A. VOLCKER
CHAIRMAN

The Honorable Donald Riegle
United States Senate
Washington, D.C. 20510

Dear Senator Riegle:

Thank you for your recent letter in which you request the Board to review its recently adopted capital standards as they apply to chain banking organizations with combined assets in excess of $150 million. I understand that your primary concern is that the policy will limit future expansion of these organizations.

The guidelines for minimum capital positions, particularly for smaller banks, provide more "liberal" standards than were generally prevailing in the industry. But the clear implication is that a number of individual organizations with relatively thin capital positions, whatever their organizational structure, will be actively encouraged to strengthen those capital positions. That, of course, is the purpose of the guidelines, and they broadly reflect an effort to balance the need for prudent and safe banking operations with competitive considerations. I think it fair to say that, as regulators responsible for encouraging a sound banking system, we concluded that somewhat more objective standards, generally applicable among banks, were needed in light of the clear pattern of capital erosion banks have experienced in recent years.

The question you have raised about chain banking organizations has to be addressed in the light of that general objective.

While the Board recognizes that there are differences in corporate form between chains and multibank holding companies, in substance they are very much alike. Both types of organization represent a group of common shareholders with the common purpose of acquiring and operating banks for profit. Moreover, when a commonly owned banking organization reaches a certain size, engages in significant nonbanking activities, or issues debt to the general public, the Board believes that prudent restraints on debt levels should be applied to these organizations commensurate with the risks and exposure they represent to the financial soundness of the banking system just as those restraints are appropriate for a single bank or one bank holding company.

Therefore, the new policy on capital adequacy contemplates that the capital position of banking organizations will be assessed in the light of the organization's size and character of operations rather than with regard to its corporate form. Chain organizations that exceed $150 million in banking assets are asked to meet the same minimum standards as all other bank holding company organizations of comparable size. This could have an impact on further expansion of some of the more thinly capitalized chain organizations, just as for other holding companies, for the very reason that, relative to their peers and the standards, they are, in fact, undercapitalized. I would emphasize, as in the past, chain organizations will be subjected to financial standards no more onerous than those applied to multibank holding companies.

The thrust of the new policy is that future expansion plans of any banking organization should be premised on the ability of the organization to meet appropriate capital standards. The Board, however, has recognized that many chains made expansion plans in good faith prior to the implementation of the policy. Therefore, a transitory relief period is available to those organizations to follow through with those plans.

Although the new policy may be considered to be more restrictive with respect to the consolidated capital required for chain banking organizations with bank assets exceeding $150 million, it should be noted that the definition of a chain relationship has been broadened. Instead of common ownership of 10 percent, a chain relationship will not normally be considered to exist when common ownership is less than 25 percent. Also, the minimum capital standards for community banks (i.e., organizations with less than $1 billion of assets) have, in practical effect, been lowered, but will be applied more rigorously. The Board believes that the adoption of the new definitions for capital and the new capital adequacy guidelines represent a significant step in communicating to the banking industry capital parameters that represent a reasonable compromise among the objectives of safety, competitive equity, and directives for managements. We believe that, by providing clearer and more objective standards, they will facilitate supervision and regulation both for us and for institutions. In this light, I hope you would agree that special, and in effect "lax," treatment of chain banking organizations would be difficult to justify, although we intend, as indicated earlier, to make particular allowance for transitional problems.

Sincerely,

S/ Paul

JG:PAV:pjt (#V-108)
bcc: Jim Garner
Don Kline
Jack Ryan
Mrs. Mallardi (2)

IDENTICAL LETTER TO SENATOR JIM SASSER

Action assigned Jack Ryan

JIM SASSER
TENNESSEE

COMMITTEES:
APPROPRIATIONS
BUDGET
GOVERNMENTAL AFFAIRS
SELECT COMMITTEE ON
SMALL BUSINESS

United States Senate

WASHINGTON, D.C. 20510

April 30, 1982

4/10 8

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1982 APR 30 PM 4:59
RECEIVED OFFICE OF THE CHAIRMAN

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

Dear Chairman Volcker:

We recently have had an opportunity to become familiar with a policy letter dated March 17, 1982 from John E. Ryan, Director, Division of Banking Supervision and Regulation, to the Officers in Charge of Examinations, Legal and Research, at each Federal Reserve Bank, SR 82-17 (FIS, STR).

The referenced letter, consisting of 18 pages, very carefully describes the definition of bank capital recently adopted by the Federal Reserve System and the Office of the Comptroller of the Currency and the issues relating to the definition of capital. We are concerned that the standards set forth in the policy letter may adversely affect the operation of and inhibit the formation of holding companies contrary to the public interest by requiring the consolidation of financial assets of so-called "chain" banks.

The Federal Reserve System has acknowledged that some bank holding companies with less than $150 million in assets should be allowed more capital flexibility compared to larger banking organizations. While this additional flexibility will undoubtedly assist many banking organizations with assets of less than $150 million, it appears that the suggested guidelines and policies for some banking organizations, especially those with assets exceeding $150 million, could be punitive in nature, and could prohibit them from adopting the optimal organizational structure to serve their communities.

Specifically, the following paragraph at the conclusion of the referenced letter virtually prohibits the expansion of many banking organizations throughout our nation.

> "Proposals by banking organizations whose combined banking assets exceed $150 million would be evaluated for capital adequacy on the basis of an analysis of the consolidated organization. (The term "consolidated" as used with the analysis of large chains would involve actually consolidating each parent bank holding company with its subsidiary(ies), and then combining each such consolidated entity and as well as any other bank in the chain). An analysis of the capital adequacy of each constituent entity in a large banking organization would also continue to be assessed to determine whether the holding company would serve as a source of strength to its subsidiary banks."

The language set forth above, when considered in the context of the letter, requires that in considering the merits of an application for approval of a one-bank holding company, the Federal Reserve's judgments on the application would be based upon total capital ratios and debt ratios "consolidated," after including financial data from all banking organizations in the same "chains". Absent the ability to form and maintain one-bank holding companies, bankers throughout this nation are now unable to maintain their independence, thereby resulting in the proliferation of large multi-national, multi-bank financial institutions. The failure to provide definitive standards in my opinion leaves independent bankers in a position of being unable realistically to plan for the expansion of services of their organizations in a logical and orderly fashion.

Difficult questions develop, especially where the Federal Reserve System is unable to define "large chains" as used in the terminology above. In the past, ten percent common ownership in two banking organizations with common management has been considered to constitute a "chain", while in other instances up to 25 percent common ownership is permitted without the determination of a "chain". It is my understanding that the Federal Reserve System now approaches each "chain" question on an individual basis, considering the facts and circumstances of each situation.

It is our opinion that the System as it has operated for the past several years served our banking structure well, with each individual one-bank holding company application considered on its individual merits. To require the consolidating treatment described herein will prohibit the expansion of many banking organizations now serving our nation well. Moreover, expansion would be prohibited by the Federal Reserve even though the Congress has not seen fit to curtail the activities of "chain" banks. Furthermore, it is our opinion that the $150 million threshold for different capital adequacy guidelines should be re-evaluated in light of inflationary trends and increases in the money supply over the past several years. A higher threshold would encourage further local creation and local ownership of financial institutions and help prevent an undue centralization of financial resources in our banking system. We ask your assistance in reviewing the referenced portion of Mr. Ryan's

The Honorable Paul A. Volcker
Page Three
April 30, 1982

letter. We respectfully ask for your reconsideration of this policy in the very near future.

With best regards.

Sincerely,

Donald Riegle
United States Senator

Jim Sasser
United States Senator

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

June 11, 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 Mr. Rosenthal:

Thank you for your letter of June 7 requesting information about the rotation of Reserve Bank presidents as voting members of the Federal Open Market Committee (FOMC). The Federal Reserve Bank representatives who serve on the FOMC are elected in accordance with provisions of Section 12A of the Federal Reserve Act (12 U.S.C. 263). As you know, the act provides for the election of five such representatives annually, who must be presidents or first vice presidents of Federal Reserve Banks to serve on a rotating basis for one-year terms beginning on March 1 of each year. In practice the boards of directors elect presidents of the Banks to serve as voting members of the FOMC. The president of the Federal Reserve Bank of New York serves on a continuous basis. Rotation of the other four representatives is conducted so that each year one member is elected to the Committee by the Boards of Directors of each of the following groups of Reserve Banks: 1) Boston, Philadelphia, and Richmond; 2) Cleveland and Chicago; 3) Atlanta, St. Louis, and Dallas; and 4) Minneapolis, Kansas City, and San Francisco.

The following shows the representation of Reserve Bank presidents on the FOMC from January 1, 1978, to date, as requested in your letter.

<u>January 1, 1978, through February 28, 1978</u>
(the members having been elected for the year commencing March 1, 1977)

James R. Guffey	Kansas City
Robert P. Mayo	Chicago
Frank E. Morris	Boston
Lawrence K. Roos	St. Louis
Paul A. Volcker	New York

Ernest T. Baughman	Dallas
David P. Eastburn	Philadelphia
Mark H. Willis	Minneapolis
Willis J. Winn	Cleveland
Paul A. Volcker	New York

March 1, 1979, through February 29, 1980

John J. Balles	San Francisco
Robert P. Black	Richmond
Monroe Kimbrel	Atlanta
Robert P. Mayo	Chicago
Paul A. Volcker*	New York

* Resigned August 6, 1979, and became Chairman of the Board of Governors.

March 1, 1980, through February 28, 1981

James R. Guffey	Kansas City
Frank E. Morris	Boston
Lawrence K. Roos	St. Louis
Anthony M. Solomon*	New York
Willis J. Winn	Cleveland

* Member as of April 1, 1980.

March 1, 1981, through February 28, 1982

Edward G. Boehne	Philadelphia
Robert H. Boykin	Dallas
E. Gerald Corrigan	Minneapolis
Robert P. Mayo	Chicago
Anthony M. Solomon	New York
Silas Keehn*	Chicago

* Member as of July 1, 1981, succeeding Mr. Mayo who had retired from the Federal Reserve Bank of Chicago at the end of March.

March 1, 1982, through February 28, 1983

John J. Balles	San Francisco
Robert P. Black	Richmond
William F. Ford	Atlanta
Anthony M. Solomon	New York
Willis J. Winn	Cleveland
Karen N. Horn*	Cleveland

* Member as of May 3, 1982, succeeding Mr. Winn who had retired from the Federal Reserve Bank of Cleveland at the end of April.

On the assumption that the customary rotation continues, the Reserve Banks whose presidents will be elected as members of the FOMC through 1985 are as follows:

March 1, 1983, through February 29, 1984

Boston
New York
Chicago
St. Louis
Kansas City

March 1, 1984, through February 28, 1985

New York
Philadelphia
Cleveland
Minneapolis
Dallas

March 1, 1985, through February 28, 1986

New York
Richmond
Chicago
Atlanta
San Francisco

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

Sincerely,

S/ Paul

MA:CO:pjt (#V-126)
bcc: Murray Altman
Mrs. Mallardi (2)

BENJAMIN S. ROSENTHAL, N.Y., CHAIRMAN
JOHN CONYERS, JR., MICH.
EUGENE V. ATKINSON, PA.
STEPHEN L. NEAL, N.C.
DOUG BARNARD, JR., GA.
PETER A. PEYSER, N.Y.
BARBARA B. KENNELLY, CONN.

Action assigned Mr. Altman; info copy to Mr. Axilrod

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

MAJORITY—(202) 225-4407

NINETY-SEVENTH CONGRESS

Congress of the United States

House of Representatives

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

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

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1982 JUN -8 PM 12:00
RECEIVED
OFFICE OF THE CHAIRMAN

#126

June 7, 1982

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

Dear Mr. Chairman:

Please provide to the Commerce, Consumer, and Monetary Affairs Subcommittee the following information about the rotation of Reserve Bank presidents as voting members of the Open Market Committee:

1. The rules and procedures according to which it is determined which Reserve Bank presidents will have votes on the Open Market Committee.

2. A listing identifying the voting members (with their respective Reserve Bank affiliations) at all times during the period from January 1, 1978, to the present.

3. A listing indicating the schedule of which Reserve Banks will have votes at which times during the years 1983 through 1985.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dtb

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

June 10, 1982

PAUL A. VOLCKER
CHAIRMAN

The Honorable Ronnie G. Flippo
House of Representatives
Washington, D.C. 20515

Dear Mr. Flippo:

Thank you for your recent letter and for the opportunity to comment on correspondence you received from your constituent, Mr. Jim Jarrett. In his letter, Mr. Jarrett asked why social security payments are included in the M1 measure of money. Also in his letter, Mr. Jarrett suggested that the monetary aggregates be published in the form of monthly rather than weekly figures. Lastly, he suggested that budgetary discipline might be improved by auctioning Treasury bills on a quarterly, rather than a weekly, basis.

Social security payments, like all government transfer payments, affect the M1 measure of money when the proceeds are held in transaction accounts at depository institutions, or as currency or travelers checks. The proceeds of transfer payments held as M1 balances are immediately available for spending, just as are the proceeds from other sources such as paychecks. Systematic changes in the money stock arising from monthly social security payments in principle are accounted for by seasonal adjustment procedures, although these techniques are inherently imperfect and such payments may from time to time affect temporarily the seasonally adjusted level of M1.

With regard to your constituent's suggestion that the Federal Reserve publish money stock data on a monthly basis, the Board has decided tentatively to publish data on the narrow money stock on a four-week moving average, rather than a weekly, basis. It has long been recognized that week-to-week changes in the money stock exhibit substantial volatility and are not very representative of underlying trends. Four-week moving average data, by contrast, are less "noisy" and more reflective of trend.

While the Federal Reserve concurs that reductions in the federal deficit would relieve strains in financial markets and contribute to lower interest rates, it does not appear to us that Mr. Jarrett's proposal would be an effective means of achieving the desirable goal of budgetary discipline. Once a deficit occurs, the Treasury has no alternative but to borrow from the public to finance that shortfall. The weekly frequency of the Treasury bill auction serves to facilitate this borrowing in a manner that is least disruptive of financial markets. It has virtually no effect on the size of the deficit itself. Relatively frequent auctions do, however, assist the Treasury in stabilizing cash flow and in reducing congestion in the market for Treasury securities.

I hope this information proves useful to you.

Sincerely,

S/Paul A. Volcker

MR:LR:TDS:JLK:CO:pjt (#V-118)
bcc: Mr. Simpson
Mr. Ribble
Mr. Regalia
Ms. Wing
Mrs. Mallardi (2)

Action assigned Mr. Kichline

RONNIE G. FLIPPO
5TH DISTRICT, ALABAMA

405 CANNON BUILDING
WASHINGTON, D.C. 20515

COMMITTEES:
PUBLIC WORKS AND TRANSPORTATION
SCIENCE AND TECHNOLOGY
CHAIRMAN:
SPACE SCIENCE AND APPLICATIONS SUBCOMMITTEE

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

COUNTIES:
COLBERT, JACKSON, LAUDERDALE, LAWRENCE, LIMESTONE, MADISON, MORGAN

HOME TOWN:
FLORENCE, ALABAMA

#1118

May 21, 1982

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

Dear Paul:

Enclosed please find a copy of a letter that I received from a constituent, Mr. Jim Jarrett who resides in Hartselle, Alabama.

If you would look over Mr. Jarrett's letter and respond to his specific questions, I would be most appreciative.

Again, Paul, thank you for your consideration in this matter.

Sincerely,

Ronnie G. Flippo

Ronnie G. Flippo

F:kb
Enclosure

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1982 MAY 25 AM 9:13
RECEIVED
OFFICE OF THE CHAIRMAN

Jim Jarrett
[redacted]

May 5, 1982

Ronnie Flippo
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Two questions. Why are Social Security payments included in the M1 money supply figures? It seems if money supply accounting was done on a monthly basis, instead of weekly, the Fed would be in a better position to make their adjustments and provide more flexibility.

Secondly, why aren't T-Bills auctioned quarterly, instead of each Monday? This would assist Government to live within its means, from a firmer and more realistic budget, (assuming such a budget was passed).

Sincerely Yours,

Jim Jarrett

JIM JARRETT

June 9, 1982

The Honorable Walter E. Fauntroy
Chairman
Subcommittee on Domestic Monetary Policy
Committee on Banking, Finance and
Urban Affairs
House of Representatives
Washington, D.C. 20515

Dear Chairman Fauntroy:

Thank you for your letter of June 4 inviting the Board to appear before your Subcommittee at hearings on H.R. 6222, a bill to amend the Federal Reserve Act to exempt from reserve requirements a certain amount of the deposits and accounts of depository institutions.

Vice Chairman Preston Martin is looking forward to appearing on behalf of the Board on Wednesday, June 16.

Sincerely,

S/ Paul

CO:pjt (#V124)

bcc: Gov. Martin
Dave Lindsey
Mrs. Mallardi (2)

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

U.S. HOUSE OF REPRESENTATIVES

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

June 4, 1982

#124

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

Dear Paul:

I would like to invite you to testify before the Subcommittee on Domestic Monetary Policy on H.R. 6222, a bill to amend the Federal Reserve Act to exempt from reserve requirements a certain amount of the deposits and accounts of depository institutions. The hearing will take place on Wednesday, June 16, 1982 at 10:00 a.m. in Room 2128 of the Rayburn House Office Building.

This legislation, which I introduced on April 28, 1982 provides an exemption from the reserve requirement ratios provided under paragraphs 2 and 5 of Section 19(b) of the Federal Reserve Act of any combination of transaction accounts, nonpersonal time deposits, and balances and assets described in paragraph 5 of the same subsection which does not in total exceed $2 million.

H. R. 6222 is intended to codify temporary provisions of the Board of Governors of the Federal Reserve System that deferred the reporting and maintenance by nonmember depository institutions with deposits of less than $2 million of reserve balances. Since it is the sense of the Board that further extensions of the deferral beyond this year might be inappropriate without legislativeactivity, it is my intention to seek enactment of this legislation as soon after the hearing as is possible. Therefore, I would very much appreciate any policy and technical comments which you might have on this matter to be presented at the time of the hearing and to be incorporated into your statement or appendixes attached thereto. Additionally, I would very much like you to address with as much specificity as is possible any budgetary implications this legislation is likely to have on the excess income returned by the Federal Reserve to the Treasury.

The Rules of the Subcommittee require that 100 copies of your statement be made available to the staff of the Subcommittee 48 hours prior to your testimony. If you wish to assure that the public and press have adequate copies of your statement, you should bring them with you at the time of the hearing. Any questions concerning this invitation may be addressed to Howard Lee, Staff Director, at 225-7315.

Thank you for your cooperation. I look forward to hearing your views on this bill on Wednesday, June 16, 1982.

Sincerely yours,

Walt

Walter E. Fauntroy
Chairman

cc: Don Winn

June 4, 1982

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

Dear Senator Danforth:

Thank you for your letter of May 28, 1982 recommending Mr. David R. Goller as a voluntary legal consultant to the Federal Reserve Board. I appreciate your sending his name to us and Mr. Goller's generous offer.

While the Board has no formal arrangements for obtaining advice on a voluntary basis, we welcome the opportunity to call on Mr. Goller's expertise and to be able to obtain advice on complex problems from people who have dealt with them on a regular basis in the private sector. I suggest that Mr. Goller contact our General Counsel, Mr. Michael Bradfield, so that a basis for contacts with him could be established.

Sincerely,

S/ Paul

MB:Mam

V-121
GC 187

bcc: ~~S. Wolfe~~ Mrs. Mallardi (2)

Action assigned Mr. Bradfield

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

121

May 28, 1982

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

Dear Chairman Volcker:

Mr. David R. Goller, an attorney in Jefferson City, Missouri, has contacted me to offer his services on a voluntary basis, to the Board of Governors of the Federal Reserve System as an advisor or consultant. Mr. Goller is a seasoned attorney with experience in taxation and banking. I believe you would find his expertise a valuable asset.

I have enclosed a copy of Mr. Goller's resume. Please let me know if you are interested in taking advantage of his generous offer.

Sincerely,

John C. Danforth

John C. Danforth

Enclosure

Removal Notice

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Citation Information

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Number of Pages Removed: 1

Citations: Resume, David R. Goller, 1982.

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

June 3, 1982

PAUL A. VOLCKER
CHAIRMAN

The Honorable Michael G. Oxley
House of Representatives
Washington, D. C. 20515

Dear Mr. Oxley:

Please forgive my delay in responding to your letter of April 16. Every time I turned to it there appeared to be a resolution to the underlying budget problem just in sight or on the horizon so I put off writing to you in order to be able to incorporate the "news". Unfortunately, the "news" has not yet arrived in a final sort of way, so I will not put off writing any longer.

While the major thrust of your letter was an expression of concern about the damaging effects of high "real" interest rates, you also raised a number of issues relating to monetary control and the process of interest rate determination that I should address briefly in reply.

Let me begin my response by expressing my concurrence with your view that a lowering of interest rates would be welcome. Indeed, rates have come down since you wrote, but remain at higher levels than one would like to see at this stage in the economic cycle. Unfortunately, it isn't at all clear that a shift away from our "tight money policy", as you characterize it, would bring about a lasting decline in rates. We have committed ourselves to a long-range policy of restraint on the growth of money with a view to providing some assurance that inflation will gradually be wrung out of our economy. If there were to be a perception that we had altered our course on that score, the resulting impact on expectations might offset any immediate depressing effect of faster monetary growth on nominal interest rates as the inflation premium in rates increased. This would be a particularly serious risk in the long-term debt markets, which are so crucial to business and household investment. With this in mind, I think it fair to say that an anti-inflationary policy like the one we're following offers the best hope for sustained reduction in interest rates.

You raised some questions regarding the methods of control we use and the desirability of steadiness in monetary growth. I would view the matter of "controlled and steady growth" as being somewhat separate from the issue of the basic thrust of our policy. There are a great many technical points involved here, and I won't endeavor to explore them at length. Let me just say simply that I believe that we have been consistent in our monetary control techniques and that, in a world in which the public's demand for money is inherently highly volatile, an effort to smooth still further the growth of money would likely result in less, not more, stable interest rates in the short run. We are continuing to look for ways to improve our control procedures, but any improvements in that area are likely to be of at most second-order importance in terms of producing steadier credit market conditions, let alone lower interest rates.

As you suggest, the federal budget has much to do with the course of economic and financial developments. I believe that decisive action to reduce the prospective deficits and associated federal demands on the credit markets will do much to ease the fears of investors that have worked to hold intermediate- and long-term interest rates at such high levels.

In closing, let me assure you that we recognize that--in a world of rapidly changing financial technology and practices--the setting of quantitative monetary targets is partly a matter of judgment; we understand the importance of vigilance and a degree of flexibility under the circumstances. We believe that our current set of money growth objectives for this year will permit an upturn in economic activity while maintaining the needed measured restraint on inflationary pressures. However, our feet are not set in concrete, and if events should show that our interpretation of the monetary aggregates requires it--and I think it too early to reach such a judgment--then we would consider an adjustment to the ranges we've announced.

Sincerely,

S/Paul A. Volcker

MJP:NS:vcd (V-100)

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

MICHAEL G. OXLEY
4TH DISTRICT, OHIO

GOVERNMENT OPERATIONS

SUBCOMMITTEE ON ENVIRONMENT, ENERGY, AND NATURAL RESOURCES

SELECT COMMITTEE ON NARCOTICS ABUSE AND CONTROL

HOUSE AGRICULTURE TASK FORCE

CONGRESSIONAL RURAL CAUCUS

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

WASHINGTON OFFICE:
1724 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-2676

DISTRICT OFFICE:
401 WEST NORTH STREET, ROOM 205
LIMA, OHIO 45801
(419) 227-6845

TOLL FREE NUMBER FOR DISTRICT OFFICE
1-800-472-4154

April 16, 1982 #100

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1982 APR 19 AM 8:22
RECEIVED OFFICE OF THE CHAIRMAN

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

Dear Mr. Chairman:

Continued high interest rates are foremost among impediments to economic recovery today. These rates are proving disastrous to farmers, small businessmen, large industries and financial institutions in my district, as well as consumers across the country.

While I am encouraged at the prospects for an inflation rate below seven percent for 1982, I am concerned that the prognosis for lower interest rates is not as promising. In an era when the nominal interest rate hovers around 17 percent and inflation rate holds at seven percent, the result is a real interest rate of about 10 percent.

Of particular concern to me is the effect this 10 percent real interest rate will have on American exports and imports in the long term. Because products manufactured in the United States are becoming more expensive to manufacture, they become less competitive overseas and will no doubt lead to a greater trade deficit. Many large industries with exporting markets, many of which are located in my congressional district, will be severely affected if the export market of U.S. products is diminished.

On the other side of the trade problem, imports into the United States will be drastically increased in absolute terms if the dollar's sharp appreciation against the 10 other major currencies continues.

In testimony before the Congress last year, the Department of the Treasury indicated that more stable interest rates could be attained if the Federal Reserve concentrated on consistent monetary control techniques. The Administration has echoed this view, emphasizing the relationship between monetary growth and U.S. economic growth in general.

Due to expansion of non-traditional banking services such as money market funds, credit cards, etc., I understand the tremendous pressure being placed on the Federal Reserve during a time when the activity of money in the system is becoming more uncontrollable. However, Mr. Chairman, if the approach to link monetary growth and economic growth is to succeed, there is a compelling case to be made for adopting monetary policies which allow for controlled and steady growth in the money supply. Such action would allow market interest rates to fall so that "real" interest rates could attain more customary levels.

I realize, of course, that the Federal Reserve's actions must be coupled with bold measures by the Congress to reduce the growing federal deficit. In addition to calling for substantial across-the-board reductions in the FY1983 budget, I have joined many of my colleagues in cosponsoring two bills which would require the Congress to approve only balanced budgets.

It is imminently clear that the real interest rate is vital to the economic recovery program since it governs business as well as personal decisions. I will continue to work on reducing deficits through essential budget cuts. In the meantime, Mr. Chairman, I urge you to closely examine your tight money policy in order to relieve the American consumer and businessman from devastating high interest rates.

Yours truly,

Michael G. Oxley

Michael G. Oxley, M.C.
Fourth Ohio District

MGO:dd

June 3, 1982

The Honorable Edwin B. Forsythe
House of Representatives
Washington, D. C. 20515

Dear Mr. Forsythe:

Thank you for your letter of May 21 supporting the application of BCTC Corporation, Moorestown, New Jersey, to acquire the Burlington County Trust Company, Moorestown, New Jersey.

The Board of Governors appreciates having your views on this application, which is currently pending before the Board. Your comments will be made part of the official record in this case and will be given full consideration when the Board makes its final decision.

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn
Assistant to the Board

CVH:PGN:CO:vcd (V-117)
bcc: Mr. Bradfield G.C. #175
Mrs. Mallardi ~~(2)~~
Ms. Nardolilli
Mr. Howard
Legal Files (2)

EDWIN B. FORSYTHE
2210 Rayburn House Office Building
Washington, D.C. 20515
202-225-4765

Action assigned Mr. Bradfield

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

Member:
Committee on
Merchant Marine and Fisheries
Committee on
Science and Technology
Committee on
Standards of Official Conduct

May 21, 1982

#117

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

Dear Chairman Volcker:

I am writing in support of an application submitted to the Philadelphia Federal Reserve by the Burlington County Trust Company for the buy-back of its bank from the Fidelity Union Bancorporation.

I sincerely believe that the buy-back of this company is in the best interest of both banks and of the community as a whole.

I would appreciate any consideration you can give to the Burlington County Trust Company in its attempt to get this application approved. Thank you for your assistance in this matter.

Sincerely,

Edwin B. Forsythe

Edwin B. Forsythe
Member of Congress

EBF:pk

OFFICE OF THE CHAIRMAN
RECEIVED
1982 MAY 24 AM 9:34
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

June 2, 1982

The Honorable Peter W. Rodino, Jr.
Chairman
Committee on the Judiciary
House of Representatives
Washington, D. C. 20515

Dear Chairman Rodino:

I wanted you to be aware of the enclosed letter I have sent to The Honorable Sam B. Hall, Jr., the Chairman of the Judiciary Subcommittee that has jurisdiction over the Regulatory Procedure Act. I am very concerned about this pending legislation, particularly because of its implications for monetary policy, and wanted to bring my concerns to your attention.

Sincerely,

Enclosure

AFC:DJW:vcd
bcc: Gil Schwartz
Mrs. Mallardi (2)

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

PAUL A. VOLCKER
CHAIRMAN

June 2, 1982

The Honorable Sam B. Hall, Jr.
Chairman
Subcommittee on Administrative Law
and Governmental Relations
Committee on the Judiciary
House of Representatives
Washington, D.C. 20515

Dear Chairman Hall:

I wanted to take an opportunity to write to you concerning the Regulatory Procedure Act of 1982, which I understand you may be considering in the near future.

The Board has expressed support for efforts to improve the regulatory process and to enhance public participation in regulatory proceedings. However, it is my judgment that the objectives of regulatory simplification would not be achieved by imposition of an additional layer of administrative requirements as envisioned by both H.R. 746 and the Senate-passed bill. While I believe the objectives of lightening and simplifying existing regulatory burden as well as the avoidance of unnecessary regulation in the future could be achieved more efficiently by careful analysis of individual agency functions, the purpose of this letter is to discuss the effect the legislation now pending before the House would have on monetary policy. I am particularly concerned about the application of this legislation to the monetary policy functions of the Federal Reserve.

H.R. 746 establishes complex rulemaking procedures, provides the Executive Branch with the authority to establish additional procedures for the implementation of "major rules", and subjects emergency actions of the agencies to retroactive review in accordance with the newly prescribed procedures. The very fact that the rulemaking involved in carrying out monetary policy functions would be subject to the extensive and elaborate procedural requirements of the bill gives me cause for great concern. The proper conduct of monetary policy requires a high degree of discretion and a minimum amount of rigidity in the form of complex procedural rules that would hamstring independent, timely and effective action that is responsive to the quickly changing needs of the economy.

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

H.R. 746, as it now stands, would undermine these basic principles that have guided the formulation of monetary policy, and I very much doubt whether the changes in regulatory procedures contained in H.R. 746 were ever intended to apply to the formulation of monetary policy. I believe that this is an inadvertent result from a bill designed with the intention of improving regulatory procedures but not aimed at changing fundamental relationships that have been established by Congress and have become an essential part of the fabric of economic policy formulation. In this regard, as you are aware, the Regulatory Reform Act as passed by the Senate includes a provision introduced by Senators Laxalt, Roth, Leahy and Eagleton exempting monetary policy from the major rule requirements and the Executive oversight provisions of that bill.

There are numerous monetary policy actions that would fall within the scope of H.R. 746. For example, monetary policy is carried out, in part, under rules made in connection with the operation of the Federal Reserve's discount window, through which the Federal Reserve carries out its functions as lender of last resort, and through which loans are made to banks and thrifts for short-term, seasonal, and extended borrowing needs. Another example can be illustrated by rules establishing reserve requirements, a basic tool for influencing the level of the money supply and the availability of credit. Other examples of monetary policy actions include rules relating to margin credit and interest on deposits. The provisions on Executive oversight, even to the extent they are made only advisory, compound the problems of procedural delays in the taking and implementing of decisions that must be carried out immediately in order to have their proper market impact, while, at the same time raising the fundamental question of the appropriate division of responsibilities for the carrying out of monetary policy. Consequently, I strongly urge an amendment that excludes the Federal Reserve's monetary policy functions from the scope of H.R. 746.

I am also very concerned that the provisions contained in both H.R. 746 and the Senate-passed bill providing for Congressional veto of agency regulations could seriously hamper the speed and flexibility that is needed for the effective conduct of monetary policy. It is clear that the Senate sponsors of the Congressional veto provision did not intend it to apply to the formulation of monetary policy (see enclosed remarks of Senator Schmitt), and we believe, therefore, that application of the veto provision to monetary policy actions was inadvertent. We anticipate that a correction will be made to the Senate version in a future proceeding. In this regard, we would recommend that a similar change to H.R. 746 be made to exempt monetary policy actions.

Some of the same policy considerations relating to flexibility of action and speed of response apply to regulations concerning the safety and soundness of banks and thrift institutions. I am very concerned that H.R. 746 would seriously hamper the ability of the agencies to react promptly and effectively. Moreover, the need to modify existing regulations is particularly acute at the present time when financial institutions are innovating in response to the rapidly evolving competitive environment. The procedures prescribed by the bill could undermine the ability of the financial institution regulators to establish a foundation upon which this nation's depository institutions can continue to develop. For these reasons, I also urge the adoption of an amendment that excludes rules of the agencies relating to depository institution viability and stability or safety and soundness from the provisions of H.R. 746.

I wish you much success in you new responsibilities as Chairman of the Subcommittee, and I would be pleased to meet with you to discuss further my concerns with the pending legislation.

Sincerely,

Paul A Volcker

Enclosure

GTS:AFC:bbo

bcc: Gil Schwartz
Michael Bradfield
Legal Files (2)
Mrs. Mallardi (2)

for example, stronger measures to prevent accident or miscalculation, and through the reduction of vulnerability of nuclear retaliatory forces to preemptive attack.

A debate on the freeze can thus be useful in educating the public, in pushing the administration toward resumption of negotiations on limiting and reducing strategic arms, and in initiating a drive for negotiations on preventing nuclear war at whatever level of nuclear armament exists. But the freeze proposal is no substitute for, and I fear it will detract from, those other specific negotiations and steps. And it is no substitute for U.S. and allied military strength, nuclear and conventional.●

PUBLIC PRINTER ANNOUNCES FURLOUGH PLAN FOR U.S. GOVERNMENT PRINTING OFFICE

● Mr. HELMS. Mr. President, the Public Printer of the United States, Danford L. Sawyer, Jr., announced on March 25, 1982, that about half of the 6,300 employees of the U.S. Government Printing Office will be furloughed 1 day every other week for 6 months beginning in mid-May. Mr. Sawyer is taking this action as an alternative to layoffs or reductions in force.

This action is necessary because of decreased volume and heavy losses at GPO amounting to approximately $5 million for printing and binding during the first 5 months of fiscal year 1982.

Mr. Sawyer has also announced that he will voluntarily return 5 percent of his salary to the U.S. Treasury during the furlough period. This is an extraordinary act on the part of Mr. Sawyer, and I applaud him for it.

In concert with the furlough, the GPO will roll back its recent 16-percent increase in printing and binding prices. This rollback will be especially beneficial to Congress, the largest consumer of GPO's printing and binding services; but also will be reflected in lower Federal agency printing costs and the continuation of low prices to the public for Government publications.

Mr. President, I support this action by Public Printer Sawyer. The GPO is chartered to operate on a self-sustaining basis. Mr. Sawyer has brought businesslike efficiency to the GPO. His furlough program will reduce the cost of Government printing while preserving jobs and increasing productivity. His decision to donate 5 percent of his own salary back to the U.S. Treasury during the furlough period demonstrates his remarkable commitment. I hope his action will set a Government-wide trend.●

THE LEGISLATIVE VETO AMENDMENT: THE EXTENT OF ITS COVERAGE

● Mr. SCHMITT. Mr. President, in the aftermath of the Senate's action on March 24, 1982, on the legislative veto amendment to S. 1080, the Regulatory Reform Act, several questions have arisen with regard to the applicability of the veto provision.

The legislative veto is applicable to all notice and comment rulemakings under the authority of section 553(b) of the Administration Procedures Act. Among the rules exempted from the legislative veto are rules of particular applicability which apply to rates, wages, prices, services, corporate or financial structures, reorganizations, mergers or accounting practices relating thereto. A rule of particular applicability is one which applies to a single individual or case, as opposed to a rule of general applicability, which has a much broader application to whole classes or categories of individuals or organizations.

Other rules which are exempted from coverage from the legislative review process include the following list which is taken directly from the text of S. 1080.

(1) A matter pertaining to a military or foreign affairs function of the United States;

(2) A matter relating to the management and personnel practices of an agency;

(3) An interpretive rule, general statement of policy, or rule of agency organization, procedure, or practice, unless such rule or statement has general applicability and substantially alters or creates rights or obligations of persons outside the agency; or

(4) A rule relating to the acquisition, management, or disposal by an agency of real or personal property or of services that is promulgated in compliance with criteria and procedures established by the Administrator for Federal Procurement Policy or the Administrator of General Services.

In addition to these rules, in the case where an agency finds that the impact of a rule is insignificant, then the rule is also exempted from the legislative review process.

Finally, there has been a question raised with regard to the impact of the legislative veto on the conduct of monetary policy by the Federal Reserve Board. The answer to this question is simply that there is no impact whatsoever. Monetary policy is not conducted through rulemaking but through the decisionmaking processes of the Open Market Committee of the Fed. Because the legislative veto mechanism applies only to rulemaking, the traditional independence of the Federal Reserve Board in the conduct of monetary policy will not be compromised in any way.

With the exception of the exemptions I have listed, the legislative veto procedures will apply to all the rulemaking activities of both the executive branch departments, such as the Department of Housing and Urban Development and the Environmental Protection Agency, and the so-called independent agencies like the Federal Communications Commission and the Securities and Exchange Commission.

I hope these remarks are helpful to those of my colleagues and their staffs who have had questions with regard to the coverage of the legislative veto amendment agreed to by the Senate.●

WILLIAM SCOTT BAKER WINS VFW VOICE OF DEMOCRACY SCHOLARSHIP PROGRAM

● Mr. MATHIAS. Mr. President, as the Senate debate continues into the evening we should be aware that the Senate floor is not the only place in Washington that is ringing with eloquent oratory. The annual Veterans of Foreign Wars dinner in honor of the Congress is now in full swing and one of its features is the Voice of Democracy contest. The competition, engaging a half million young Americans, requires the composition and delivery of a theme under the title "Building America Together."

This year's winner is a Maryland high school senior who will carry home to Mitchellville this evening the first place honors and a scholarship worth $14,000.

He is William "Scott" Baker, the 17-year-old son of Mr. and Mrs. William T. Baker of Mitchellville, Md.

His essay is thoughtful and original and will be of interest to all Senators. I ask that the text be included in the RECORD.

The text follows:

1981-82 VFW VOICE OF DEMOCRACY SCHOLARSHIP PROGRAM

I have five minutes. Five minutes to lay down what I believe is the way for us to build America together. Impossible? Well not really, because I see the principles as being very basic. Principles that have been there all along. One philosopher of our day said this, "The more complex the question, the more basic the answer, not simple just basic."

So, how do we build America? Well, first I think we need to understand where America's strength lies. Is it in our National Security or in our Economic System? While these may be some of the foundation blocks of our country, the mortar that holds them together, is the people. The building of America will take place in her people.

While considering this, I came across the work of a very perceptive writer. In his story, a young girl with unusual insight, was helping a friend who was having some personal problems. The girl saw through the surface symptoms to the root causes and confronted her friend: "Do you know your whole problem Charlie Brown? You're wishy-washy. You're going to grow up, marry a wishy-washy girl, and have a whole flock of wishy-washy kids. Charlie Brown you've reached new heights of wishy-washydom." Charles Schultz's simple comic strip has taught a great lesson; the importance and the influence of a person's character.

It was the values of the people that brought this nation into existence and established her on a solid foundation. It was in that atmosphere and with those values that a few God-fearing men worked so diligently to outline the Constitution of the United States. It will be those same values that will enable us to keep on building; to keep on making a stronger country. A Frenchman who was in our country during those early years, said this: "America is great, because America is good. When America ceases to be good, America will cease to be great."

With the qualities of honesty, respect, diligence, responsibility, mercy, purity, a desire for peace and a love and fear of God, we will dream. And therein lies our power.

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

May 21, 1982

PAUL A. VOLCKER
CHAIRMAN

The Honorable Thad Cochran
United States Senate
Washington, D. C. 20510

Dear Senator Cochran:

Thank you for your recent letter in which you inquire on behalf of one of your constituents into the use of money to finance illegal activities. You also express your own interest in the implications that holdings of M1 balances to finance illegal activities might have for monetary policy, and you appear to suggest that the use of money for illegal activities implies a shortage of funds available to finance other economic activity.

By their nature, illegal activities are difficult to measure, and neither the extent of such activities nor the amount of money used to finance them is known with any precision. However, it is assumed that money used in illegal activities generally is limited to currency, since the other major media of exchange, transaction balances held at depository institutions and travelers checks, leave records subject to audit--especially by the Internal Revenue Service. In April, the currency component of M1 stood at $126.4 billion, or a little over one-fourth of total M1. Since currency is also used, of course, to finance ordinary economic activity, and since an unknown amount of currency is held outside the country, only a part of such balances could be used to facilitate transactions associated with illegal activities. Thus, your constituent's information that almost one in four dollars held in M1 balances is used to finance illegal activities appears to involve considerable overstatement.

Whatever the degree to which money is used for illegal activities, it would not necessarily imply any lack of funds to finance legal activities nor would it have any necessary implications for monetary policy. As you may know, the Federal Reserve carries out its monetary policy responsibilities by promoting growth of the monetary aggregates within ranges believed to be appropriate for achieving its longer-run goals of high employment, price stability and balanced economic growth. Under this procedure, funds available to finance economic activity--both legal and illegal--tend to grow within the constraints set by the target ranges. Only if there were substantially disproportionate growth in the share of economic activity in the unmeasured, or "underground", economy relative to that of the measured, legal economy would monetary policy be affected. Staff research indicating that currency growth bears a rather stable relation to measured economic activity, as represented by retail sales, implies either that growth in legal economic activity has tended to parallel that of illegal activity or that the impact of illegal activity on currency demand is quite small. In any event, this finding also suggests that illegal economic activity has almost certainly not affected interest rates or interfered with monetary policy.

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

Sincerely,

S/Paul A. Volcker

TB:DL:CO:vcd (V-109)

bcc: Tom Brady
Dave Lindsey
Ed Ettin
Mrs. Mallardi (2)

THAD COCHRAN
MISSISSIPPI

COMMITTEE ON
AGRICULTURE, NUTRITION,
AND FORESTRY

COMMITTEE ON
APPROPRIATIONS

United States Senate
WASHINGTON, D.C. 20510

#109

May 6, 1982

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1982 MAY -7 AM 10: 32
RECEIVED
OFFICE OF THE CHAIRMAN

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

Dear Chairman Volcker:

Recently a constituent of mine inquired about whether the Federal Reserve actions with respect to the money supply take into consideration funds used in connection with illegal activities such as narcotics dealing. It was his understanding that the Federal Reserve was aware that approximately $100 billion of the $440 billion in the M-1 account was funds from illegal activities. Can you advise me about whether you have some figures or estimates about these funds in the M-1 account?

More imporantly, I am interested in your views of the policy implications of illegal funds being included in the calculation of the money supply. If 20-25% of the money supply is not available to the law abiding public, what can or should be done to counteract this? Do variations in the amount of illegal funds affect the overall availability of money for legitimate purposes? Does this have any impact on the interest rate levels?

I raise these questions only to suggest the considerations I hope you will be able to analyze so that I can properly understand the issue and respond to my constituent.

Thank you for your assistance in this matter. I await your reply.

Sincerely yours,

Thad Cochran

THAD COCHRAN
United States Senator

TC/vw

Consequently, the information on these pages is to be furnished only if the related companies meet a materiality test. Reports are required only when the reporting institution's investment in the related company is such that the related company's financial condition may have a substantial impact on the condition of the reporting institution. These materiality tests apply without regard to the nature of the activities of the related company and the data do not necessarily provide even a partial picture of the nature or extent of the organization's banking and nonbanking activities outside the United States relative to its activities in the United States. The data provided are not broken down to reflect assets, income or revenue derived from banking, as opposed to nonbanking, activities.

Therefore, because the data collected on these pages of the F.R. 2068 serve a different purpose than the data required by the F.R. Y-7, they are of little value in providing a supplement to or verification of the data submitted on the F.R. Y-7 to determine whether an organization is a "qualifying foreign banking organization." Finally, I should emphasize that the most effective means that we have in assuring accurate and complete reporting on the F.R. Y-7, F.R. 2068, or any other reporting form required of bank holding companies or foreign banks is the existence of legally-enforceable penalties for noncompliance.

In the circumstances, I do not believe that access to the Form 2068 as specified in your letter would assist you in achieving your stated objectives. Moreover, any exception to maintaining the strict confidentiality of Form 2068 would be harmful to the objective of effective supervision of foreign banks in the United States.

Sincerely,

S/ Paul

FD:NJ:MB:pjt (#V-182)
bcc: Fred Dahl
Nancy Jacklin
Mike Bradfield
Mrs. Mallardi (2)

Action assigned Fred Dahl

BENJAMIN S. ROSENTHAL, N.Y., CHAIRMAN
JOHN CONYERS, JR., MICH.
EUGENE V. ATKINSON, PA.
STEPHEN L. NEAL, N.C.
DOUG BARNARD, JR., GA.
PETER A. PEYSER, N.Y.
BARBARA B. KENNELLY, CONN.

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

MAJORITY—(202) 225-4407

NINETY-SEVENTH CONGRESS

Congress of the United States

House of Representatives

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

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

August 13, 1982 #182

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

Dear Mr. Chairman:

On June 30 I wrote to you to request copies of and/or access to certain documents filed by the Hongkong & Shanghai Bank for calendar year 1981. The documents for which copies and/or access were requested were (1) the Y-7 Annual Report, (2) the Y-8f Report of Intercompany Transactions, and (3) the Form 2068 Confidential Report of Operations. Your reply of July 15 conveyed a copy of the Y-7 Annual Report and stated that arrangements have been made for subcommittee staff access to the Y-8f report. Your reply stated however that access could not be provided to the Form 2068 Confidential Report of Operations.

This letter is to renew and restate in narrower form my request for access to the Hongkong & Shanghai Banking Corp.'s Form 2068 report. Your blanket refusal of access to this report is not acceptable, but we are prepared to withdraw our request for access to certain portions of that report in order to reach a satisfactory accommodation regarding access to the portions we consider most important.

Specifically, the portions of the Form 2068 Confidential Report that are essential to the subcommittee's investigation are the portions giving financial statements of the unconsolidated related companies, both majority owned and minority owned. The subcommittee has two fundamental oversight objectives in mind in insisting on access to this information. These are:

a. to review the adequacy of Hongkong & Shanghai's compliance with this reporting requirement, and the adequacy of the Federal Reserve's enforcement of this reporting requirement;

b. to review the statistical basis on which the Hongkong & Shanghai Bank continues to qualify as a foreign bank holding company eligible for exemption from the nonbanking prohibitions of the Bank Holding Company Act, as provided by Section 211.23(b) of Regulation K.

I would appreciate a response to this request by Friday, August 27.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dpt:v

September 8, 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 August 24, 1982, requesting the Board to postpone until a later date in September informal hearings scheduled for September 2 and 4, 1982, on the application by Citicorp to acquire all of the outstanding voting shares of Fidelity Federal Savings and Loan Association of San Francisco, in order to allow interested persons adequate time to prepare testimony and arrange for witnesses.

As you point out, the Citicorp proposal raises a variety of important policy questions under the Bank Holding Company Act and, as expected, has generated substantial interest on the part of the public. In view of that interest and a number of requests for additional time, the hearings were rescheduled for September 8 and 9, 1982, in Washington, D. C. and San Francisco, respectively, in order to afford a full opportunity for public participation in the proceedings. Enclosed for your information are the schedules of participants at each of these hearings.

Sincerely,

S/ Paul

Enclosure
VJM:pjt (#V-196)
bcc: Mr. Mattingly
Legal Records (2)
Mrs. Mallardi (2)

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM

Schedule of Presentations at
Informal Hearing in Washington, D.C., on September 8, 1982
Regarding the Application by Citicorp, New York, New York,
to Acquire Fidelity Savings and Loan Association of
San Francisco, San Francisco, California

Hearing Participants	Time Scheduled
Opening Remarks of Presiding Officer	9:00 - 9:10 A.M.
CITICORP Edwin Hoffman (Exec. V.P.) Patrick Mulhern (Sr. V.P./Gen. Counsel)	9:10 - 9:40 A.M.
U.S. LEAGUE OF SAVINGS ASSOCIATIONS Thomas Pfeiler (Assoc. Gen. Counsel) Dennis Jacobe (V.P./Dir. Research) Brian Smith (Assoc. Dir. Research)	9:40 - 10:10 A.M.
INDEPENDENT BANKERS ASSOCIATION OF AMERICA Leonard Rubin	10:10 - 10:40 A.M.
CONFERENCE OF STATE BANK SUPERVISORS Sidney A. Bailey (Virginia Commissioner of Financial Institutions)	10:40 - 11:10 A.M.
FIDELITY FEDERAL SAVINGS & LOAN ASSOCIATION, Glendale, California Ernest Leff (Counsel)	11:10 - 11:40 A.M.
FRANKLIN TOWNE REALTY INC. W.C. Smith	11:40 - 11:55 A.M.
OPTION ADVISORY SERVICE, INC. William Leighton (Pres.)	11:55 - 12:10 P.M.
MASSACHUSETTS URBAN REINVESTMENT ADVISORY GROUP, INC. Hugh MacCormack	12:10 - 12:25 P.M.
LUNCH BREAK	12:25 - 1:30 P.M.
CITICORP (Rebuttal and Response to Questions from Hearing Participants)	1:30 - 2:30 P.M.

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM

Schedule of Presentations
at
Informal Hearing in San Francisco on September 9, 1982
Regarding Application by Citicorp, New York, New York,
to Acquire Fidelity Savings and Loan Association of
San Francisco, San Francisco, California

Hearing Participants	Time Schedule
Opening Remarks of Presiding Officer	9:00 - 9:10 A.M.
CITICORP Edwin Hoffman (Exec. V.P.) Patrick Mulhern (Sr. V.P./Gen. Counsel)	9:10 - 9:40 A.M.
CALIFORNIA BANKERS ASSOCIATION E.D. Bonta (Pres.)	9:40 - 10:10 A.M.
CALIFORNIA SAVINGS & LOAN LEAGUE W. Dean Cannon, Jr. (Exec. V.P.) William Montensen (PRES.)	10:10-10:40 A.M.
CROCKER NATIONAL CORPORATION Lawrence Silberman (Exec. V.P.)	10:40 - 11:00 A.M.
SAVINGS AND LOAN COMMISSIONER The Honorable Linda Tsao Yang	11:00 - 11:15 A.M.
FIDELITY FINANCIAL CORPORATION, Oakland, CA A.C. Meyer, Jr. (Pres.)	11:15 - 11:30 A.M.
JAMES DEWELL (V.P.-Branch Op. of Fidelity Federal Savings and Loan Association, San Francisco, CA)	11:30 - 11:40 A.M.
TOM STICKEL (Pres./CEO of Point Loma Savings and Loan Association)	11:40 - 11:50 A.M.
NANCY SPILLMAN (Econ. Prof., L.A. Trade Tech. College)	11:50 - 12:00 P.M.
THOMAS REARDON (Pres./C.E.O. of Western Bank, Sioux Falls, S.D.)	12:00 - 12:10 P.M.
LUNCH BREAK	12:10 - 1:30 P.M.
LEGAL AID SOCIETY GROUP Stephen Ronfeldt, Clifford Sweet, Paul Cobb, Cecil Williams, George Dean, Ed Mundo, and Representatives of Public Advocates and California Committee on Community Reinvestment	1:30 - 2:00 P.M.
CITICORP (Rebuttal and Response to Questions from Hearing Participants)	2:00 - 3:00 P.M.

Action assigned Mr. Bradfield; info copy to Mr. Ryan

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

1982 AUG 24 AM 11:20

RECEIVED OFFICE OF THE CHAIRMAN

Congress of the United States

Washington, D.C. 20515

August 20, 1982

#196

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

Dear Mr. Chairman:

We would like to raise with you a number of concerns which we have in regard to Citicorp's application to acquire Fidelity Savings of San Francisco now pending before the Federal Reserve Board. The approval of this take over will have serious implications upon the structure of our nation's entire financial industry. We feel that any action by the Board in regard to this application should take the following into consideration:

I) Congressional action in this area is imminent. In October, 1981, the House approved legislation which specifically sets guidelines to be used in the authorization of mergers, consolidations, transfers or acquisitions between financial institutions. The Senate Banking Committee has taken similar action and legislation is now pending before the full Senate. It is highly conceivable that final action on legislation of this nature could occur before Congress recesses for the November elections. Because Congressional action is considered to be the preferable method of establishing public policy in this matter, the hearing date presently scheduled for September 4, 1984, should be postponed until after Congress recesses in October so as to allow Congress an opportunity to perform its constitutional duties.

2) Given that Fidelity is now operating under the auspices of the FSLIC and is not in danger of failing, a postponement of the Board's decision for thirty to sixty days would in no way be harmful to the interests of Citicorp, Fidelity, the depositors, or the public at large.

3) The issue of the Board's authority to approve an acquisition of this nature is highly controversial and likely to be challenged in the federal courts. Should the court reverse the Board's decision, divestiture would be extremely difficult. Given the liklihood that the Board's authority to approve the Fidelity-Citicorp acquisition will be challenged in court, it would be most prudent for the Board to stay its approval order in the short-term pending possible Congressional action.

Hon. Paul Volcker
August 20, 1982
Page Two

We appreciate your consideration in this matter.

Sincerely,

Bill Lowery

BILL LOWERY
U.S. Congressman

Jerry M Patterson

JERRY M. PATTERSON
U.S. Congressman

Vic Fazio

VIC FAZIO
U.S. Congressman

Robert T Matsui

ROBERT T. MATSUI
U.S. Congressman

Robt J Lagomarsino

ROBERT J. LAGOMARSINO
U.S. Congressman

Alan Cranston

ALAN CRANSTON
U.S. Senator

September 7, 1982

The Honorable Bruce F. Vento
House of Representatives
Washington, D.C. 20515

Dear Mr. Vento:

In Chairman Volcker's absence, I am replying to your letter of August 19 regarding the effect of the Bank Export Services Act on the demand and cost of U.S. bank credit. Your letter refers to testimony by Secretary Baldrige. In that testimony, it was estimated that export trading companies might add about $10 billion annually to U.S. exports, and you ask about the effect on demand for bank credit that might be associated with this increase.

As indicated in my letter of August 5, any estimates of such credit demands are subject to a wide range of uncertainty. If one assumes that, on average, the projected additional exports were to be financed for the normal period of 120 days, the addition of $10 billion to our annual export sales (an increase of about 4 percent) could be financed by an addition to the outstanding stock of credit of $3-1/2 billion--each separate credit would (on average) be rolled over twice during the year, financing three successive export transactions. Both the growth in exports attributable to export trading companies, and the possible associated growth in the outstanding amount of credit to finance exports could be expected to occur gradually over time.

This implied one-time increase in the demand for credit may be put in perspective by comparing it with the annual increase in outstanding U.S. bank credit of around $100 billion, and with the total amount of funds raised by nonfinancial sectors each year in U.S. credit markets of close to $400 billion. Given the substantial volume of financing that occurs outside the banking system, it is likely that some portion of the credit demands of export trading companies would be satisfied from nonbanking sources. Moreover, it is likely that trading companies would obtain credit from foreign banking offices as well as from U.S. banks. In sum, the rise in export volume referred to in your letter would not likely be a sizable factor in the demand for U.S. bank credit.

Sincerely,

/S/

Preston Martin

RG:pjt (#V-194)
bcc: Mr. Gemmill
Mrs. Mallardi
Gov. Martin

Action assigned Mr. Gemmill

BRUCE F. VENTO
4TH DISTRICT, MINNESOTA

230 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-6631

DISTRICT OFFICE:
ROOM 150
MEARS PARK PLACE
405 SIBLEY STREET
SAINT PAUL, MINNESOTA 55101
(612) 725-7724

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

HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

HOUSE COMMITTEE ON INTERIOR AND INSULAR AFFAIRS

HOUSE SELECT COMMITTEE ON AGING

August 19, 1982

#194

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

Dear Chairman Volcker:

I appreciate the reply of Vice Chairman Martin to my letter concerning the effect of the Bank Export Services Act on the demand and cost of credit.

My letter expressed concern about whether the increased demand for credit facilitated by this legislation would increase the cost and demand for credit. If this would be the case, is there any action which the Federal Reserve Board contemplates to mitigate the resultant adverse effect upon other credit sensitive industries. The letter of August 5 responds that the Federal Reserve System doesn't think it will have a substantial effect but that this effect should be considered as part of a more general issue regarding credit flows in a recovery.

This response leaves several questions unanswered.

1. Has the Federal Reserve System compiled any information on the effect of this legislation upon the demand for credit?

2. If so, how does this compare with the Secretary of Commerce's estimate made before the Banking Committee. If not, does the Commerce Department's estimate seem reasonable?

3. In your estimation, what would be the impact upon the credit market of the increased demand for credit as estimated by the Federal Reserve or in lieu of that estimate the estimate of increased credit demand as estimated by the Department of Commerce?

4. Assuming that there is no change in Federal Reserve Board policy, if the increased demand for credit raises the cost and scarcity of credit, is there any action which the Federal Reserve Board would consider to mitigate the adverse effect upon credit sensitive industries?

I appreciate your consideration of my request for your views on this matter. I look forward to your response.

Sincerely,

Bruce F. Vento

Bruce F. Vento

BFV/sr

Ms Wolfe

September 3, 1982

The Honorable Fortney H. Stark
House of Representatives
Washington, D.C. 20515

Dear Mr. Stark:

Your letter concerning the proposed Citicorp's application to acquire Fidelity Savings and Loan Association of San Francisco, which arrived at the Board on September 3, 1982, will be made part of the record in this case and brought to the attention of Chairman Volcker and other members of the Board at the time the Board considers this application.

We very much appreciate having your views concerning this matter.

Sincerely,

(signed) Michael Bradfield

Michael Bradfield
General Counsel

bcc: Ms. C. O'Brien
Ms. Wolfe (V-205)

MB:bbo

Action assigned Mr. Bradfield

FORTNEY H. (PETE) STARK
9TH DISTRICT, CALIFORNIA

COMMITTEES:
WAYS AND MEANS
DISTRICT OF COLUMBIA
SELECT NARCOTICS

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

#205

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1982 SEP -3 AM 9:07
RECEIVED OFFICE OF THE CHAIRMAN

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

Dear Mr. Chairman:

Re: Notice of Hearing
Citicorp: Proposed Acquisition of Fidelity Savings and Loan Association of San Francisco

As per your notice in the Federal Register of August 18, 1982 (page 36018), I would like to submit some comments for the hearing record on Citicorp's proposed acquisition of Fidelity Savings and Loan Association, which is headquartered in one of the cities of my Congressional District.

I am enclosing a copy of a letter which I sent to the Federal Savings and Loan Insurance Corporation in support of open competition in the matter of acquiring Fidelity.

Many of the same arguments apply in this case. Therefore, I urge the Board to approve the acquisition.

It is important that this issue be settled soon--it is important for the financial health of numerous California communities, and it is important for the security of mind of tens of thousands of investors. The settlement of the Fidelity acquisition has already been delayed too long.

Citicorp continues to give firm assurances to all concerned that it will maintain and indeed improve services to the communities and customers previously served by Fidelity. It has promised to keep all of Fidelity's branches open and to maintain employment within the California offices.

Citicorp has a strong history of mortgage and small business loans in New York State and promises to make the same type of service available in California. Citicorp's presence on the West Coast will help increase competition, improve services, and make additional mortgage funds available in the moribund California housing market.

Again, I hope this issue can be resolved quickly. Thank you for your consideration of these comments.

Sincerely,

Pete Stark

Fortney H. (Pete) Stark
United States Congressman

FHS:wkv
Enclosure

FORTNEY H. (PETE) STARK
9TH DISTRICT, CALIFORNIA

COMMITTEES:
WAYS AND MEANS
DISTRICT OF COLUMBIA
SELECT NARCOTICS

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

July 29, 1982

HAND DELIVER

H. Brent Beesley
Director
Federal Savings & Loan Insurance
Corporation
1700 G Street, N.W.
Washington, D. C. 20552

Dear Mr. Beesley:

I am concerned about recent requests to the FSLIC to interfere with appropriate and useful competition in the area of acquisition of financial institutions. I believe such interference would be contrary to good economics and choices available to the consumer.

I am referring to the bidding on Fidelity Federal Savings and Loan of San Francisco.

In the first round of bidding on Fidelity, an out-of-state Bank clearly provided the best bid. A second round is now being held, with some preference being given to intra-state bidders. This, of course, limits bidding and could lead to lower bid prices and less protection for the taxpayer and for the citizens of California who will face limitations on service. It will also make it more difficult for other California financial institutions, who may find a need to merge or sell, to obtain a decent price for their institutions.

Frankly, I see no need whatsoever to limit these bids to intra-state competition or to give intra-state competition a preference. Money is money, and interest rates are interest rates--they are national, and only by providing national competition in this case can the consumers of California get the best deal.

I would also like to note that the winner of the first round of bidding has reported to you that they would keep all of Fidelity's branches open, they would not lay-off Fidelity employees, and they intend to expand Fidelity's lending and other commitments in the localities it serves.

For all of these reasons, I hope that the FSLIC will resist any calls to distort a free and open economic competition.

Thank you for your consideration of this matter.

Sincerely,

Pete Stark

Fortney H. (Pete) Stark
United States Congressman