

Congressional

May - June 1982 [2]

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September 1, 1982

The Honorable Jim Weaver
Chairman
Subcommittee on Forests
Committee on Agriculture
House of Representatives
Washington, D.C. 20515

Dear Chairman Weaver:

Thank you for your letter of August 24 inviting the Board to appear before your Subcommittee at hearings on the economic outlook of the housing and forest products industries.

I am pleased to let you know that Governor Lyle E. Gramley is looking forward to being with you on Thursday, September 16, at 10:00 a.m.

Sincerely,

Paul A. Volcker

CO:pjt (#V-201)
bcc: Gov. Gramley
Mr. Kichline
Mrs. Mallardi (2) ✓

W.H.F.

May 24, 1962

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

Dear Mr. Chairman:

I am responding to your letter of May 12 regarding the attitude of the Federal Open Market Committee toward a Congressional resolution relating to monetary policy. I am, of course, aware of the language adopted by the House and Senate Budget Committees in that respect. I might add, too, that I am aware of no legal opinion requested or given to "justify a refusal to comply with a Congressional directive."

The Committee, at my request, did discuss the general question in the course of its meeting on May 18. I was asked to confirm to you the full understanding of all members that the Federal Reserve is a creation of Congress and responsible to it, that the Congress plainly has the Constitutional authority and the right to determine the control of money, that the System is subject to Congressional oversight and, of course, will follow the law. I and my predecessors have, as you note, consistently expressed our views in that vein.

As you know, Congress has delegated the process of monetary policy formulation and implementation to the Federal Reserve since the Federal Reserve Act was originally passed in 1913. The present institutional arrangements reflect, in my view, the belief of the Congress that the public interest is served by an institutional setting that can combine experienced judgment and regional representation in its governing bodies, and continuity in expert analysis, with a certain insulation from transient political influences. A factor in that approach is recognition that monetary policy manipulated toward short-term or partisan purposes could have potentially adverse repercussions for our economy.

While I personally believe those considerations remain valid today, Congress, of course, can at any time determine to change those arrangements.

I have also stressed repeatedly that the Federal Reserve cannot and does not make or implement monetary policy with mechanical rigidity, or without consideration of a wide variety of relevant factors. In selecting our targets for money growth and in carrying out our operations from week to week or month to month, we are mindful of the financial

The Honorable Henry S. Reuss
Page Two

and economic environment, certainly including, among other factors, the posture of fiscal policy. Thus, you may be assured that the Federal Reserve will pay careful attention to the implications of any change in the budgetary outlook as it evolves. That, as I understand it, is the sense of the language in the proposed resolution, and I can assure you the Federal Open Market Committee, as always, will give full attention to any Congressional resolution concerning our responsibilities. In the light of that general understanding, it seemed to me unnecessary and inappropriate to call a formal vote on a hypothetical resolution of the sort you indicated.

In affirming our recognition of the ultimate authority of the Congress over the Federal Reserve, I would also add that action by the Congress to indicate or direct a specific course for monetary policy, such as a precise monetary target, would be a decision of great moment, for the Congress and for the Federal Reserve. It would, in effect, move toward shifting directly to the Congress the responsibility for decisions overlaid with technical as well as substantive complexities, in the process clearly implying a change in the institutional arrangements embodied in the Federal Reserve Act. In that connection, the emphasis in your letter on a single measure of monetary policy -- M1, which is being affected, among other influences, by the impact of financial innovations in the market place which require continuing analysis and judgment -- seems to me misplaced. In any event, I would hope the Congress would refrain from adopting a specific target-setting bill or resolution without the most careful consideration, through hearings in the appropriate Committees and otherwise, taking account not only of the technical implications of the proposal but the consequences of such a "directive" for institutional arrangements in place for almost 70 years.

In closing, let me reiterate my conviction that forceful, definitive action by the Congress to assure a downward trend in the Federal deficit as the economy recovers is a key to greater confidence in financial markets and achieving and maintaining the lower interest rates necessary to support sustained economic expansion.

Sincerely,

S/Paul A. Volcker

PAV:Mam
5/24/82

#113

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

WASHINGTON, D.C. 20510

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 PAUL S. SARBANES, MD.

May 12, 1982

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

Dear Mr. Chairman:

Congress is moving rapidly toward a resolution of the budget impasse and a significant closing of the prospective budget deficits for the years ahead. As this happens, Budget Committees in both Houses of Congress have come to realize the crucial role which monetary policy must play in a strategy to bring about lower interest rates and full economic recovery. In reporting its Budget Resolution last week, the Senate Budget Committee recognized the inadequacy of the monetary growth ceiling presently in effect and included an explicit instruction to the Federal Open Market Committee to reevaluate that ceiling in light of the new budget policy. The Senate language follows:

" It is the sense of the Congress that if Congress acts to restore fiscal responsibility and reduces projected budget deficits in a substantial and permanent way, then the Federal Reserve Open Market Committee shall re-evaluate its monetary targets in order to assure that they are fully complementary to a new and more restrained fiscal policy."

The House Budget Committee will be meeting later this week. My judgment is that language on monetary policy will almost certainly be included in the House Budget Resolution as well. The House Banking Committee, by a vote of 26 to 14, has recommended that the House Budget Committee include a directive to the Federal Reserve to ease its monetary targets and lower interest rates. In a letter authored by Congressman George Miller, Congressman Morris Udall and myself, sent on May 5, 1982 to Chairman Jones and Chairman Rostenkowski, we presented the argument in favor of explicit Congressional direction to the Federal Reserve in the Budget Resolution. The key paragraphs of that letter follow:

" With monetary policy during 1982 we have a special problem. For 1981, the Federal Reserve announced that it would try to achieve money growth of between 3 and 6 percent. Instead, it achieved only 2.2 percent money growth for the year. Then, in February 1982, the Federal Reserve announced that the money growth range for 1982 had been set 2.5 to 5.5 percent from a base that was severely depressed by the failure to attain even the bottom of the 1981 target range.

BOARD OF GOVERNORS
 OF THE
 FEDERAL RESERVE SYSTEM
 1982 MAY 13 PM 12:02
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The Honorable Paul A. Volcker
May 12, 1982

Page Two

" So far this year, the Federal Reserve has actually permitted money growth of 8.9 percent at an annual rate, which is much more in line with the requirements for economic recovery than the announced targets. But this rate of growth presents its own problems.

" If the Federal Reserve decides to stick with its M1 growth targets of 2.5 to 5.5 percent, the fact that money growth has exceeded the upper limit during the first four months means that growth will have to be severely restricted between May and December. For example, to hit a 4 percent money growth rate for 1982 -- the midpoint of the range -- would require less than 1 percent money growth for the rest of this year, much less than the actual growth rate of last year. How could such monetary stringency give us anything but even higher interest rates and continued recession?

" On the other hand, the Federal Reserve may decide to let the current rate of money growth continue through the rest of the year. But if the Fed does this without publicly revising upward its monetary target ceiling, it will make a mockery of the requirements of the Humphrey-Hawkins Act. Worse, it will add to the uncertainty that currently prevails in the financial community. The result will be unnecessary upward pressure on interest rates as lenders demand higher uncertainty premiums.

" We propose that the 1983 Budget Resolution include instructions to the Federal Reserve to announce new monetary growth targets for the year. One way to do this would be for the Federal Reserve to announce a feasible six-month target beginning July 1, 1982, rebased to the level of the money supply in the second quarter of 1982. Such an action would clearly convey that the Federal Reserve intends only a once-for-all correction, and not a sustained, potentially inflationary increase of the money growth rate."

I believe that this position has powerful bipartisan support in Congress and will prevail when the Budget Resolution is finally enacted.

With the position of Congress established, it is rapidly becoming imperative that the Federal Reserve make clear how it will respond to the impending Congressional directive. Recent press reports are ambiguous. On the day of the House Banking Committee vote, your remarks to the Women's Economic Roundtable in New York were interpreted in the press as a refusal to alter monetary policy irrespective of Congress' mandates or of what is done to close the deficit. A few days later in his column in the Washington Post of May 4, 1982, Joe Kraft reported that an unnamed Federal Reserve Board member had requested and received a legal opinion to justify a refusal to comply with a Congressional directive. Subsequently, Bondweek newsletter has

The Honorable Paul A. Volcker
May 12, 1982

Page Three

reported that your comments before the Women's Economic Roundtable had not been cleared with or approved by your colleagues on the Federal Reserve Board.

I cannot really believe that the Federal Open Market Committee would attempt to rewrite the Constitution, the Federal Reserve Act, and well-established precedent by an act of defiance of a Congressional resolution. The precedent of House Concurrent Resolution 133, enacted in 1975, clearly establishes the binding character of a Congressional resolution of Congress on the Federal Reserve System and on the Federal Open Market Committee. The preamble of H. Con. Res. 133 states:

" Whereas article I, section 8, of the Constitution provides that Congress shall have the money power, namely to coin money and regulate the value thereof':

" Whereas Congress established the Federal Reserve Board as its agent, and delegated to its agent the day-to-day responsibility for managing the money supply;"

Moreover, H. Con. Res. 133 establishes a precedent under which Congress can provide explicit instruction to the Federal Reserve regarding the conduct of monetary policy. The language is as follows:

" That it is the sense of Congress that the Board of Governors of the Federal Reserve System and the Federal Open Market Committee—

"(1) pursue policies in the first half of 1975 so as to encourage lower long term interest rates and expansion in the monetary and credit aggregates appropriate to facilitating prompt economic recovery; and"

Every Federal Reserve Chairman of modern times has also acknowledged the preeminent role of Congress and the subordinate role of the Federal Reserve:

Thus, Federal Reserve Board Chairman Thomas McCabe in 1950:

Senator Douglas. Here you are, twins, Siamese twins, but with no central coordinating nervous structure to dictate a uniform policy.

Do you see some possible dangers in that situation?

Mr. McCabe. Well, I could see very grave dangers if you had in the personnel of the Treasury and the Federal Reserve the type of people that just refuse to discuss these broad questions from the standpoint of the public interest. If we reached an impasse, Senator, I would think the first recourse would be to go to the President and have him arbitrate these differences in point of view.

Certainly, the Federal Reserve being a creature of the Congress and reporting to the Congress, should then make its appeal to the Congress to arbitrate the points of view.

As I see it, there are three steps: One is persuasion, the second is appeal to the President, the third is appeal to the Congress; that is, to meet this hypothetical situation that you advance.

Senator Douglas. Would it be helpful if Congress were to give a definite directive of policy which both the Treasury and the Federal Reserve would follow, not merely on money and credit policy, on the one hand, and debt policy, upon the other hand, but for the two as an integrated whole?

Mr. McCabe. I have thought a great deal about that, as to the type of directive, if you want to call it that, which the Congress might issue. It might be in the form of a resolution or the Congress might more definitely define the areas of responsibility, or the Congress might even go so far as to say which body would be the body of final decision. (Hearings, Joint Economic Committee, November, 1950, p. 489)

Thus, Chairman William McChesney Martin, Jr. in 1956:

Senator Douglas. Let me turn to a general question. Do you regard the Federal Reserve Board as the agency of the Executive or the agent of Congress?

Mr. Martin. I regard it as an independent agency of the Government.

Senator Douglas. To whom is it responsible? to the Executive or the Congress?

Mr. Martin. It is responsible to Congress... The indenture of this trusteeship was written by the Congress in the Federal Reserve Act, and can be altered at any time by the Congress.... (Hearings, Senate Committee on Banking and Currency, January 20, 1956)

Thus, Chairman Arthur Burns in 1968 and 1971:

Senator Proxmire. You do acknowledge, do you not, only Congress has the constitutional authority to regulate the money supply, and the Federal Reserve is an agent of the Congress independent of the executive branch?

Dr. Burns. I have no quarrel with that. I know the Constitution and I am a law-abiding citizen. (Hearings, Senate Committee on Banking and Currency, December, 1968, p. 54)

Mr. Patman. Tell me the law that created that separate entity.

Dr. Burns. The law which created that separate entity is the Federal Reserve Act.

Mr. Patman. The Constitution says that the Congress shall make the laws and the executive shall enforce the law.

Now, I am fairly well acquainted with the Federal Reserve Act. I wasn't here when it was passed, but I was here not so long after that, and I have kept up with it pretty well. And I have never been able to find a sentence in the Federal Reserve Act that indicated that the Federal Reserve should be independent of the Government.

Would you tell me where it is?

Dr. Burns. I have not claimed that the Federal Reserve is independent of the Government.

Mr. Patman. You said separate entity, you know.

Dr. Burns. I have recognized not only in the past, but again this very morning that the Federal Reserve is a creature of the Congress, and that it is a servant of the Congress. (Hearings, House Committee on Banking and Currency, September 27, 1971, p. 24)

Thus, Chairman William G. Miller in 1978:

Mr. Grassley. I would detect that your relationship with the administration doesn't depart too much from what we have been told have been the patterns of previous administrations and previous chairmen.

Mr. Miller. I know of no difference. I have really picked up the agenda that was established by Dr. Burns....

Mr. Grassley. This final question would probably give you an opportunity to sum up what you have previously said. But is the independence of the Fed in any danger from either political pressure from this administration or from the Congress?

Mr. Miller. I don't detect it at this time. The President has stated over and over again that he believes in the independence of the Fed....I know that it is only the Congress that has created the Fed, not the Constitution. (Hearings, House Committee on Banking, Finance, and Urban Affairs, April 10, 1978, pp 142-143)

In view of the overwhelming weight of law, precedent and past testimony concerning the relationship of Congress to the Federal Reserve, it is vital for Congress to know whether the Federal Reserve will now accede to the directive of Congress, or instead assert that it is a fully independent fourth branch of government accountable to no one.

The Honorable Paul A. Volcker
May 12, 1982

Page Six

The next meeting of the Federal Open Market Committee is on May 18. It would be in the public interest to give the Federal Open Market Committee an opportunity to vote on this question. I, therefore, request that you submit to the Open Market Committee a resolution in substantially the following form for their consideration and vote, and that you provide to me the results of the vote, together with the names of Open Market Committee members voting in the affirmative and in the negative:

"RESOLVED, that the Federal Open Market Committee, will comply with a directive in a Concurrent Resolution requesting the Federal Open Market Committee, if the Congress substantially reduces budget deficits, to adjust its present monetary target range in order to permit lower interest rates."

I appreciate your consideration in this matter and look forward to hearing the results of this vote.

Sincerely,

Henry S. Reuss

Henry S. Reuss
Chairman

May 21, 1982

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

Dear Chairman Garn:

Thank you for your letter of May 20 inviting the Board to testify before your Committee at a hearing on S. 2531, a bill to provide financial assistance to depository institutions, and S. 2532, a revised Regulators' bill.

Vice Chairman Preston Martin is looking forward to appearing on behalf of the Board on May 26.

Sincerely,

S/Paul A. Volcker

CO:pjt (#V-116)

bcc: Vice Chrmn. Martin
Mr. Ettin
Mrs. Mallardi (2) ✓

JAKE GARN, UTAH, CHAIRMAN

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United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, D.C. 20510

May 20, 1982

116

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

Dear Chairman Volcker:

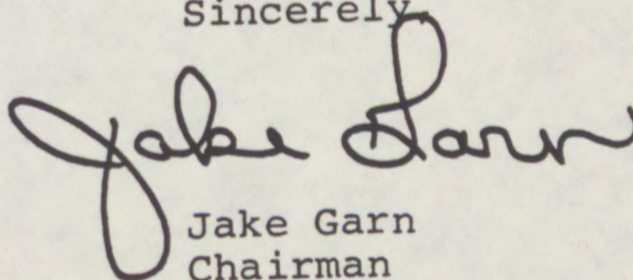
This letter is to request that a member of the Federal Reserve Board appear as a witness before the Committee on May 26, 1982.

The subjects of the hearing are S.2531, a bill to provide financial assistance to depository institutions, and S.2532, a revised Regulators' bill. Your comments on these bills, particularly their effect on troubled institutions and on the long-term stability and growth of the financial system, will be appreciated.

The hearing will be held in Room 5302, Dirksen Senate Office Building, and will begin at 9:00 a.m. I am enclosing a copy of the Committee's Guidelines for Witnesses for your information. In order to ensure a complete hearing record and a smooth functioning hearing process, I would emphasize the Committee's interest in having thorough written and brief oral presentations by witnesses.

If you should have any questions, please feel free to contact John Collins or James Boland of the Committee staff at 202-224-7391.

Sincerely,


Jake Garn
Chairman

JG:jbk

JAKE BARN, UTAH, CHAIRMAN

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United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, D.C. 20510

GUIDELINES FOR WITNESSES

1. These guidelines apply to all hearings of the Senate Committee on Banking, Housing and Urban Affairs, unless otherwise indicated.
2. All hearings will begin at 9:30 a.m. in Room 5302 Dirksen Senate Office Building, unless otherwise indicated.
3. Committee rules require that all witnesses submit at least 75 copies of their written statements (if witness desires copies be distributed to press and public, more copies are needed) 24 hours prior to their appearance. Sundays and holidays are not to be included in determining this 24-hour period. Statements should be delivered to Room 5300 Dirksen Senate Office Building, Washington, D.C. 20510. Strict adherence to this rule is essential in order that Committee members may review the statements before the hearing, thus enabling the participants to more thoroughly discuss the issues involved. Statements will not be released to the news media prior to the day of your testimony.
4. Oral presentations must be limited to a brief summary not to exceed 10 minutes. Your complete statement will be printed in the hearing record.
5. Please complete the attached card and bring it to Room 5300 prior to the hearing. You will be given copies of statements of those testifying with you at that time.

Your cooperation is appreciated.

Please supply the address to which you prefer the reporter's transcript delivered for your correction.

Kindly turn this card in at Room 5300 Dirksen Office Building prior to giving your testimony.

(Name)

(Organization)

(Business address)

(Phone)

(City and State)

(ZIP Code)

(Date)

SENATE BANKING, HOUSING, AND URBAN AFFAIRS COMMITTEE

57-033-h GPO

May 18, 1982

The Honorable Doug Barnard, Jr.
House of Representatives
Washington, D. C. 20515

Dear Doug:

Thank you for your letter of May 13 requesting support for your proposal to liberalize the requirements for the issuance of bankers' acceptances. As you know, the Board has expressed its support in the past for the concept of expanding the present statutory limit on the aggregate amount of eligible bankers' acceptances that may be issued by member banks and for applying those limitations to nonmember banks and to United States branches and agencies of foreign banks. To make acceptance credit more broadly available to all borrowers and to promote competitive equity between large member banks presently at their limitation and those banks not subject to the statutory restrictions, the Board has favored a relaxation of the limitation along the lines suggested in the draft language that we submitted last year.

The Board's continuing concern is that, since eligible bankers' acceptances represent a source of funds that is exempt from reserve requirements under the present rules, this source should not be liberalized to such an extent that monetary policy would be adversely affected. We believe that the provisions in H.R. 6016, as presently drafted, present potential problems with regard to participation. Under the existing language, a bank could expand the amount of its bankers' acceptances outstanding virtually without limit by issuing participations to other banks. This practice would undermine the effectiveness of the limits established by the bill and could adversely affect monetary policy to the extent that bankers' acceptances are substituted for liabilities that would otherwise be subject to reserve requirements. This problem could be corrected by adding a specific provision which clarifies the Board's authority to establish the terms and conditions under which participations in bankers' acceptances may be issued or by using the draft language that the Board submitted last year.

I appreciate the opportunity to comment on this matter.

Sincerely,

S/ Paul A. Volcker

PSP:NS:DJW:vcd (#V-112)

bcc: Paul Pilecki, Ed Ettin

Legal Records (2), Mrs. Mallardi (2) ✓

DOUG BARNARD, JR.
10TH DISTRICT, GEORGIA

COMMITTEES:
BANKING, FINANCE AND
URBAN AFFAIRS
GOVERNMENT OPERATIONS

Action assigned Mr. Ettin

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

May 13, 1982

#112

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(404) 724-0739
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COVINGTON, GEORGIA 30209
(404) 787-2110

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

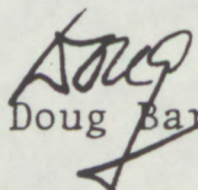
Dear Mr. Chairman:

I would like to request the support of the Board of Governors for my legislation to liberalize the requirements for the issuance of banker's acceptances. My bill is now contained in Chairman St Germain's H.R. 6016 as section three.

The provisions of this section come very close to those of the draft bill you sent me last year. I have made a considerable effort to come as close to your provisions as possible, while still enabling acceptance financing to be extended by more banks to medium sized exporters through the use of participations. This is an area I believe in very strongly.

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

Sincerely,


Doug Barnard, Jr.

DBJr./dj

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1982 MAY 13 PM 12:33
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BOARD OF GOVERNORS
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FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

May 17, 1982

PAUL A. VOLCKER
CHAIRMAN

The Honorable Alan Cranston
United States Senate
Washington, D. C. 20510

Dear Senator Cranston:

I am pleased to respond to your request for my comments on Howard Craven's proposal for alleviating the problems of the nation's thrift institutions.

Mr. Craven presents a succinct analysis of the source and nature of the problems facing the thrift institutions. As he points out, the current distress of the thrifts can be traced to their substantial holdings of low yielding mortgages that were acquired in earlier periods when interest rates were generally much lower than they are currently. As interest rates have subsequently risen to their present high levels, the market value of these assets has dropped sharply, and the interest revenue earned on them has proven insufficient to meet the interest costs the thrifts must pay on their deposits and other liabilities. As a result, most of the institutions have had negative earnings and a consequent serious erosion of their capital base.

But, while Mr. Craven has correctly diagnosed the illness of thrifts, his proposal does not offer an effective remedy. More specifically, the proposal would provide thrift institutions another source of liquidity rather than a means to bolster deficient earnings and capital.

Mr. Craven recommends that the Federal Reserve (or perhaps some other government agency) establish a program in which financial institutions would be offered the opportunity to sell low interest mortgages--or other securities with low coupons--to the federal agency under an agreement to buy back these same assets 5 to 7 years later. In effect, these repurchase agreements would be long-term loans collateralized by the assets exchanged. Mr. Craven specifies that the institutions taking part in this program would enter competitive bids in terms of the interest rate they would be willing to pay on such loans, and institutions offering the highest interest rates would obtain the loans. Since Mr. Craven envisions placing no restriction on the participants in these auctions--other than that they hold in portfolio low yielding assets that were acquired at an earlier time--it is to be expected that the interest rate set on these loans through the auction process would be near to those prevailing in the open

market on loans of similar maturity. Therefore, the loans would provide the institutions little, if any, subsidy. And, while there would be only a minimal cost to taxpayers, there would, at the same time, be no significant reduction of pressures on earnings and capital positions of thrifts.

Moreover, it is important to stress that the institutions, even those generally facing the most severe earnings and capital problems, are generally not experiencing serious liquidity pressures. The current liquid asset holdings of most institutions would appear adequate to judge by historical standards. Moreover, many of the institutions can arrange loans in the private market similar to those envisioned in the Craven plan. Large institutions, for example, can issue mortgage-backed bonds and/or borrow from private institutional lenders using such mortgages as collateral. Smaller institutions, too, can, to a greater or lesser extent, raise funds by borrowing using their mortgages for collateral.

Finally, most thrift institutions needing liquidity can turn to the Home Loan Bank System or the Federal Reserve for liquidity assistance.

In addition to not offering relief from the fundamental problems facing thrifts, I have reservations about Mr. Craven's proposal on other important grounds. He envisions that the program could be administered by the Federal Reserve without compromising its monetary policy objectives. Such a result, however, would require the Federal Reserve to offset the impacts on reserve levels resulting from the repurchase agreement. While this could be done, the effects would not be neutral, since upward pressures on interest rates on U. S. Treasury securities would result. Moreover, while Mr. Craven has structured his proposal to exclude the possibility of a subsidy or bailout through the Federal Reserve, I am not certain it would be perceived that way by the public. Thus, there would be the danger of setting the precedent of using open market operations of the Federal Reserve to meet perceived special needs of particular institutions or sectors, an issue that is best left to the judgment of the Congress.

Conceivably, it would be possible to use a vehicle similar to that proposed by Mr. Craven to provide an income subsidy to the institutions and thus address their earnings and capital erosion problems. For example, repurchase agreements or loans secured by low-rate mortgages could be arranged at below market rates which would augment the income flow of the institutions and slow--or, perhaps, stop altogether if a sufficient volume of such assistance were provided--the erosion of their capital base. Of course, such a program would have to be carefully structured to avoid providing an unnecessary subsidy to

some while under-compensating others and, thus, the disbursement of the subsidy would require some arrangement other than the competitive bidding approach suggested by Mr. Craven. Moreover, a subsidy would involve a cost to the Treasury either in the form of a direct budget outlay or a reduction in Federal Reserve revenues if the program were administered by the Federal Reserve. Finally, having such a program administered by the Federal Reserve would create the same precedential problems as discussed above and could lead to adjustment problems in the financial markets since the dollar volume of the purchases necessary to effect a meaningful subsidy would likely greatly exceed the normal volume of open market purchases.

The problems of the thrifts fundamentally are caused by inflation-induced high interest rates. Over time, I feel certain that these problems will abate in line with inflation, the fundamental development needed to produce a significant and sustained decline in interest rates to more normal historical levels. This result is the goal of our current monetary policy; it could be achieved with significantly less strain in financial markets if fiscal policy were more harmonious with the anti-inflationary monetary policy. Beyond this, however, it may well be necessary to aid the thrift industry more or less directly. I believe their problems can be addressed more expeditiously, however, through the type of capital infusion programs contemplated in the so-called Regulators' bill and in other legislation currently being considered by the Congress.

Sincerely,

S/Paul A. Volcker

MAR:FMS:ECE:NS:vcd (V-103)

bcc: Mr. Regalia
Mr. Struble
Mr. Ettin
Mrs. Mallardi (2)

JAKE GARN, UTAH, CHAIRMAN
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United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, D.C. 20510

April 21, 1982

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1982 APR 23 AM 9:13
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OFFICE OF THE CHAIRMAN

Honorable Paul Volcker
Chairman
Federal Reserve Board
20th Street and
Constitution Avenue, NW
Washington, D.C. 20037

Dear Paul,

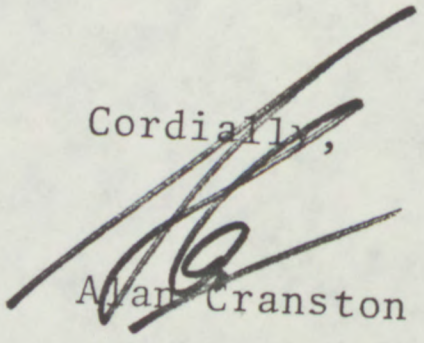
Mr. J. Howard Craven, a well known and respected banking economist in California, has sent me a very thoughtful proposal for addressing the earnings problems facing many of our nation's thrift institutions. Mr. Craven's plan involves the federal government -- perhaps the Federal Reserve -- providing a capital infusion to depository institutions through the offering of long-term repurchase agreements on low-yielding assets.

I would be most appreciative of your prompt review and comment on the feasibility and cost of Mr. Craven's proposal. Please furnish me with a report of your findings at your earliest convenience.

Thanks again for your time and attention.

With warm regards,

Cordially,


Alan Cranston

Enclosure

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Citation Information

Document Type: Research paper/proposal

Number of Pages Removed: 6

Citations: Craven, J. Howard. "Facing The Problem of 'Underwater' Assets of Depository Institutions." May 11, 1981.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

May 12, 1982

PRESTON MARTIN
VICE CHAIRMAN

The Honorable Daniel A. Mica
House of Representatives
Washington, D. C. 20515

Dear Mr. Mica:

In Chairman Volcker's absence, I want to thank you for your letter of April 26 emphasizing the need for a credible federal budget and lower interest rates.

The present stance of fiscal policy, which implies large prospective budget deficits, is exposing the economy to very serious risks. Deficits that persist in periods of economic recovery would draw on the limited supply of private saving that could otherwise finance productive private sector investment. Moreover, in the context of an anti-inflationary monetary policy, the prospect of future competition for funds between the federal and private sectors results in upward pressure on today's interest rates. This pressure places a disproportionate burden on the interest-sensitive sectors of the economy. I, therefore, agree that it is essential that Congress and the Administration promptly adopt a credible budget policy that reduces projected budget deficits. Such a policy would send the positive signal to financial markets that future government borrowing requirements were being brought under control.

In my view, allaying uncertainty about future credit market pressures would lead to a sizable reduction in today's interest rates. The Federal Reserve policy of gradual reduction in the growth of money and credit to non-inflationary rates is consistent with such a decline. The precise details of that policy, of course, are adjusted when annual targets for money growth are set, to take into account current developments. Predictable, moderate restraint, however, will help to reduce the inflation and uncertainty premiums that are currently built into our interest structure.

Thank you again for sharing your concerns about the economic problems facing our nation.

DC:SL:JLK:vcd (V-104)

bcc: Mr. Cohen
Ms. Lepper
Ms. Wing
Ms. Winkler
Mrs. Mallardi ✓

Sincerely,

151
Preston Martin

Action assigned Mr. Kichline

CANNON HOUSE OFFICE BUILDING
ROOM 131
WASHINGTON, D.C. 20515

ADMINISTRATIVE ASSISTANT
RICHARD MCBRIDE
LEGISLATIVE ASSISTANT
JAMES E. LAMBLE

DISTRICT OFFICES:
701 CLEMATIS STREET
SUITE 321
WEST PALM BEACH, FLORIDA 33401
550 NORTH STATE ROAD 7
MARGATE, FLORIDA 33063

DANIEL A. MICA
11TH DISTRICT, FLORIDA

Congress of the United States
House of Representatives

Washington, D.C. 20515

April 26, 1982

FOREIGN AFFAIRS
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SELECT COMMITTEE ON
AGING

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1982 APR 27 AM 9:00
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#104

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

Dear Chairman Volcker:

The urgent need for a credible federal budget and lower interest rates was impressed upon me time and time again during my recent visit home to south Florida during the Easter congressional district work period. The President, the Speaker, and the Senate Majority Leader are to be commended for entering into discussions regarding the economic problems we face.

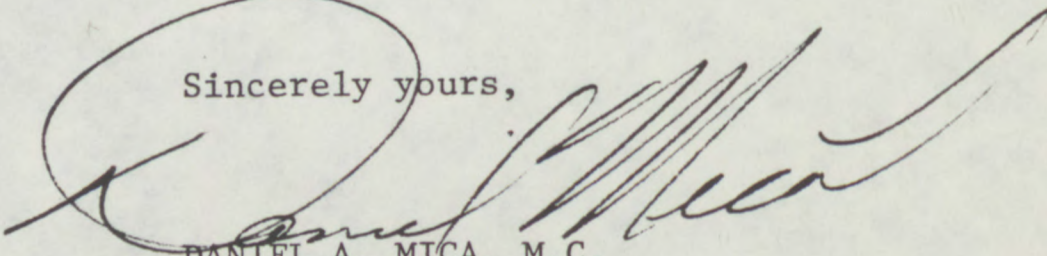
In Florida I found that some of our most long-standing and successful enterprises are having great difficulties, that new operations are unable to get off the ground, and that employees with years of experience are being laid off.

Uncertainty must not be allowed to continue. A credible budget, one in which the people know the level of federal spending, revenues, the deficit, and federal policy, will allow businesses and individuals to plan and adjust accordingly. Inaction will only serve to heighten fear, and further prolong our Nation's recession.

I hope that the Congress will take action in the near future, and that you will signal your intent to work with the Congress and the Administration to bring down interest rates and help get our economy moving again.

Kind regards.

Sincerely yours,


DANIEL A. MICA, M.C.

DM:jl

May 12, 1982

The Honorable Fernand J. St Germain
Chairman
Subcommittee on Financial Institutions
Supervision, Regulation and Insurance
Committee on Banking, Finance and
Urban Affairs
House of Representatives
Washington, D. C. 20515

Dear Chairman St Germain:

In Chairman Volcker's absence, I am writing
to thank you for your letter of May 7 inviting the
Board to appear before your Subcommittee at the hearing
on pending export trading company legislation.

Governor Wallich is looking forward to being
with you on May 19 at 9:30 a.m.

Sincerely,

IS/

Preston Martin

CO:vcd (V-110)

bcc: Gov. Wallich
Bob Gemmill
Mrs. Mallardi ✓

FERNAND J. ST GERMAIN, R.I., CHAIRMAN
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U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
SUPERVISION, REGULATION AND INSURANCE
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
NINETY-SEVENTH CONGRESS

WASHINGTON, D.C. 20515

May 7, 1982

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1982 MAY -7 PM 3:01

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM

*110

Honorable Paul Volcker
Chairman
Board of Governors
Federal Reserve System
Washington, D. C. 20552

Dear Mr. Chairman:

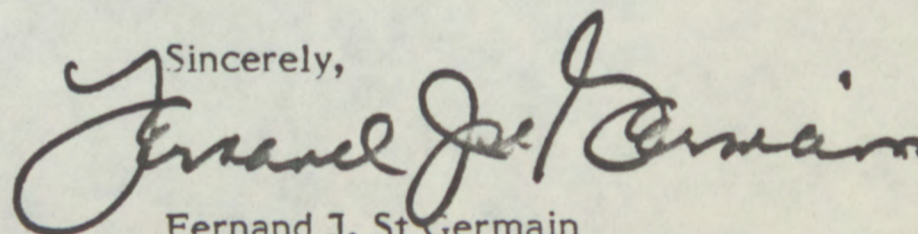
Confirming a number of discussions between our respective staffs, the Subcommittee will resume hearings on pending export trading company legislation on May 19, 1982, in Room 2128 of the Rayburn House Office Building at 9:30 a.m. We would be pleased to receive testimony from the Federal Reserve Board immediately following a brief presentation of a panel of Congressional witnesses. It is our understanding that the Board will continue to designate Governor Wallich, who as we know, has testified on several previous occasions on pending export trading company legislation.

I have enclosed for your information a copy of H.R. 6016, the Bank Export Services Act, a brief section-by-section analysis of the bill, a copy of my introductory statement and press release of March 31, 1982, on behalf on the bill's cosponsors, a copy of the opening statement in connection with previous Subcommittee hearings held on September 30, 1980, after passage of S. 2718 by the Senate in the 96th Congress and a copy of the April 22 opening statement.

The Subcommittee will continue to concentrate on the bank participation issues by our emphasis on the provisions of H.R. 6016. You might find of interest the Subcommittee's follow-up letter to Secretary of Commerce Baldrige, which summarizes a number of problem areas remaining to be resolved.

We would appreciate receiving 100 copies of your statement by 12:00 noon on Tuesday, May 18, to be delivered to the Subcommittee office (B303 Rayburn). To permit adequate time for questioning and to accommodate the large number of witnesses scheduled to testify, it is requested that oral testimony be limited to ten minutes. The entire statement will, of course, be printed in the record and made available to all members prior to the hearing.

Sincerely,



Fernand J. St Germain
Chairman

Enclosures

97TH CONGRESS
2D SESSION

97TH CONGRESS
2D SESSION

H. R. 6016

To permit bank holding companies and Edge Act corporations to invest in export trading companies and to reduce restrictions on trade financing provided by financial institutions.

IN THE HOUSE OF REPRESENTATIVES

MARCH 31, 1982

Mr. ST GERMAIN (for himself, Mr. REUSS, Mr. MINISH, Mr. ANNUNZIO, Mr. FAUNTROY, Mr. NEAL, Mr. PATTERSON, Mr. BLANCHARD, Mr. LAFALCE, Mr. EVANS of Indiana, Mr. D'AMOURS, Ms. OAKAR, Mr. BARNARD, Mr. LOWRY of Washington, Mr. SCHUMER, Mr. FRANK, Mr. WILLIAM J. COYNE, Mr. STANTON of Ohio, Mr. MCKINNEY, Mr. LEACH of Iowa, Mr. PARRIS, Mr. WORTLEY, Mr. LOWERY of California, Mr. JAMES K. COYNE, and Mr. BEREUTER) introduced the following bill; which was referred to the Committee on Banking, Finance and Urban Affairs

A BILL

To permit bank holding companies and Edge Act corporations to invest in export trading companies and to reduce restrictions on trade financing provided by financial institutions.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

SHORT TITLE

4 SECTION 1. This Act may be cited as the “Bank Export
5 Services Act”.

1 INVESTMENTS IN EXPORT TRADING COMPANIES

2 SEC. 2. (a) Section 4(c) of the Bank Holding Company
3 Act of 1956 (12 U.S.C. 1843(c)) is amended—

4 (1) in paragraph (12)(B), by striking out “or” at
5 the end thereof;

6 (2) in paragraph (13), by striking out the period at
7 the end thereof and inserting in lieu thereof “; or”; and

8 (3) by inserting after paragraph (13) the following:

9 “(14) shares of any company which is an export
10 trading company whose acquisition (including each ac-
11 quisition of shares) or formation by a bank holding
12 company has been approved by the Board, except that
13 such investments, whether direct or indirect, in such
14 shares shall not exceed 5 per centum of the bank hold-
15 ing company’s consolidated capital and surplus. No ap-
16 proval may be granted by the Board under this para-
17 graph unless the Board has taken into consideration
18 the financial and managerial resources, competitive sit-
19 uation, and future prospects of the bank holding com-
20 pany and the export trading company involved and has
21 imposed such restrictions, by regulation or otherwise,
22 as the Board deems necessary to prevent conflicts of
23 interest, unsafe or unsound banking practices, undue
24 concentration of resources, and decreased or unfair
25 competition. Notwithstanding any other provision of

1 law, in any case in which a bank holding company in-
2 vests in an export trading company, such bank holding
3 company shall be deemed to be a member bank, with
4 respect to such export trading company, for purposes
5 of section 23A of the Federal Reserve Act, and such
6 export trading company shall be deemed to be an affili-
7 ate for purposes of such section, except that amounts
8 invested pursuant to the first sentence of this para-
9 graph shall not apply with respect to the limitations
10 imposed under section 23A of the Federal Reserve
11 Act. For purposes of this paragraph, the term 'export
12 trading company' means a company which does busi-
13 ness under the laws of the United States or any State
14 and which is organized and operated exclusively for
15 purposes of exporting goods or services produced in the
16 United States or which facilitates the exportation of
17 goods or services produced in the United States by un-
18 affiliated persons by providing one or more export
19 trade services. For purposes of this paragraph, the
20 term 'export trade services' includes consulting, inter-
21 national market research, advertising, marketing, prod-
22 uct research and design, legal assistance, transporta-
23 tion, including trade documentation and freight for-
24 warding, communication and processing of foreign
25 orders to and for exporters and foreign purchasers,

1 warehousing, foreign exchange, and financing, when
2 provided in order to facilitate the export of goods or
3 services produced in the United States. For purposes of
4 this paragraph, an export trading company (A) may
5 engage in or hold shares of a company engaged in the
6 business of underwriting, selling, or distributing securi-
7 ties in the United States only to the extent that its
8 bank holding company investor may do so under appli-
9 cable Federal and State banking law and regulations,
10 and (B) may not engage in manufacturing or agricul-
11 tural production activities. The name of the export
12 trading company involved shall not be similar in any
13 respect to the name of the bank holding company
14 which owns any of its voting stock or other evidences
15 of ownership.”.

16 (b) Section 25(a) of the Federal Reserve Act (12 U.S.C.
17 611 et seq.) is amended—

18 (1) in the first paragraph of subsection (c), by in-
19 serting “(1)” after “(c)”; and

20 (2) by inserting after the first paragraph of subsec-
21 tion (c) the following:

22 “(2)(A) Notwithstanding any other provision of law,
23 with the approval of the Board of Governors of the Federal
24 Reserve System, a corporation organized under this section
25 may purchase and hold stock or other certificates of owner-

1 ship in any other corporation which is an export trading com-
2 pany. No approval may be granted by the Board under this
3 paragraph unless the Board has taken into consideration the
4 financial and managerial resources, competitive situation, and
5 future prospects of the corporations involved and has imposed
6 such restrictions, by regulation or otherwise, as the Board
7 deems necessary to prevent conflicts of interest, unsafe or
8 unsound banking practices, undue concentration of resources,
9 and decreased or unfair competition. No corporation orga-
10 nized under this section shall invest in such export trading
11 companies in an amount in excess of 25 per centum of its
12 own capital and surplus. The second proviso of paragraph (1)
13 shall apply to any corporation referred to in this paragraph.

14 “(B) Notwithstanding any other provision of law, in any
15 case in which a corporation organized under this section pur-
16 chases or holds stock or other certificates of ownership in any
17 other corporation which is an export trading company, such
18 acquiring corporation, or any bank or banking institution
19 which purchases or holds stock or other certificates of owner-
20 ship in such acquiring corporation, shall be deemed to be a
21 member bank, with respect to such export trading company,
22 for purposes of section 23A of this Act, and such export trad-
23 ing company shall be deemed to be an affiliate for purposes of
24 such section, except that amounts invested pursuant to sub-

1 paragraph (A) shall not apply with respect to the limitations
2 imposed under section 23A of this Act.

3 “(C) For purposes of this section—

4 “(i) the term ‘export trading company’ means a
5 company which does business under the laws of the
6 United States or any State and which is organized and
7 operated exclusively for purposes of exporting goods or
8 services produced in the United States or which facili-
9 tates the exportation of goods or services produced in
10 the United States by unaffiliated persons by providing
11 one or more export trade services; and

12 “(ii) the term ‘export trade services’ includes con-
13 sulting, international market research, advertising,
14 marketing, product research and design, legal assist-
15 ance, transportation, including trade documentation and
16 freight forwarding, communication and processing of
17 foreign orders to and for exporters and foreign purchas-
18 ers, warehousing, foreign exchange, and financing,
19 when provided in order to facilitate the export of goods
20 or services produced in the United States.

21 “(D) For purposes of this subsection, an export trading
22 company—

23 “(i) may engage in or hold shares of a company
24 engaged in the business of underwriting, selling, or dis-
25 tributing securities in the United States only to the

1 extent that the corporation which is organized under
 2 this section and which invests in the company defined
 3 in this clause may do so under applicable Federal and
 4 State banking law and regulations; and

5 “(ii) may not engage in manufacturing or agricul-
 6 tural production activities.

7 “(E) The name of the export trading company involved
 8 shall not be similar in any respect to the name of the corpora-
 9 tion organized under this section which owns any of its
 10 voting stock or other evidences of ownership.”.

11 BANKERS' ACCEPTANCES

12 SEC. 3. The seventh paragraph of section 13 of the Fed-
 13 eral Reserve Act (12 U.S.C. 372) is amended to read as
 14 follows:

15 “(7)(A) Any depository institution, as defined in section
 16 19(b)(1)(A), and any Federal or State branch or agency of a
 17 foreign bank subject to reserve requirements under section 7
 18 of the International Banking Act of 1978 (hereinafter in this
 19 paragraph referred to as ‘institutions’), may accept drafts or
 20 bills of exchange drawn upon it having not more than six
 21 months’ sight to run, exclusive of days of grace—

22 “(i) which grow out of transactions involving the
 23 importation or exportation of goods;

24 “(ii) which grow out of transactions involving the
 25 domestic shipment of goods; or

1 “(iii) which are secured at the time of acceptance
2 by a warehouse receipt or other such document con-
3 veying or securing title covering readily marketable
4 staples.

5 “(B) No institution shall accept such bills, or be obligat-
6 ed for a participation share in such bills, in an amount equal
7 at any time in the aggregate to more than 150 per centum of
8 its paid up and unimpaired capital stock and surplus or its
9 equivalent, as defined by the Board, in the case of a United
10 States branch or agency of a foreign bank.

11 “(C) The Board, under such conditions as it may pre-
12 scribe, may authorize, by regulation or order, any institution
13 to accept such bills, or be obligated for a participation share
14 in such bills, in an amount not exceeding at any time in the
15 aggregate 200 per centum of its paid up and unimpaired capi-
16 tal stock and surplus or its equivalent, as defined by the
17 Board, in the case of a United States branch or agency of a
18 foreign bank.

19 “(D) Notwithstanding subparagraphs (B) and (C), with
20 respect to any institution, the aggregate acceptances, includ-
21 ing obligations for a participation share in such acceptances,
22 growing out of domestic transactions shall not exceed 50 per
23 centum of the aggregate of all acceptances, including obliga-
24 tions for a participation share in such acceptances, authorized
25 for such institution under this paragraph.

1 “(E) No institution shall accept bills, or be obligated for
2 a participation share in such bills, whether in a foreign or
3 domestic transaction, for any one person, partnership, corpo-
4 ration, association or other entity in an amount equal at any
5 time in the aggregate to more than 10 per centum of its paid
6 up and unimpaired capital stock and surplus, unless the insti-
7 tution is secured either by attached documents or by some
8 other actual security growing out of the same transaction as
9 the acceptance.

10 “(F) The limitations contained in this paragraph shall
11 not apply to that portion of an acceptance which is issued by
12 an institution and which is covered by a participation agree-
13 ment sold to another bank or a corporation regulated under
14 section 25 or section 25(a) of this Act.

15 “(G) In order to carry out the purposes of this para-
16 graph, the Board may define any of the terms used in this
17 paragraph, and, with respect to institutions which do not
18 have capital or capital stock, the Board shall define an equiv-
19 alent measure to which the limitations contained in this para-
20 graph shall apply.”.

○

March 18, 1982

SECTION BY SECTION ANALYSIS OF THE "BANK EXPORT SERVICES ACT"

Section 1 prescribes the short title of the bill, the Bank Export Services Act.

Section 2 contains two subsections authorizing bank holding companies and Edge Act Corporations to invest in export trading companies. Export trading companies are defined as organizations that operate under U.S. or State law exclusively to export or facilitate the export of goods or services produced in the U.S. by providing one or more export trade services. These services would include consulting, international market research, advertising, marketing, product research and design, legal assistance, transportation, including trade documentation and freight forwarding, communications and processing of foreign orders to and for exporters and foreign purchasers, warehousing, foreign exchange, and financing, when provided to facilitate the export of U.S. goods and services.

Bank holding companies would be permitted to invest up to 5 percent of their consolidated capital and surplus, and Edge Act Corporations up to 25 percent of their capital and surplus, in export trading companies. All investments in export trading companies would be subject to prior approval by the Board of Governors of the Federal Reserve System. Export trading companies could be owned wholly or in part by one or more bank holding companies or by one or more Edge Act Corporations.

Export trading companies could become involved in underwriting, selling or distributing securities in the U.S. only to the extent their parent bank holding companies or Edge Act Corporations could legally do so. Export trading companies also could not engage in manufacturing or agricultural production activities, or have a name similar to their parent organizations.

Limits on the amount of permissible lending between parent companies and affiliates, contained in Section 23A of the Federal Reserve Act, would apply to export trading company affiliates of bank holding companies and Edge Act Corporations.

Section 3 amends the Federal Reserve Act provision relating to bankers' acceptances. The coverage of the provision would be broadened to include nonmember banks and branches and agencies of foreign banks subject to reserve requirements. The overall limit on a bank's acceptances would be raised from the current level of 50 percent of the bank's paid up capital stock and surplus (100 percent with Federal Reserve Board approval) to 150 percent (200 percent with Board approval).

The new provision would specify that no more than 50 percent of a bank's outstanding acceptances could be connected with domestic transactions, and would delete current language limiting domestic acceptances to 50 percent of a bank's capital stock and surplus. The current limitation on the issuance of unsecured acceptances for any one customer to 10 percent of the bank's capital and surplus would be retained. The new provision also would specify that, when banks enter participation agreements to share the obligations of an acceptance, the portion of the obligation retained or purchased by a bank would count toward that bank's acceptance limits. The existing requirement that acceptances involving domestic shipments must include shipping documents that convey or secure title would be deleted.

The Federal Reserve Board would be authorized to define any terms in carrying out the provision.

vide increased financing capabilities for these firms.

With these advantages, and the concerns about banks' involvement in commerce in mind, I explored the possibility of allowing depository institutions to engage in export trading company activities in a manner which assures as much separation as possible between that activity and the deposit taking function of the depository institutions. This can be accomplished by allowing only direct investments (purchases of the securities of export trading companies) by bank holding companies or Edge Act Corporations. Thus, operating export trading company activities within a bank itself would be precluded. The operations would be in separate subsidiaries. Clearly any legislation in this area must address these concerns.

The Bank Export Services Act contains two major provisions. The first authorizes bank holding companies and Edge Act Corporations to invest in export trading companies. Export trading companies are defined as organizations that operate under U.S. or State law exclusively to export or facilitate the export of goods or services produced in the United States by providing one or more export trade services. These services would include consulting, international market research, advertising, marketing, product research and design, legal assistance, transportation, including trade documentation and freight forwarding, communications and processing of foreign orders to and for exporters and foreign purchasers, warehousing, foreign exchange, and financing, when provided to facilitate the export of U.S. goods and services.

Bank holding companies would be permitted to invest up to 5 percent of their consolidated capital and surplus, and Edge Act Corporations up to 25 percent of their capital and surplus, in export trading companies. All investments in export trading companies would be subject to prior approval by the Board of Governors of the Federal Reserve System. This will insure the proper review and supervision needed to reduce the possible risk to depository institution subsidiaries. Export trading companies could be owned wholly or in part by one or more bank holding companies or by one or more Edge Act Corporations.

Export trading companies could become involved in underwriting, selling, or distributing securities in the United States only to the extent their parent bank holding companies or Edge Act Corporations could legally do so. Export trading companies also could not engage in manufacturing or agricultural production activities, or have a name similar to their parent organizations.

Limits on the amount of permissible lending between parent companies and affiliates, contained in section 23A of the Federal Reserve Act, would apply to export trading company affiliates of

bank holding companies and Edge Act Corporations.

The second section of the Bank Export Services Act amends the Federal Reserve Act provision relating to bankers' acceptances. The coverage of the provision would be broadened to include nonmember banks and branches and agencies of foreign banks subject to reserve requirements. The overall limit on a bank's acceptances, including its participation share in acceptances originated by others, would be raised from the current level of 50 percent of the bank's paid up and unimpaired capital stock and surplus (100 percent with Federal Reserve Board approval) to 150 percent (200 percent with Board approval).

The new provision would specify that no more than 50 percent of a bank's authorized acceptances could be connected with domestic transactions, and would delete current language limiting domestic acceptances to 50 percent of a bank's capital stock and surplus. The current limitation on the issuance of unsecured acceptances for any one customer to 10 percent of the bank's capital and surplus would be retained. The new provision also would specify that, when banks enter participation agreements to share the obligations of an acceptance, the portion of the obligation retained or purchased by a bank would count toward that bank's acceptance limits. The existing requirement that acceptances involving domestic shipments must include shipping documents that convey or secure title would be deleted.

The Federal Reserve Board would be authorized to define any terms in carrying out the provision.

This legislation is, I believe, a reasonable approach to resolving the twin concerns of insuring bank safety and soundness by limiting the breach in the separation of banking and commerce, and encouraging the flow of exports from this Nation. It is anticipated that the committee can move expeditiously on this issue. To that end, the Subcommittee on Financial Institutions Supervision, Regulation and Insurance will conduct hearings on this bill on April 21 and 22 and will meet in executive session to mark up the legislation on April 27. ●

The SPEAKER pro tempore. Under a previous order of the House, the gentlewoman from Connecticut (Mrs. KENNELLY) is recognized for 5 minutes.

[Mrs. KENNELLY addressed the House. Her remarks will appear hereafter in the Extensions of Remarks.]

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from California (Mr. MILLER) is recognized for 10 minutes.

[Mr. MILLER of California addressed the House. His remarks will appear hereafter in the Extensions of Remarks.]

COMMUNICATION FROM THE SPEAKER OF THE HOUSE OF REPRESENTATIVES TO THE CLERK OF THE HOUSE OF REPRESENTATIVES

The SPEAKER pro tempore laid before the House the following communication from the Speaker of the House of Representatives:

U.S. HOUSE OF REPRESENTATIVES,

Washington, D.C., March 30, 1982.

Hon. EDMUND L. HENSHAW, JR.,
Clerk, House of Representatives, H-105 The
Capitol, Washington, D.C.

DEAR MR. CLERK: I have reviewed your notification letter of March 29, 1982 informing me, pursuant to the provisions of House Rule L (50) of receipt of a subpoena directed to you as custodian for House documents in a pending case, *Benford v. American Broadcasting Companies, Inc.*, Civ. Action No. N79-2386 (District of Maryland) and commanding you to appear for deposition at a yet undisclosed room at the Holiday Inn in Chevy Chase, Maryland and to bring with you what I understand to comprise approximately 100 linear shelf feet of records relating to the conduct of a legislative investigation.

After consulting with the Majority and Minority Leaders and Whips of the House, as I have from time to time in matters of this sort, I must advise and instruct you not to carry these documents outside the Capitol to a place where their preservation cannot be adequately assured.

I need only remind you of your duties in this regard and the precedents and prerogatives of the House which bind you to properly discharge the responsibilities devolved upon you by rules of the House. Since at least 1879, the House has insisted that no officer or employee of the House has a right either voluntarily or in obedience to a subpoena to produce any original document belonging to its files. The House cannot properly be assured that its papers will remain safe and secure if they are physically carried from their place in the Capitol and delivered to a yet undisclosed room at a Holiday Inn in Maryland.

The gravity of this attempt to improperly wrest control of documents belonging to the House is emphasized by the breadth and intrusiveness of a subpoena which seeks documents generated during a duly authorized investigation by a committee of the House. As you are aware the investigative records of a committee of the House are not subject to judicial process.

Accordingly, I must instruct you not to produce the records in your control and possession at this time. Of course, (if after further proceedings, you should be served with a narrow and specific subpoena for records which are actually relevant and not privileged under circumstances which enable you to assure their preservation, and do not require you to carry the records to a distant jurisdiction, the matter can be reconsidered at that time.)

Sincerely,

THOMAS P. O'NEILL, JR.,
Speaker.

JIM WRIGHT,
Majority Leader.

THOMAS S. FOLEY,
Majority Whip.

ROBERT H. MICHEL,
Minority Leader.

TRENT LOTT,
Minority Whip.

members of cargo shipments and entries that have been selected out as high risk for violations, including potential revenue losses. These selectivity programs include laboratory analyses, selective audits of importers and commodities, fraud investigations and cargo inspections.

Although in fiscal year 1981 Customs collected almost \$18.50 per dollar expended from the total budget, the marginal returns from additional staffing will be much lower, because of the high level of compliance that already exists overall among U.S. importers and travelers.

Thank you for your interest in Customs.
Sincerely,

JACK T. LACY,
Comptroller.

R. 6016

BANK EXPORT SERVICES ACT

The SPEAKER pro tempore. Under previous order of the House, the gentleman from Rhode Island (Mr. ST GERMAIN) is recognized for 5 minutes.

Mr. ST GERMAIN. Mr. Speaker, today I am introducing legislation designed to increase bank involvement in export financing and the export of goods and services. Everyone supports the proposition that the United States must increase its exports of manufactured goods. Our performance over the years in this economic activity is poor. Foreign countries for years have placed a major emphasis on exports and the effects become more visible each year. Imports into this country continue to increase. U.S. manufacturers face serious competition from foreign manufacturers here at home. Government and the private sector realize that growth in our economy now depends on a major shift from reliance on domestic sales to a mix of domestic and foreign sales efforts.

Given this realization, comprehensive studies, both in the public and private sectors, were undertaken to determine what Government or economic policy was needed to encourage our domestic manufacturers to move into the export market. Early on it became clear that many of the problems and their solutions were difficult, expensive, and long-range in nature. For example, studies suggest that changes are needed in our tax laws to assist companies in their exporting. However, we are confronted with a short-term problem if tax incentives are provided—such tax incentives cost the Government revenues thus making it difficult to bring expenditures in line with revenues. Also, many studies suggest that Government assistance—loans and guarantees through the Ex-Im Bank, SBA, EDA, and other agencies—would provide substantial assistance. Again, these solutions would cost the Government money—money which is not available in the quantities suggested.

Since major expenditures either as tax benefits or major spending programs are not realistic solutions in today's environment, efforts must be directed toward changes which will encourage the private sector to become more involved.

One device which is suggested is the export trading company. The experience of our European and Japanese neighbors indicates that firms in those countries effectively utilize companies which specialize in importing and exporting goods and services. These trading companies provide manufacturers a means of reducing the risks associated with foreign business endeavors and offer a wide variety of services to their customers—including freight handling, financing, and market analysis. Proponents argue that this country needs to provide opportunities for the establishment and more successful operation of such firms in this Nation. Thus, a number of bills provide incentives for the establishment of export trading companies with the Department of Commerce providing the focus for these efforts.

Export trading companies can provide assistance to small and medium size businesses in the United States who produce goods and services which can be marketed abroad. To my knowledge, no one has suggested that we should not encourage the development of such firms. Thus, there is support for provisions defining the nature of an export trading company and providing information on the use and operation of such firms through existing trade promotion programs in the Department of Commerce.

There is a long tradition in this country of separating banking and commerce. As a result of practices evident in the period leading up to the crash of 1929 and the bank closings in the thirties, legislation was enacted which created a wall between the operations of our depository institutions and other fields of enterprise. This wall was believed necessary to assure that the institutions which held public funds and provided vital credit for all segments of U.S. industry and commerce were operated in a safe and sound manner and that concentrations of power resulting from combinations of banking and commercial firms were minimized. Over the years since passage of that legislation, Congress has allowed some exceptions to this separation. In particular, bank holding companies have been allowed to engage in activities which are "closely related to banking" and savings and loan holding companies have similar latitude. These exceptions reflect the changing nature of the financial services industry and the development of new product lines and needs in the marketplace.

In some cases, bank involvement in such areas led to increased risk to those institutions and in some cases led to bank failures. The Nation must, as a result, continue to be cautious about making changes which bridge that traditional separation. Depository institutions continue to play a vital role in our economy and steps which place those institutions at risk must receive careful consideration, and if al-

lowed must provide sufficient protections to avoid undue risk.

It was natural then that concern was raised about allowing depository institutions to have equity interests in firms which provide many services not now offered by banks and which engage in high risk endeavors. The Federal Reserve System and the Federal Deposit Insurance Corporation on several occasions expressed their strong reservations. Clearly any legislation in this area must address these concerns.

On the other hand, these concerns must be balanced by the national need to expand its trade possibilities. This is particularly important to my area of New England. Traditionally, this region has been heavily involved in international trade. For example, the New England Congressional Institute provided information on this point:

In 1980, the six New England States generated over \$10 billion in export sales. An estimated 135,000 jobs in New England are a direct result of export sales. When asked to predict the effect of passage of ETC legislation on their companies' receipts in the New England Congressional Institute survey conducted in April, 57 percent of the export trading company respondents estimated an increase of over 25 percent. All of the respondents indicated increases of at least 5 percent. Applying the lowest of those estimates to current export data suggests that the potential effect of ETC legislation in New England means 500 million dollars earned in export sales, and over 10,000 jobs. (Emphasis in original.)

The Institute goes on to say:

New England, which has over 25,000 manufacturing firms, has a growing interest in export trade among its small and medium-sized firms. In the opinion survey conducted by the New England Congressional Institute in April, 52 percent of the manufacturing sector respondents indicated they would be interested in utilizing the services of an ETC. Of these, 24 percent do not currently export. The survey appears to indicate that several thousand New England firms are interested in using the services of an export trading company. (Emphasis in original.)

Studies such as these point up the need for improving the chances of those small manufacturers to engage in international trade. To do so, these firms need an intermediary to absorb some of the risks that are involved in international activities. Increased activity by export trading companies appears to be one way to generate some benefits in this area.

Bank Holding Companies and Edge Act Corporations can provide services which will make an ETC function more effectively. They can supply the capital necessary to allow ETC's to experience large economies of scale. The existing international communications and data processing systems and financial expertise of large BHC and Edge Act Corporations will provide additional benefits to ETC's. Also, liberalized roles for the issuance of bankers' acceptances—a form of financing provided by depository institutions to facilitate trade transactions—should pro-

EF AND ST GERMAIN, R.I., CHAIRMAN
IE Y A. REUSS, WIS.
IE Y D. GONZALEZ, TEX.
OS H G. MINN, N.J.
RJ K ANNUNZIO, ILL.
AF EN J. MITCHELL, MD.
IAI ER E. FAUNTROY, D.C.
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HIL PATMAN, TEX.
VII IAM J. COYNE, PA.
VII Y H. HOYER, MD.

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS

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

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DAVID DREIER, CALIF.
225-4247

FOR IMMEDIATE RELEASE

WASHINGTON, D.C., March 31— In a move to spur U. S. exports, Chairman Fernand J. St Germain of the Banking, Finance and Urban Affairs Committee today introduced legislation which would allow bank holding companies and Edge Act corporations to acquire companies specializing in export services.

The legislation would also liberalize the use of bankers acceptances, bills of exchange often utilized to facilitate export-import transactions.

Mr. St Germain said he believed the legislation is "a reasonable approach to resolving the twin concerns of ensuring bank safety and soundness by limiting the breach in the separation of banking and commerce, and encouraging the flow of exports from this nation."

Pointing to the need to improve this nation's export markets, Mr. St Germain predicted that the export trading companies will provide important assistance to small and medium sized businesses which produce goods for foreign consumption. He said the increased international trade, generated by exporting companies, will produce significant new economic activity and jobs domestically.

Mr. St Germain said the legislation provided especially difficult problems for maintaining the traditional separation of banking and commerce.

"We wrestled with this problem for many months and decided a high degree of separation could be maintained by limiting the investments in export companies to bank holding companies and Edge Act corporations formed to facilitate overseas operations of U.S. banks," the Banking Committee chairman said. The bill will not authorize direct investments in export trading companies by commercial banks.

The legislation would allow banks to issue bankers acceptances up to 150 percent of the individual bank's capital and surplus. The figure could be raised to 200 percent with Federal Reserve approval. Currently, banks may issue acceptances only up to 50 percent of capital and surplus with the Federal Reserve authorized to approve up to 100 percent.

The bill was also co-sponsored by Henry S. Reuss, (D., WIS.); Joseph G. Minish, (D., N.J.); Frank Annunzio, (D., ILL.); Walter E. Fauntroy, (D., D.C.); Stephen L. Neal, (D., N.C.); Jerry M. Patterson, (D., CALIF.); James J. Blanchard, (D., Mich.); John J. LaFalce, (D., N.Y.); David W. Evans, (D., Ind.); Norman E. D'Amours, (D., N.H.); Mary Rose Oakar, (D., OHIO); Doug Barnard, Jr., (D., GA.); Mike Lowry, (D. WASH.); Charles E. Schumer, (D., N.Y.); Barney Frank, (D., MASS.); William J. Coyne, (D., PA); J. William Stanton, (R., OHIO); Stewart B. McKinney, (R., CONN.); Jim Leach, (R., IOWA); Stan Parris, (R., VA.); George C. Wortley, (R., N.Y.); Bill Lowery, (R., CALIF.); James K. Coyne, (R., PA.); and Douglas K. Bereuter, (R., NEBR.).

Hearings are scheduled before the Financial Institutions Subcommittee on April 21 and 22.

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EXPORT TRADING COMPANY LEGISLATION

TUESDAY, SEPTEMBER 30, 1980

HOUSE OF REPRESENTATIVES, COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS, SUBCOMMITTEE ON FINANCIAL INSTITUTIONS SUPERVISION, REGULATION AND INSURANCE,

Washington, D.C.

The subcommittee met at 10:05 a.m., in room 2128, Rayburn House Office Building, Hon. Fernand J. St Germain (chairman of the subcommittee) presiding.

Present: Representatives St Germain, Annunzio, Ashley, Barnard, Wylie, Hansen, Leach, and Bethune.

Chairman ST GERMAIN. The subcommittee will come to order.

This morning we open hearings on export trading company legislation. A number of bills have been introduced, and most of these cross jurisdictions of several committees of the House. This subcommittee's principal concerns are the key sections of the legislation which would, for the first time in the history of this Nation, grant commercial banks the authority to make equity investments in export trading companies. This is a giant step in the expansion of banking powers, and if this legislation is enacted it will mean a substantive breach in our longstanding policy against the mixing of commerce and banking powers.

The Senate has passed S. 2718, the so-called Stevenson bill, which gives banks extremely broad powers for investment in export companies.

It is reasonable to assume that large commercial banks will follow their investments in export trading companies into local communities around the Nation. This development will undoubtedly have a bearing on future competitive relationships among money center banks, regional banks, and local independent banks.

It is essential that we fully explore all of these questions before making our recommendations to the full House. At a minimum, we should discover what the legislation will mean for: First, the traditional separation of banking and commerce; second, the safety and soundness of banking institutions; third, the competitive balance in the financial industry; and fourth, the promotion of exports.

All of us on this subcommittee, and I suspect throughout the Congress, are solidly behind the desire to increase exports of U.S. products. I would not take a back seat to anyone in the support of export promotion, but I also believe we must make certain that we are providing real remedies, not quick fixes that may create more dislocations in the economy.

The thrust of many of these bills suggests that banks are the problem—that they haven't been participants, and that they will

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play the export game only if they have a piece of the action in the form of equity investments. Frankly, I don't know whether this is the case or not, and I am hopeful that full hearings will give us some answers.

This morning we will hear from the Honorable Abraham Katz, Assistant Secretary for International Economic Policy, who is substituting for Secretary Klutznick, whom I understand is at the White House at this moment; as well as a panel consisting of Peter Howell, vice president, International Relations Unit, Citibank; and H. Robert Heller, vice president for international economics, Bank of America.

We will first hear from the panel. Mr. Howell and Mr. Heller, if you would approach the witness table.

And at this point I would recognize my colleague, Mr. Wylie.

Mr. WYLIE. Thank you, Mr. Chairman. I have an opening statement which I would ask unanimous consent to insert in the record at this point.

Chairman ST GERMAIN. Without objection.

Mr. WYLIE. I would just like to summarize, if I may. As the subcommittee begins these hearings on this export trading company, it probably should be the first of a series of hearings to indicate what measures we should pass to stimulate exports. The statements of proponents, which I had an opportunity to glean through, were optimistic, even though somewhat vague, and maybe they have to be at this point, I am not sure.

There is reason to believe that the authorization of bank investment in export trading companies may be somewhat helpful in assisting American industry to increase its export activities. There are difficult questions regarding the conditions under which the various banking agencies would be called upon to regulate bank participation. It is important that the subcommittee as well as the export community recognize that the bill that is before us today should not be regarded as a substitute for an effective export policy.

I might say that although I am inclined to pass an export trading bill if we could get the bugs out of it, I hope that if it is passed it will not be an indication that we have resolved the serious task of addressing the need for fundamental changes in export and economic policy vis-a-vis our performance in the world market.

I thank you very much for allowing me to give this opening statement.

OPENING STATEMENT
FERNAND J. ST GERMAIN, CHAIRMAN
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS SUPERVISION,
REGULATION AND INSURANCE

ON
H.R. 6016, the Bank Export Services Act
April 22, 1982

Today, the Subcommittee on Financial Institutions begins three days of hearings on the subject of export trading companies with special emphasis on the provisions of H.R. 6016, the Bank Export Services Act introduced on March 31, 1982, cosponsored by 25 members of the Full Committee, including 13 members of this Subcommittee.

The recent history of Export Trading Company legislation, a brief background treatment of the separation of banking from commerce doctrine of this nation, a summary of projected increased trade prospects with accompanying estimated job creation potential if American ETC's are able to expand, both in number and in aggregated activity, a summary of essential differences in the bank participation provisions of previous legislation and the provisions of H.R. 6016 have been set forth fully in the floor statement accompanying the introduction of H.R. 6016. That statement is attached and has been supplied to all Committee members.

Rather than reiterate that material, the Chair this morning would like to comment on the expertise of this morning's panel of witnesses and touch briefly on the events and survey procedures followed by the New England Institute.

The New England Congressional Caucus has traditionally through the years, come together in caucus on issues of regional significance. Far more often than not, such political differences that may have existed from time to time have been subordinated to the best interests of the New England region.

The caucus, in an effort to involve even more directly the citizens of our region in our consideration of regional wide problems, created the New England Institute. Our first two witnesses, Senator John H. Chafee and Congressman Stewart B. McKinney, representing the caucus, will introduce to the Subcommittee Institute witnesses who have given of their extensive talents and valuable time in an effort to create opportunities for expanded export trade activity for not only the New England region, but for the entire nation. Our witnesses are experts in their own areas of endeavor. Their herculean service as members of the Institute's Export Trading Company Task force is appreciated. Their considered opinion as to the promise of export trading company legislation, possibly justifying this major proposed breach in the nation's separation of banking and commerce doctrine, will be invaluable to the subcommittee. We are also pleased to have two additional New England witnesses, both potential users of the expanded permissive authority of pending ETC legislation, Mr. George Taylor, Chairman of the Board and Chief Executive Officer, Citytrust, Bridgeport, Conn. and Alden Anderson, President, Hospital Trust, Inc., Providence, R.I.

On September 30, 1980 this Subcommittee held hearings on export trading company legislation after passage of S2718. On that occasion,

in addition to Department of Commerce witnesses, we heard from representatives of the Bank of America and Citibank. There was concern before, during and frankly after those hearings concluded on the part of the Chair and many of the members who attended as to whether the passage of the legislation would, indeed, cause a large number of medium and small banks as well as small manufacturers to participate in expanded export trading company activities. Since H.R. 6016 deals entirely with bank involvement in ETC activity, I think it appropriate to have representatives of regional banks to advise us the Subcommittee of their projected use of the authority provided by H.R. 6016.

In conclusion, I find it refreshing to begin these hearings with witnesses such as this panel-witnesses who have thoroughly considered the issues and have reached a consensus in a spirit of compromise and who are thoroughly knowledgeable in their own individual areas of expertise.

RANK ANNUNZIO, ILL.
ARROLL HUEBARD, JR., KY.
ORMAN E. DAMOURS, N.H.
IM MATTOX, TEX.
JOSEPH G. MINISH, N.J.
YOUNG BARNARD, JR., GA.
JOHN J. LAFALCE, N.Y.
DAVID W. EVANS, IND.
MARY ROSE OAKAR, OHIO
BRUCE F. VENTO, MINN.
ROBERT GARCIA, N.Y.
CHARLES E. SCHUMER, N.Y.
BILL PATMAN, TEX.

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
SUPERVISION, REGULATION AND INSURANCE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
NINETY-SEVENTH CONGRESS

WASHINGTON, D.C. 20515
May 4, 1982

CHALMERS P. WYLIE, OHIO
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STEWART B. MCKINNEY, CONN.
NORMAN D. SHUMWAY, CALIF.
ED WEBER, OHIO
BILL MCCOLLUM, FLA.
BILL LOWERY, CALIF.
GEORGE C. WORTLEY, N.Y.

The Honorable Malcolm Baldrige
Secretary of Commerce
Washington, D. C. 20230

Dear Mr. Secretary:

On behalf of the Subcommittee on Financial Institutions, I wish to express our appreciation for your testimony on the provisions of H.R. 6016, the Bank Export Services Act. In preparation for the resumption of hearings on May 19-20, a thorough review of the April 22 transcript has been conducted so that all witnesses may have an opportunity to comment on those issues in need of possible statutory amendment or regulatory clarification. Any additional comments you may wish to make supplementing your prepared testimony will be appreciated.

Summary of H.R. 6016 Issues

1. In order to encourage maximum participation by banks in ETC financing, proposals to permit participation by non-bank holding company banks, with appropriate safeguards, should possibly be developed.
2. If export trading companies are allowed similar names to the investing institutions, can appropriate means be developed to insure that the investing public and the ETC user is not misled?
3. How do you maintain the primary purpose of ETC legislation if the "exclusively" requirement is substantially modified? Is this an area better left to regulatory guidelines rather than dealt with by statutory definition.
4. Present definition of manufacturing appears to exclude product modification. Is this also an area best left to regulatory discretion?
5. Are H.R. 6016 limitations for BHC investments of 5% of BHC's capital and surplus too restrictive for medium and smaller size banks?
6. Should ETCs explicitly be allowed to take title to goods, and if so, should this more appropriately be handled by regulation with appropriate safeguards?
7. In the past, loans and other financial transactions among bank holding company affiliates have proven to be the source of some bank holding company soundness problems. To discourage unhealthy dependence on

affiliate banks for operating credit, the terms of Section 23(A) governing inter-affiliate lending are intentionally onerous. The motivating belief is that if a subsidiary company is operating on a sound business basis, it should be able to obtain credit on its own and not need to depend on its unique relationship with an affiliate bank. Is this perspective inappropriate to export trading company subsidiaries of bank holding companies, and if so, why?

In addition to any comments on the foregoing summary, which you may care to make, the Subcommittee will appreciate your response to the following questions based upon your testimony:

1. Expanding on the modification issue, several witnesses stated that H.R. 6016's prohibition on ETCs engaging in manufacturing should be made more flexible. The activities of smaller companies which engage in "minor product modification" such as converting electrical appliances to conform with overseas voltage requirements and repackaging with foreign language instructions, could render them ineligible for investments by BHCs and Edge Act Corporations under H.R. 6016. Should these smaller companies be made eligible for investment and if so, can you suggest statutory or regulatory language which could include them? Related to this are the following questions:

-What types of "minor product modification" should be allowed?

-Do you have any statistics as to how many "exporting" companies presently engage in some form of "minor product modification" before exporting?

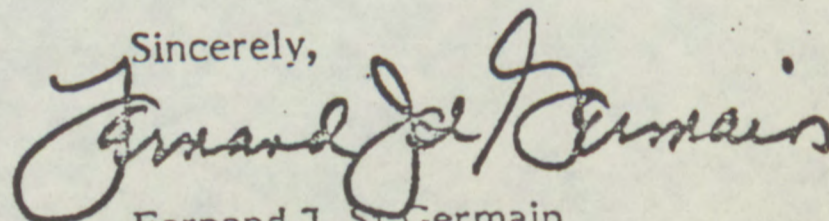
-What is the average size of such exporting companies?

-What area(s) of the country, if any, are such companies concentrated?

2. You will recall that Congressman Patman on page 112, commenting on your reference to 1% of U.S. firms being responsible for 80% of this country's exports on page 77, asked for the ratio relevant to the exports of Japan and Germany. We would appreciate the information being sought by Mr. Patman requested for the record.

The Subcommittee will appreciate your response prior to May 18 so that all responses may be made a part of the printed hearing record.

Sincerely,



Fernand J. St Germain
Chairman

Enclosure

May 11, 1982

The Honorable Steny H. Hoyer
House of Representatives
Washington, D.C. 20515

Dear Mr. Hoyer:

In Chairman Volcker's absence, I want to thank you for your recent letter urging that the Federal Reserve extend the deferral of reporting and reserve maintenance requirements for smaller depository institutions. On April 28, the Board extended the deferral until December 31, 1982, in view of legislative proposals that are now being considered by Congress. However, it is the sense of the Board that it will be increasingly difficult to grant extensions beyond the end of this year unless some legislative action is taken with regard to the exemption.

The Board believes that it is preferable to remove very small institutions from the burden of reserve requirements completely. In its legislative recommendations to Congress, the Board has suggested either exempting depository institutions with less than \$5 million in deposits from reserve requirements or exempting the first \$2 million of reservable liabilities of all depository institutions.

Once again, thank you for expressing your views on this matter.

Sincerely,

151

Preston Martin

XX
(GTS:PSP:DJW:)CO:pjt (#V-111)
bcc: Gov. Martin, Mrs. Mallardi

Congress of the United States

House of Representatives

Washington, D.C. 20515

STENY H. HOYER
5TH DISTRICT, MARYLAND

COMMITTEES:
POST OFFICE AND CIVIL SERVICE
BANKING, FINANCE AND URBAN AFFAIRS

April 21, 1982

Mr. Paul Volcker
Chairman
Board of Governors, Federal Reserve System
Constitution Ave. and 20th St.
Washington, DC 20551

Dear Chairman Volcker:

It has recently come to my attention that the small institution reporting and reserve exemptions granted by the Federal Reserve System to smaller financial institutions will soon expire. As you well know, the exemption was granted to relieve very small institutions from the reporting and reserve requirements required by the Monetary Control Act of 1980.

Given the fact that legislation is presently pending before Congress which would permanently exempt smaller depository institutions from the reserve requirement of the Monetary Control Act, I respectfully ask that you grant a further extension of this exemption. Such an extension would not only aid our very small institutions, but would allow Congress to act, legislatively, on this matter.

Thanking you in advance for your cooperation and with kind regards, I am

Sincerely yours



STENY H. HOYER
Member of Congress

cc: National Assn. of Fed. Credit Unions

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OF THE
FEDERAL RESERVE SYSTEM
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WASHINGTON, D. C. 20515

Paul -

Thank you for joining us on
Thursday. At such a difficult time, too.
We so appreciated your joining the Colorado
group.

Good luck & best wishes. And
from us all, thank you again.

Timothy E. Wirth
M. C.

Tim

HOUSE OF REPRESENTATIVES
WASHINGTON, D. C. 20515

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1982 MAY -6 AM 9:56
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OFFICE OF THE CHAIRMAN



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

May 5, 1982

PAUL A. VOLCKER
CHAIRMAN

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

Dear Mr. McCurdy:

Thank you for your recent letter with which you enclosed correspondence from several bankers in Oklahoma regarding actions by the Depository Institutions Deregulation Committee. I want to assure you that I understand the concerns that prompted your constituents to write.

A number of the bankers commented that the Committee's deregulatory schedule--beginning on May 1, 1982--with maturities of 3-1/2 years and over was a step in the right direction, but they urged the adoption of a new, short-term deposit instrument that would enable their banks to compete more effectively with money market mutual funds. In the latter connection, several of the bankers questioned the effectiveness of the new 91-day (\$7,500) minimum account in stemming outflows of funds to money market mutual funds. The bankers also expressed considerable disappointment over the new account's 1/4 percentage point differential in favor of thrift depository institutions, even though the applicability of that differential is limited to one year and is suspended whenever the Treasury bill rate falls below 9 percent for four weeks.

While I voted in favor of the new 91-day account at the March 22 meeting of the Committee, I am not satisfied that it does enough to enhance the competitive position of banks and other depository institutions, and I said so at the meeting. At my urging the Committee directed the staff to develop a new short-term instrument that will enhance the competitive posture of depository institutions vis-a-vis money market mutual funds. Staff has in fact been working on a number of alternative proposals, and Secretary Regan, Chairman of the Committee, has scheduled a meeting for May 24 to consider a new account.

I must add that in developing a new account the Committee must also be concerned about its cost impact on depository institutions. Authorization of an instrument fully competitive with all the features of money market mutual funds would result in enormous added earnings pressures as funds were shifted from savings accounts and other

The Honorable Dave McCurdy
Page Two

low-yielding deposits to the higher-yielding instrument. Any new instrument must therefore involve a compromise and such a compromise may not be wholly satisfactory to all.

I appreciate the opportunity to comment on this important issue, and I will keep you informed of any new Committee decision.

Sincerely,

S/Paul A. Volcker

NB:vcd (V-107)

bcc: Mr. Bernard
Mrs. Mallardi (2)

DAVE McCURDY
4TH DISTRICT, OKLAHOMA

COMMITTEES:
ARMED SERVICES
PROCUREMENT
READINESS

SCIENCE AND TECHNOLOGY
ENERGY DEVELOPMENT AND APPLICATIONS
SCIENCE RESEARCH AND TECHNOLOGY

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

April 29, 1982

WASHINGTON OFFICE:
313 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-6165

DISTRICT OFFICES:
207 WEST MAIN
NORMAN, OK. 73069
(405) 329-6500

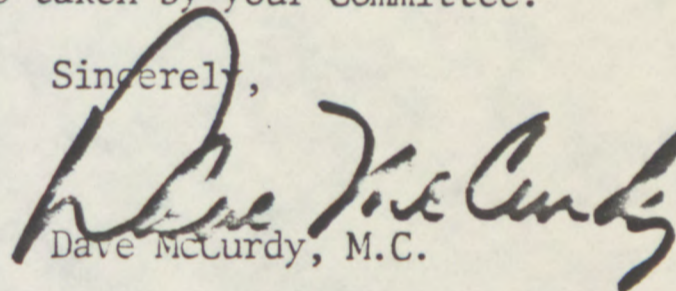
103 FEDERAL BUILDING
LAWTON, OK. 73501
(405) 357-2131

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

Dear Chairman Volcker:

Enclosed please find several letters written by bankers from the State of Oklahoma. I thought you might like to know the feelings of these people concerning recent actions taken by your Committee.

Sincerely,


Dave McCurdy, M.C.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1982 APR 30 AM 9:19
RECEIVED
OFFICE OF THE CHAIRMAN



Rolling Hills STATE BANK

P. O. BOX 68 PIEDMONT, OKLAHOMA 73078 (405) 373-1600

Todd P. Ward
Chairman of the Board

March 26, 1982

RECEIVED
APR 01 1982
R.E.H.

LAURA	CLARA
REX	PHYLLIS
JOAN	LARRY
MAX	SUNNY
OTHER	

Mr. Robert E. Harris
Executive Vice President
Oklahoma Bankers Association
P.O. Box 18246
Oklahoma City, Oklahoma 73105

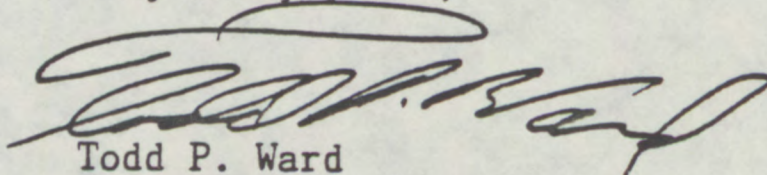
Dear Bob:

The Depository Institutions Deregulation Committee has apparently forgotten the reason it was organized. Since its establishment it has issued volumes of regulations and has done little to deregulate until its last meeting when it finally adopted an interest rate phase out schedule. If history repeats itself they will probably change this schedule many times before it becomes official.

At their last meeting they authorized a 91 day Certificate of Deposit with a minimum deposit of \$7,500.00 (another regulation). They also allowed thrift institutions to pay $\frac{1}{4}\%$ more than commercial banks. It is beyond my comprehension how we can bail out the thrift industry by authorizing a certificate that will have little or no wide-spread appeal among the savers of this country. It is also beyond my comprehension how the Deregulation Committee can justify restricting competition between financial institutions when one of its goals was supposed to be the opposite.

I will support the Oklahoma Bankers Association in any of its efforts to bring about deregulation of financial institutions and increased competition.

Very truly yours,


Todd P. Ward

MERCANTILE
BANK & TRUST COMPANY

RECEIVED
MAR 31 1982
R.E.H.

JERRY L. HUDSON
President

March 29, 1982

LAURA_____	CLARA_____
REX_____	PHYLLIS_____
JOAN_____	LARRY_____
MAX_____	SUNNY_____
OTHER_____	

Mr. Robert E. Harris
Executive Vice President
Oklahoma Bankers Association
P. O. Box 18246
Oklahoma City, Oklahoma 73154

Dear Bob:

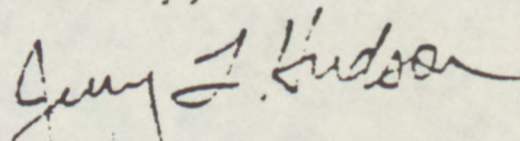
We are certainly disappointed in the recent action of the Depository Institutions Deregulation Committee. The \$7,500.00, 91-day C.D. does very little for us as we continue to attempt to compete with money market rate, transaction account products offered by our brokerage firm competitors. The continuation of the rate differential in this product adds further to our opinion that DIDC does not have either a clear understanding of the situation or the necessary intention of allowing a free market process to occur in the competition for deposits.

For our bank, this product will only serve to divide our current users of 6 month money market certificates. It will also cause those customers to have one more opportunity to realize the thrift institutions rate differential. We do not expect to gain new depositors or to prevent current depositors from investing in money market funds with the 91-day C.D.

Our customers are becoming more and more convinced that we do not intend to offer them a competitive return on their transaction balances. They are not sympathetic with our explanation that regulators do not allow us to provide that product. The longer this situation exists, the more harm we face from this inequitable structure.

Your assistance in relaying this viewpoint to our representatives
and regulators will be greatly appreciated.

Sincerely,

A handwritten signature in dark ink, appearing to read "Jerry L. Hudson". The signature is fluid and cursive, with the first name "Jerry" being more prominent.

Jerry L. Hudson
President

JLH:em



March 29, 1982

LAURA_____	CLARA_____
REX_____	PHYLLIS_____
JOAN_____	LARRY_____
MAX_____	SUNNY_____
OTHER_____	

RECEIVED
MAR 31 1982
R.E.H.

Mr. Robert E. Harris
Executive Vice President
Oklahoma Bankers Association
P. O. Box 18246
Oklahoma City, Oklahoma 73105

Dear Bob:

It is incredible that the Depository Institutions Deregulation Committee made up of some of the nation's most knowledgeable and intelligent men could reach the conclusions and come to the decisions reported last week.

One more smaller, shorter-term C.D. is not a competitive instrument to the nation's money market funds. Thirty days of additional study only indicates ignorance which obviously is not present among the members.

To what pressures are these members responding? When will they make decisions that indicate to the nation that they have used some common sense?

Our sophisticated customers are moving thousands of dollars each day out of our bank and out of state to the unregulated money market funds. Who can blame them? When will the DIDC give these customers a reason to leave their funds in Oklahoma without being penalized?

Can the OBA help?

Sincerely,

A handwritten signature in blue ink, appearing to read "Bill Nash".
William R. Nash
President



**First
National
Bank and Trust Co.**

REX E. EDGAR
President And
Chief Executive Officer

LAURA_____	CLARA_____
REX_____	PHYLLIS_____
JOAN_____	LARRY_____
MAX_____	SUNNY_____
OTHER_____	

March 30, 1982

RECEIVED

MAR 30 1982

R.E.H.

Bob Harris
Executive Vice President
Oklahoma Bankers Association
P.O. Box 18246
Oklahoma City, OK 73154

Dear Bob:

This letter will voice my displeasure. The incredible illogic of the Depository Institution Deregulation Committee meeting whereby they so approved in their wisdom the new certificate of deposit in the form of a 91 day c.d. with a minimum deposit of \$7,500 with the rate to banks 25 basis points below the rate on 91 treasury bills.

It is beyond my comprehension how the new deposit instruments with it's high cost of funds is going to help banks compete with the money market mutual funds. And particularly how it will help address the problem the thrifts are presently facing by giving them the quarter percent differential to their already high cost of funds.

In my judgement our bank and our community will be hurt a great deal, particularly through the growth of increased deposits, since the rate we are able to pay on the treasury bill is certainly not going to be able to compete with the money market funds. All that I can see happening in our community is just an on going cost increase in our cost of funds.

We compete with two of the largest s & l's in the state in our community and seems to me that all this will do is add to their dilemma as well as to our own in that we feel many of our less than \$10,000 accounts will convert to the higher cost of funds, that being the new c.d. depository instrument.

Page -2-

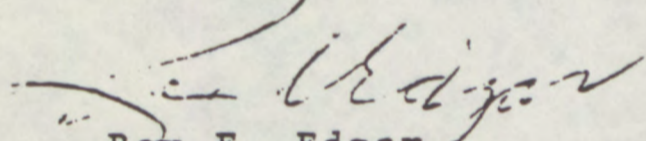
Bob Harris
Executive Vice President
Oklahoma Bankers Association

I am sure there is not a great deal that we can do since, in all of the wisdom of the DIDC, they don't concern themselves with input from bankers through the ABA and state organizations. This will voice my anger and concern that the outflow of deposits which might have been used to fund the agriculture and energy and other capital needs of our borrowers in our community, is certainly going to continue to leave our community and we are still faced with the problem of how to secure reasonable funds at a base that we can afford to loan and the borrowers can afford to borrow.

I trust that you will carry out the proposal of sending the displeasure of Oklahoma bankers to Washington.

With kindest regards I remain,

Sincerely,



Rex E. Edgar
President and
Chief Executive Officer

REE:nb

AMERICAN NATIONAL Bank and Trust Company

P O BOX 1408, SAPULPA, OKLAHOMA 74066 • 918 224-3210



WILLIAM L. BERRY
CHAIRMAN OF THE BOARD
AND CHIEF EXECUTIVE OFFICER

March 26, 1982

Mr. Bob Harris
Executive Vice-President
Oklahoma Banker's Association
P.O. Box 18246
Oklahoma City, Oklahoma 73154

RECEIVED

MAR 31 1982

R.E.H.

LAURA_____	CLARA_____
REX_____	PHYLLIS_____
JOAN_____	LARRY_____
MAX_____	SUNNY_____
OTHER_____	

Dear Bob:

I am writing concerning the DIDC's recent decision to create a new ninety-one day savings certificate. Our bank likes the idea of having a more competitive shorter term C.D., but we cannot believe that Thrift's were given favoritism on the rate. A day does not go by that I don't read an article on how their high cost of funds is destroying their spread position. I am not as sophisticated as many, but it seems to me the way to increase the spread is to increase yields on investments and reduce cost of funds. Locally, our housing market is at a standstill. This presents a problem for Thrifts to increase the yields on their loan portfolio, leaving no alternative but to lower their costs.

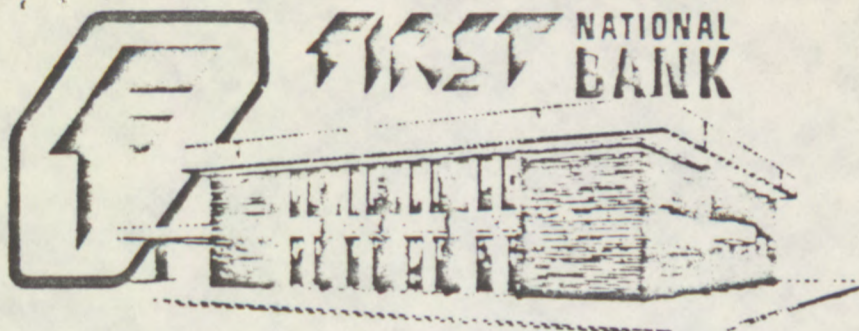
We are certainly not afraid of competition. However, it seems when comparing banks to Thrifts and Money Market funds, we are always having to play the game with a man short. As of February 28, 1982, 31.1% of our bank's deposits were in 182 day, \$10,000.00 Money Market Certificates. I am not sure of the ultimate impact on our bank, but I think any banker will testify that customers are rate conscious and that for a quarter percent we can expect to lose many, many deposits.

I would hope that you will pass this letter on to the DIDC Committee. It is time for that committee to get out of the office and come to the country to see how absurd some of their rulings are.

Sincerely,

William L. Berry

WLB:bb



LAURA_____	CLARA_____
REX_____	PHYLLIS_____
JOAN_____	LARRY_____
MAX_____	SUNNY_____
OTHER_____	

March 30, 1982

RECEIVED

MAR 31 1982

R.E.H.

Mr. Robert E. Harris
Executive Vice President
Oklahoma Banker Assn.
P. O. Box 18246
Oklahoma City, Ok. 73154

Dear Bob:

I urge you to strongly protest the recent DIDC authorization of a new deposit instrument with a rate differential favoring S & Ls.

It seems unreasonable to me for us to not be able to pay our customers the same rates as our regulator favored competitors when the goal is supposed to be competitive equality.

I would also urge that in the event that any action is taken to bail out S & Ls with our FDIC funds that the OBA take any action possible to prevent it.

This would be a direct subsidy to a competitor that enjoys favored treatment from regulations on branching and rates and does not allow them to go broke trying to provide our customers No service charge services which have been the downfall of many banks.

Yours very truly,

Hatton McMahan
President

HM:ed



March 26, 1982

Mr. Robert E. Harris
Executive Vice President
Oklahoma Bankers Association
P. O. Box 18246
Oklahoma City, Oklahoma 73154

Dear Bob:

We at First Bank In Claremore wish to again ask you for assistance in Washington. In our opinion the recent decision of the DIDC authorizing a new 91-Day, "non-transactional", CD will have more negative than positive impact on the problems that currently exist both nationally and right here at home.

The S & L Industry needs a 1/4% differential like it needs a 25% New York Prime. If the differential should attract bank deposits into this new high rate CD with mortgage loan demand what it is this may very well be the icing-on-the-cake for them. There are two Savings & Loan institutions in Claremore, one being a prime example of the S & L with old low rate loans and high cost of funds. They absolutely don't need more high-rate deposits.

We see very little more than a paper shuffle for the banks. The new CD will be popular only as opposed to the 182 day Money Market CD. It is merely a baby step toward what is really needed, that is a bonifide Money Market Mutual Fund competitive instrument our banking customers should rightfully be provided. Our customers who have been forced to seek non-financial service firms in which to invest their liquid assets would much prefer to see those assets reinvested back into their own community rather than profits from Money Market mutual funds used to buy condominium complexes in Florida, or Office buildings in Atlanta. There is a community pride in Claremore and I'm sure in many other towns and cities throughout our nation. Also, Bob, the personal "convenient" service which we can provide is very important to our customers. Many times they must deal with a firm many 100's of miles away on an impersonal and unsatisfactory basis. Many of our customers have voiced their negative opinion of this condition which exists due to a lack of our competitive service.

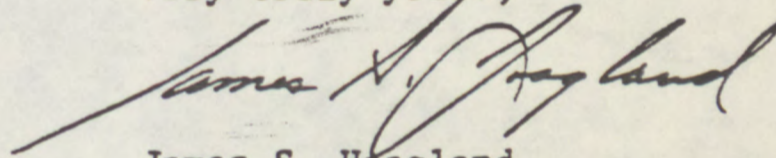
First of all.

FIRST BANK IN CLAREMORE / P.O. BOX 309 / CLAREMORE, OKLAHOMA 74017 / 341-6540

We think it is very important that the 30 day study which the DIDC Staff has been asked to persue produces meaningful results. That a transaction account be authorized which will give us at least an "equal" chance to keep our home money "at home" and to invest that money back into our community where it belongs and not to some brokerage house in Metropolitan America.

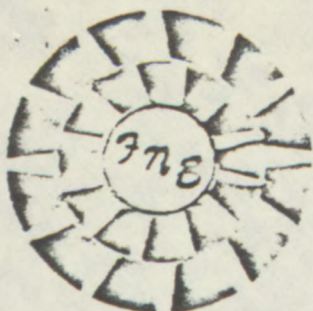
Please send our message to Washington in hopes that some good will come from the DIDC 30-Day study. Thank you.

Very truly yours,



James S. Hoagland
Vice President & Cashier

JSH:bls



Larry E. Briggs, CCL
President

*The First National Bank
and Trust Company*

March 29, 1982

RECEIVED

MAR - 0 1982

R.E.H.

LAURA_____	CLARA_____
REX_____	PHYLLIS_____
JOAN_____	LARRY_____
MAX_____	SUNNY_____
OTHER_____	<i>Bob</i>

Mr. Robert Harris
Executive Vice President
Oklahoma Bankers Association
P. O. Box 18246
Oklahoma City, Oklahoma 73154

RE: DIDC March 22, 1982 Meeting

Dear Bob:

I have been reading several news articles concerning the above-referenced meeting. The rationale behind the decision of that meeting completely escapes me.

I do not feel that the new 91-day CD with the minimum deposit of \$7,500.00 will provide the banks with the tool to be competitive with money market mutual funds. It would appear that this will not increase the influx of new funds into the banks and S&Ls. This will only increase the cost of existing funds.

I certainly do not understand the $\frac{1}{4}$ of 1% rate advantage that the S&Ls will have over the banks. It seems to me that the S&Ls have been complaining to Congress that their high cost of funds has caused a negative spread, therefore substantial losses. How does the new CD solve the problems that the thrifts are facing today, ie negative spreads, high cost of funds, low-yielding mortgages?

The rate advantage for the S&Ls seems to negate the previous attempts to provide rate parity on the six-month money market CD. It seems that we're taking one step forward and two steps backward.

I feel that this rate differential will hurt the First National Bank and Trust Company of Holdenville. Our customer base is extremely rate sensitive and will move their deposits for $\frac{1}{4}$ of a percent difference. This should cause a substantially less growth rate than what we have experienced in the past. This will also slow down our lending ability to the farmers, ranchers, small businessmen, home buyers and consumers.

P.O. BOX 790 / HOLDENVILLE, OKLA. 74848
405 / 379 / 3307

Robert Harris

-2-

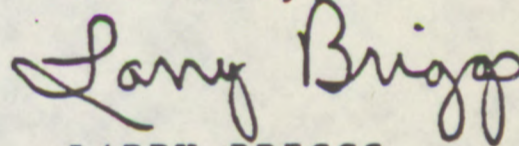
March 29, 1982

Not only do I feel that it will hurt the banks, I do not see how the high cost of funds will help the S&Ls. There is very little loan demand for homes because of interest rates and the CD will not allow anybody to compete with the money market mutual funds.

I would hope that the DIDC would reconsider their decision and develop a more competitive situation than what they implemented at this latest meeting.

Thanking you,

Sincerely,

A handwritten signature in cursive script that reads "Larry Briggs". The signature is written in dark ink and is positioned above the printed name.

LARRY BRIGGS

LB:BK



the first
state bank & trust
company of shawnee

March 29, 1982

Robert E. Harris
Executive Vice President
Oklahoma Bankers Association
P.O. Box 18246
Oklahoma City, Oklahoma 73154

Dear Bob:

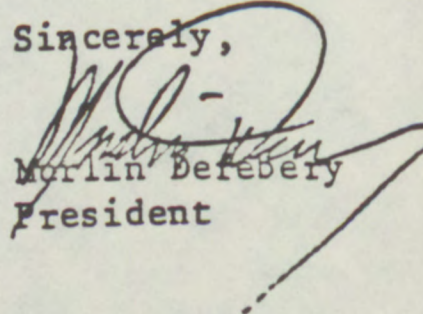
I concur with your comments concerning the action the DIDC took on Monday.

In following Secretary Regan recently, it is our opinion that he is working for the betterment of the Merrill Lynchs at the expense of the banking industry.

The outflow of funds from our area continues to grow, making it more and more difficult to have the funds available for the needs of our communities.

It also appears that the liberal press has started work on commercial banks, using partial facts to make a story. I am enclosing an article that just arrived in the March 29 "newsweek". If you haven't read it, I thought you would be interested.

Sincerely,


Morlin Denebery
President

MD/sr
Encl.

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Citations: "The Long, Long Wait For Checks To Clear." *Newsweek*, March 29, 1982.



JACK D. LEWIS
President and Chief Executive Officer

March 26, 1982

Mr. Robert E. Harris
Executive Vice President
Oklahoma Bankers Association
P. O. Box 18246
Oklahoma City, Oklahoma 73154

Dear Bob,

Having only recently become a bank President, I was not completely attuned to the survival implications involved in the battle for interest sensitive deposits. However, the March 22nd action of the Depository Institutions Deregulation Committee brought home clearly the message that the committee members have little regard for the immediate needs of banks to be able to compete effectively for these dollars.

If I could view the situation completely objectively, I would still have a difficult time understanding why one segment of our deposit intermediation system operates under one set of rules and banks operate under a more strict structure. In the first place, how many hundreds of billions of dollars must be drained from the principal providers of credit for American business (i.e. the banks) before the regulators grant banks equality? Secondly, why did the regulators see fit to grant the $\frac{1}{4}$ of 1% differential on the new 91 day Certificate of Deposit to an industry (the Savings and Loans) on the brink of insolvency at a time when they probably could acquire almost an equal amount of deposits if rate parity existed with banks, a la the six month money market certificate.

Bob, in my opinion, we must voice our deep concern both to our regulators and congressmen about their seemingly indifferent attitudes toward commercial banks' abilities to attract deposits in the future. The idea of gradually getting to a competitive rate of interest environment might be okay if all participants in the market were currently on equal footing. However, obviously, the money market funds have long been in such an environment.

Please express my concern to any group or individual you think might be an appropriate audience.

Sincerely,

Jack D. Lewis
President and CEO

**CENTRAL NATIONAL BANK
AND TRUST COMPANY OF ENID**

CLARA	_____
PHYLLIS	_____
JOAN	_____
LARRY	_____
MAX	_____
SUNNY	_____
OTHER	_____

W. L. STEPHENSON, JR.
Chairman of the Board

March 25, 1982

RECEIVED

MAR 26 1982

R.E.H.

Mr. Robert E. Harris
Executive Vice President
Oklahoma Bankers Association
P. O. Box 18246
Oklahoma City, Oklahoma 73154

Dear Bob:

I am appalled at the decision of DIDC on Monday of this week. I think our industry has made a compelling argument for the need to have an instrument that is competitive with the Money Market Mutual Funds. Instead of meeting this need, they are handing us another certificate of deposit with a differential in favor of the Thrifts - who, by their own admission, can't afford to pay current rates to acquire deposits. The whole thing is idiotic.

I used to believe that DIDC's actions were predicated solely on an effort to try and salvage the Thrifts. I have about convinced myself that Secretary Regan is consciously, or unconsciously, protecting the industry from whence he came at our expense.

We are losing money daily to Money Market Mutual Funds. If this hemorrhage is not stopped - we will have a sick banking industry to go along with a dying Thrift industry, and Mr. Regan's former employer will be the only game in town.

Sincerely,

Bud Stephenson

W. L. Stephenson, Jr.
Chairman of the Board

WLSJr:lb



FIRST NATIONAL BANK in Madill

POST OFFICE BOX 577
302 SOUTH FIRST

RECEIVED OKLAHOMA 73446

MAR 2 1982

405-795-3332

Wayne Cabaniss
President & Chief Executive Officer

March 25, 1982

R.E.H.

LAURA	CLARA
REX	PHYLLIS
JOAN	LARRY
MA	SUNNY
OTHER	

Robert E. Harris
Executive Vice President
Oklahoma Bankers Association
P.O. Box 18246
Oklahoma City, OK 73154

Dear Bob:

Your comments regarding the most recent action taken by the Depository Institutions Deregulation Committee were very appropriate.

I agree 100 percent with you that the new 91 day certificate of deposit will cause funds to flow from our bank into our local savings & loan branch in Madill.

Investors Savings & Loan of El Reno, Oklahoma, has a relatively new branch office in Madill. They are paying the maximum rates allowed on 2½ year CD's and are paying above market rates for jumbo CD's and public funds in our area. There is no question but what they are operating at a negative spread in acquiring the funds they are from the other financial institutions in our area.

While the S & L branch will continue to draw funds from the other banks in our county, they will continue to have a negative spread on the funds they are acquiring, which will hasten their demise.

It is past time our regulators come to their senses and realize the problems they are creating. If there is anything I can do to assist you and my fellow bankers across the state and nation in communicating to the regulators the need for more sensible decision making, I will be happy to do so.

Sincerely,

Wayne Cabaniss

Wayne Cabaniss, President
Chief Executive Officer

WC:rt

Community
BANK AND TRUST CO.

P.O. BOX 9426, 2420 SOUTHWEST BLVD., TULSA, OKLAHOMA 74107 • TEL. (918) 582-6221

B. J. LEE
President

March 25, 1982

LAURA_____	CLARA_____
REX_____	PHYLLIS_____
JOAN_____	LARRY_____
MAX_____	SUNNY_____
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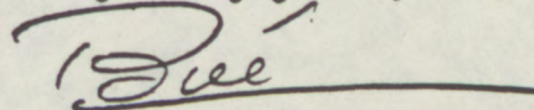
Mr. Robert E. Harris, Executive Vice President
Oklahoma Bankers Association
P.O. Box 18246
Oklahoma City, Oklahoma 73154

Dear Bob:

I agree that the DIDC once again made a decision that will result in a disadvantage to bankers. However, I must confess I do not share your concern for the Savings and Loan's problems -- they actively lobby for the 1/4 % differential and for other privileges that have allowed them a competitive edge in the past.

I perceive our problem to be one of lack of regulation in one area -- (financial services from non-financial institutions) and over-regulation in another - (limitations of Banks and Thrift institutions.) To allow disintermediation on one hand, and to foster inequitable competitive situations on the other, seems to me to be purely a problem of regulation. The problem may be the DIDC itself ! Its obvious that the road to final deregulation is going to be very bumpy for bankers !

Very truly yours,



B.J. Lee
President

BJL/kh

SB SOUTHWEST TULSA BANK

RECEIVED

MAR 2 1982

R.E.H.

LAURA_____	CLARA_____
REX_____	PHYLLIS_____
JOAN_____	LARRY_____
MAX_____	SUNNY_____
OTHER_____	

March 25, 1982

Depository Institutions Deregulation Committee

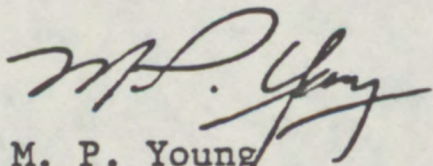
Dear Gentlemen

I wish to express my disappointment at the way your committee is handling the deregulation of interest rates.

I find your actions last Monday to be hypocritical, and they are actually adding to this country's problems.

I wish all of you, with the exception of Mr. Issacs, would resign immediately.

Sincerely



M. P. Young
President

MPY/rjr

BANK IN OKLAHOMA

RECEIVED

MAR 2 1982

R.E.H.

JOHN H. FRANK
PRESIDENT & CHAIRMAN OF BOARD

March 26, 1982

Mr. Robert E. Harris
Oklahoma Bankers Association
P. O. Box 18246
Oklahoma City, Oklahoma 73154

LAURA_____	CLARA_____
REX_____	PHYLLIS_____
JOAN_____	LARRY_____
MAX_____	SUNNY_____
OTHER_____	

Dear Bob:

I am writing to express my extreme disappointment at the DIDC for their action of March 22nd. I am unable to understand how men of such knowledge and understanding of the financial market place could make such a decision relative to the new short term certificate of deposit which they authorized.

In a time when the S & L industry is so worried about high interest rates they are given this instrument with a rate in excess of their banking counterparts. I see of no way that this new instrument can help in the competition for the money market funds because of the rate being nowhere near competitive with them. I do; however, see how we, in the banking industry, will once again see our funds being withdrawn from our banks, which in turn drain funds from the agricultural, commercial and energy related areas of Oklahoma, to help another industry which in no way, at the present time, helps to stimulate economic growth of not only Oklahoma but the entire Nation.

The entire financial industry, it seems, want to be allowed to compete on an equal footing; however, the DIDC seems to be determined to direct a course against this being something of a reality at the present and for the future. It almost seems as if their direction is the complete ruin of the entire financial industry, with the exception of the mutual funds, money market funds, Sears and the like. Perhaps their thinking is, that the only way to deregulation is to allow those industry representatives, which are not now regulated, to assume the entire financial posture for America.

MEMBER FEDERAL DEPOSITORS INSURANCE CORPORATION

Mr. Robert E. Harris
Oklahoma Bankers Association
Page 2

All in all, the meeting of March 22nd of the DIDC seems only to confirm that this group intends to direct a collision course between the fantasy world of Washington and the reality of the Financial Markets of America.

I would only hope that there is some way, prior to May 1st, to enable the DIDC to see the error of their way before the banks of America, once again, are treated as the trash of the financial world.

I do commend the DIDC for at least establishing a timetable for the complete deregulation of interest rates over the next few years. However, I do have a fear that if their actions in the future follow the pattern of their past actions they will likely find some reason to upset this timetable and we will once again be caught somewhere between full regulation and no regulation.

Yours truly,

John H. Frank

JOHN H. FRANK,
President

JHF/ja

The First National Bank and Trust Company of Muskogee, Oklahoma

H. E. LEONARD
PRESIDENT

March 25, 1982

LAURA_____	CLARA_____
REX_____	PHYLLIS_____
JOAN_____	LARRY_____
MAX_____	SUNNY_____
OTHER_____	

Mr. Robert E. Harris
Oklahoma Bankers Association
P. O. Box 18246
Oklahoma City, Oklahoma 73105

RECEIVED

MAR 29 1982

R.E.H.

Dear Bob:

I have just read the inconceivable action of the DIDC in Washington.

If I remember correctly, last year the "ailing thrifts" wanted demand checking accounts and consumer lending powers to "bail" them out. They wanted it bad enough to supposedly agree to give up the differential.

They then said - since we're making all of these consumer loans, we don't have sufficient funds for housing and need the differential back.

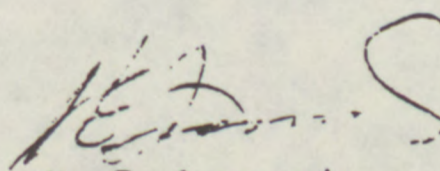
Now they're saying - since we're paying so much for funds we're going broke, so give us the differential back so we can pay more, and it follows they can go broke sooner.

The DIDC apparently believed all this and at the expense of the commercial banking business gave them the differential.

It may be different in Washington, but in Muskogee there are just so many savings dollars. They will follow the highest rate drawing funds from banks. The thrifts will not use these funds for housing since no homeowner can afford their interest rates. Thus, DIDC has made it very apparent that banks must be made weaker institutions in the name of helping "ailing thrifts". Let's have all our financial institutions weaker, then no one will notice the "ailing thrifts".

At least one thing is still in our favor - we will be here to pay the interest when due and since DIDC compounded the thrifts problem, some of them may not.

Sincerely,



H. E. Leonard
President

HEL/clg

FRONTIER

STATE BANK

RECEIVED
MAR 29 1982

R.E.H.

March 26, 1982

LAURA_____	CLARA_____
REX_____	PHYLLIS_____
JOAN_____	LARRY_____
MAX_____	SUNNY_____
OTHER_____	

Mr. Robert E. Harris
Executive Vice-President
Oklahoma Bankers Association
Post Office Box 18246
Oklahoma City, Oklahoma 73154

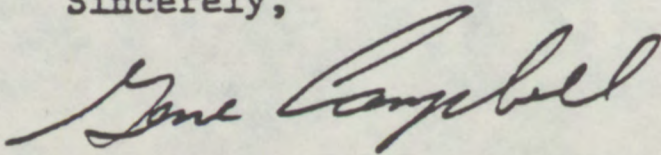
Dear Bob:

We would like to voice objections to the methods and procedures of the DIDC and the Congress supposedly supporting them.

The total lack of response shown by these people for bank customers is almost as asinine as giving preference to a bankrupt industry that we, as member banks of FDIC, are being assessed extra dollars, to support. These totals, that we must make up in high-priced volatile CD's to fund the needs of our customers, not only add to the cost of our loans and decrease the profit range of banks, possibly to the levels of the savings and loan industries if this line of thought continues.

Then, I would like to hear the response of the Oklahoma Congressional Delegation when my customers find that they cannot borrow second mortgage money, small business money, and operating capital from Merrill Lynch.

Sincerely,



Gene Campbell
President

dds

citizens
NATIONAL bank & TRUST CO.

P. O. BOX 1117 • 918/756-7910
OKMULGEE, OKLAHOMA 74447

W. CARLISLE MABREY III
PRESIDENT

March 25, 1982

LAURA_____	CLARA_____
REX_____	PHYLLIS_____
JOAN_____	LARRY_____
MAX_____	SUNNY_____
OTHER_____	

Mr. Robert E. Harris
Executive Vice President
Oklahoma Bankers Association
P.O. Box 18246
Oklahoma City, OK 73105

RECEIVED

MAR 26 1982

R.E.H.

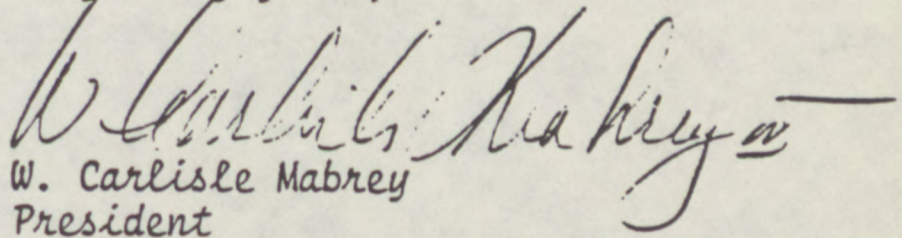
Dear Bob:

Once again the D.I.D.C. has taken a giant step backward. It is inconceivable to me that in this day and time of supposed deregulation, the D.I.D.C. would authorize a new deposit instrument on which it allows the thrift industry to have a one quarter of one percent differential.

Community banks like ourselves are having a difficult time maintaining our local deposits as it is. Now once again, we are being asked to compete with one hand tied behind our back. I am in favor of the new 91 day C.D. I simply think it is unconscionable that we are not allowed to pay the same rate on it as are the S & Ls.

Please do whatever you can to have the differential removed.

Very truly yours,


W. Carlisle Mabrey
President

WCM/Lo

Floyd W. Kennedy, Jr.
President

Security

Bank & Trust Company

LAURA_____	CLARA_____
REX_____	PHYLLIS_____
JOAN_____	LARRY_____
MAX_____	SUNNY_____
OTHER_____	

March 26, 1982

RECEIVED

MAR 27 1982

R.E.H.

Mr. Robert E. Harris
Executive Vice President
Oklahoma Bankers Association
P. O. Box 18246
Oklahoma City, Oklahoma 73154

Dear Bob:

Please convey my concern to both the Depository Institutions Deregulation Committee and our Oklahoma Congressional delegation about the recent decisions made by DIDC. The last thing the banking industry needed was another Certificate of Deposit. If most of us in the banking industry cannot understand the different types of certificates that we are able to issue to our customers, how then can we expect our customers to understand.

The DIDC seems to have blinders on when they consider the problems that have been causing the savings and loans and mutual savings banks to operate at a loss, and the new 91-day Certificate will not solve their problem. In my opinion, it will cause many of our banks' customers who have surplus cash that can be invested for as short as a three month period to move their deposits from banks to savings and loans. This will hurt both the banks and the savings and loans in that the higher interest cost to the savings and loans causes them to have even greater losses, and the banks will have lost a customer. This to me is totally unfair competition for the banks.

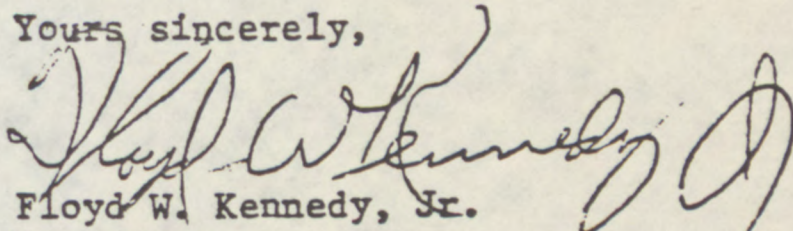
It is difficult for me to understand why the DIDC cannot recognize the fact that the Money Market Mutual Funds have created more problems for both banks and savings and loans than any other thing at this time. Money is being withdrawn from our local community that could be used for mortgage loans, agricultural loans, and other consumer loans.

Mr. Robert E. Harris
March 26, 1982
Page Two

It appears to me that the finance industry would be better off if the DIDC was completely done away with, and possibly then the regulators could regulate each of the industries on a fair basis.

Thank you very much.

Yours sincerely,



Floyd W. Kennedy, Jr.
President

FWK:kc

Security
NATIONAL BANK
& TRUST CO.

LAURA_____	CLARA_____
REX_____	PHYLLIS_____
JOAN_____	LARRY_____
MAX_____	SUNNY_____
OTHER_____	

RECEIVED
MAR 29 1982
R.E.H.

March 26, 1982

Mr. Robert E. Harris
Executive Vice President
Oklahoma Bankers Association
P. O. Box 18246
Oklahoma City, OK 73105

Dear Bob:

I am writing in regard to the action taken by the DIDC on March 22, 1982.

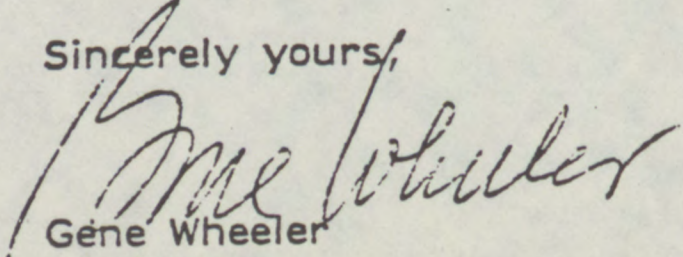
I strongly urge the OBA to employ all available resources to obtain a reversal of the DIDC's action with regard to the new 91 day T-Bill CD with the $\frac{1}{4}\%$ differential.

This action does nothing to assist banks or thrifts in competing with money market funds. We estimate that approximately 35% of our total deposits will be subject to this disintermediation because of the rate differential. A transfer of funds of this magnitude from commercial banks to thrifts will help neither institution. Commercial bank's liquidity and their ability to serve their community's credit needs may be sorely tested, while the last thing that thrifts need is higher cost of funds.

The DIDC should concentrate their efforts on deregulation. If the savings and loan industry must be "saved" it should not be at the expense of the commercial banking industry.

Anything the OBA can do to reverse or delay this action will be greatly appreciated.

Sincerely yours,


Gene Wheeler
President

ch



OKLAHOMA NATIONAL BANK

AND TRUST COMPANY

P O BOX 1008 • CHICKASHA OKLAHOMA 73018 • AC 405/224-6000

ROBERT B. BATES
PRESIDENT AND TRUST OFFICER

LAURA_____	CLARA_____
REX_____	PHYLLIS_____
JOAN_____	LARRY_____
MAX_____	SUNNY_____
OTHER_____	

March 26, 1982

RECEIVED

MAR 26 1982

R.E.H.

Mr. Robert E. Harris
Executive Vice President
Oklahoma Bankers Association
P. O. Box 18246
Oklahoma City, Oklahoma 73154

Re: Depository Institutions Deregulation Committee

Dear Mr. Harris:

This letter is written for the purpose of making known to you our dissatisfaction concerning the action taken by the Depository Institutions Deregulation Committee in their meeting on March 22, 1982. One of the major objectives to be accomplished during that meeting was the consideration of a new product for banks and thrifts to offer, which would enable them to compete effectively with money market mutual funds.

As you know, anything short of a money rate transaction account will not accomplish this objective. As in the past, it seems that the DIDC took official action to create a new 91 day certificate of deposit, which in no way will allow banks and thrifts to better compete with money market mutual funds. It seems that this committee is in a pattern of creating additional regulations instead of relaxing those regulations that prohibit effective competition.

It seems that congressional action may be necessary to get the job done. I am in hopes that you will be able to forward our letter to those regulators who helped make the above described decision, and also to our Oklahoma Congressional delegation.

Sincerely,

Robert B. Bates

Robert B. Bates
President and Trust Officer

RBB/fgb

RECEIVED

MAR 2 1982

R.E.H.

March 26, 1982

Howard N. Smith
President

LAURA_____	CLARA_____
REX_____	PHYLLIS_____
JOAN_____	LARRY_____
MAX_____	SUNNY_____
OTHER_____	

Mr. Robert E. Harris
Executive Vice President
Oklahoma Bankers Association
P. O. Box 18246
Oklahoma City, Oklahoma 73154

Dear Bob:

I am responding to you regarding the D.I.D.C. actions taken on March 22, 1982.

I am so frustrated that I cannot think of an intelligent way to comment on the D.I.D.C. action - or inaction as you may choose to perceive it. It would appear as though we have not offered a solution at all, but another piece of spaghetti in the bowl to further confuse the customer about the intent of banking and its service to the community.

Regretfully I do not feel that my bank has received any assistance from the new C.D. instrument. With a .25 per cent differential, which is archaic and contradictory thinking, our local S&L competitors will apparently add a new tier of cost, take away from the deposits of banks, and not effectively utilize their switched and new funds. It would appear that the only good thing to come from the D.I.D.C. meeting was the development of what may or may not be a firm schedule of deregulation.

Again, I am apalled at the lack of a decisive action by the D.I.D.C. to approach the real problem. I do not look forward to being in a horse race and continuing to wear governmental hobbles. It is my desire that this thinking be expressed to the members of the D.I.D.C. and anyone else that has an interest in the survival of banking.

Sincerely,

Howard N. Smith
President

HNS:jjb

SAND
SPRINGS
STATE
BANK

Larry G. Koch
President and
Chief Operating Officer



RECEIVED
MAR 29 1982

R.E.H.

March 25, 1982

LAURA_____	CLARA_____
REX_____	PHYLLIS_____
JOAN_____	LARRY_____
MAX_____	SUNNY_____
OTHER_____	

Mr. Robert E. Harris
Executive Vice President
Oklahoma Bankers Association
P. O. Box 18246
Oklahoma City, OK 73154

Dear Bob:

Once again, the DIDC has ignored the pleas from the banking industry to authorize some type of an instrument or transaction account which would enable banks to compete with the money market mutual funds. Without some type of an account to compete with the money market funds, we here in Claremore have a very serious problem.

In Claremore, we have three commercial banks and two savings and loan associations. With our close proximity to Tulsa, we compete very heavily with the Merrill Lynch fund, Bache-Halsey, and numerous other money market funds. Our customer base in this community is very sophisticated and are all interested in earning the maximum return on their investments. Consequently, millions of dollars have flowed out of this community into the money market funds.

The loan demand in Rogers County and Claremore area is very strong. In order for these financial institutions to continue to be able to invest money in industrial growth as well as small business and personal growth, we are going to have to have some type of relief. We have got to be able to entice those funds that have flowed to the money market funds back into our institutions.

It is hard for me to comprehend how the DIDC can continue to ignore this problem. If it is this serious in Rogers County, Oklahoma, think how serious it must be in other parts of the country.

First of all.

FIRST BANK IN CLAREMORE / P.O. BOX 309 / CLAREMORE, OKLAHOMA 74017 / 341-6540

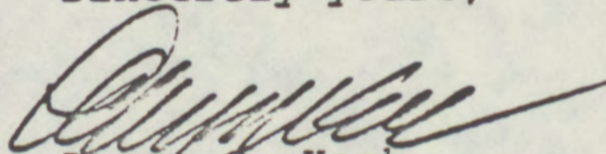
Mr. Robert E. Harris
March 25, 1982
Page Two

Commercial banks have been the guiding force in Oklahoma as far as community and industrial growth is concerned. In order for this to continue, we have got to be able to compete with Merrill Lynch, Sears, Wards, and all of the other conglomerates that are now in the financial picture. We have got to have help from the DIDC, our regulators, our congressmen and our senators to resolve this unfair competitive situation.

I love competition, and I think I can compete heads up with any bank or savings and loan in my area, but I can't compete with the New York conglomerates when I am not playing on the same level playing field.

Bob, whatever the OBA can do or whatever we can do here in Claremore to inform our senators and representatives as to the severity of our problem is most important.

Sincerely yours,



Larry G. Koch
President

LGK:plp



RECEIVED

APR 06 1982

R.E.H.

RONALD P. EDWARDS
PRESIDENT & C.E.O.

April 1, 1982

P.O. Box 507
Elk City, Oklahoma 73648
Phone (405) 225-3434

LAURA_____	CLARA_____
REX_____	PHYLLIS_____
JOAN_____	LARRY_____
MAX_____	SUNNY_____
OTHER_____	

Mr. Bob Harris
Executive Vice President
Oklahoma Bankers Association
P. O. Box 18246
Oklahoma City, Oklahoma 73154

Dear Bob,

Please pardon my delay in response to your request concerning the DIDC's recent proposals in the C.D. area. In a word, "unbelievable".

Bob, we are all aware that the S & L's need help but the recent proposals in my estimation do nothing to help the S&L's in the long run and additionally stimulate the flow of funds from banks to S&L's by keeping the rate differential in effect.

I am continually amazed at the DIDC and its decisions. We are constantly faced with competitive pressure from non-financial sources and the DIDC does nothing whatsoever to help us. Instead their vacillation has kept financial institutions at a distinct disadvantage in a very competitive market place.

Please express our displeasure at the committies latest action.

Very truly yours,

Ronald Edwards

RE/db

FIRST STATE BANK
Tahlequah, Oklahoma 74464
RECEIVED

GEORGE R. BEAN
President

APR 06 1982

R.E.H.

April 2, 1982

Mr. Robert E. Harris
Executive Vice President
Oklahoma Bankers Association
P.O. Box 18246
Oklahoma City, OK 73105

LAURA_____	CLARA_____
REX_____	PHYLLIS_____
JOAN_____	LARRY_____
MAX_____	SUNNY_____
OTHER_____	

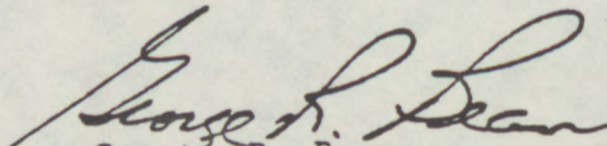
Dear Mr. Harris:

Yes, I was disappointed on March 24th when I learned that the DIDC again ducked the true issue of giving regulated financial institutions a comparable vehicle to compete with money market mutual funds. And to top it off, they added insult to injury by implementing a $\frac{1}{2}\%$ differential on the new 91 day certificate. This is completely contrary to their goals of deregulation.

This action probably will not impact this bank as much as those located in metropolitan areas. However, we do have several present customers and former customers who could utilize a money market fund type account.

I am not fearful of competition if the competition is using the same game rules that apply to me. Big or little, branch or multi-bank, I can compete if all the players are on the same level playing field.

Sincerely,


George R. Bean
President

GRB:mm



Bank of Commerce

E. M. BEHNKEN
President

RECEIVED

April 1, 1982

APR 02 1982

R.E.H.

LAURA_____	CLARA_____
REX_____	PHYLLIS_____
JOAN_____	LARRY_____
MAX_____	SUNNY_____
OTHER_____	

Mr. Robert E. Harris
Executive Vice President
Oklahoma Bankers Association
P. O. Box 18246
Oklahoma City, Oklahoma 73105

Dear Mr. Harris:

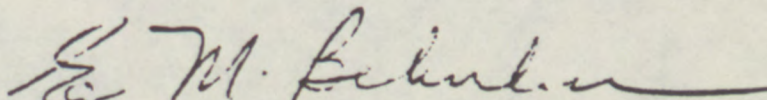
In regards to your letter dated March 24, 1982, I share with you the same concern and disappointment over the recent developments from the DIDC. Their inability to effectively identify and address the problems of financial institutions is disturbing. Their actions only tend to further complicate and leave in doubt what lies ahead for all financial institutions. We've observed a similar pattern by this Committee in the past.

The point at issue is the Committee's unwillingness to allow financial institutions to offer transaction accounts capable of competing with money market funds. It's totally unexplainable why the Committee elected to avoid or further delay this issue by delegating its staff members to study within the next 30 days options for a new savings account.

The DIDC was inclined, however, to create a new deposit instrument which will only shorten our liability structure and not increase deposits. Although consumer reaction can never fully be anticipated, it is probable that shifts will occur from the six month certificate creating greater rate volatility and a decline in reliable funds for most financial institutions.

Ultimately, a decision must be made by this Committee. They've allowed unregulated money market funds to attract local deposits and centralize these funds in major money center banks. This is to the detriment of both the regional banking community and the customers they serve. Hopefully, when the regulators do make their decision it will be out of insight to the future and not because our industry is in need of crisis relief.

Sincerely,


E. M. Behnken
President

EMB:db

Bank of Commerce and Trust Company
BOX 2269 TULSA OKLAHOMA 74101 TELEPHONE 918 584-3321

Lincoln Bank

April 2, 1982

RECEIVED
APR 06 1982
R.E.H.

LAURA_____	CLARA_____
REX_____	PHYLLIS_____
JOAN_____	LARRY_____
MAX_____	SUNNY_____
OTHER_____	

Mr. Bob Harris, Executive Vice-President
Oklahoma Bankers Association
Post Office Box 18246
Oklahoma City, Oklahoma 73154

Dear Bob:

I am enclosing a copy of a letter sent to the members of DIDC, together with copies addressed to our congressional representatives, the state bank commissioner and the President of the United States. This letter went out before DIDC met on March 22nd. Obviously, it did no good.

The recent action taken by DIDC is a disgrace and an insult to the financial institutions its members represent. The new 91-day CD does nothing for the banking or thrift industries. It will be disastrous to S&L's, harmful to banks and represents a real victory for the securities industry.

Furthermore, the announced phased deregulation of Regulation Q interest rates is "too little and too late." It should be obvious to any informed banker that, unless modified, the industry will be seriously, if not fatally damaged by the inordinately long phase-out period adopted by the committee. There simply is no interest from the public in long term instruments and the deregulation of 3-1/2 year maturities is nothing more than an empty gesture toward deregulation.

Adoption of a three month certificate has effectively halved the average maturity of a significant portion of the liabilities of bank's and thrifts. This further aggravates an already precarious asset-liability relationship in most financial institutions without meeting the main competition which is centered in upscale depositors who furnish most of the deposit funds.

We must be allowed to compete. Equity and the public interest demand it. Our depositors and our communities are entitled to the benefits of free and fair competition. Anything less is unacceptable.

Lincoln Center / Ardmore, Oklahoma 73401 / 405/223-2265

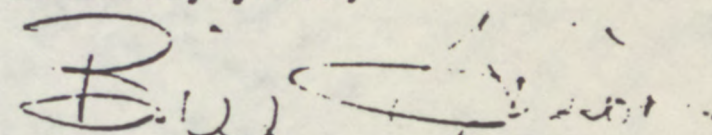
Mr. Bob Harris

-2-

April 2, 1982

DIDC's latest action represents a vital challenge to the American Bankers Association and to the 50 state banking organizations which represent the industry. The committee members, except for Chairman Isaac of FDIC, have breached their fiduciary responsibility. Serious damage has been done. This urgent issue cannot be resolved without the immediate concerted, coordinated effort applied through our trade associations. I urge O.B.A. to insist that the full resources of the American Bankers Association be brought to bear to resolve this issue quickly. If our efforts are not successful, the banking industry will become a relic of the past.

Sincerely yours,



John W. Grissom, President
and Chairman of the Board

LBTC/gjd

CC: American Bankers Association
1120 Connecticut Avenue NW
Washington, D.C. 20036

The Honorable Wes Watkins
U.S. House of Representatives
Washington, D. C. 20515

The Honorable Don Nickles
United States Senate
Washington, D.C. 20510

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



March 16, 1982

Senator David Boren
United States Senate
Washington, D.C. 20510

Dear Senator Boren:

Prompt deregulation of the nation's financial institutions is essential. DIDC has not yet accomplished any meaningful deregulation. We urge you to encourage DIDC to take meaningful action at its meeting scheduled for March 22nd. We have sent the following message to Secretary Regan, Chairman Volcker, Chairman Isaac and Comptroller Conover:

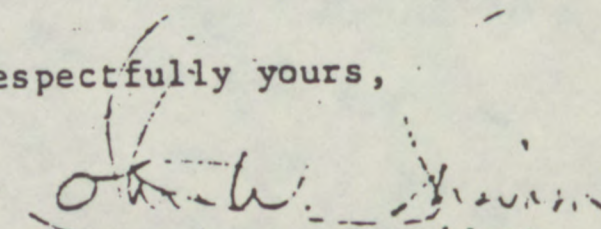
It should, by now, be abundantly clear that the nation's banks have suffered irreparable damage from delayed deposit deregulation. \$190 billion in money market funds should be ample evidence. There is urgent need to allow both banks and thrifts to compete freely in the financial marketplace. Remove Regulation Q. It was ill-conceived and deserves a quick death.

The banking industry must not be held hostage any longer because of the plight of the thrifts. It makes no sense to weaken the nation's banks to accommodate a failing thrift industry. Don't create a larger problem by denying the banking industry the right to compete with the non-regulated financial services industry. Well managed financial institutions should not be penalized by the ineptness of poorly managed ones. The public interest demands it.

Let us design our own service products. It is useless to attempt to design a financial service that is right for every market in the entire U.S.A. Our markets are different and deserve financial services designed to meet their unique needs.

DIDC's congressional mandate was to deregulate the financial industry. Meaningful deregulation is long overdue. Leave the problems of the thrifts to Congress. They are responsible to a great extent for the plight of the thrift industry. The issues must be separated. The vitality of the banking industry must be preserved in the public interest.

Respectfully yours,


John W. Grissom, President
and Chairman of the Board

Lincoln Center / Ardmore, Oklahoma 73401 / 405/223-2265

Also sent to:

The President
The White House
Washington, D.C.

The Honorable Wesley Watkins
U.S. House of Representatives
Washington, D.C. 20515

Senator Don Nickles
United States Senate
Washington, D.C. 20510

Mr. R. Y. Empie, Bank Commissioner
Oklahoma State Banking Department
4500 Lincoln Boulevard
Oklahoma City, Oklahoma 73105



American Bank & Trust

Robert L. Brookshire
Chairman of the Board & Chief Executive Officer

April 5, 1982

Mr. Robert E. Harris
Executive Vice President
Oklahoma Bankers Association
643 N. E. 41st
Oklahoma City, Oklahoma 73105

Dear Bob:

The recent action of the DIDC creating a short term deposit instrument is a "farce". The proposed instrument of a \$7,500 minimum deposit tied to the 91 day T-bill rate which Thrifts may offer (banks will be 1/4% less) continues to be discriminatory. More importantly, it does not curtail the runoff of funds to the unregulated securities industry.

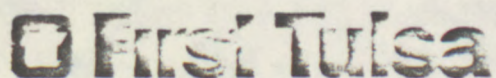
Community banks must have a deposit instrument that is marketable and competitive and still be able to serve our customers and maintain deposits locally for borrowers at reasonable interest rates. The present loan demand in our area is strong and we need the resources to continue funding our customers requests.

Retail purchase agreements and "sweep" accounts may retain some customers but neither method will secure deposits. An unregulated interest rate instrument of \$25,000 minimum with only one-day's notice of withdrawal is absolutely necessary to allow banks to compete with the money market mutual funds in some manner. An instrument of this type would at least allow community banks to maintain deposit accounts for our remaining loyal customers and regain those that moved to money market funds. Banks must be allowed to compete in the market place.

Yours very truly,

Robert L. Brookshire
Chairman of the Board

RLB/lh



The First National Bank & Trust Company of Tulsa
Post Office Box One
Tulsa, Oklahoma 74193

RECEIVED

APR 01 1982

R.E.H.

March 30, 1982

LAURA_____	CLARA_____
REX_____	PHYLLIS_____
JOAN_____	LARRY_____
MAX_____	SUNNY_____
OTHER_____	

Mr. Robert E. Harris
Executive Vice President
Oklahoma Bankers Association
P. O. Box 18246
Oklahoma City, OK 73154

Dear Bob:

I would like you to add my letter to what I hope is a stack of protest mail concerning the results of the March 22 DIDC meeting.

Many things could be said about several of the decisions both positive and negative, but I want to concentrate on a single factor which dwarfs any other development from the meeting the serious, misguided, potentially devastating enactment of a $\frac{1}{4}\%$ unfavorable rate differential on the new 91 day deposit instrument.

For all but the wealthiest class of bank customer, a money market certificate represents the most treasured, satisfying, and rewarding form of personal property that an individual can entrust to his or her bank. It is an exceptional individual who can meet the \$100,000 minimum requirement of the "jumbo CD". The checking account the NOW account the savings account all are utilitarian, low yield banking needs from which an individual gains little personal satisfaction and to which he or she characteristically commits as few dollar funds for as short a time as possible, for self-evident reasons the relatively dismal yield compared to money market certificates and unregulated money market funds.

Here in Oklahoma, for rural banks and for "community" banks in the suburbs, money market certificates comprise a very large and growing segment of their funds.

Mr. Robert E. Harris
March 30, 1982
Page 2

Now, with many crippled thrift institutions flying straight into the ground, DIDC has fired a fusillade, presumably unintentionally, right at the rural and suburban community banks who depend, and whose customers depend, upon the competitive attractiveness and parity of the 6 months money market certificate.

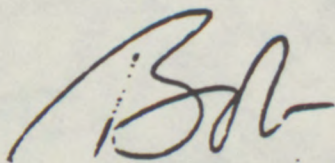
I expect commercial banks rural, suburban, and downtown like us to lose money market certificate funds to the thrifts because of our adverse competitive position on the new 91 day certificate. Moreover, I expect savings passbook funds to move from banks to the 91 day certificates offered by thrifts because depositors feel much more comfortable with a 3 month time horizon than the half-year that heretofore has distinguished the money market certificate.

For large, downtown banks like us, the money market certificates are the core of our consumer deposits and are the heart of our stable deposits on which we earn a decent spread, in contrast to the "jumbo" CD of \$100,000 or more.

In summary, Bob, I feel the DIDC committee, by instituting a $\frac{1}{4}\%$ differential on the new 91 day certificate, singlehandedly created an adverse condition for commercial banks which holds no promise for restoring the health of thrifts and quite likely will spread the illness of thrifts through the ranks of commercial banks.

DIDC should be told with a storm of protest so they reconsider or do not repeat their mistake.

Sincerely,



Robert A. Barley
Chairman of the Board

P.S. I've also enclosed a copy of a local bank survey which we conducted just after the news of the DIDC decision was released.

Enclosure

DATE March 25, 1982

COPIES TO: David Moffett

TO Jerry Rothlein

FROM Dan McAdams

SUBJECT Bank Survey

Yesterday, we did a survey of 17 local banks as to their feelings on the new 91 day Certificate. Included is the contact at the bank and their position.

If you need any further information, please let me know.

SIGNATURE

FIRST TULSA
YOUR FIRST RESOURCE

INTEROFFICE CORRESPONDENCE

RE: New \$7,500 Minimum Deposit CD for 91 Days

1. Admiral Bank - Ken Olinger - Executive Vice President
 - Because of consumer orientation, they will issue
 - Wave of the future
 - Not pleased with $\frac{1}{4}\%$ rate differential
2. Bank of Commerce - E.M. Behnken - President
 - Will not accomplish anything
 - Transaction account needed to compete effectively
 - DIDMC was supposed to deregulate $\frac{1}{4}\%$, but this builds in more regulation
3. Bank of Tulsa - Houston Adams - President
 - Not small enough minimum - should be \$2,500
 - Does not compete with money market funds
 - No reason to keep favoring S & L's with $\frac{1}{4}\%$ rate differential, have compromised on this issue before
4. Boulder Bank - William R. Shaw - President
 - "Damn poor compromise"
 - Does not fill the need for a product competitive with money market funds
 - $\frac{1}{4}\%$ differential contrary to purpose of committee - deregulation
5. Brookside - Howard Barnett - Chairman of the Board
 - Banks & S & L's should be able to pay same rate
6. City Bank - Glenda Sisson - Vice President
 - will offer the certificate, but are not pleased
 - Management feels it is inflationary and will increase the bank's costs which will have to be passed on to the consumer
7. Commercial - Michael J. Thompson's Asst. - President
 - New certificates seen as a boost
 - customers showing much interest
 - Bank has many 90 day notes and these new certificates would be a great form of collateral
 - $\frac{1}{4}\%$ difference in unfair
8. F & M - Robert Davis - President
 - Certificates are not worthwhile
 - Another form of gov't intervention - "The gov't is the largest corporation in the world and they are broke."
9. Harvard - Sylvia Botten - Assistant Vice President
 - not aware of the new certificate - no opinion
10. Northside - Marvin Colley - Senior Vice President/Cashier
 - unsure as to whether to offer the certificate
 - all-savers were a bomb, this could be too, so there is no sense setting up the books for a failure.
11. Republic Bank - Patty J. Smith - Senior Vice President/Cashier
 - in favor, but with S & L's paying $\frac{1}{4}\%$ more, we cannot compete

12. Security Bank - James D. Elliott - Senior Vice President
 - in favor if competitive with S & L's, but with $\frac{1}{4}\%$ differential, we can't do anything.
 - Need to phase out Reg Q
13. Southwest Tulsa Bank - M.P. Young - Chairman of the Board/President
 - good idea
 - do not like rate differential - doing more regulating
 - large S & L's will attract the money away from the commercial banks
14. United Bank - William Nash - President
 - disappointed, but will offer it
 - confuses customers and does not compete with money market funds
15. Valley National Bank - Steve Schooly
 - good for consumers and banks to offer
 - confusing to public
 - not enough forethought in public education of products
16. Western National Bank - Taft Welch, Chairman
 - Will not help - just a political jesture to a compromise
 - Will not draw in money except at S & L's which helps them, but hurts commercial banks
 - $\frac{1}{4}\%$ rate differential wrong
 - confusing to consumers
 - need to add service charges as rates on savings accounts increase in order to offset increased interest expense
17. Woodland Bank - Mary Atkinson - Operating Officer
 - need to be competitive so we will offer it
 - is a put down to banks since S & L's can pay $\frac{1}{4}\%$ more
 - management will be cautious until it is known that the measure will not be repealed.

BANK OF THE LAKES

29 March, 1982

LAURA_____	CLARA_____
REX_____	PHYLLIS_____
JOAN_____	LARRY_____
MAX_____	SUNNY_____
OTHER_____	

Mr. Robert E. Harris
Executive Vice-President
Oklahoma Bankers Association
P.O. Box 18246
Oklahoma City, OK 73105

RECEIVED

APR 01 1982

Dear Bob:

REH.

I strongly agree with your letter of 24 March, 1982, concerning recent DIDC actions, which will create a 91-day certificate of deposit for banks and savings and loan institutions.

It has become readily apparent that customers of financial institutions are extremely rate conscious, and this fact can be revealed by the severe outflow of local deposits into money market mutual funds. It seems the financial problems surrounding savings and loans in today's marketplace stem from the inability to obtain funds at current short-term rates to support loans which have been on their books for some time (many of which are yielding rates much lower than current levels).

The DIDC action to allow savings and loans to offer a 91-day certificate of deposit at 25 basis points higher than commercial banks will allow these institutions to increase their negative spreads while obtaining funds for a housing industry that cannot use them.

The federal government seems adept in creating problems and devising solutions that compound the original problems. It is strongly felt within our bank that this most recent decision will draw a good deal of our present certificate of deposit customers away from our bank and into local savings and loan institutions. However, we do NOT feel that this money will be put to good use.

The obvious difficulty with savings and loan institutions is not a lack of demand for funds, but a lack of positive interest spreads on the funds that they now employ.

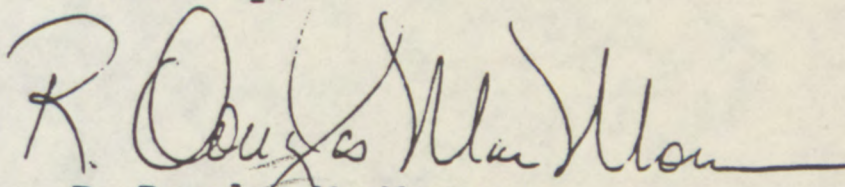
It is ludicrous to assume that this new certificate is going to solve anyone's problem: rather, it will most likely create additional ones.

Mr. Robert E. Harris
29 March, 1982
Page Two

Therefore, with this in mind, we urge the OBA to aggressively pursue a change in this most recent legislation, not only for the benefit of commercial banks, but for savings and loans as well.

Thank you.

Sincerely,

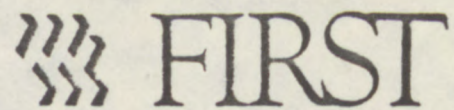


R. Douglas MacMorran
President

RDM/dh

CC: The Honorable Michael Syner
Congress of the United States
House of Representatives
Washington, DC 20515

The Honorable David Boren
United States Senator
United States Senate
Washington, DC 20510



FIRST NATIONAL BANK AND TRUST COMPANY OF STILLWATER
8th and MAIN
POST OFFICE BOX ONE
STILLWATER, OKLAHOMA 74076

(405) 372-3133

March 23, **RECEIVED**
1 1982
R.E.H.

LAURA	CLARA
REX	PHYLLIS
JOAN	LARRY
MAX	SUNNY
OTHER	

Mr. Robert E. Harris
Executive Vice President
Oklahoma Bankers Association
P. O. Box 18246
Oklahoma City, OK 73105

Dear Bob:

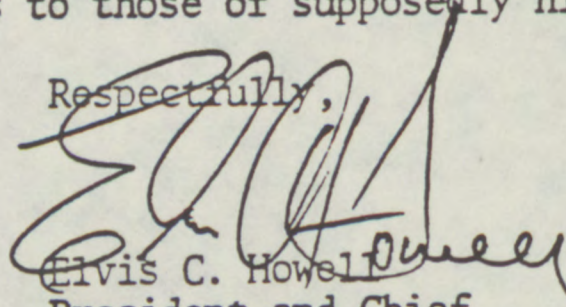
I have today received notification of the DIDC ruling on the new 91 day CD. I am completely astounded by this action and sincerely hope our organization will express displeasure with the action.

At a time when lendable funds are at an all time high rate, the committee chose to authorize one segment of the financial community a rate advantage over banks, thereby diverting additional funds away from a sinking agriculture economy.

This action can only lead to additional pressure on the Nation's S&L's since they will be paying a high rate on deposit dollars and consequently require an even higher rate on home loans which is already stifled.

Bob, you are well aware of our situation in Oklahoma and probably this letter will be of little avail, but I sincerely hope you can convey my thoughts to those of supposedly higher intelligence.

Respectfully,


Elvis C. Howell
President and Chief
Executive Officer

ECH:pjs



Bank of Cushing

224 EAST BROADWAY
BOX 951 CUSHING OKLAHOMA 74023
918-225-2010

JOHN A. BRYANT
PRESIDENT

March 29, 1982

Robert E. Harris
Oklahoma Bankers Association
P.O. Box 18246
Oklahoma City, Okla. 73105

Dear Bob,

Just wanted to let you know that I am in agreement with you on the DIDC issue. I really have no additional comments other than the fact that I am supportive of your position and that if the Bank of Cushing can be of help to you in any way, please let us know.

Sincerely,

John A. Bryant

JAB:bfb

LAURA_____	CLARA_____
REX_____	PHYLLIS_____
JOAN_____	LARRY_____
MAX_____	SUNNY_____
OTHER_____	

RECEIVED

APR 01 1982

R.E.H.



PIONEER BANK AND TRUST

RECEIVED

APR 01 1982

R.E.H.

LARRY ADAMS
Vice President

LAURA_____	CLARA_____
REX_____	PHYLLIS_____
JOAN_____	LARRY_____
MAX_____	SUNNY_____
OTHER_____	

March 29, 1982

Robert Harris
Oklahoma Bankers Association
P.O. Box 18246
Oklahoma City, Okla. 73105

Mr. Harris,

I am in complete agreement with you that the Depository Institutions Deregulation Committee does not seem to have any consistent goal in mind. Certainly complete deregulation of deposit instruments, if that is in fact their goal, is not being brought about quickly enough to aid commercial banks in competing with money market instruments for funds.

While I have no objections at efforts to assist the ailing S&L industry, it is counterproductive to expect one area of the financial community, specifically commercial banks, to bear the entire costs of these "subsidies". DIDC should remember that the present situation most S&L's are in is a result of a chronic and historic failure to properly match the maturities of their assets and liabilities. In other words, S&L's are where they are because of poor management.

The threat facing commercial banks is a result of completely opposite circumstances. The options available to us within the narrow confines of existing regulations has prevented many commercial banks from being able to exercise any management ability whatsoever.

Specifically, in our area, our inability to compete with mutual funds has prevented us from maintaining, let alone attracting, deposits that could be used to fund local loans.

The Warm Hearted Bank



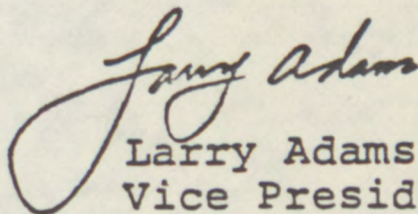
PIONEER BANK AND TRUST

LARRY ADAMS

Vice President

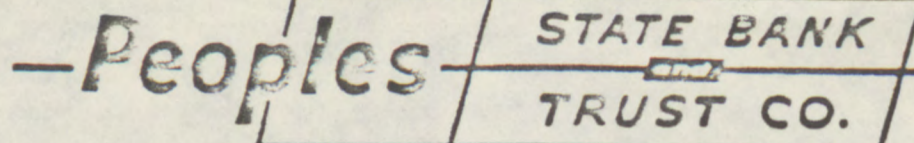
We count on your help in expressing our concern that immediate attention should be given by DIDC to the inability of commercial banks to compete with these funds, and the ensuing flow of funds out of local areas.

Sincerely,



Larry Adams
Vice President & Cashier

The Warm Hearted Bank



HOLDENVILLE OKLAHOMA

P.O. BOX 898

HOLDENVILLE, OKLAHOMA 74848
PHONE 379-3353

RECEIVED

APR 01 1982

REH.

LAURA_____	CLARA_____
REX_____	PHYLLIS_____
JOAN_____	LARRY_____
MAX_____	SUNNY_____
OTHER_____	

March 29, 1982

Robert E. Harris
Executive Vice President
Oklahoma Bankers Association
Box 18246
Oklahoma City, Oklahoma 73105

Dear Bob:

Again the DIDC made their move to make sure the Savings and Loans and Mutual Savings Banks will have a rough time staying afloat.

The 1/4 of 1% differential will do nothing for their industry. In my opinion it will put them further in the RED.

We need all financial institutions to supply the credit needs of our country. However, we all need to be able to play the same game.

I see no move to help the sagging agriculture industry. The banks over the country has financed the farmer and rancher through very difficult times. With the inequities that DIDC is putting on the banks it is possible that these group of individuals will have a difficult time with financing their operation.

Lets' hope that DIDC will rescind their differential and let the free market work.

Sincerely,

Thomas W. Treadwell
Chairman of the Board

TWT:jcw

FIRST
NATIONAL BANK
& TRUST CO.

WM. H. (BILL) CRAWFORD
PRESIDENT

March 31, 1982

Mr. Robert E. Harris
Executive Vice President
Oklahoma Bankers Association
P. O. Box 18246
Oklahoma City, Oklahoma 73154

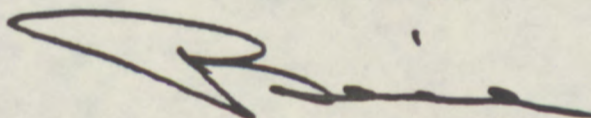
Dear Bob:

Bob, as we have previously discussed, most rural banks in Oklahoma obtained lendable funds through Money Market Certificates. Money Market Certificates fully account for approximately one-third of most rural banks' deposits while we have responded to the farmers' pleas and have continued to finance and support agriculture. It seems the new ruling would be devastating to small rural banks in Oklahoma.

As I pointed out above, the deposit base would be eroded, therefore it would be difficult to continue to finance agriculture at the current level.

Bob, I would appreciate you relaying my views to our delegation. It is certainly my feeling that we would lose a substantial number of deposits. The rate differential would leave a catastrophic effect on rural Oklahoma.

Sincerely,



Wm. H. (Bill) Crawford

WHC:mgm



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

May 5, 1982

PAUL A. VOLCKER
CHAIRMAN

The Honorable George Hansen
House of Representatives
Washington, D.C. 20515

Dear Mr. Hansen:

Thank you for the opportunity to comment on a recent letter from one of your constituents, Mr. Thomas G. Minow. Mr. Minow expresses his deep concern that competition by money market mutual funds is draining deposits from smaller banks and thrift institutions, thereby rechanneling credit flows to large money centers and constraining the availability of credit to local business and agricultural borrowers. As a corrective measure, he urges that the deregulation of depository institutions be accelerated, so that these intermediaries can compete more effectively with the money market funds.

As you know, the Depository Institutions Deregulation and Monetary Control Act of 1980 mandated the removal of all interest rate ceilings on time and savings deposits by March 31, 1986, and charged the newly created Depository Institutions Deregulation Committee (DIDC) to implement a program towards this end. I might note that the Act also required the DIDC to consider the safety and soundness of the depository institutions in framing such a program. Thus far the Committee has taken several actions to liberalize the terms on which deposits can be offered, including the removal of the interest rate "caps" on 2-1/2 year small saver certificates, the creation of the ceiling-free 1-1/2 year IRA/Keogh account category, adjustments in the ceilings for money market certificates, the creation of a new 91-day account category, and--most importantly--the adoption of a schedule for the phasing out of deposit rate ceilings by maturity. In addition, at the March 22 meeting, the DIDC at my strong urging directed the staff to develop proposals for alternative short-term instruments that would allow depository institutions to compete more effectively with money market mutual funds and other market alternatives for short-term funds. Secretary Regan, Chairman of the DIDC, has scheduled a meeting on May 24 to consider the staff's proposals in this area. While some may feel that the deregulation progress has been slow, the Committee believes firmly that the pace of deregulation is as fast as it can be in view of the severe earnings problems that the thrift institutions currently are experiencing.

MM:EFMcK:JLK:PAV:pjt (V-102)

bcc: Mr. Moran
Mr. McKelvey
Ms. Wing
Ms. Mallardi (2) ✓

*Regards,
Paul*

Action assigned Mr. Kichline

GEORGE HANSEN
SECOND DISTRICT, IDAHO

1125 LONGWORTH BUILDING
WASHINGTON, D.C. 20515
TEL.: (202) 225-5531

COMMITTEES-SUBCOMMITTEES:

AGRICULTURE

FORESTS, FAMILY FARMS, AND ENERGY

LIVESTOCK, DAIRY, AND POULTRY

DOMESTIC MARKETING, CONSUMER
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BANKING, FINANCE AND
URBAN AFFAIRS

DOMESTIC MONETARY POLICY
(RANKING MEMBER)

FINANCIAL INSTITUTIONS SUPERVISION,
REGULATION AND INSURANCE

INTERNATIONAL TRADE, INVESTMENT
AND MONETARY POLICY



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

IDAHO DISTRICT OFFICES:
UPPER SNAKE RIVER VALLEY
Box 740, IDAHO FALLS, IDAHO 83401
TEL.: 523-5341

SOUTHEASTERN IDAHO
250 S. 4TH, SUITE 220
POCATELLO, IDAHO 83201
TEL.: 236-6980

MAGIC VALLEY
1061 BLUE LAKES BOULEVARD NORTH
TWIN FALLS, IDAHO 83301
TEL.: 734-6466

WESTERN IDAHO
442 BORAH FEDERAL BUILDING
304 NORTH 8TH STREET
BOISE, IDAHO 83701
TEL.: 334-1876

April 20, 1982

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

Dear Mr. Volcker:

Enclosed is a copy of a letter which I have received from one of my constituents expressing his concern for the ability of banks and thrift institutions to compete with money markets under present regulations.

Mr. Minow's concerns appear to be justified and your comments on this issue and proposed method of dealing with it would be greatly appreciated.

I look forward to your immediate reply. Thank you.

Sincerely,

GEORGE HANSEN
Member of Congress

GVH:at
Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1982 APR 22 PM 9:07
RECEIVED
OFFICE OF THE CHAIRMAN



VALLEY BANK

501 BROADWAY • IDAHO FALLS, IDAHO 83401 • TELEPHONE (208) 525-6228

THOMAS G. MINOW
SENIOR VICE PRESIDENT
TRUST OFFICER

April 8, 1982

The Honorable George Hansen
U. S. House of Representatives
Washington, D. C. 20515

Dear Representative Hansen:

As a rural community banker, I am deeply concerned with the outflow of deposits we and other independent banks are presently experiencing. Under the present financial environment, funds are flowing in ever increasing amounts from the banks and thrift institutions to the money market funds. We are unable to compete under our present regulatory restrictions with the non-regulated suppliers of money market funds.

Of greatest concern to me is our inability to supply the needed funds to our small businesses and to the agriculture segment of our economy. The outflow of funds to money market funds paying unregulated rates takes the funds out of our state and local economy to the big money centers. The centers do not reinvest the funds back to our areas to generate production of any kind or nature. The money market funds for the most part are invested in big bank certificates of deposit, large corporation debt instruments, or in government securities, none of which help our local economy.

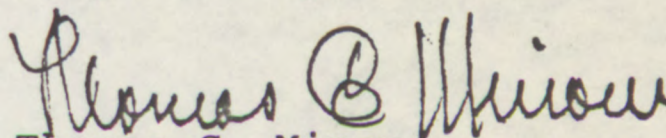
The small investor is entitled to the highest rates of interest attainable, yet without deregulation banks and thrifts are not able to compete with money markets, enabling them to retain those deposits for regeneration into their local economies. Banks and thrifts must be allowed to compete on a level playing field by being allowed to offer a non-regulated transaction account wherein interest rates would be competitive nationwide with money market mutual funds. Adequate funds would be available and would tend to drive interest rates down. Unless relief is forthcoming in the near future, many smaller agricultural and commercial businesses will fail, further deteriorating rural area economies.

The Honorable George Hansen
Page 2

April 8, 1982

Accelerated deregulation is required to stimulate our local economy and provide jobs and accelerate production. Without the relief we shall see our economical base continue to falter and deteriorate. Positive steps must be taken before it is too late.

Respectfully,

A handwritten signature in dark ink, appearing to read "Thomas G. Minow". The signature is fluid and cursive, with the first name "Thomas" and last name "Minow" clearly distinguishable.

Thomas G. Minow
Senior Vice President and
Trust Officer

TGM/pw

Valley Bank

Welfe

May 4, 1962

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

Dear Chairman Rosenthal:

I am writing to respond to your request for the Board's views on the recommendation presented in the "Silver Report" of the Commerce, Consumer and Monetary Affairs Subcommittee of the Committee on Government Operations that the CFEC, SEC, Federal Reserve Board and Departments of Agriculture and Treasury "... should undertake the immediate establishment of a formal interagency mechanism for the systematic exchange of information relating to the surveillance of the nation's interrelated financial markets and enforcement of existing laws."

As you are aware, the direct regulation of stock and commodities markets is the function of the Securities and Exchange Commission and the Commodity Futures Trading Commission. The Federal Reserve's regulatory functions are limited to the setting of margin requirements for trading in securities and informal oversight responsibilities over cash limits for U.S. Treasury and Federal agency securities. The Board is, of course, concerned generally about the effective functioning of the nation's financial markets from the point of view of their role in the healthy functioning of the economy. Adequate information on market trends and rapid access to information on potential problem developments is essential to fulfilling these regulatory and economic policy functions. We believe that the mechanisms now in place or in the process of development enable us to obtain the needed information and promote interagency coordination.

We have welcomed the solicitation of our views and those of the Treasury by the CFEC under the provisions of the Commodity Exchange Act before new contracts based on U. S. Treasury and Federal agencies' securities are approved. In addition, the CFEC has also sought the views of the Federal Reserve and Treasury on all proposed futures contracts based on financial instruments, such as Eurodollar time deposits, domestic bank CDs, and broad common stock indexes.

Moreover, shortly after the culmination of the problem in the silver market in 1986, staff members from the CFTC, U. S. Treasury, Federal Reserve Board and Federal Reserve Bank of New York began meeting quarterly to review recent developments in financial futures markets and to exchange pertinent information. With the recent introduction of futures contracts based on stock indexes, our staffs have agreed that special attention will be focused on these markets at these regular quarterly meetings and that information about general developments in these markets will be exchanged routinely on a more frequent basis. The CFTC has also recently extended an invitation to the Federal Reserve and the Treasury to attend its weekly surveillance meetings--as representatives of the Agriculture Department have been doing for some time--on those occasions when the CFTC intends to discuss contract markets that are of special interest to the agencies.

In addition, the Board understands that the recent discussion between the CFTC and SEC, which led to their agreement on jurisdictional responsibilities, has also established the basis for greater cooperation between these agencies in carrying out their duties of regulating the closely related markets for futures, options and underlying financial instruments.

In view of these general and specific arrangements either in place or in the process of development, it does not seem that legislative action is required at this time to establish an interagency coordination mechanism. After some experience with these evolving procedures, consideration could be given to their effectiveness and whether further coordination actions are needed.

Sincerely,

S/ Paul

MB:ids

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

March 19, 1982

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

Dear Mr. Chairman:

As you know, the Rules of the House of Representatives assign to the Government Operations Committee broad investigatory authority for the operation and activities of all Federal agencies and for the effectiveness of the laws they administer. The Commerce, Consumer, and Monetary Affairs Subcommittee is assigned specific oversight jurisdiction for the operations, activities and effectiveness of laws administered by the Commodity Futures Trading Commission (CFTC), the Securities and Exchange Commission (SEC), the Federal banking agencies, including the Federal Reserve, and the Department of the Treasury. The regulatory responsibilities of each of these agencies were seriously impacted by massive silver speculation and the eventual collapse of the silver markets in 1980, an event characterized by then CFTC Chairman James Stone as "a situation of financial panic which could affect not only the commodities markets but the stock market and possibly financial institutions as well."

The Commerce, Consumer, and Monetary Affairs Subcommittee is deeply concerned that such activity seems to have been least understood or monitored where agency jurisdictions most overlapped and markets were most closely inter-related.

There were several findings in the subcommittee's Silver Report, approved by the Committee on Government Operations December 8, 1981, which I would like to bring to your attention. Commercial banks (under the supervision of the Comptroller of the Currency and the Federal Reserve), brokerage firms and certain publicly-held companies (under the SEC's jurisdiction), and commodity dealers (under the CFTC) were heavily involved in the financing and purchase of silver, including the extension of massive amounts of credit to finance silver speculation. Yet, until the week silver prices collapsed, the Federal financial market regulatory agencies, which share responsibilities for the Nation's marketplace, had exchanged little information or expertise on speculative activities in silver which impacted institutions and traders under each agency's jurisdiction. In fact, the agency principals met together for the first time March 26, 1980, one day before "Silver Thursday."

The Report concluded that the present structure for interagency coordination among the financial regulatory agencies is totally inadequate. It does not require agencies with overlapping concerns to systematically share information in order to make informed decisions or provide coordinated market oversight. The Commodity Exchange Act recognizes the need for a close relationship among the financial market regulatory agencies but only requires the CFTC "shall maintain communications" with the Department of the Treasury, the Federal Reserve Board and the Securities and Exchange Commission. James Stone testified that certain important issues were never addressed as a result of this interagency isolation:

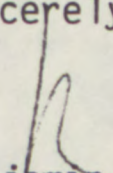
"There are lessons to be learned about coordination between the agencies. Although there have been many fruitful discussions between the agencies over the last several years, and specifically on this subject recently, I think there is not enough coordination in general between agencies. I have no doubt that some of the issues that turn out to be important in this case fell between the cracks.

"For example, I think the issue of institutional lending to meet commodities margin calls, both on the part of banks and on the part of brokerage firms in the stock business, didn't clearly fall within anyone's jurisdiction. Somehow it is incumbent upon government to fill in any cracks that may exist and provide better coordination than has existed in the past."

As a result of the subcommittee's findings, the very first recommendation in the Silver Report was that the CFTC, the SEC, the Federal Reserve Board and the Departments of Agriculture and Treasury "should undertake the immediate establishment of a formal interagency mechanism for the systematic exchange of information relating to the surveillance of the Nation's interrelated financial markets and enforcement of existing laws."

In order to proceed and so that we may have all the information possible to make the kinds of legislative and policy choices such a reorganization might involve, would you provide this subcommittee with a preliminary proposal for establishing such a mechanism, including recommendations for any necessary legislative or regulatory changes, by April 30, 1982. I have enclosed one copy of our report for your consideration. If you have any questions, please contact the subcommittee office at 225-4407.

Sincerely,


Benjamin S. Rosenthal
Chairman

Enclosure

BSR:btb

May 3, 1982

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

Dear Chairman Rosenthal:

As you requested in your letter of April 27, we are pleased to provide the names of the presidents of the selected state member banks to whom your Subcommittee will be sending a questionnaire on bank practices regarding dormant checking and savings accounts. Our source for this information was McFadden American Bank Directory (Fall 1981).

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

Sincerely,

S/ Paul

Enclosure

DJW:vcd (V-106)

bcc: Mrs. Mallardi (2)

BENJAMIN S. ROSENTHAL, N.Y., CHAIRMAN
JOHN CONYERS, JR., MICH.
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NINETY-SEVENTH CONGRESS
Congress of the United States
House of Representatives
COMMERCE, CONSUMER, AND MONETARY AFFAIRS
SUBCOMMITTEE

OF THE
COMMITTEE ON GOVERNMENT OPERATIONS
RAYBURN HOUSE OFFICE BUILDING, ROOM B-377
WASHINGTON, D.C. 20515

LYLE WILLIAMS, OHIO
HAL DAUB, NEBR.
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JOHN HILER, IND.

MAJORITY—(202) 225-4407

April 27, 1982

#106

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

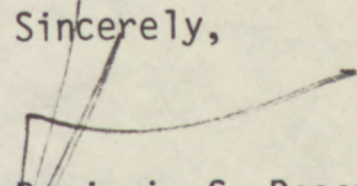
Dear Mr. Chairman:

The Commerce, Consumer, and Monetary Affairs Subcommittee is preparing to conduct a questionnaire survey, with the assistance of the General Accounting Office, of bank practices regarding dormant checking and savings accounts. I am writing to request the assistance of the Federal Reserve on one minor step in the preparation for mailing the questionnaire.

Enclosed is a copy of the randomly selected list of banks to whom the questionnaire will be sent. Please provide the name of the president of each state member bank on this list, and please indicate the source you have used in obtaining this name. (The listing identifies the state member banks by "SM" in column 2.)

I would appreciate having this information by Friday, May 7, if that would be possible.

Sincerely,


Benjamin S. Rosenthal
Chairman

Enclosure

BSR:dtb