CONGRESSIONAL
Sept. 24 through Oct. 31, 1982

Congressional
Spet. 24-Oct. 31, 1982

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

October 28, 1982

PAUL A. VOLCKER
CHAIRMAN

The Honorable William V. Roth, Jr.
Chairman
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510

Dear Chairman Roth:

Pursuant to Section 236 of the Legislative Reorganization Act of 1970, the Board of Governors of the Federal Reserve System submits this statement on recommendations contained in the September 2, 1982, Report of the General Accounting Office ("GAO") entitled, "Bank Examination for Country Risk and International Lending."

The Board's general comments on the report are set forth in its letter to the GAO of June 30, 1982. As noted in that letter, the Board appreciates the effort devoted by the GAO to analyze the country risk examination system and will utilize the report in conducting its own ongoing review of this relatively new system. The Board's comments on specific recommendations made by the GAO in the digest of the final report are addressed below.

One recommendation is that the objectives of special comments be more clearly communicated to bankers. The Board's views concerning the function of special comments are set forth in the second paragraph of its letter of June 30, 1982. These views have been communicated to bankers at various times by Federal Reserve staff and during examinations, when there is discussion between examiners and bank managements concerning the country risk exposures in the banks and the procedures used to manage those risks. However, we do not now have a document describing the country risk examination system and its objectives. The Board has instructed its staff to consult with the other agencies with a view toward developing written material that explains the procedures and objectives of the country risk examination system.

The GAO makes specific recommendations for improving the country studies that are one input used by the Interagency Country Exposure Review Committee in evaluating a country's debt service capabilities. Methods for preparing the country studies are constantly under review and the GAO recommendations will be considered as part of that process. However, some of the information that GAO recommends to be included in the studies is already provided to the Committee through oral presentations by Treasury Department staff and by bank examiners that have discussed country developments with bank managements.

There are several recommendations on improving the presentation of country risk information in a bank's examination report. The Federal Reserve is currently reviewing its instructions to examiners to increase the effectiveness of country risk presentations in the examination report.

The final GAO recommendation is that "examiners routinely follow-up on all outstanding recommendation/criticisms with notations in subsequent examination reports." Examiners are instructed to follow-up on all recommendations made at the previous examination. However, only those deficiencies that have not been corrected are noted a second time. This is a policy applicable to bank examination in general, not just to country risk. While this procedure produces a somewhat different audit trail from that recommended by the GAO, it is complete and it saves examiner time and agency money. No change in this procedure is contemplated.

Sincerely,

S/Paul A. Volcker

MGM:NS:pjt
bcc: Mike Martinson
Mrs. Mallardi (2)

Identical letter also sent to Chairman Brooks.

V-234

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

October 26, 1982

PAUL A. VOLCKER
CHAIRMAN

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

Dear Mr. Alexander:

Thank you for letting me know about the concerns of Mr. John Logan of Blytheville, Arkansas regarding Regulation Z (Truth in Lending). Mr. Logan believes that Regulation Z is too complex, particularly the requirements for calculating the annual percentage rate. In support he enclosed two pages from Appendix J to Regulation Z containing equations and related material.

In delegating rulemaking authority to the Board, Congress directed us to prescribe rules for calculating the annual percentage rate. Appendix J contains the formulas for determining the annual percentage rate, which provides a standard measure for the cost of a credit transaction for use by consumers in comparing various credit sources. Mr. Logan is right--Appendix J is indeed quite technical and his response to it is readily understandable. However, the appendix is not designed for use directly by creditors in their day-to-day operations. Rather, it is used extensively by commercial manufacturers of calculation tools such as charts, tables and calculators, which are in turn used by the great majority of creditors. In other words, it is one part of the regulation that Mr. Logan probably won't have to be concerned about.

Fortunately, those two pages are not representative of the overall content of Regulation Z, as you can see from the enclosed pamphlet. The regulation has been revised to implement the Congress' 1980 legislation to simplify Truth in Lending. Every effort was made to ensure that it would be easier to use and understand. The Official Staff Commentary on Regulation Z is a new feature that was added to the regulatory framework to provide further guidance to creditors on compliance. A copy of the commentary is enclosed, along with the regulation, for your information.

Admittedly, Regulation Z is still a document that requires considerable study in order to understand its requirements; this is regrettably an inherent aspect of regulation. The Board, however, does offer the personal assistance of its staff when creditors have specific questions about the regulation's requirements. The staff does not have a toll-free number on which they can be reached, but they are happy to respond to written or oral inquiries. Written inquiries should be directed to the Division of Consumer and Community Affairs, Federal Reserve Board, Washington, D.C. 20551. The staff may be reached by phone at (202) 452-3867 or (202) 452-2412.

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

Sincerely,

S/Paul A. Volcker

Enclosures

RS:CO:AFC:pjt (#V-234)
bcc: Ms. Silver
Mrs. Mallardi (2)

Action assigned Mr. Garwood

BILL ALEXANDER, M.C.
ARKANSAS
CHIEF DEPUTY MAJORITY WHIP

COMMITTEE ON
APPROPRIATIONS

201 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-4076

GATHINGS BUILDING, ROOM 211-A
615 SOUTH MAIN
JONESBORO, ARKANSAS 72401
(501) 972-4600

FEDERAL BUILDING, ROOM 202
BATESVILLE, ARKANSAS 72501
(501) 698-1761

Congress of the United States

September 28, 1982

#234

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1982 OCT 12 AM 9:44
RECEIVED
OFFICE OF THE CHAIRMAN

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

Dear Mr. Chairman:

Enclosed please find a letter from a constituent of mine expressing his confusion over the attached pages from the Regulation Z, Truth-in-lending book.

Frankly, I must admit the two particular pages enclosed are confusing. Is there an instruction booklet or a toll-free number users may call for assistance. I would appreciate any help your staff might offer me on this matter.

With kindest regards, I am

Sincerely,

Bill Alexander

BILL ALEXANDER
Member of Congress

BA/mjt

Enclosure

Dear Bill

BILL ALEXANDER, M.C.
ARKANSAS
CHIEF DEPUTY MAJORITY WHIP

COMMITTEE ON
APPROPRIATIONS

Congress of the United States

201 CANNON HOUSE OFFICE BUILDING
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(501) 698-1761

September 28, 1982

Mr. John W. Logan
President
Logan Real Estate
P.O. Box 551
Blytheville, AR 72315

Dear Mr. Logan:

Thank you for your recent letter and the attached pages from the Regulation Z, Truth-in-lending book. I agree with you, it's all greek to me. I have written the Federal Reserve System asking whether there is an accompanying booklet of instructions or a toll-free number users might call for assistance. I will be back in touch when I receive a reply.

With kindest regards, I am

Sincerely,

BILL ALEXANDER
Member of Congress

BA/mjt

RESIDENTIAL BUILDING
& FINANCING

PHONE
(501) 762-2033

LOGAN REAL ESTATE

520 Chickasawba Avenue
LOGAN BUILDING
Post Office Box 551
BLYTHEVILLE, ARKANSAS 72315

REALTOR

September 24, 1982

Representative Bill Alexander
201 Cannon House Office Bldg.
Washington, D. C. 20510

Dear Congressman Alexander:

I am enclosing a copy of pages 60 and 61 of Regulation Z Truth-in-Lending book printed by the Federal Reserve System. The total booklet consists of 88 pages of similar gobbledygook. I am sure that the Federal Government in its infinite wisdom had good reason for protecting the consumer but for the life of me, I cannot understand this regulation and I doubt if anyone in your office or the consumer can understand it either.

I know there is a need for federal regulations in many businesses including financial lending institutions but I think there should be some reason used when these regulations are drawn up.

I challenge you to look over these two pages and after your examination, I would ask you to contact the proper department and ask them to simplify the instructions so that people other than Math majors and PHD's can figure them out.

Sincerely yours,

John W. Logan

John W. Logan, President

JWL/drb

Enc.

Unit period = 6 months. Unit periods per year (w) = 2.

Advance, 7-15-78. Payment, 1-15-79

From 7-15-78 through 1-15-79 = 6 mos. (t = 1; f = 0)

Annual percentage rate (I) = wi = .0880 = 8.80%. (Use form 1 or 4.)

Example (iii): Single-advance, single-payment (term of more than one year but less than two years, fraction measured in exact months)

Amount advanced (A) = $1000. Payment (P) = $1135.19.

Unit period = 1 year. Unit periods per year (w) = 1.

Advance, 7-17-78. Payment, 1-17-80.

From 1-17-79 through 1-17-80 = 1 unit period. (t = 1)

From 7-17-78 through 1-17-79 = 6 mos. (f = 6/12)

Annual percentage rate (I) = wi = .0876 = 8.76%. (Use form 2 or 4.)

Example (iv): Single-advance, single-payment (term of exactly two years)

Amount advanced (A) = $1000. Payment (P) = $1240.

Unit period = 1 year. Unit periods per year (w) = 1.

Advance, 1-3-78. Payment, 1-3-80.

From 1-3-78 through 1-3-79 = 1 unit period. (t = 2; f = 0)

Annual percentage rate (I) = wi = .1136 = 11.36%. (Use form 3 or 4.)

(6) *Complex single-advance transaction.*

It is to be repaid by 24 payments of $100 each. Payments are due every four weeks beginning 2-20-78. However, in those months in which two payments would be due, only the first of the two payments is made and the following payment is delayed by two weeks to place it in the next month.

Unit period = 4 weeks. Unit periods per year (w) = 52/4 = 13.

First series of payments begins 26 days after 1-25-78. ($t_1 = 0$; $f_1 = 26/28$)

Second series of payments begins nine unit periods plus two weeks after start of first series. ($t_2 = 10$; $f_2 = 12/28$)

Third series of payments begins six unit periods plus two weeks after start of second series. ($t_3 = 16$; $f_3 = 26/28$)

Last series of payments begins six unit periods plus two weeks after start of third series. ($t_4 = 23$; $f_4 = 12/28$)

The general equation in paragraph (b)(8) of this section can be written in the special form:

$$2135 = \frac{100\,\ddot{a}_{\overline{9}|}}{(1+(26/28)i)} + \frac{100\,\ddot{a}_{\overline{6}|}}{(1+(12/28)i)(1+i)^{10}} + \frac{100\,\ddot{a}_{\overline{6}|}}{(1+(26/28)i)(1+i)^{16}} + \frac{100\,\ddot{a}_{\overline{3}|}}{(1+(12/28)i)(1+i)^{23}}$$

Annual percentage rate (I) = wi = .1200 = 12.00%

Example (ii): Skipped-payment loan plus

each beginning 9-15-78, plus a single payment of $2000 on 3-15-79, plus three more monthly payments of $750 each beginning 9-15-79, plus a final payment of $1000 on 2-1-80.

Unit period = 1 month. Unit periods per year (w) = 12.

First series of payments begins six unit periods plus 12 days after 3-3-78. ($t_1 = 6$; $f_1 = 12/30$)

Second series of payments (single payment) occurs 12 unit periods plus 12 days after 3-3-78. ($t_2 = 12$; $f_2 = 12/30$)

Third series of payments begins 18 unit periods plus 12 days after 3-3-78. ($t_3 = 18$; $f_3 = 12/30$)

Final payment occurs 22 unit periods plus 29 days after 3-3-78. ($t_4 = 22$; $f_4 = 29/30$)

The general equation in paragraph (b)(8) of this section can be written in the special form:

$$7350 = \frac{1000\,\ddot{a}_{\overline{3}|}}{(1+(12/30)i)(1+i)^{6}} + \frac{2000}{(1+(12/30)i)(1+i)^{12}} + \frac{750\,\ddot{a}_{\overline{3}|}}{(1+(12/30)i)(1+i)^{18}} + \frac{1000}{(1+(29/30)i)(1+i)^{22}}$$

Annual percentage rate (I) = wi = .1022 = 10.22%

Example (iii): Mortgage with varying payments

A loan of $39,688.56 (net) on 4-10-78 is

Year	Monthly payment	Year	Monthly payment
1	$291.81	16	$383.67
2	300.18	17	383.13
3	308.78	18	382.54
4	317.61	19	381.90
5	326.65	20	381.20
6	335.92	21	380.43
7	345.42	22	379.60
8	355.15	23	378.68
9	365.12	24	377.69
10	375.33	25	376.60
11	385.76	26	375.42
12	385.42	27	374.13
13	385.03	28	372.72
14	384.62	29	371.18
15	384.17	30	369.50

Unit period = 1 month. Unit periods per year (w) = 12.

From 5-1-78 through 6-1-78 = 1 unit period. (t = 1)

From 4-10-78 through 5-1-78 = 21 days. (f = 21/30)

The general equation in paragraph (b)(8) of this section can be written in the special form:

$$39{,}688.56 = \frac{\ddot{a}_{\overline{12}|}}{(1+(21/30)i)(1+i)} \left[291.81 + \frac{300.18}{(1+i)^{12}} + \frac{308.78}{(1+i)^{24}} + \dots + \frac{369.50}{(1+i)^{348}}\right]$$

Annual percentage rate (I) = wi = .0980 = 9.80%

(7) *Multiple-advance transactions.*

V-211

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

October 25, 1982

PAUL A. VOLCKER
CHAIRMAN

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

Dear Walter:

I apologize for the delay in answering your letter about possible Board action to discourage bank lending in connection with corporate takeovers. The delay does not reflect ambivalence on my part about whether the Federal Reserve is now equipped to undertake the responsibilities you suggest--I do not believe we are--or whether we should so equip ourselves--I do not believe we should. But I do well understand your concern about the appearance (and in some instances perhaps the reality) that considerations of efficiency, productivity, and technological improvement may be subsidiary, and that some merger activities seem to leave companies in a weakened, rather than strengthened, financial position.

To the extent those concerns are justified, the remedy may ultimately lie only in fundamental changes in the attitudes and incentives that drive our corporate managers--and, as important, a more stable economic environment in which market incentives reward productive and innovative activities more clearly and fully than financial restructuring.

Trying to approach these problems by a government agency making selective judgments about "good" and "bad" mergers would seem to me virtually unworkable in its particulars and an unfortunate precedent for governmental credit allocation more generally.

Your main concern, in directing your letter to me, is the possibility that bank credit for takeover loans may reduce the volume or increase the cost of credit for other purposes. I recognize that in the short run, takeover loans can have some impact on the distribution of credit, particularly if such financing is focused heavily on a portion of the banking sector already under pressure. However, I do not believe this to be significant over a period of time because the funds raised by takeover loan credits would normally be recycled back into the financial system for reinvesting. Seen from the perspective of the whole financial system, a corporate takeover would not typically be a drain on savings; the seller of the stock who has received funds that the buyer may have obtained by borrowing normally redeposits the funds with a financial intermediary or uses them to purchase other securities. These funds are then available for other purposes.

Recent takeovers financed by credit have had the effect, in the first instance, of retiring equity capital from the economic system, and result in a more highly leveraged financial structure with large ratios of relatively short-term debt. That is not, to me, a desirable by-product, even if a new "equilibrium" will be restored in time. But it is hard to sustain a case that takeover loans reduce the total amount of credit available for housing, business investment, agriculture, and other needs. The availability of funds for these purposes is limited by the total amount of savings in the economy.

The possible effects of large takeover financing on the financial strength of the companies involved is a major reason why banks should exercise sound prudential standards and caution in evaluating these types of loans, and the apparent speed with which some of this financing is arranged--or the fact that very large amounts may be extended under preexisting general commitments to lend--does sometimes raise questions in my mind. Concerns in this area, however, seem to me better handled through the supervisory process rather than through the methods you have suggested.

I recognize that large corporate mergers and acquisitions--especially those rapidly conceived and implemented--have an appearance of unfairness in access to credit. The question is whether that appearance can or should be "controlled" without raising even more problems. In this regard, I do not believe that regulatory control over bank credit provides an appropriate approach. How much new credit, in what form, is required to finance a particular merger would not have any particular relation to the economic or social value of a merger--and blocking one financing channel would only open others, here or abroad. Even more fundamentally, the Federal Reserve has little or no basis for blessing one merger or discouraging another; indeed, there must be a presumption in our system that willing buyers and sellers exercising their business judgment will also serve the goals of efficiency and productivity. Indeed, a consensus on the definition of what constitutes a speculative loan would be extremely difficult to achieve and it would soon be necessary to establish an elaborate administrative process with complex procedures for exceptions and dispensations--a process that would surely not achieve our shared goal of a more productive economy.

We will, of course, continue to monitor developments in this area in order to assure that such transactions do not have an adverse effect upon the credit standards of banks and upon the availability of credit generally. Beyond that, at the risk of treading in areas beyond my expertise, the questions seem to me to fall more logically in the areas of antitrust, adequate disclosure, and appropriate time for evaluation and "cooling-off." At any rate, I appreciate your concerns in this difficult area and wish that there were some simple and expeditious process for dealing with them.

Sincerely,

S/ Paul

PAV:pjt (#V-211)
bcc: Mr. Bradfield
Mr. Schwartz
Mrs. Mallardi (2)

Action assigned Messrs. Bradfield and Ryan
for coordination of reply

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

U.S. HOUSE OF REPRESENTATIVES

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

#211

September 13, 1982

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

Dear Paul:

As you know, I have been long concerned about the large impact which speculative lending for corporate takeovers has on economic activity. Large amounts of credit are needed for these mergers, thus substantially lowering the amount available for more productive uses. In addition, such large loan extensions can have a disruptive effect on the credit market as a whole. Firms subject to takeovers and those seeking to take over other firms tend to become more concerned with short-term goals, thereby neglecting long-term plans. This adversely affects our national security interests, our long-term international competitive position, and our strong and loyal workforce. Finally, these takeovers tend to foster a concentration of power among fewer firms, with loss of competition to the marketplace, and unforeseen consequences for inflation, employment, and productivity.

The tender offer by Bendix for Martin-Marietta, the counter-offers by Martin-Marietta for Bendix, and the subsequent entry by United Technologies seeking control and possible dismemberment of Bendix reflect in a microcosm the problems I have noted. While this particular effort has been well publicized recently, other takeovers have been just as complicated. The takeover game continues to go on, with no end in sight.

I am, therefore, requesting that the Board of Governors place on its calendar for their next meeting proposals such as outlined below and that they consider speedy implementation of a policy which would have a direct and immediate effect on those companies which seek to take over firms that do not need to be acquired for their survival and whose takeover or acquisition would not contribute to either the enhancement of productivity or the increase of employment.

I have carefully reviewed existing regulations available to the Board. I would propose that the Board consider some combination of the following suggestions which, when used collectively, would diminish the continued merger mania which seems to possess so many corporate managers.

Under Regulation "A," I would propose that banks which lend or have lending agreements for speculative purposes be barred from the use of the discount window for the duration of these agreements. For the purpose of determining extensions of credit by a Federal Reserve Bank, any loan made to an acquiring company in excess of the amount of funds outstanding to the company 30 days prior to the SEC filing would be considered to be made for a speculative takeover purpose.

Further, I would propose that banks which lend or have loan provisions for speculative takeover purposes be considered to have violated the provisions of Regulation "BB" setting forth the community reinvestment standards, since such loans would constitute prima facie evidence of an intent to neglect local credit needs. Such banks should be denied, for a period of 5 years, applications for branches, other facilities, mergers, and bank holding company status.

Additionally, I would propose that the stock of all companies involved in a takeover attempt be immediately subjected to a margin requirement substantially above that then in force. Such a provision would tend to diminish the speculative fever associated with such companies and it would discourage arbitrage. Furthermore, I would propose that, irrespective of the form of collateral used to secure loans made to a merging company, if the end use of the funds will be for acquisition of the stock of another company, the loans should be treated as margin loans secured by stock and then subjected to a margin requirement or equivalent, equal to 100% or more.

Proper exercise of the authority under the Securities Act of 1934 and Regulations "G," "T," "U," and "X," can prevent and bar loans for speculative takeover purposes and bar both the use of generally unregulated credit and the use of foreign credit for such purposes.

While your use of these provisions may have an immediate impact on the proposed Martin-Marietta, Bendix, United Technologies acquisition battle, I must note that I have not discussed this matter with any of these firms. I am, rather, quite displeased with the use of scarce credit resources for any such nonproductive endeavor as this.

Accordingly, I would like your response as soon as possible. I fully understand the difficulty of my requests to you and the Board and the possible need for some exceptions. Nevertheless, I ask you to try to assure that whenever scarce credit is used, it be applied to assure that corporations survive, that employment be enhanced, and productivity increased.

Sincerely yours,

Walt

Walter E. Fauntroy
Chairman

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

PAUL A. VOLCKER
CHAIRMAN

October 22, 1982

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

Dear Chairman Garn:

I appreciate your desire, expressed in your October 6 letter, to be kept fully informed regarding the System's proposal for changes in Federal Reserve check collection services and fee schedules. You may be assured that I will keep you informed of our progress in resolving the issues associated with this proposal to improve the payments mechanism through more rapid check clearing.

Sincerely,

Paul

P. S. I would expect a report in early December.

Paul

IDENTICAL LETTER TO SENATOR RIEGLE
LSM:CO:vcd (V-231)
bcc: Mr. Meeder
Mrs. Mallardi (2)
Mr. McEntee

Action assigned Messrs. Corrigan and Allison

United States Senate

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

#231

October 6, 1982

The Honorable Paul A. Volcker
Chairman
The Board of Governors of the
Federal Reserve System
20th & C Streets, NW
Room B2125
Washington, D.C. 20551

Dear Chairman Volcker:

We are writing to express our desire to be kept fully apprised of developments regarding the Federal Reserve Board's proposals for changes in its check processing and collection procedures and pricing schedules.

Over the past several weeks our staffs have had numerous meetings with industry representatives who are concerned about some specific aspects of the Board's plans as well as the more general implications for the Federal Reserve's competitive role in the payments system. We have concluded that the proposed changes in deposit and presentment deadlines could have inequitable competitive effects on correspondent banks, clearinghouses and private couriers, and we doubt that such effects would be consistent with the mandate and objectives of the Monetary Control Act of 1980. In addition, we are concerned about the piecemeal nature of these proposals and believe that all aspects of the Board's check collection plan, including fee schedules and the plan for pricing or eliminating float, should be laid out before any changes are implemented.

On September 27, 1982 our staffs met with Gerald Corrigan of the Minneapolis Federal Reserve Bank to discuss the proposals and the Board's implementation plans. As a result of that meeting, we are encouraged by the Board's sensitivity to the possible adverse implications of the check collection proposals and by the Board's willingness to work out differences with the affected institutions and organizations.

We understand that it will be at least six weeks before the Board completes its analysis of comments on the "noon presentment" proposal. We also understand that the complete plan for the Board's provision of check collection services will be set forth before the major elements of the plan are implemented and that there will be a delayed implementation. In view of the mandate of the Monetary Control Act and the importance of

Honorable Paul A. Volcker
October 6, 1982
Page 2

this proposal to the future of the payments system, we urge you to continue discussions with affected parties and formally request you to keep us apprised of the progress you make toward resolving the various issues that have been raised on this matter.

Sincerely,

Jake Garn

Don Riegle

Jake Garn

Donald W. Riegle, Jr.

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

October 19, 1982

PAUL A. VOLCKER
CHAIRMAN

The Honorable Roger W. Jepsen
Vice Chairman
Joint Economic Committee
Washington, D.C. 20510

Dear Vice Chairman Jepsen:

Thank you for your letter posing several questions regarding monetarism and the Federal Reserve's conduct of monetary policy. As we agreed, in the interests of an orderly process and to avoid unnecessary duplication of effort, I am responding on behalf of my colleagues in the Federal Reserve to whom you addressed your letter after consultation with them. The enclosed reply represents the consensus of views, with the exception of one member of the group who supplied alternative outline replies to your questions 1 and 2, which are attached at the end.

I would also like to take this opportunity to comment on some very recent developments which have been the subject of considerable speculation in the press and which bear on your inquiry.

As you know, pursuant to the Full Employment and Balanced Growth Act of 1978, the Federal Reserve establishes and reports to the Congress annual target growth ranges for several monetary and credit aggregates.

Last February the Federal Reserve established a target range for each of the aggregates. In the course of the year, I have had several occasions to comment on the relationship of these target ranges to the financing needs of economic recovery consistent with continued progress toward price stability and on the need to take into account the behavior of several monetary aggregates and other variables in assessing the course of monetary policy. In restating the targets in July, I commented with some emphasis on developments in velocity and the possibility of exceptional demands for liquidity in a period of economic uncertainty and transition. I have indicated on a number of occasions that the Federal Open Market Committee would be satisfied with growth of the aggregates around the upper end of their ranges and would tolerate for a time growth at a faster pace if this appeared to be motivated by precautionary demands for money. In this regard, I would note that the level of M1 for the last week in September was within a few hundred million dollars of the level implied by growth through the year at a 5-1/2 percent rate.

At its last meeting, the FOMC was faced with the almost certain expectation that the measurement of M1 over much of the remainder of this year would be distorted first by the passage of funds in maturing All Savers Certificates through M1 transactions accounts on their way to other investments and later by the introduction of a new money market fund-type account at depository institutions pursuant to the Garn-St Germain legislation. While the impact of the All-Savers maturity should be transitory--a matter of a few weeks--the introduction of a new deposit instrument is still more problematical in amount and timing (although the probability seems to be that it will depress, not increase, M1 growth). In either case, relying directly on M1 to build the "path" for the provision of reserves would give arbitrary results for the current period. Hence, deemphasis for a period of time seemed the only practical approach.

In view of all this, the Committee determined that for an interim period, while these distortions work themselves out, greater operational weight will be placed on M2 and lesser weight on M1. Obviously, we will glean what evidence we can from the M1 data--for instance, if the early October bulge did not subside, that would need to be taken into account in providing reserves, but we had no way of estimating in advance just how large the bulge would be. Despite what the press has reported, that is all there is to it with respect to M1, just an adjustment in operating procedures to take account of an expected series of technical developments.

I have discussed these points at greater length in a recent speech, excerpts of which I've enclosed for your information. This series of events, in my view, is a concrete illustration of "the practical monetary-oriented targeting approach pursued by the System," that I refer to in reply to your question 3.

If I can provide any additional information on this matter, please contact me.

Sincerely,

S/Paul A. Volcker

Enclosures

MP:NS:PAV:pjt (#V-177)
bcc: Mike Prell
Mrs. Mallardi (2)
(Encl. Excerpt from Informal Talk of Chrmn. to Business Council
At Hot Springs, Va. 10/9/82)

1. What is "monetarism"?

I'm not aware of any generally accepted all-purpose definition of the term. As a practical matter, I believe it would be fair to characterize it as referring to a view that monetary policy should be framed solely or primarily in terms of growth of certain money stock measures, which are presumed to bear reasonably stable relationships to other key economic variables, especially--over the medium or longer run--prices. Monetarists often view relatively sustained acceleration versus deceleration in money growth as a key factor explaining major cyclical movements in the economy but emphasize that over time monetary growth will be reflected in prices rather than output.

Within that general framework, "monetarists" may differ in emphasis on particular measures of money, on the length and nature of lags in effects on prices, on impacts on the "real" economy, and on relationships between money and interest rates. Whether a particular analyst considers himself, or is considered by others, to be "monetarist" often depends upon judgments on these matters. "Monetarism" is typically associated with those giving little or no weight to factors bearing on the price level other than "money."

"Monetarism" is also often associated with emphasis on techniques to control the money supply by controlling the growth of some aggregate of reserves, rather than by attempting to set the level of short-term interest rates.

2. Are changes in the demand for money frequent enough, large enough, and sufficiently long lasting to vitiate the usefulness of "monetarist" monetary policy? What about changes in real output?

Changes in the demand for money in relation to the nation's income, unless of moderate dimension and quickly reversed, would tend to vitiate the usefulness of what might be called a "strict" monetarist approach--that is, one in which the monetary authority sought to hold very precisely to a predetermined monetary growth path in both the short and long run. While there is some difference of professional opinion on this matter, research done by economists inside and outside the Federal Reserve System on the whole appears to confirm the common impression that in the past decade, which has been marked by major changes in financial institutions and cash management practices, there have been appreciable shifts from time to time in the public's demand for money to finance transactions or to hold for precautionary or liquidity reasons at given levels of income and interest rates. If ignored in the implementation of policy, these shifts would lead to a policy that was, depending on the direction of the shifts, either "tighter" or "easier" than intended in terms of impact on the real economy or prices. One significant consequence of an effort to enforce strictly predetermined money growth targets in the face of appreciable shifts in money demand would be greater instability in interest rates. However, as long as there is sufficient flexibility in implementation of policy to take account of ongoing changes in the public's attitude toward money, monetary aggregates within a reasonable range can provide a practicable long-run indicator of policy intent.

When the demand for money changes because of changes in real output, adherence to a given monetary target path would tend to result in cyclical variations in interest rates that help to stabilize growth in economic activity. Interest rates would tend to rise as the pace of economic activity quickened and to fall as it slowed. In that respect, use of monetary targets may represent a relatively efficacious approach to stabilization policy when there may be unexpected shifts in the public's demand for goods and services at given interest rate levels. An adjustment of monetary targets might be desirable, however, when there are unanticipated "supply shocks" to the economy, such as an OPEC oil embargo--but this is a complex issue requiring attention to the particular circumstances.

More generally, if price responses to monetary growth are long delayed and relatively weak, and output changes pronounced and lasting, the case for strict application of "monetarism" is weakened, at least unaccompanied by other policies directed towards those problems. Basic differences of opinion on this score underlie much of the controversy about "monetarism."

3. Is it correct to say that the Federal Reserve has been following a "monetarist" policy since October 1979?

The Federal Reserve has been focusing on the monetary aggregates as intermediate targets for policy since the early 1970s; since 1975, Congressional directives have required that the Board report objectives for monetary expansion. The change in October 1979 involved the means of implementing monetary policy; greater reliance was placed on control of the reserve base as the means of achieving desired monetary growth. That change was in a direction advocated by many "monetarists."

The change in operating technique should not, by itself, necessarily be viewed as "monetarist" in the strict terms indicated earlier, however. Such a judgment depends upon the degree of flexibility with which monetary objectives are pursued, including efforts to take account of perceived shifts in the public's attitude toward money.

In 1981, for example, the Federal Open Market Committee, responding to indications that changes in cash management behavior were reducing the public's desired holdings of M1 at given levels of interest rates and GNP, lowered its sights at midyear to the lower end of the target range initially set for the year. More recently, the System did not seek to reverse immediately a late-1981, early-1982 bulge in M1 that was concentrated in NOW accounts and seemed to be related largely to increased desires for liquidity on the part of the public during a period of economic uncertainty. Moreover, the FOMC has indicated its desire, in light of developments in the first half of the year, to see M1 grow at around the top end of its 1982 growth range; it also has indicated its willingness to tolerate movements above that range in the months ahead if economic and financial developments suggest a persistence of unusual precautionary demands for money.

This sort of flexibility--the willingness to look at all of the available information and to alter the monetary growth objectives in the light of current judgments--does not accord with the usual views of "strict" monetarists, but it is fundamental to the practical monetary-oriented targeting approach pursued by the System.

As indicated, the change that actually occurred in October 1979 was one involving the procedures employed in the pursuit of monetary targets. Up to that time the System focused on short-term interest rates, influenced through open market operations, as the day-to-day "operating target" for policy. We took action to raise or lower money market rates as needed to encourage the public to alter its cash holdings to the targeted level. In late 1979 we decided instead to employ nonborrowed reserves as the day-to-day operating target, and let interest rates fluctuate on their own. By focusing open market operations more directly on the growth of reserves in the banking system, we expected to attain a better control of money growth over time. Thus this change could be said to be more "monetarist," but much depends on the manner and on the kind and degree of judgment used in applying the control techniques.

4. Did implementation of the Credit Control Act in March 1980 interrupt the "monetarist" policy announced in October 1979, and how would you characterize Fed policy since that time?

The public's reaction to the credit control program was unexpectedly sharp. The marked contraction in borrowing after the program was instituted, and the resurgence in borrowing as it was unwound, led to sizable fluctuations in money balances and interest rates--first downward then upward. While the credit control program contributed to short run variability in money, our aim over the period was to keep money growth on track on average and over time. Certainly the use of explicit credit restraints was not, in itself, monetarist. While the monetary aggregates were in fact thrown off course for a period, those restraints in conception were considered supplementary to, rather than inconsistent with, the techniques announced in October 1979. Thus, that episode is not appropriately viewed as an "interruption" in policy intentions with respect to control of the monetary aggregates.

5. If not, then what change actually occurred in October 1979, and how would you characterize Fed policy since that time?

As I noted above, in responding to question 3, what occurred in October 1979 was a change in operating procedures undertaken to improve monetary control. I would say that our policy has been, and remains, one of containing the growth of money and credit to a rate consistent with reducing inflationary pressures in the economy and laying the groundwork for a sustained, balanced economic expansion.

6. How do you feel about moving toward a "price rule" for monetary policy?

I interpret "price rule" to involve the price of goods and services, rather than an interest rate or exchange rate. I think there is a good deal to be said in principle for placing a focus on the general level of prices over time as an ultimate guide for monetary policy. Economists of many theoretical persuasions would agree that, over the long run, the greatest impact of money is on the price level. The difficulty I see, as a practical matter, is that this relationship may be a long-term one, and that therefore current price movements--whether of broad price indexes, of limited "baskets" of commodities, or even of single commodities like gold--may not be uniquely useful as guides for policy in the short run.

We certainly pay close attention to price movements and trends in assessing the impact and appropriateness of our actions, and some of us believe clear articulation of price stability as a basic long-run goal is helpful. However, the realities of the structure of the economy would make a rigid short-run price rule a potentially counterproductive approach--one that might result in greater monetary and economic instability.

7. To what extent is monetary policy, as currently conducted by the Fed, responsible for high interest rates, as opposed to fiscal policy, and what policy changes, if any, should the Fed make today in order to reduce interest rates?

Interest rates are determined by a complex interaction of many forces, including monetary and fiscal policy, but private behavior--including expectations of inflation--is often critically important. For instance, if at a time of strong inflationary concerns and high credit demands the Federal Reserve opened the monetary "tap" and poured reserves into the banking system, any resultant lowering interest rates would likely be short-lived. Perceptions that the Federal Reserve was abandoning anti-inflationary restraint would quickly lead to renewed upward pressures on interest rates as people came to expect more rapid price increases and acted accordingly, increasing credit demands in the process and reducing savings.

Within the context of a longer-range policy of restraining money growth to damp inflation, fiscal policy looms large as a cause of high interest rates. The Treasury, in meeting the government's credit needs, must bid funds away from potential private borrowers and this competition for a limited pool of savings boosts interest rates above levels that would otherwise prevail. Moreover, intermediate- and long-term yields tend to reflect investors' expectations of future credit market pressures, so that the current prospect of large, perhaps growing, federal budget deficits as the economy recovers is a major factor holding rates in some sectors of the markets higher than they otherwise would be. At the same time, the prospect of such large deficits and of sustained tensions in credit markets causes some people to fear that at some point the Federal Reserve will deviate from its course of restraint and engage in an inflationary "monetization" of the debt, and this also tends to maintain a substantial inflation premium in long-term rates.

These responses may be damped in degree when the economy is weak and inflation is perceived to be slowing. With more confidence in the medium- and longer-term price outlook, and with private credit demands sluggish, increases in the money supply might normally be associated, at least for a time, with lower interest rates, and future Treasury borrowing might then be a less acute concern. In particular circumstances, these potential reactions are a matter of judgment. In any event, lasting relief from high interest rates requires that the Federal Reserve maintain a credible posture of anti-inflationary restraint. To the degree that is achieved, greater flexibility in management of the money supply in the short-run is possible, consistent with lower interest rates. Meanwhile, the Congress and the Administration can help to alleviate the pressures on rates by moving forward with their efforts to restore fiscal balance.

Question 1: "What is Monetarism?"

Several journal articles have attempted to summarize the principal distinguishing scientific hypotheses that characterize a monetarist view. Generally, these hypotheses concern the effects of changes in money stock growth on economic performance. Some central hypotheses for monetary policy in the U.S. are detailed below.

(1) Monetarists emphasize that inflation is a monetary phenomenon. An anti-inflation policy is inherently one that sustains a relatively lower rate of growth of narrow monetary aggregates.

(2) Monetarists emphasize that accelerations or decelerations in money growth have relatively quick impacts on aggregate demand, with their permanent impact on inflation occurring with a longer lag. As a result, accelerations or decelerations in money growth are a key factor in cyclical movements in output and employment.

(3) Monetarists emphasize the direct link between inflationary expectations and nominal interest rates. Since inflation is largely determined by the pace of monetary expansion, interest rates tend to fluctuate in the same direction as the growth rate of the money stock, rather than inversely.

(4) Monetarism also involves the study of money stock control, since variations in money stock growth have important effects on economic performance. Such research tends toward the conclusion that central bank procedures that control the money stock directly (i.e., through manipulation of some part or all of reserves or the money stock provided by the central bank) rather than indirectly (through influences on short-term interest rates) are likely to be simpler, more successful, and therefore more credible.

Question 2: "Are changes in the demand for money frequent enough, large enough, and sufficiently long lasting to vitiate the usefulness of "monetarist" monetary policy? What about changes in real output?"

The answer to this question should include the following points:

(1) The evidence on the nature of money demand shifts is not as conclusive as the response implies. There is, in fact, evidence indicating that the demand for money function has not been subjected to large, frequent nor unforseen shifts during the past few years. This evidence is found directly in formal studies on the money demand relationship and indirectly in studies that have shown the M1-GNP link to be reliable during the past few years.

(2) Although large, frequent, unforseen shifts in the demand for money may cause problems under a monetary aggregate targeting procedure, the alternative--interest rate targeting--is not necessarily preferrable. The relationship between interest rates and economic activity may have weakened at the same time.

(3) Instability in the money demand relationship, to the extent it exists, is, in large part, the outcome of a reaction to high rates of inflation, interest rates and attempts by institutions to circumvent restrictive regulations on interest rate payments. A monetary targeting approach that reduces future inflation also reduces future interest rates and, consequently, the impetus to innovate.

ACTION ASSIGNED TO MR. KICHLINE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYS
1982 AUG -6 AM 8:52
RECEIVED OFFICE OF THE CHAIRMAN

Congress of the United States
JOINT ECONOMIC COMMITTEE
(CREATED PURSUANT TO SEC. 5(a) OF PUBLIC LAW 304, 79TH CONGRESS)
WASHINGTON, D.C. 20510

August 5, 1982

#-177

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

Dear Chairman Volcker:

Recently, a number of commentators have suggested that monetary policy is the principal factor keeping interest rates high. It has been further suggested that this is due to the inherent weakness of the "quantity theory." It has been said that if the quantity of money is fixed, then it stands to reason that inflation and interest rates will fluctuate based on changes in the demand for money and the real output of the economy. Therefore, recent changes in the demand for money and in real output which have not been accommodated by faster money growth are responsible for high interest rates.

These commentators have argued that the Federal Reserve's policy is essentially "monetarist' and that this "monetarist" policy is therefore largely responsible for high interest rates. They further argue for a "price rule," wherein the monetary authorities target the price level (or some proxy, such as gold or a sensitive commodity index) rather than the quantity of money itself. Such a policy, it is said, would cause interest rates to decline.

I would appreciate your comments on these propositions. In particular, I would appreciate your answers to the following questions:

1. What is "monetarism"?

2. Are changes in the demand for money frequent enough, large enough, and sufficiently long lasting to vitiate the usefulness of "monetarist" monetary policy? What about changes in real output?

3. Is it correct to say that the Federal Reserve has been following a "monetarist" policy since October 1979?

4. Did implementation of the Credit Control Act in March 1980 interrupt the "monetarist" policy announced in October 1979? If so, how and for how long?

5. If not, then what change actually occurred in October 1979, and how would you characterize Fed policy since that time?

Mr. Paul Volcker
August 5, 1982
Page Two

6. How do you feel about moving towards a "price rule" for monetary policy?

7. To what extent is monetary policy, as currently conducted by the Fed, responsible for high interest rates, as opposed to fiscal policy, and what policy changes, if any, should the Fed make today in order to reduce interest rates?

I would appreciate your response to these questions in preparation for a Joint Economic Committee report on the relationship between Federal Reserve policy and high interest rates. Your cooperation is most appreciated.

Sincerely,

Roger W Jepsen

Roger W. Jepsen, U.S.S.
Vice Chairman

RWJ:bbs

Sandy Wolfe

October 19, 1982

Mr. Jerry Lewis, Chairman
Task Force on Congressional
and Regulatory Reform
House Republican Research Committee
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Lewis:

Chairman Volcker has asked that I respond to your letter of September 22, 1982, seeking input from the Federal Reserve and others in preparing a legislative agenda on regulatory reform for the 98th Congress. I have made arrangements for our staff to assist your Task Force.

I am enclosing a copy of our most recent legislative recommendations to the Congress, which were included in our 1981 Annual Report. Of the seven recommendations, those most directly related to relieving regulatory burdens are: (1) amendment of the Monetary Control Act to exempt depository institutions with less than $5 million in deposits from reserve requirements or to exempt from reserve requirements the first $2 million of deposits for all depository institutions, (2) a variety of amendments to the Financial Institutions Regulatory and Interest Rate Control Act of 1978, in order to ease requirements that are unnecessarily burdensome, to correct procedural problems, and to contribute to the efficient enforcement of the Act, and (3) amendment of section 23A of the Federal Reserve Act regarding transactions with affiliates, to eliminate certain unnecessary complexities and restrictions. Legislation recently passed by the Congress substantially includes the above recommendations.

In addition, I am enclosing a copy of our initial report to the Congress under the Financial Regulation Simplification Act of 1980, which suggests some possibilities for reform. In particular, Part IV of that report contains suggested approaches that the Congress might consider adopting to assist regulatory agencies in minimizing burdens on regulated businesses.

Our staff contact for your Task Force will be Barbara R. Lowrey, Associate Secretary of the Board, who manages our Regulatory Improvement Project. Her office telephone number is 452-3742.

If I can personally be of further help in any way, please let me know.

Sincerely yours,

William W. Wiles
Secretary of the Board

DK/BL/cf #221

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B. ROBERT OKUN, DIRECTOR

TASK FORCE ON CONGRESSIONAL AND REGULATORY REFORM

HOUSE REPUBLICAN RESEARCH COMMITTEE

U.S. HOUSE OF REPRESENTATIVES

WASHINGTON, D.C. 20515

#221

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1982 SEP 24 AM 9:07
RECEIVED
OFFICE OF THE CHAIRMAN

September 22, 1982

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

Dear Chairman Volcker:

The House Task Force on Congressional and Regulatory Reform appreciated the opportunity to address you and the rest of the members of the Council of Independent Regulatory Agencies. I have communicated to the other Members of the House Task Force your willingness to contribute to our end of year "legislative mandate" on regulatory reform for the 98th Congress. The Members are most appreciative.

For this project we will be seeking input from a variety of sources including academics, the Administration, congressional committees, industry, as well as individual regulatory agencies. As was discussed, our Task Force Director will call your office during the next week to contact your designated assistant, who can work with us on this program. In general we are interested in assessing the FTC's performance over the past two years, what successes were achieved or what problems remain, and also your ageny's legislative recommendations for the 98th Congress.

I am enclosing several recent Task Force publications. Of course, we will include you on our mailing list for all future papers. In addition, we hope to arrange several meetings in the future among you, the Task Force and ranking members of committees with oversight for some of the regulatory agencies. Such an exchange on an informal basis promises to improve operations and understanding for all parties involved.

Again, Chairman Volcker, thank you for your cooperation. If the Task Force can assist you in any way, please do not hesitate to call. I look forward to hearing from you.

Sincerely,

Jerry Lewis

Jerry Lewis
Chairman

House Republican Research Committee

1616 LHOB, WASHINGTON, D.C. 20515 • TELEPHONE NO. 202/225-0871

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Ex-Officio

WILLIAM E. O'CONNER, JR.
Executive Director

August 16, 1982

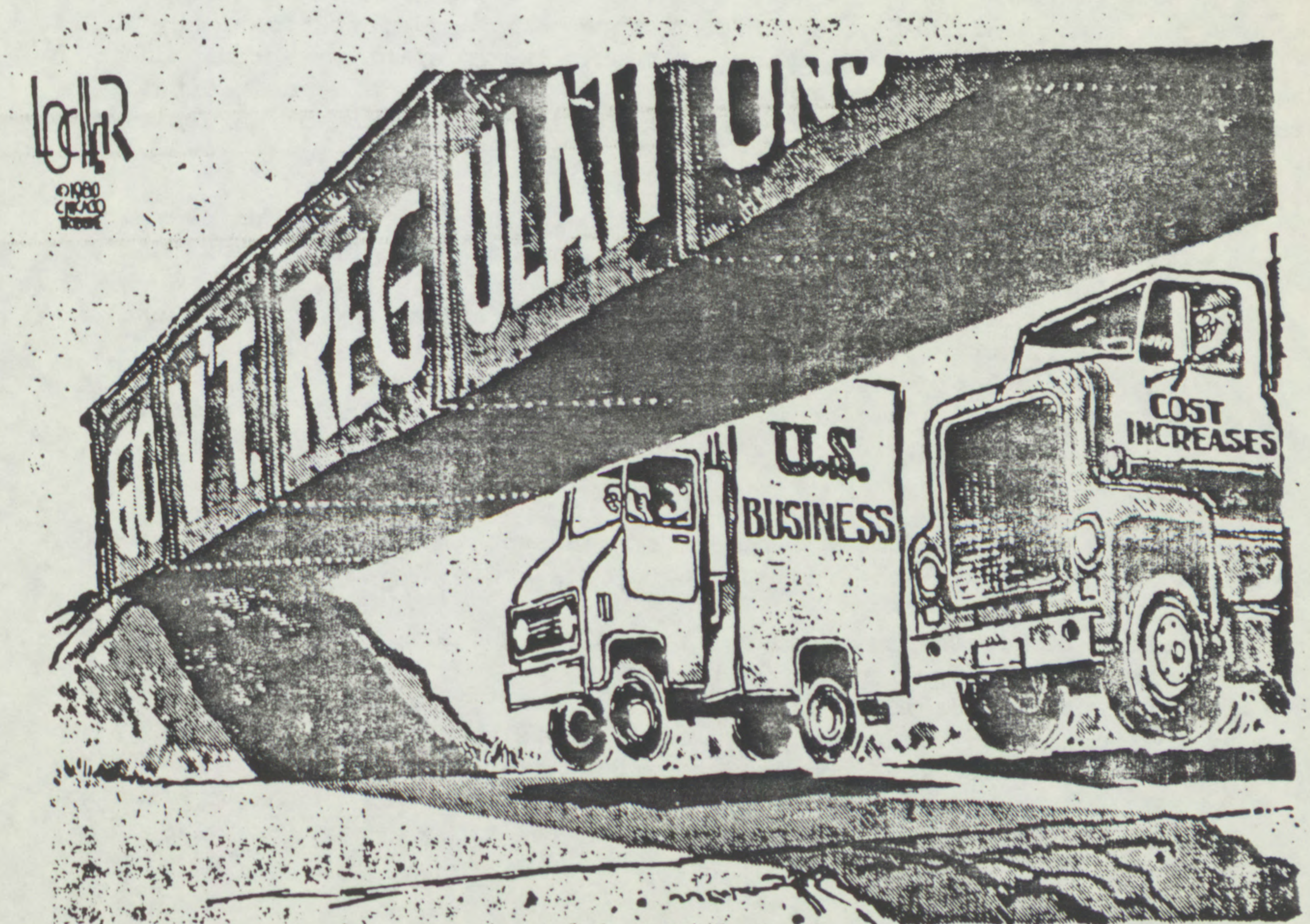
TASK FORCE ON CONGRESSIONAL AND REGULATORY REFORM

Jerry Lewis
Chairman

Bob Okun
Director

A Fact Sheet on Regulatory Reform

The strength of our economy in the 1980's may well depend upon how willing we are to reconsider our investment in federal government regulation. Certainly some regulations are necessary and serve to protect the public. However, many other regulations promulgated in the past, have proven to be costly, while they have offered few if any benefits. Over the past decade government agencies have increased in cost and size and their regulations have forced higher consumer costs. The direct costs of federal regulatory activities to the taxpayer have nearly tripled, from \$2.8 billion in fiscal 1974 to \$7.1 billion for 1981. But the overall economic impact was far greater, estimated at \$135 billion for this year by Murray Weidenbaum, former Chairman of the President's Council of Economic Advisors.



Regulatory reform remains one of the four pillars of this Administration's economic recovery program. The reform effort has proceeded steadily, behind the scenes during the past eighteen months, but it has received little publicity in relation to the budget and the tax program. The regulatory reviews to date will save more than $70 billion over the next decade, and this money will be available for more investment, increased productivity, and new jobs. Other benefits of reducing the regulatory burden such as elimination of bureaucratic harassment, do not carry a price tag. As Vice President George Bush said recently, all of these savings "will not jeopardize either the environment or the safety of the workplace, but will lay the foundation for a stronger economic recovery..." This fact sheet examines the Administration's effort to reform regulation after a year and a half.

Early Actions

The Administration took early actions which signaled a major change in federal regulatory activities. Shortly after taking office, the President issued Executive Order (E.O.) 12291 to ensure that individual regulations were well-reasoned and economically sound. The E.O. required agencies to list alternatives--together with their benefits and costs--when publishing new regulations for public comment. The principal responsibility for regulation review resides with the Office of Management and Budget (OMB), under the direction of the Presidential Task Force on Regulatory Relief, chaired by Vice President Bush. Furthermore, the President issued a 60 day freeze on 172 "midnight" regulations issued in the final week of the Carter Administration. Subsequently, thirty-five of these "midnight" regulations were withdrawn.

Some Agency Budget and Employment Facts

The Reagan Administration has reversed the steady growth in both agency budgets and employment that occurred during previous administrations. (By 1979, well over $5 billion of taxpayers' revenues were spent to administer 57 regulatory agencies, employing more than 88,000 people). This administration's dramatic redirection of federal regulation has helped to streamline activities at the regulatory agencies. For example:

- Regulatory agencies will be approximately 10 percent smaller overall for FY 1982 under the Reagan budget than they would have been under President Carter's budget.
- During the 1970's, outlays of the 57 major federal regulatory agencies increased nearly 240 percent (in constant dollars). Expenditures increased by only 1 percent, in real terms, for 1981.
- The 1983 budget shows an intent to continue the rollback as constant dollar expenditures of these agencies are projected to decline by one-sixth from 1981 to 1983.

As part of reforming the government's regulatory apparatus, there has been a substantial decline in staffing at the major agencies.

- Actual reductions in personnel in 1981 as compared to 1980 were four percent overall, from 90,500 in 1980 to 86,700. Even sharper cutbacks are expected for 1983.
- The curtailment in social regulation staffing between 1980 and 1983 is nearly 17 percent as compared to a 562% staffing increase form 1970 to 1979. This reigning-in is meant to force the bloated bureaucracies to refocus their limited resources toward the truly important areas of

regulation.

- Ten percent fewer positions are projected for 1983 than there were in 1980 in areas of traditional economic regulation (e.g. industry specific activities such as airline and telephone service, along with finance and banking). These reductions are consistent with the Administration's goal of permitting the free market to operate with as little federal intervention as possible.

Slowing the Flow of New Regulations

Comparison with levels of activity in earlier years clearly indicates that the volume of new federal regulations declined markedly in 1981, and has continued to decline during the first six months of 1982. The OMB review process has placed the burden on agencies to document the impact of their major regulations, and has screened out regulations with large potential costs and smaller benefits. During this time period:

- The number of final regulations declined by 22% as compared to the last year of the Carter Administration.
- The number of proposed rules declined by 34%--from a monthly average of 669 during the last year of the Carter Administration to 519 during the first seventeen months of the Reagan Administration.
- The number of new regulations being issued were cut by one-half.
- The number of pages in the Federal Register decreased by one-third, as compared with the last 18 months of the Carter Administration.
- The savings from withdrawl or revision of the regulatory programs designated so far for review has been estimated at $9-11 billion in private capital investment costs.
- Savings in recurring costs annually to the private sector have been at least $6 billion.

Reduced Paperwork Burdens

When the Administration took office, Americans were spending one-and-a-half billion hours a year filling out federal forms. This is a greater work load than what the entire workforce of the auto industry puts in during one year.

- The cost of paperwork for small business alone comes to $12 billion a year.
- Under the provisions of the Paperwork Reduction Act, most federal forms and record-keeping requirements must be approved by OMB.
- By the end of 1982, the one and one-half billion hours of paperwork will have been cut by 200 million hours. This is a 13% reduction from the paperwork burdens that were in existence when President Reagan took office. These man-hours no longer wasted on filling out forms for the federal government will be available to improve overall productivity.

Changes in Specific Existing Regulations

Many of the regulatory revisions update or eliminate antiquated rules, use private markets rather than direct government controls to address the regulatory problem, give states and localities more flexibility in administering federally funded programs, and make regulations with large social costs and small social benefits less restrictive.

- The Reagan Administration so far has designated 111 existing regulatory programs and paperwork requirements for high-priority agency review. Special attention has been given to the problems facing small businesses, state and local governments, in addition to regulations with major economic impacts. The Administration has taken action on approximately 70% of those programs.

Some of the notable reform actions announced by the Task Force on Regulatory Relief include:

- USDA has revised forms to certify eligibility of food stamp recipients. For example, family members in one household who previously had to file separate forms can now use a single joint form. These changes resulted in a reduction in annual paperwork burden of almost 2 million hours.
- The Department of Energy has relaxed federal requirements that instructed local electric and natural gas utility companies to give their residential customers an "energy audit" or inspections of their homes or apartments for $15 or less. DOE required detailed state plans and the high cost of inspections was reflected in rising utility bills. The revisions give states the greatest possible flexibility in overseeing the program, providing estimated annual savings to states and utilities of $100-150 million.
- HHS has proposed to eliminate the requirement that most prescription drugs be accompanied by a flyer explaining the drug's effects since the regulations were an ineffective way to provide information to patients. In place of the regulation, FDA is working with physician groups in a program to improve the transmission of drug information to patients. Several drug store chains have made available at their counters compendia of drug-related information, so patients can be aware of any drug side-effects <u>before</u> they use them. Removal of this regulation will save pharmacies, drug suppliers and consumers between $20-100 million annually.

Federal agencies initiated other actions resulting in significant deregulatory effects. Some of these include:

- The Department of Labor removed employment restrictions for homeworkers in the knitted outerwear industry. The restrictions were imposed forty years ago to prevent citizens from working in their homes for less than the minimum wage. However, the rules curtailed employment opportunities and earning power, and were no longer necessary to safeguard the minimum wage.
- OSHA has proposed to drop a regulation that does not allow self-service gasoline stations to offer locks on gas pumps (The locks permit customers to fill-up without having to hold on to the pump.) The regulation as it stands can actually increase safety hazards because it induces consumers to wedge open gas pump handles with their tank caps, and can cause hand injuries in cold weather.
- The Department of Transportation has simplified regulations dating back to the First Congress, which ships owners must follow to register their ships. New rules are expected to save the industry $5 million annually by greatly reducing the number and complexity of the forms and filing requirements.
- Since President Reagan decontrolled domestic petroleum, the Department of Energy has stopped collecting data no longer necessary for regulatory purposes, and will collect only essential statistical data.

These changes will save over 550 work-years which otherwise would have been spent meeting federal requirements.

Other efforts to address burdensome federal regulations include:

- The Task Force on Regulatory Relief requested (through the Department of Commerce) comments from industry leaders on the most onerous regulations currently in force. A year ago, the Task Force published a list of the so-called "Terrible Twenty" regulations.
- A number of Congressional offices have done mailouts to their constituents soliciting burdensome regulations. The responses were then passed along to the President's Task Force on Regulatory Relief. Subsequently, the Task Force took actions that addressed many of the specific concerns. For example, OSHA has proposed to exempt over 500,000 employers in various non-hazardous industries such as retail trade, insurance and real estate, from having to fill out a log of occupational injuries and illnesses--particularly since these businesses have had historically few work-related injuries. In addition, the IRS and Department of Labor have taken steps to simplify ERISA regulations which govern pension plans. These overly complex requirements have tended to discourage private sector pension plans.

Other Members have developed grass roots projects in their districts to deal with regulatory problems of small businesses and other community members.

- On August 4, 1982 the Task Force on Regulatory Relief published a report summarizing the progress in reducing federal regulatory burdens on state and local governments. Cost savings from changing regulations that unduly constrain state and local decision-making and program administration are $2.0-2.1 billion in annually recurring costs and $4.1-6.1 billion in one-time capital investment costs.

Some Major Legislative Deregulatory Actions

Oil Decontrol

One of President Reagan's first acts in office was to accelerate the removal of domestic oil price and allocation controls. To date, the lifting of these regulations has promoted greater conservation of petroleum, decreased oil imports, and helped to revive domestic production. While there was a short-term gasoline price increase, as the price of oil rose to reflect the free market value, gasoline prices dropped measurably, and have now stabilized. That decline in the price of gasoline has been one of the major factors contributing to the lower inflation rates.

Telecommunications

The Justice Department's anti-trust suit against AT&T, the world's largest corporation, was settled in January, 1982. The proposed settlement is an effort to introduce more competition into the telecommunications field, but its full scope is unclear. The case is still pending in Federal District Court while the House until recently has been considering comprehensive telecommunication legislation.

The same day on which the AT&T settlement was reached, the Justice Department dropped its anti-trust suit against IBM. The anti-trust suit had become obsolete since technological advances and increased competition in the data processing field had eroded much of IBM's alleged monopoly power. Together, the IBM suit and the settlement of the AT&T case (regardless of its outcome) promise to accelerate the worldwide "communications revolution".

Airline Transportation

Contrary to many critics of marketplace forces, airline deregulation is working well. Most importantly, carriers are changing their routes to provide better service. Most cities, including those in smaller communities, are receiving improved service either through increased flights or more direct service. Local service airlines have expanded their networks to compete with the large airlines and have forced the big carriers to realign their routes.

In addition, fares are now more cost-based than before. Promotional fares and reduced off-peak fares, for example, are commonplace. While fares in many cases are higher than they were under regulation, the growth of new entrants and the resulting competition has put downward pressure on costs and prices. According to the Civil Aeronautics Board (CAB), fares are lower now than they would have been had regulation continued.

The Regulatory Reform Bills

The Omnibus Regulatory Reform Bill now pending in Congress constitutes the first major overhaul of the Administrative Procedure Act of 1946, the statute that mandates specific methods for federal rulemaking. Among other provisions, the Bill would require a discussion of both costs and benefits for major new regulations (those with an economic impact of $100 million or more) and would constrain the ability of the courts to defer to the agencies during judicial review. On March 24,1982 the Senate passed by 94-0 the Regulatory Reform Act (S.1080), which would affect the procedures of all regulatory agencies in the federal government. The Senate bill contains a more broad version of the controversial legislative veto, which would enable Congress to turn down, by a majority vote in both Houses, nearly all new regulations issued by agencies. No presidential sign-off is needed for the veto. In addition, the Senate bill requires stricter presidential supervision of the independent agencies than does the House version, H.R.746. That House bill has a more strictly defined legislative veto provision and exempts nineteen independent agencies from OMB's regulatory oversight. With 251 co-sponsors, H.R.746 is awaiting floor action.

Conclusion

Regulatory reform is one of the four cornerstones of the Administration's economic recovery plan for a very good reason: Americans were fed-up with being over regulated and there was a sense that the government was intruding into many aspects of life where it had no business. It is generally recognized that excessive regulation fuels inflation by adding costs and decreasing productivity, slows growth in production and employment, and impedes innovation and investment. During the past eighteen months, the Reagan Administration has been working for the most part behind the scenes to change the direction of federal regulation. Successful administrative reviews of specific regulations now underscore the need for the Congress and the Administration to pinpoint where statutory change is most needed. As President Reagan stated last February, "Not all of our regulatory problems can be solved satisfactorily through more effective regulatory management and decision-making. Existing regulatory statutes too often preclude effective regulatory decisions..."

House Republican Research Committee

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Executive Director

July 23, 1982

Task Force on Congressional and Regulatory Reform

Jerry Lewis
Chairman

Bob Okun
Director

The Federal Trade Commission (FTC) and the Professions

The problem of monopoly in America is most serious when anticompetitive practices are sanctioned by government. State or Federal endorsements of barriers to entry, price fixing agreements or other collusive activities can be highly resistant to marketplace pressures. Professional services have been affected by such activities, particularly at the state level, and the FTC has been increasing its involvement to improve the competitive situation. The Commission's goal regarding professionals is to promote competition and freedom of choice as an alternative to "big-brother" regulation. Indeed, in a recent article that is highly critical of many FTC cases, Professor Ernest Gellhorn singled out the Commission's actions vis-a-vis professionals as making good economic sense and providing benefit to consumers.

Many economists have concluded that the markets for professional services are not competitive. Certainly, state and local regulation of the quality of health and other professional services is highly desirable, as is much of professional self-regulation. The vast majority of professionals undoubtedly oppose harmful anticompetitive practices in their fields. However, an extensive array of private restrictions and government regulations control aspects of professional practice which have little to do with ethical standards, but have a significant economic effect on the market for professional services. These include dictating not only who may enter the profession and what services may be offered to the public, but also how professionals may conduct the business aspects of their practices. This is particularly true in the health professions, which have received most of the attention because of the large and rapidly increasing expenditures for health care. Greater reliance on market forces and less regulation can help to stem these rising health care costs.

There is a strong case that the FTC should not have scrutiny over "quality of care" aspects of doctors, dentists, lawyers and other groups. The FTC is neither a competent nor the appropriate organization to determine, for example, the medical qualifications of physicians or other professional standards. The case for any FTC role is limited to the economic activities of these groups such as price fixing, group boycotts or other restrictions on the business aspects of professional practice.

Private restrictions on professionals, as well as government regulation, create costly inefficiencies. The FTC has built on a significant body of economic evidence indicating that certain types of professional regulation can impose substantial costs on consumers. Restrictions by states on advertising the prices of prescription drugs have been estimated to cost consumers $134 million annually. Regulations restricting advertising of eyeglasses resulted in consumers paying 25 to 40 percent more for prescription eyewear.

Much more work remains to be done in assessing the costs and benefits of various types of restrictions on professional practice. A 1979 study by the Commission's Bureau of Economics found that regulations limiting the way optometrists may organize their practices increased prices by 17 percent without increasing the quality of service. Since such restrictions are widespread in markets such as vision care ($4 billion in annual sales) and dentistry ($14 billion spent annually), the economic loss to consumers is likely to amount to billions of dollars. Other studies have demonstrated that higher prices prevent some consumers from obtaining needed services, which further injures the public welfare.

The FTC has adopted only <u>one</u> rule directed at health professionals. In that rule the FTC acted in a deregulatory manner to preempt state regulations that restricted truthful advertising by eye doctors. The economic case against these restrictions was overwhelming, and market statistics following the Commission's action show substantial savings for consumers.

Overall, the FTC activities regarding the professions increase consumer welfare by permitting market forces to operate without interference from private collusive activity or burdensome government regulation. If the Commission's activities duplicated efforts at the state level or trampled on states' legitimate prerogatives, then there would be reason for concern. This does not appear to be the case. Evidence suggests that the political power professional associations wield at the state level often protects themselves from competition, with little or no resistance from state authorities.

Professional groups seeking to restrict competitive behavior undoubtedly intend that their actions serve the public. However, the economic costs to consumers have been neglected too often, and the public benefits claimed from restrictions on competition have not been substantiated. In its early period of involvement in the professions, the FTC exhibited some excessive rhetoric, which failed to acknowledge the traditional bases of professional regulation. The FTC displayed overblown fears of evil conspiracies. The Commission's more recent actions reflect a record of sound and careful economic analysis, though. Such actions have improved the health and well-being of consumers through wider availability of quality professional services, at lower cost.

<u>Conclusion</u>

In a recent editorial,the Wall Street Journal stated:

"In general, it's a good idea to keep the federal government out of things. Generally, more power to the FTC has meant more punitive and unnecessary regulation. But this time the Commission is on the side of the markets. And it bears repeating that the purpose of (this) deregulation (effort) is to let the market in..."

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July 14, 1982

Task Force on Congressional and Regulatory Reform

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Bob Okun
Director

The U.S. Maritime Industry: More Competition is Needed

The Administration's recently announced maritime shipping proposals appear to depart dramatically from recent pro-competition approaches that have been pursued in other transportation areas. The new plan allows increased cartelization of the U.S. shipping industry by permitting operators flying the U.S. flag, as well as foreign flags, to act collectively, free from anti-trust scrutiny. Indirect subsidies are effectively increased under the policy. Ship operators would continue to receive direct subsidies.* However, a second, non-budgeted advantage for U.S. carriers would come from permitting groups of them to set higher than competitive rates for their service.

As President Reagan acknowledges, our strong merchant marine is a vital "economic instrument for the support of U.S. interests abroad." However, increased cartelization in order to strengthen the U.S. shipping industry can have serious economic consequences. Exporters, importers and consumers are likely to bear the brunt of less competitive policies through higher transportation and product costs. The international shipping industry is now increasingly competitive. More not less of a free market approach should be considered to ensure a viable U.S. merchant marine and to offer the public high quality liner service at the lowest possible price.

Background

During a period of slow changes in ship and cargo handling technology at the turn of the century, the shipping industry complained of excess shipping capacity and destructive rate wars as ships competed for inadequate supplies of cargo. Amid these cries, Congress reasoned that ocean carriers needed to organize collectively and to engage in certain cooperative activities such as the setting of rates to ensure profitability. Policymakers also concluded that this rate setting activity needed to be regulated in order to protect the public from abuse. Consequently, The Shipping Act,1916, as amended, restricted the organizational structure of groups of ocean carriers known as conferences and the activities in which they could engage.

* In 1981, operating subsidies paid to eight U.S steamship companies on international routes ballooned to $417 million. Outlays amounted to more than $2.53 million for each of the 165 ships in the U.S. international fleet.

"introduction of new transport technologies and the associated development of intermodal transport systems." Such innovation and new forms of competition have eroded route-wide control by closed conferences. The number of new, advanced types of ships has doubled since 1977 in the European/Far East trades, considered to be a closed organization and competition from the Mediterranean and Baltic trades has rigorously challanged this closed conference.

Competition in the liner trades is enhanced by the lack of difficulty in entering new trades. There are several reasons for ease of entry into the market.

1. Capital costs are not an overriding factor that prohibit firms from entering the liner trades. New firms can charter technologically advanced liners on the open market. Some government guarantees also reduce capital costs of U.S. flag vessels.

2. Large ship size is not a requirement for viable entry into available markets. Shipping companies continue to use small scale liners which can confine service to a narrow range of ports and/or cargoes. New computer scheduling and cheap telephone communications can permit independently owned and operated lines also to offer shippers a variety of different sized ships.

3. Extended price cutting intended to bankrupt other efficient lines is not likely to succeed. Some small financially weak lines might not enter trades because of cut-throat pricing. Yet, once a 'predator' attempted to raise its prices, swift re-entry from other competing lines would follow. In addition, it would be extremely costly for a 'predator' to undermine established liner companies.

In the last four years, the number of sophisticated and powerful non-conference shipping lines entering international shipping has increased 130%. As examples, a Europe to Middle East route reported 73 instances of new competition from shipping companies and the U.K./Australia route cited 30 cases of new entry. In the European conference trades, total outsider shipping competition will represent 30% of all business in 1982.

Competition has soared because handling costs have decreased through rapid technological change in communications and the introduction of cargo shipments in large standard-sized "containers." Container technology can reduce packing costs by almost 40% and can increase tonnage loaded per hour by 400-800%. U.S. flag operators pioneered the development of containerization and over the years the intermodal vessel fleet in the U.S. has grown steadily. (In 1970, there were 85 containerships, no barge carriers and only three sophisticated roll-on/roll-off (Ro/Ro) ships. By 1980, there were 107 containerships, 16 barge carriers and 20 Ro/Ro's).

Furthermore, Eastern bloc countries, independent liner companies and improved transfer between land and sea modes of freight transportation maintain constant pressure on conference members. As a result, both closed and open conferences have responded to this competition with discounts from established rates.

will be price wars initially to stimulate business and to work-off excess capacity. After this transition which includes scrapping of `some ships and less new investment, the volume of trade should respond to adjusted freight rate levels. A de-cartelized, freely competitive maritime industry can allow shipping lines the most efficient use of their resources and offer better service at lower cost without government's counterproductive regulation. Since shippers have learned to deal with floating exchange rates, they should also be able to adjust to fluctuating freight rates. Indeed, 65% of shippers questioned in a recent survey, believed that open competition would lead to the lowest liner rates. Results of the survey indicate that rate levels were the most important factor considered when deciding how to ship goods.

Some argue that competition in international ocean commerce might lead to destructive rate wars and ultimate domination by foreign,state-owned-and-subsidized fleets. However, it is important to question what foreign governments gain by subsidizing their carriers in order to transport other nations' goods at lower prices. Since U.S. crew costs are at least twice European costs* and U.S shipbuilding costs are nearly triple that of foreign builders and take about two years longer to build, the U.S should take advantage of this generosity. Just as importantly, the Soviet Union continues to carry less than 5% of both U.S liner exports amd imports(in part due to U.S sanctions against the Soviets for invading Afghanistan,) and Soviet shipping rates are no lower than those of other independents. Thus, the "Russian threat" to U.S national security seem exaggerated. Rather than maximize their political power and control through subsidies, foreign governments pay their carriers in an effort to bolster their merchant marine, as does the United States.

Recommendations

The United States should ignore pleas to strengthen shipping cartels in order to permit greater than competitive profits. Strengthened shipping cartels would require heavy government regulation by the FMC to provide minimal protection for consumers from non-competitive practices. Instead, the U.S. should not permit conferences in U.S. trades, deny anti-trust immunity to operators, remove most FMC regulation and rely on the competitive forces of the marketplace to ensure more efficient and less costly oceanborne transportation service. Deregulation of the U.S. maritime industry will no longer protect inefficient lines and will permit innovative, cost conscious firms to flourish. Technological leaders such as Sea-Land Service, Inc., the only unsubsidized U.S. flag liner, in FY 1981 had the most number of flagships(47) and the highest gross revenue ($1,413.7 million). In the liner trades, U.S. liner companies have approximately a 30% share of the total U.S. export and import markets, and advances in technology can improve that position.

* As of April 1, 1981

Monthly Crew Costs

Country	Master	2nd Engineer	Able Seamen
United States	$17,387	$8,212	$3,301
Japan	9,705	3,920	3,643
West Germany	7,401	4,174	2,200
Sweden	8,695	4,813	2,605
Denmark	5,945	2,899	2,428
Korea	2,800	905	644
Ghana	2,062	1,610	422

House Republican Research Committee

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May 4, 1982

TASK FORCE ON
CONGRESSIONAL AND REGULATORY REFORM

Jerry Lewis
Chairman

Bob Okun
Director

Oil Decontrol: A Deregulation Policy that is Working

The energy outlook for the United States has improved dramatically in the past two years. At the close of the 1970's, U.S. oil and gas reserves and production were dropping, energy consumption was rising, and this country was heavily dependent on imported oil. Today, exploration and drilling for oil and gas are at record highs. Production of oil has stabilized and even begun to increase, reversing a 10-year decline. Energy consumption has been reduced, oil imports have been slashed, and petroleum product prices have fallen. Reducing oil imports has improved America's balance of trade, thus strengthening the dollar and weakening inflation.

A major share of credit for these improvements is due to the decontrol of domestic crude oil and petroleum products, along with world supply and demand developments. In his February,1982 Economic Report to the Congress, President Reagan commented on these advances and added, "only skeptics of the free market system are surprised by the results." Indeed, oil decontrol has reversed much of the counterproductive energy policies of the past decade and continues to be a deregulation effort that is working.

History and Background

The prices of domestic crude oil and refined petroleum products were subject to various federal controls from August 16, 1971 to January 28, 1981. Those controls kept prices below what they otherwise would have been.

Controls began when President Nixon introduced what later became a four-phase program to combat inflation. At first, most goods in the economy, were subject to controls. Subsequently, controls were removed from other segments of the economy, while those affecting petroleum were extended. The Emergency Petroleum Allocation Act of 1973(EPAA) set up a two-tier system of price controls. "Old" or "lower tier" oil prices were set at $5.25 a barrel, while prices of "new" or "upper tier" oil were allowed to go to worldmarket levels. Small "stripper" oil wells producing 10 barrels a day or less were exempted from controls.

As reserves shrank, so did production. Oil output declined 11% during the 1970's. In the lower 48 states, the year-to-year decline in the 1970's amounted to about 300,000 barrels a day. Natural gas production dropped by 10 percent in the same years. Meanwhile, energy consumption continued to increase. With less domestic oil available, Americans became ever more dependent on foreign oil sources. In 1970, the United States used 14.7 million barrels of oil a day and imported 23 percent of it. In 1979, the nation used 18.5 million barrels a day and imported 45 percent of it. Oil imports rose during the decade from 3.4 million barrels a day to 8.4 million barrels a day.

Thus, at the end of the 1970's the outlook for U.S. oil and natural gas appeared to be growing steadily worse. Many people were convinced that this country would have to import ever larger amounts of oil to fill the gap between rising energy consumption and declining oil and gas production.

The Rise of World Oil Prices

Because the United States and other industrial nations became more dependent on imported oil during the 1970's, OPEC was able to keep raising its prices. Other nations with oil to sell followed OPEC's lead.

The average cost of imported crude oil to U.S. refiners in 1970, including transportation charges, was $2.96 a barrel. The cost jumped from about $4 a barrel in 1973 to more than $12.50 a barrel in 1974. The Iranian revolution led to another sudden major increase in 1979, and the price continued to rise. In 1980 the average cost was nearly $34 a barrel, and by February 1981 it was $39. These price jumps were like excise tax increases that drove up world oil prices, while at the same time reduced real economic growth because oil users had less money to spend on other goods.

By contrast, domestic prices were held much lower. In 1980, the average cost of acquiring a barrel of domestic crude oil was about $24. More than half of the oil produced in the United States in 1980 was controlled at prices ranging from about $6.50 to a little over $14 a barrel. Domestic oil price controls continued to depress U.S. oil production,which tended to elevate the world price of crude oil,along with consumer prices of gasoline, fuel oil and other refined products. Controls on domestic crude oil prices also increased U.S. consumption and confirmed America's reliance on more expensive and politically unstable foreign oil supplies.

Oil Decontrol Turns the Tide

President Carter was criticized sharply for beginning the phased removal of oil price control in June 1979. President Reagan received the same kind of criticism for ending all price and allocation controls in January 1981. The critics argued that decontrol would not increase U.S. oil production, would not encourage energy conservation and would lead to much higher prices, thus harming consumers.

Experience to date has shown that the critics were wrong. Predictably, consumers, as well as producers, have adjusted to freely changing oil prices over the long term. Here are some developments in connection with the decontrol of domestic oil and recent trends in world oil prices:

-- A ten year decline in U.S. oil production has been reversed.

-- Wells completed: A record total of about 78,450 wells were drilled in the United States during 1981 in search of oil and natural gas. The number has more than doubled since 1976 and has more than tripled since 1971. Drillers completed more than twice as many oil wells in 1981 as gas wells. The number of oil wells completed in 1981 increased by about 39 percent over the 1980 total, while gas wells increased by less than 14 percent.

-- Crude oil price: Nations around the world are cutting their oil prices because of the current oversupply. Some exporting countries have announced two price cuts within a month, and Iran recently was reported to have reduced prices three times during February. U.S. oil producers also are reducing their prices. In mid-February, The Oil Daily reported that domestic crude oil prices had fallen to the lowest level since October 1979.

-- Product prices: Prices of gasoline and heating oil did not rise nearly as much after decontrol as some opponents of decontrol had predicted. The increases that did occur reflected, in large part, a December 1980 OPEC price hike and higher costs of refining and delivering products. As crude oil prices have come down, retail product prices also have fallen. For example, the Bureau of Labor Statistics has reported that the average price of leaded gasoline dropped by 6.7 cents a gallon from March 1981 through January 1982. Since then, prices have continued to fall. The Oil and Gas Journal survey showed a decline of nearly 9 cents a gallon in gasoline prices from March 1981 through mid-February 1982. Home heating oil was more than $1.10 a gallon on New York spot markets a year ago; however, heating oil was available in April, 1982 on commodity futures markets, considered to be a reliable indicator of price movements, for about 74 cents a gallon.

Conclusion

Oil decontrol appears to be providing consumers with a variety of benefits that would not have been possible under continued controls. Of course, not all of the benefits mentioned can be credited entirely to decontrol. For example, the oversupply of oil on world markets has helped reduce prices. The economic slowdown has reduced America's need for imported oil. But many of these factors are interrelated. Clearly, more oil production and less consumption in this country helped bring about the worldwide oversupply, which in turn led to lower prices for petroleum products.

Many analysts have concluded that even after economic conditions improve and the demand for petroleum begins to rise, this country's energy situation will be more secure than it would have been under continued price controls. Furthermore, many of the price-induced efficiencies and conservation measures adopted by American homeowners, businesses and factories will continue to have a long-range beneficial impact. Estimates are that nearly half of the fall in energy demand is now built into peoples' attics, as well as cars' and companies' capital equipment.

The February, 1982 Report of the Council of Economic Advisors contains this statement about oil decontrol:

"The entitlements regulations provided artificial incentives to import crude oil and residual fuel oil; the abolition of the regulatory framework has removed that incentive. The end of artificially high oil import levels had a favorable effect upon exchange rates, and thus upon the prices of foreign

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

PAUL A. VOLCKER
CHAIRMAN

October 19, 1982

The Honorable Berkley Bedell
House of Representatives
Washington, D. C. 20515

Dear Mr. Bedell:

Recently I responded to your earlier letter concerning the number of copies of applications filed with the Federal Reserve System by bank holding company applicants. I indicated that, on the basis of your calling the subject to my attention, I asked staff to review System policies regarding the number of copies of applications filed with the System. I further indicated that when the review was completed, the results would be shared with you.

As a result of our review, we plan to reduce the number of copies of applications required, but the reduction is limited by essential needs. The exact number of copies will depend on the type of application, the charter status of the bank or nature of the company to be acquired, and the organizational structure of the Reserve Bank handling the application. As an illustration, applicants to the Federal Reserve Bank of Chicago will be required generally to file an original and six copies of an application to acquire an additional state-chartered bank, for a total of seven, instead of the ten copies referred to in your letter. Of the seven copies, one is used for official record and public inspection purposes, two are required by other regulatory agencies in order to carry out their responsibilities to review and comment to the Board on the application, and four are used by financial analysts, economists and lawyers at the Reserve Bank and Board staff level to review, analyze and prepare recommendations for System action on the application.

In the Federal Reserve System we are seeking to achieve two major goals in our processing of applications. On the one hand, we are committed to a fair and honest appraisal of the applications by various functions at the Board and the Federal Reserve Banks staff levels prior to presentation of the application for final action. At the same time, we are equally committed to expeditious processing of all applications submitted. We believe both of these objectives are supported by applicants. To require below some minimal number of copies of applications would effectively stymie one or the other objective. Too few copies means that one function must wait to carry out its review until another function completes its work and can pass on the copy of the application, therefore, timeliness is difficult to achieve. The alternative of reducing the scope of the review to fewer functions within the System, would run counter to the effective administration of various relevant statutes.

Generally, it appears to us that the applicant is in the best position from an efficiency point of view, to provide the required number of copies. Nevertheless, I appreciate your reminding us of the necessity to constantly monitor our procedures and remain alert to the possibility that we are imposing burdens on applicants beyond that necessary to carry out our responsibilities. I can assure you that we will continue to monitor and review our requirements on a regular basis.

For your information, I am enclosing a copy of a letter addressed to each of the Federal Reserve Banks setting forth the commitments made during this review and reminding them of the need to minimize the paperwork burden on applicants commensurate with their ability to achieve fairness and timeliness in the processing of applications.

Sincerely,

Paul A Volcker

Enclosure

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

AD 82-35 (STR)

DIVISION OF BANKING
SUPERVISION AND REGULATION

October 15, 1982

TO THE OFFICERS IN CHARGE OF EXAMINATIONS, LEGAL, AND RESEARCH DEPARTMENTS
AT ALL FEDERAL RESERVE BANKS

Subject: Number of copies of applications

Board staff recently conducted a survey of the number of copies of applications that are used in the application process. This survey was conducted in an effort to reduce the number of copies required, without diminishing the effectiveness and timeliness of our analysis. Generally, copies of applications are required for use by other state and federal regulatory agencies, as well as the Reserve Bank and Board. The survey determined that while reductions may not be appropriate for copies supplied for the use of other agencies because of statutory review requirements, certain reductions by Reserve Bank and Board staff could be accomplished. As part of this effort, Board staff will reduce by one the number of copies of applications that are processed for Board action applications. Reserve Banks are requested to implement the reductions in the copies of applications that they indicated were possible without affecting the timeliness and adequacy of each Reserve Bank's review process. Please implement these reductions for all applications accepted after November 1, 1982. Enclosed are revised pages for the Manual on Procedures for Processing Bank Holding Company Applications that reflect the foregoing changes.

John E. Ryan

JOHN E. RYAN
DIRECTOR

Enclosures

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

October 19, 1982

The Honorable Norman D. Dicks
House of Representatives
Washington, D. C. 20515

Dear Mr. Dicks:

Thank you for your letter of September 7 asking for comment on correspondence you received from Mr. Roger Harpel of Renton, Washington. Mr. Harpel refers to Article I, section 8, clause 5 of the United States Constitution, section 371 of Title 31 of the United States Code, and the Coinage Act of 1792 and asks a number of questions concerning the value of a dollar.

As provided in the Coinage Act of 1792, this country's earliest monetary statute, the "money of account" of the United States is expressed in dollars or units of dollars. In this connection, section 371 of Title 31 of the United States Code specifically states that the money of account shall be in terms of dollars. The dollar, therefore, is the standard unit of value in our monetary system. Although the dollar has been defined in the past in terms of gold or silver content, there is no requirement that the monetary system of this country consist of currency backed by gold or silver.

As Mr. Harpel notes in his letter, Article I, section 8, clause 5 of our Constitution gives Congress the power to regulate the value of money. The Congress, in turn, has delegated its monetary power to the Federal Reserve System through the Federal Reserve Act of 1913 and subsequent amendments.

The value of money relates to the goods and services that it will purchase. Neither paper currency nor deposits have value as commodities. Intrinsically, a dollar bill is just a piece of paper. Deposits are merely book entries. Coins do have some intrinsic value as metal, but typically far less than their face amount.

The main factor which makes these instruments--checks, paper money, and coins--acceptable at face value in payment of all debts and for other monetary uses is the confidence people have that they will be able to exchange such money for real goods and services whenever they choose to do so. This is partly a matter of law; currency has been designated "legal tender" by the government, and paper currency is a liability of the government. Deposits are liabilities of the commercial banks. The banks stand ready to convert such deposits into currency or transfer their ownership at the request of depositors. Confidence in these forms of money also seems to be tied in some way to the fact that assets exist on the books of the government and the banks equal to the amount of money outstanding.

But the real source of money's value is neither its commodity content nor what people think stands behind it. Money, like anything else, derives its value from its scarcity in relation to its usefulness. Money's usefulness is its unique ability to command other goods and services. In other words, money's value can be measured only in terms of what it will buy; its value varies inversely with the general level of prices.

Of course, it would be possible to establish a fixed value for the dollar in terms of other currencies or other commodities, like gold or silver. However, historical experience suggests that to do so severely limits the flexibility of policy-makers to respond to economic shocks, and it thereby risks serious dislocations in the economy. Moreover, the transition to such an approach involves innumerable technical difficulties--notably, in choosing the appropriate value of the dollar. For these and other reasons, the United States Gold Commission recently concluded that ". . . under present circumstances, restoring the gold standard does not appear to be a fruitful method for dealing with the continuing problem of inflation."

Therefore, the value of the dollar is allowed to float. The Federal Reserve, by influencing the supply of money, does affect the value of the dollar. But the amount of goods and services that the dollar can command is determined through complex interactions of supply and demand in many domestic and foreign markets, a process which is inherently difficult to predict. Moreover, the goal of price stability must be balanced against other objectives set forth by Congress in the Employment Act of 1946 and elsewhere--namely, general economic stability and growth, a high level of employment, and reasonable balance in transactions with foreign countries.

I understand and sympathize with the problems that inflation has caused. The Federal Reserve, responding to the mandate for a return to price stability, has committed itself to reduce the rate of growth of the money supply as an essential element in the battle against inflation. Success in this endeavor would be facilitated and hastened by continued efforts to reduce federal spending and budget deficits and to eliminate unnecessary or inefficient regulation.

Finally, Mr. Harpel's comments seem to indicate a belief that a return to a hard money standard would prevent inflation. Historically, this has not been true. Indeed, throughout most of the 1800's, the United States was on some sort of gold standard. Yet this standard did not prevent prices from fluctuating widely even though the value of a dollar as measured in gold stayed relatively stable. Further, since gold is a raw material that has commercial, industrial, and decorative uses, the supply of gold available for use in the economy as well as for these other purposes also fluctuated, depending upon how much gold was being discovered and processed from ore compared to the price the public was willing to pay to hold it or to use it. Several financial panics occurred in the 1800's and early 1900's while we were nominally on the gold standard. The country has not had such a panic since we left that standard. One of the panics, in 1869, was caused when two financiers attempted to corner the commercial gold market. Thus, even when dollars are backed by gold and silver, private market forces may upset the stability in the government-specified price between dollars and gold.

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

Sincerely,

(Signed) Anthony F. Cole

Anthony F. Cole
Special Assistant to the Board

GTS:AFC:vcd (#V-210)

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

Action assigned Mr. Bradfield

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#210

September 7, 1982

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

Dear Mr. Chairman:

I am enclosing a letter from my constituent, Mr. Roger Harpel, who has a series of questions concerning coinage and value of money.

I hope you will provide me with answers to these questions which I can share with my constituent.

Thank you for your assistance.

Sincerely,

Norm Dicks

NORMAN D. DICKS
Member of Congress

NDD:gwp

Enclosure

Roger Harpel
[redacted]

SEP 2 1982

August 29, 1982

Congressman Norm Dicks House of Representatives Washington, DC 20515

Dear Congressman Dicks:

Thank you for working so hard to convince the members of Congress to buy Boeing 747 cargo planes in place of C-5B. Our great nation has already wasted much treasure in rebuilding a plane that Lockheed didn't do right to begin with. It is such a shame to see so much debt be created for inferior product. Please don't despair. You did the best job you could to strengthen our national defense for a smaller debt we could better afford.

The reason that I am writing you relates to an August 7, 1982 Seattle Times article carried on page A1, "Pentagon hoped to conceal rise in C-5B cost until 1983." In this article, Mr. Robert B. Ormsby, president of Lockheed-Georgia Co. said, "We want to emphasize there has been no growth in Lockheed's prices, as expressed in 1980 dollars..." Countered Dicks, "The Air Force is doing everything it can to explain this away. But the program has just jumped $2.1 billion."

Article I, Section 8, clause 5 of the United States Constitution declares that, "Congress shall have the power to...coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures;". Has Congress regulated the value of money to be different between 1980 and today? If not, then has the Federal Reserve System regulated the value of the money between these two dates to be different? If not, who is regulating the value of our money or is it even being regulated?

I understand that United States Code Title 31 Section 371 declares the dollar to be the unit of measure of the money of account of the United States. In the same way that a quart measures a quantity of liquid, a dollar measures a quantity of the money of account of the United States. Has Congress fixed a standard of weights and measures that define what a quart or an inch is? If so, how are they defined?

I understand that the Coinage Act or 1792 defined the dollar as being a certain weight of a certain fineness of silver coin. Has the definition of a dollar quantity changed between that time and now? If so, what is now the substance of a dollar of the money of account of the United States and how much is a dollar quantity of it? Is a dollar quantity still measured by weight or is it now measured by volume?

Thank you again for serving the interests of our nation and the state that you represent. Our great republic is that much stronger when able men represent the people. May God bless you with the wisdom to be just and the curiosity to seek the truth.

Regards,

Roger Harpel

Roger Harpel

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

October 18, 1982

PAUL A. VOLCKER
CHAIRMAN

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

Dear Mr. Anderson:

Thank you for your letter concerning your constituent's "Mortgage Turnover Plan" to assist the housing industry. Under this plan, banks and thrift institutions could collateralize discount-window borrowing with older low-rate mortgages, thereby obtaining loanable funds that would be earmarked for new mortgage loans to be made with interest rates of 13 percent or below. The advances from the Federal Reserve would be repaid at the same pace as the underlying collateral is amortized.

Such a plan would represent a substantial recasting of the purpose of the discount window. Discount-window credit, now available to thrift institutions as well as banks, is provided primarily on a short-term basis as a source of temporary funds to help individual depository institutions with large, unexpected deposit or portfolio adjustments. Somewhat longer-term credit may be provided when institutions lacking ready access to money markets need help in covering recurring seasonal needs for funds, or on an extended credit basis in cases of a more protracted liquidity need.

The Federal Home Loan Bank System, of course, already functions as a provider of longer-term funds to savings and loan institutions. To that extent, it would appear redundant to designate the Federal Reserve for a similar role. On the other hand, the FHLB advances are generally made at some markup over the FHLB System's own cost of raising funds, not at the sort of preferential rate envisioned in your constituent's Mortgage Turnover Plan. This aspect of the plan raises the general question of the wisdom of subsidizing particular segments of the credit markets.

The discount window is not intended to serve as a means to achieve credit allocation, which it would become under the "Mortgage Turnover Plan." In general, the Federal Reserve has maintained that resources are deployed most efficiently and equitably when credit markets are allowed to operate as freely as possible. Our brief experience with selective credit controls in the spring of 1980 demonstrated how difficult it is to achieve fair treatment for all participants in the credit markets, and the potential that exists for counterproductive market distortions, when a central authority attempts to allocate credit directly and in detail.

The Honorable Glenn M. Anderson
Page Two

I am acutely aware of the severe problems that high interest rates create for the housing industry and other interest-sensitive areas of the economy. But recent high interest rates have in large part reflected the anticipation of sizable government deficits and the adverse implications that large deficits carry for inflation and interest rates in future periods. The Congress and the Administration took meaningful action this summer to bring the structural component of the federal budget deficit under better control, although more needs to be done in this regard. The only enduring remedy for high interest rates in this situation is for the federal government to continue deficit-reducing measures and for the Federal Reserve to adhere to its anti-inflationary policy of moderation in the overall growth of money and credit. As the fundamental long-range success of such policies has become recognized, interest rates have moderated and over time seem likely to moderate further, benefiting all sectors of the economy.

I hope you find these comments helpful.

Sincerely,

S/Paul A. Volcker

CAL:RMF:JLK:NS:vcd (V-181)

bcc: Mr. Luckett
Mr. Fisher
Ms. Wing
Mrs. Mallardi (2)

Action assigned Mr. Kichline

GLENN M. ANDERSON
32D DISTRICT, CALIFORNIA

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

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

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

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

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

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

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

August 9, 1982

#181

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

Dear Chairman Volcker:

Mr. Al Valentine, of the National Gypsum Company, was visiting my office recently and stated they had developed a plan which they felt would be a great assist in getting the construction industry moving again. As we have discussed in previous correspondence, the slump in the housing industry caused by high interest rates has had a highly deleterious effect upon our economy in general. National Gypsum is one of the major suppliers of building materials, and has a plant located in my District.

I am enclosing a copy of the "Mortgage Turnover Plan". As its primary thesis is to modify the Federal Reserve Act to make home real estate mortgages eligible collateral for loans at the Federal Reserve discount window, I would appreciate having your staff review it and give me their opinion of its practicality from the financial viewpoint and its potential to assist our housing industry.

With warmest personal regards,

Very sincerely,

Glenn M. Anderson

GLENN M. ANDERSON
Member of Congress

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1982 AUG 13 AM 9:06
RECEIVED OFFICE OF THE CHAIRMAN

GMA/wfg
Enclosure

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Citation Information

Document Type: Research paper/proposal

Number of Pages Removed: 7

Citations: National Gypsum Company. "Mortgage Turnover Plan: A Proposal to Revive Housing Activity and the National Economy," 1982.

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

PAUL A. VOLCKER
CHAIRMAN

October 18, 1982

The Honorable Stephen L. Neal
House of Representatives
Washington, D.C. 20515

Dear Mr. Neal:

Thank you for your telegram of October 8 asking about recent press reports that the Federal Reserve has determined to raise the 1982 growth target for M1.

As you know, last February the Federal Reserve established a target range for each of the aggregates. In the course of the year, I have had several occasions to comment on the relationship of these targets to the financing needs of economic recovery consistent with continued progress toward price stability and on the need to take into account the behavior of several monetary aggregates and other variables in assessing the course of monetary policy. In restating the targets in July, I commented with some emphasis on developments in velocity and the possibility of exceptional demands for liquidity in a period of economic uncertainty and transition. I have indicated on a number of occasions that the Federal Open Market Committee would be satisfied with growth of the aggregates around the upper end of their ranges and would tolerate for a time growth at a faster pace if this appeared to be motivated by precautionary demands for money. In this regard, I would note that the level of M1 for the last week in September was within a few hundred million dollars of the level implied by growth through the year at a 5-1/2 percent rate.

At its last meeting, the FOMC was faced with the almost certain expectation that the measurement of M1 over much of the remainder of this year would be distorted first by the passage of funds in maturing All Savers Certificates through M1 transactions accounts on their way to other investments and later by the introduction of a new money market fund-type account at depository institutions pursuant to the Garn-St Germain legislation. While the impact of the All-Savers maturity should be transitory--a matter of a few weeks--the introduction of a new deposit instrument is still more problematical in amount and timing (although the probability seems to be that it will depress, not increase, M1 growth). In either case, relying directly on M1 to build the "path" for the provision of reserves would give arbitrary results for the current period. Hence, deemphasis for a period of time seemed the only practical approach.

In view of all this, the Committee determined that for an interim period, while these distortions work themselves out, greater operational weight will be placed on M2 and lesser weight on M1. Obviously, we will glean what evidence we can from the M1 data--for instance, if the early October bulge did not subside, that would need to be taken into account in providing reserves, but we had no way of estimating in advance just how large the bulge would be. Despite what the press has reported, that is all there is to it with respect to M1, just an adjustment in operating procedures to take account of an expected series of technical developments.

I have discussed these points at greater length in a recent speech, excerpts of which I've enclosed for your information. I repeat there what I said in July--that, in certain specified circumstances, we would tolerate above path growth in the aggregates. In the circumstances, I did not, and do not, consider any of the steps taken at the last meeting outside either the substance or spirit of my reports to the Congress. If I can provide any additional information on this matter, please contact me.

Sincerely,

Paul

Enclosure (Informal Talk to Buisness Council at Hot Springs, Va. on 10/9/82)

cc: Congressman Reuss

NS:PAV:pjt (#V-236)
bcc: Mrs. Mallardi (2)

Action assigned Mr. Axilrod

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1982 OCT 12 PM 12: 07
RECEIVED
OFFICE OF THE CHAIRMAN

#236

* MESSAGE REC12 ***

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H RMAN. BOARD OF GOVERNORS
E RAL RESERVE SYSTEM
A INGTON DC 20551
S UNDERSTAND THE LAW, IT REQUIRES THAT YOU NOTIFY THE CONGRESS
F OU CHANGE THE TARGETS FOR MONEY GROWTH.
H E ARE MANY STORIES IN THE PRESS TO THE EFFECT THAT YOU HAVE
N ACT DECIDED TO RAISE THE TARGETS FOR M-1 GROWTH, OR TO EXCEED
H EXISTING TARGETS WHICH, PRACTICALLY SPEAKING, AMOUNTS TO THE
THING.
USE OF THE STORIES, IT SEEMS APPROPRIATE THAT YOU INFORM US
HETHER OR NOT YOU INTEND TO STAY WITH THE EXISTING TARGETS, OR, IF
T, TO INFORM US OF YOUR NEW PLANS.
ESPECTFULLY,
TEPHEN L. NEAL
U. S. CONGRESSMAN
720 EST

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RES BD DC

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VOLCKER

1982 OCT 12 PM 12:07

*** MESSAGE REC12 ***

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CHAIRMAN, BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON DC 20551
AS I UNDERSTAND THE LAW, IT REQUIRES THAT YOU NOTIFY THE CONGRESS IF YOU CHANGE THE TARGETS FOR MONEY GROWTH.
THERE ARE MANY STORIES IN THE PRESS TO THE EFFECT THAT YOU HAVE IN FACT DECIDED TO RAISE THE TARGETS FOR M-1 GROWTH, OR TO EXCEED THE EXISTING TARGETS WHICH, PRACTICALLY SPEAKING, AMOUNTS TO THE SAME THING.
BECAUSE OF THE STORIES, IT SEEMS APPROPRIATE THAT YOU INFORM US WHETHER OR NOT YOU INTEND TO STAY WITH THE EXISTING TARGETS, OR, IF NOT, TO INFORM US OF YOUR NEW PLANS.

RESPECTFULLY,
STEPHEN L. NEAL
U. S. CONGRESSMAN

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TEPHEN L. NEAL
U. S. CONGRESSMAN
720 EST

EST

RES BD DC

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1982 OCT 12 PM 12:07
RECEIVED OFFICE OF THE CHAIRMAN

#236

VOLCKER

1982 OCT 12 PM 12:07

*** MESSAGE REC12 ***

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PMS THE HONORABLE PAUL A. VOLCKER
CHAIRMAN, BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON DC 20551
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WHETHER OR NOT YOU INTEND TO STAY WITH THE EXISTING TARGETS, OR, IF
NOT, TO INFORM US OF YOUR NEW PLANS.

RESPECTFULLY,
STEPHEN L. NEAL
U. S. CONGRESSMAN

1720 EST

1729 EST

FED RES BD DC

DONE ***
?

October 15, 1982

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

Dear Chairman Rosenthal:

Thank you for your letter of October 1, in which you asked for our present timetable for Board consideration of deleting Section 211.23(h)(3) of Regulation K. The Legal Division, along with the Division of Supervision and Regulation, has begun preparing a number of technical amendments to Board regulations in the international banking area for consideration by the Board. Among these technical changes is the proposed deletion of Section 211.23(h)(3). The Board expects to take action on these matters within the next month.

Sincerely,

S/ Paul

NPJ:CO:AFC:pjt (#V-227)
bcc: Nancy Jacklin
Legal Records (2)
Mrs. Mallardi (2) ✓

11/3 Sent 10/29/82
staff memo to
Don Tucker

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

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

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

MAJORITY—(202) 225-4407

NINETY-SEVENTH CONGRESS

Congress of the United States

House of Representatives

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

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

October 1, 1982 #227

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

Dear Mr. Chairman:

On June 30 I wrote to you requesting information on foreign banking organization reports to the Federal Reserve filed under Section 211.23(h) of the Federal Reserve's Regulation K. I was particularly concerned at that time about the meaning and consequences of the exemption currently provided in Section 211.23(h)(3) that appears to create an exception applicable to foreign governments.

Your response of August 12 provided copies of recent filings under this section of Regulation K and extensive background material regarding the origin and reasons for this section of Regulation K. Regarding the exemption applicable to foreign governments, your letter stated the following:

> "The foregoing provisions were first adopted as part of the 1971 amendments to Regulation Y implementing the provisions of Section 4(c)(9) of the Bank Holding Company Act. As the enclosed staff memorandum indicates, there is no history explaining the specific need for the exception (described in (c) above) now contained in Section 211.23(h)(3) of Regulation K. In practice, the exception does not appear to have been utilized by any foreign banking organization. Thus, the provision appears to be unnecessary. Consequently, the Board will consider deletion of Section 211.23(h)(3) from Regulation K."

I am writing at this time to inquire as to what steps the Board has already taken or will soon take to implement the intention stated above to "consider deletion of Section 211.23(h)(3)." Please state your present timetable for the various procedural steps for accomplishing this deletion.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dtb

October 14, 1982

The Honorable Trent Lott
House of Representatives
Washington, D.C. 20515

Dear Mr. Lott:

We appreciate the opportunity to comment on the remarks of Mr. John Mozingo, Jr., who sent you a copy of a letter he wrote to the Internal Revenue Service. Mr. Mozingo seems to link the IRS and the Federal Reserve. As you know, other than as fiscal agents for the government, the System has no role in matters of taxation.

I believe that implicit in Mr. Mozingo's letter is, however, a general complaint regarding the state of the economy, for which he may be attributing responsibility to the System. As you know, the Federal Reserve has been attempting over the past few years to turn back a rising tide of inflation, which reached dangerous proportions as this decade began. Unfortunately, this effort has not been painless, and financial pressures have been intensified by rising federal deficits. However, we are seeing major progress on the inflation front and interest rates have been trending downward -- aided by recent deficit-reducing action by the Congress. I think there is every reason to look forward to an improving economy in the year ahead.

As regards loans to sovereign foreign borrowers, I can well understand the reaction of many people to what seems the more lenient treatment countries receive than is accorded consumers who are having difficulty meeting their debt obligations. This is a very complicated matter, but I would simply note that, in many instances, the terms on which loans are "rescheduled" involve -- especially when they are linked to the International Monetary Fund assistance programs -- rather stringent plans for economic entrenchment.

I hope that these comments are useful. Please let me know if I can be of further assistance.

Sincerely,

(Signed) William R. Maloni

William R. Maloni
Special Assistant to the Board

MJP:JLK:pjt (#V-230)
bcc: Mike Prell
Jim Kichline
Mrs. Mallardi ✓

Action assigned Mr. Kichline

TRENT LOTT
5TH DISTRICT, MISSISSIPPI

REPUBLICAN WHIP

RULES COMMITTEE

ADMINISTRATIVE ASSISTANT
TOM H. ANDERSON, JR.

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

2400 RAYBURN BUILDING
WASHINGTON, D.C. 20515
202-225-5772

DISTRICT OFFICES:
GULFPORT, MISSISSIPPI 39501
601-864-7670
HATTIESBURG, MISSISSIPPI 39401
601-582-3246
LAUREL, MISSISSIPPI 39440
601-649-1231

October 4, 1982

#230

Honorable Paul A. Volcker
Chairman
Federal Reserve System
20th and Constitution, NW
Washington, DC 20551

Dear Mr. Volcker:

I have recently received correspondence from Mr. John C. Mozingo, Jr., who contacted me regarding his feeling that the Federal Reserve Board manipulates the economy.

Enclosed for your information is a copy of this correspondence, which details the nature of the problem. I would appreciate very much your providing information which would be of assistance in responding to this inquiry.

Thank you for your assistance in this matter.

With best regards, I am

Sincerely yours,

Trent

Trent Lott

TL/fom
Enclosure

P.O. Box 6641
Gulfport, MS 39501
September 13, 1982

Irma H. Carr, Chief, Collection Branch
Internal Revenue Service
100 West Capitol St., Suite 504
Jackson, Mississippi 39201

Dear Ms. Carr:

I am addressing this letter to you because your rubber stamped name appeared on a Form 4840 which I recently received.

Enclosed is my check in the amount of $1,109.21 representing the balance of the total amount due I.R.S. (if there is such thing).

Please accept my apology for your having to send me your form letter - "Past Due Final Notice"; however; I wish to tell you that I have to earn my money in a manipulated economy and Congress is not as generous with the private sector as they are the I.R.S. and other bureaucrats of which they themselves are a part!

I fully realize and believe every citizen should support this country and am thankful to be an American; however, I am not thankful that Congress surrendered one of its most vital constitutional mandates when in 1913 the Federal Reserve Act was passed. The degree which our economy has been manipulated by the Fed, especially the past three years, is inexcusable and is a primary reason why honest and hard working citizens are facing some difficult financial times.

I am concerned with the leniency with which we treat foreign countries in the forgiveness of their debts and the "final notice" attitude which prevails, as if it were terminal, with our own citizens. There seems to be an ever widening schism between taxpayers and the confiscatory powers of the I.R.S. - U.S. Government as operated and run by the Federal Reserve. Let's hope something can be done before you and I neither have a job. You see we really need each other.

I will close for now, rendering unto Caesar that which is Caesar's and unto God that which is God's.

Sincerely,

John C. Mozingo, Jr.

John C. Mozingo, Jr.
Concerned Citizen

cc. President Ronald Reagan
Senator John Stennis
Senator Thad Cochran
Representative Trent Lott
Representative Wayne Dowdy

October 13, 1982

The Honorable Jerry M. Patterson
House of Representatives
Washington, D. C. 20515

Dear Mr. Patterson:

In Chairman Volcker's absence, I want to thank you for your letter of September 28 concerning the application by Citicorp to acquire Fidelity Federal Savings and Loan Association of California. Although your letter was not received until October 4, subsequent to the Board's action on the application, the concerns expressed in the letter were raised by other commenters on the application and were considered by the Board in reaching its decision. A copy of the Board's Order of September 28, 1982, approving Citicorp's acquisition of Fidelity has previously been furnished to your office.

The Board appreciates the benefit of your views on this matter.

Sincerely,

/S/

Preston Martin

IDENTICAL LETTER SENT TO SENATOR ALAN CRANSTON

MAG:CO:vcd (V-229)

bcc: Ms. Gadziala
Mr. Mattingly
Mrs. Mallardi
Ms. P. O'Brien
Legal Files (2)

Action assigned Mr. Bradfield

United States Senate

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

September 28, 1982

#229

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM 1982 OCT -4 AM 9:07 RECEIVED OFFICE OF THE CHAIRMAN

Honorable Paul Volker
Chairman
Federal Reserve Board
20th & Consitution Ave., N.W.
Washington, D.C. 20551

Dear Paul:

This letter is in regard to the application of Citicorp to acquire Fidelity Savings and Loan Association as a non-banking subsidiary pursuant to 4(c)(8) of the Bank Holding Company Act.

This application raises significant issues of facts that should be fully explored by the Board before a final decision is made on this application. Some of the issues involved are addressed in S. 2879 as it passed the Senate Friday, September 24th. Conference is expected shortly on this legislation and final passage before the end of this week.

We feel that the issues raised by this acquisition are best addressed by Congress, rather than a regulatory agency acting on uncertain authority. Neither Congress nor the State of California has approved interstate or interindustry mergers, yet the Federal Home Loan Bank Board would have the Board of Governors of the Federal Reserve do so under supposed emergency condition.

It would appear that the decline in interest rates, and the stabilization of Fidelity since the takeover, does not support the arguments for swift emergency action on this proposal. Additionally by the end of this Congress within a week or so net worth guarantees will be available to handle situations of this kind obviating the need for an emergency breach of the public policy against interstate, interindustry mergers.

Honorable Paul Volker
September 28, 1982
Page 2

It is imperative that the Board exercise its full responsibility to examine all issues of policy and fact inherent in this proposed acquisition including a full review and cost comparison of the bids rather than rely on previous determinations made by the Federal Home Loan Bank Board.

We urge that the Federal Reserve Board move cautiously with full review and consider any new options that will be available under S. 2879 before a decision is made on this application.

Sincerely,

Jerry M Patterson
Jerry M. Patterson

Alan Cranston
Alan Cranston

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

PAUL A. VOLCKER
CHAIRMAN

October 8, 1982

The Honorable Norman D. Shumway
House of Representatives
Washington, D. C. 20515

Dear Norm:

Thank you for your letter of September 24 regarding the proposal by Citicorp to acquire Fidelity Federal Savings and Loan Association of San Francisco, and suggesting that formal hearings be held regarding that application. On September 28, 1982, the Board determined that the public interest factors associated with the application outweighed any adverse effects and approved the application. A copy of the Board's Order and the Appendix thereto approving the application is enclosed.

As indicated in its Order in the case, the Board made every attempt to provide a full opportunity for public comment on the application, including ordering two informal hearings in Washington, D. C., and San Francisco, California. After carefully considering the comments and requests for a formal hearing, the Board determined that to defer action on the Citicorp application and hold such a hearing was neither required nor appropriate under the Bank Holding Company Act. The Board's Order contains a detailed discussion of the factors that led the Board to deny the requests of a number of commenters for a formal hearing, including the Board's finding that there were no material facts in dispute regarding the application.

The Board appreciates your interest in this matter.

Sincerely,

S/ Paul

Enclosure

MAG:CO:vcd (V-223)
bcc: Ms. Gadziala
G.C. Log #339
Legal Files (2)
Mrs. Mallardi (2)

Action assigned Mr. Bradfield

NORMAN D. SHUMWAY
14TH DISTRICT, CALIFORNIA

COMMITTEES:
COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS
MERCHANT MARINE AND FISHERIES
SELECT COMMITTEE ON AGING

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

1228 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-2511
CHRISTOPHER C. SEEGER
ADMINISTRATIVE ASSISTANT

1045 NORTH EL DORADO, ROOM 5
STOCKTON, CALIFORNIA 95202
(209) 464-7612
LOIS SAHYOUN
DISTRICT COORDINATOR

September 24, 1982

#223

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

Dear Paul:

As you know, the proposed acquisition of Fidelity Savings and Loan Association by Citicorp has generated a great deal of controversy and confusion, particularly in my home state of California.

Although the Fed has already held informal hearings on the Bank Board's approval of this acquisition, the issues involved are of such importance that formal hearings may well be warranted. Due to the improvement in Fidelity's financial situation, the need for immediate action by the Fed is not now apparent; Congress is expected to shortly pass the Garn bill, which establishes specific guidelines for mergers and acquisitions of the type being contemplated here.

I would therefore respectfully suggest that formal hearings be scheduled to be held after Congress adjourns in October. Such hearings will provide the opportunity of developing a formal record; all parties interested in this precedent-setting case will, in this context, be certain that their views are given adequate attention in the decision-making process.

With best personal regards,

Sincerely,

Norm

NORMAN D. SHUMWAY
Member of Congress

NDS: dp

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

October 8, 1982

PAUL A. VOLCKER
CHAIRMAN

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

Dear Mr. Vento:

Thank you for your letter of September 22 concerning the application by Citicorp to acquire Fidelity Federal Savings and Loan Association of San Francisco, San Francisco, California. The Board, on September 28, 1982, after careful consideration of all the relevant issues, including those discussed in your letter, conditionally approved this application. A copy of the Board's Order, and the Appendix thereto, approving Citicorp's application is enclosed.

Your letter expresses concern that the Board should make its own findings under the public benefits balancing test of section 4(c)(8) of the Bank Holding Company Act ("BHC Act"), regardless of any determination of the Federal Home Loan Bank Board. In particular, you noted the competitive implications of the proposal relating to the concentration of resources and interstate expansion. As is explained in detail in the Board's Order, the Board carefully assessed all relevant competitive considerations and found that any potential adverse effects would be offset by the substantial public benefits expected through the restoration of Fidelity as an effective competitor. To guard against the potential for unfair competition and other adverse effects raised by the commenters, the Board placed numerous restrictions on Fidelity's future expansion and inter-affiliate transactions.

In acting on the application, the Board also carefully considered requests that the Board await legislative action on bills pending in Congress concerning the acquisition by bank holding companies of failing thrifts, but concluded that a deferral of action would be contrary to the public interest in view of Fidelity's financial condition. The Board noted in the Order that the FHLBB had advised the Board that the basic concepts contained in the relevant bills were embodied in the procedure by which the FSLIC decided to accept the Citicorp bid. With regard to the request that the Board provide the House Committee on Banking, Finance and Urban Affairs with its analysis of the Fidelity bids, the Board concluded in its Order that such an evaluation is reserved to the FHLBB and is not a proper issue for Board consideration under section 4(c)(8) of the BHC Act.

With regard to restrictions on Fidelity's transactions with other banks, the Board did impose conditions that require Fidelity to be operated as a separate, independent, profit-oriented corporate entity and that prohibit Fidelity from being operated in tandem with any Citicorp subsidiary. The Board stated that these conditions were imposed to ensure that Fidelity is "not utilized to further or enhance the activities of any Citicorp subsidiary."

With regard to the Board's authority to permit bank holding companies to acquire savings and loan associations, the Board has consistently held that it did have such authority under existing law to approve such an acquisition and in fact approved several thrift acquisitions in Rhode Island and New Hampshire. Over the past year, the Board has informed Congress that the exigencies of a particular situation might require that the Board approve a bank holding company acquisition of a thrift, and earlier this year the Board did approve an acquisition in such a situation involving a failing thrift. The Board's Order contains a detailed discussion of the Board's practice in this area.

The Board appreciates having the benefit of your views.

Sincerely,

S/Paul A. Volcker

Enclosure

MAG:VM:vcd (V-220)

bcc: Ms. Gadziala
Mr. Mattingly
Mr. Ryan
G.C. Log #332
Legal Files (2)
Mrs. Mallardi (2)

BRUCE F. VENTO
4TH DISTRICT, MINNESOTA

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

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

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

HOUSE COMMITTEE ON
BANKING, FINANCE AND
URBAN AFFAIRS

HOUSE COMMITTEE ON
INTERIOR AND INSULAR AFFAIRS

HOUSE SELECT COMMITTEE
ON AGING

September 22, 1982

#220

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

Dear Chairman Volcker:

As a member of the House Committee on Banking, Finance and Urban Affairs, I am writing to register my concern over the issue of whether the Federal Reserve Board should approve the proposed acquisition of Fidelity Savings and Loan of San Francisco by Citicorp of New York. In particular, I would like to call your attention to the Board's obligation under Section 4 (C) (8) of the Bank Holding Company Act of 1956, 12 USC §1843 (C) (8) which requires it

> (i)n determining whether a particular activity is a proper incident to banking or managing or controlling banks...(to)...consider whether its performance by an affiliate of a holding company can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices.

That section requires the Board to make its own findings, regardless of any determination by the Federal Home Loan Bank Board. It is particularly important that the Board do so in this case because this could be the beginning of a very undesirable concentration in the banking and financial institutions industry in this country. It would be a momentous first decision to permit a bank holding company, and in particular the nation's second largest bank holding company, to obtain a foothold across state lines.

I would recommend that you at least wait until we see what the legislation now pending before Congress will contain. Then you can make a detailed finding as to whether the criteria that must be considered in addition to price, such as the competitive situation, have been complied with.

September 22, 1982

In the meantime, the Board should make known to my office and to the Committee in general the analysis which leads it to the conclusion that Citicorp's bid exceeds that of Fidelity Federal Savings and Loan Association of Glendale, California, by the amount claimed by the Federal Home Loan Bank Board. As of today this information has not been released by the Federal Home Loan Bank Board.

However, should the Board decide to approve this acquisition, it should do so only upon the condition that Fidelity, once it is acquired by Citicorp, be absolutely prohibited from purchasing Certificates of Deposit from or in any other way doing business with any bank in the United States which participates with Citicorp in the syndication of large loans or in any other way does business with Citicorp in a way that would indirectly benefit Citicorp.

I would also like to call your attention to the fact that the Board has held on numerous occasions in the past, in spite of general language in the current law which appears to give this authority to the Board, that questions such as the one at hand are public policy questions which should be decided by Congress and not by the Federal Reserve Board. Therefore, pursuant to its own interpretation of the law, the Board should not now take the position that it has always had the authority to permit bank holding companies to acquire a savings and loan association. To do so now would in effect constitute a reversal of its past holdings.

Sincerely yours,

Bruce F. Vento

Bruce F. Vento
Member of Congress

BFV:mad

cc: Lyle E. Gramley, Board Member
J. Charles Partee, Board Member
Emmett Rice, Board Member
Nancy Teeters, Board Member
Henry Wallich, Board Member

October 8, 1982

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

Dear Chairman Annunzio:

Thank you for your letter of September 28 expressing your views on the proper treatment of seller's points under the Board's Truth in Lending Regulation Z. This has been one of the most difficult consumer issues the Board has faced in some time. Although, as indicated by the enclosed Federal Register document, the Board decided to leave the current rule in place (by split vote), you can be confident that the Board had a thorough and probing discussion of the issue--including the factors raised in your letter. We were aided by many very good public comments, including an unusually large number from consumers.

Although the course chosen by the majority of the Board is not the one you favored, I can assure you that we appreciate having your views. With the thought that you might find it interesting, I have enclosed a copy of a memorandum from our staff which summarizes the comments we received.

Sincerely,

S/Paul A. Volcker

Enclosures (Memo dtd. 8/28/82 to Board of Governors from Division of Consumer and Community Affairs)

GLG:CO:pjt (#V-225)
bcc: Mr. Garwood
Mrs. Mallardi (2)

Action assigned Mr. Garwood; info copy to Governor Teeters

U.S. HOUSE OF REPRESENTATIVES
NINETY-SEVENTH CONGRESS
SUBCOMMITTEE ON CONSUMER AFFAIRS AND COINAGE
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
ROOM 212 HOUSE OFFICE BUILDING ANNEX No. 1
WASHINGTON, D.C. 20515

September 28, 1982

#225

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

Re: Docket No. R-0413

Dear Mr. Chairman:

I am writing in response to the Federal Reserve Board's request for comments on possible changes in the treatment of seller's points under Truth in Lending Regulation Z.

Revised Regulation Z, approved by the Board March 28, 1981, provides that seller's points are excluded from the calculation of the finance charge and the annual percentage rate that must be disclosed under the Truth in Lending Act. This rule changed the Board's long-standing position under the original Truth in Lending Act that seller's points, when passed along to the consumer through an increase in the selling price, were part of the finance charge and must be disclosed (Board Interpretation 226.406, October 23, 1970). The Board Interpretation further took the position that the inclusion of seller's points in the finance charge would be a correct disclosure under Regulation Z. This position is now contained in Alternative One of the new proposal.

In the past two years, interest rates on home mortgages have been at record levels. The high rates have had a severe impact on consumers. High mortgage rates have not only priced consumers out of the housing market, but have also discouraged many consumers from even shopping for homes.

In an effort to attract buyers, many housing developers have arranged with lenders to provide for financing below the market rate. To obtain this financing, the developer has had to pay the lender a fee to compensate the lender for the lower interest rate charged to the consumer. These fees can be a significant expense to the developer and can easily reach $10,000 or more per loan.

The developer in turn, recovers part or all of the fee from the consumer by increasing the sales price of the home. Under the Board's original interpretation concerning the treatment of seller's points, the amount of increase in the sale price would have to be revealed as part of the finance charge and taken into account in calculating the annual percentage rate. Only those sellers who arranged below market financing and did not pass the cost of it along to the consumer were able to truthfully advertise that the consumer would get advantageous financing.

Under the revised Board regulation, however, all developers can offer so-called below market financing without revealing that the consumers will actually have to bear the cost. The Board's decision actually encourages sellers to arrange low interest financing and pass the hidden cost on to consumers.

Consider the enclosed advertisement from a recent edition of The Washington Post. The seller offered a condominium at a cash price of $98,400 if the buyers will arrange their own financing. The advertisement then goes on to state that "below market financing" is available but that the price of the condominium is then $110,700. The advertisement prominently states that 12 1/2 percent financing for the first two years is available.*

According to the sales office of the developer the full terms of the offer are as follows: 12 1/2 percent interest for the first two years, 13 1/2 percent interest for the next two years, and 15 1/2 percent interest for the following three years, with a demand feature at the end of seven years.

Assuming 100 percent financing for the sake of simplicity, I had the annual percentage rates calculated under the original and the revised Regulation Z. Under the revised Regulation Z, the amount financed would be $110,700 and the annual percentage rate would be 13.75 percent. A consumer being shown these figures would assume that he was getting below market financing.

Calculations under the original Board interpretation tell a different story. In that case, the amount financed would be $98,400, and there would be a prepaid finance charge of $12,300 (the difference between the cash sale price of $98,400 and the credit sale price of $110,700). The annual percentage rate would be a whopping 16.37 percent. This rate is the consumer's real cost of credit because it takes into account the inflated price due to the seller's points. It is 2.62 percentage points higher than the rate that is required to be disclosed under revised Regulation Z. It reveals clearly to the consumer that the financing is not "below market" as the advertisement claims.

The Truth in Lending Act was passed in 1968 so consumers could make informed credit decisions. Section 102(a) of the Truth in Lending Act states the findings and declaration of purpose for the Act. In part the section states:

> "The Congress finds that economic stabilization would be enhanced and the competition among the various financial institutions and other firms engaged in the extension of consumer credit would be strengthened by the informed use of credit. The informed use of credit results from an awareness of the cost thereof by consumers. It is the purpose of this title [the Truth in Lending Act] to insure a meaningful disclosure of credit terms so that the consumer will be able to compare more readily terms available to him and avoid the uninformed use of credit . . ."

* -- I note that the advertisement violates several aspects of the advertising provisions under the Truth in Lending Act, as the reference to 12 1/2 percent financing is a "trigger term" that mandates additional disclosures.

The Board's revision of its original interpretation moved away from those goals. We have seen how the exclusion of seller's points that are passed on to the consumer has resulted in confusion and deception of the consumer who seeks the true cost of credit. Financial institutions and others offering credit are placed at a competitive disadvantage as a result of the misleading and deceptive annual percentage rates that sellers can advertise as a result of the revised regulation. I urge the Board to reinstate its original interpretation concerning the treatment of seller's points by adopting Alternative One, and thereby restore accurate and meaningful disclosures to the home finance business.

With every best wish,

Sincerely,

Frank Annunzio

Frank Annunzio
Chairman

Enclosure

Removal Notice

FRASER

The item(s) identified below have been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to copyright protections.

Citation Information

Document Type: Advertisement

Number of Pages Removed: 1

Citations: "We Couldn't Improve Our Location..." Hyde Park Condominiums, undated.

October 6, 1982

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

Dear Carroll:

Thank you for your letter of September 15 recommending Mr. Kenneth Henshaw for appointment as a possible Federal Reserve Bank Director in our Eighth District. I will see that Mr. Henshaw's name is added to our "pool" of potential directors, both here and at the District Bank.

As you know, we are very much interested in a diversity of background and variety of points of view among directors of the Federal Reserve Banks and Branches and are particularly aware of the need for directors who are knowledgeable about the agricultural sector. Mr. Henshaw's extensive involvement in agricultural matters and organizations is impressive. The Board appreciates your bringing his qualifications to our attention.

Sincerely,

S/ Paul

RER:CO:NS:pjt (#V-215)
bcc: Vice Chrmn. Martin
President Roos (w/copy of incoming)
Ruth Robinson
Ted Allison
Mrs. Mallardi (2)

IDENTICAL LETTER TO SEN. WENDELL H. FORD (#V-226)

Action assigned Mr. Allison; info copy to Vice Chairman Martin

CARROLL HUBBARD
CONGRESSMAN
1ST DISTRICT, KENTUCKY

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

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

AT LARGE MAJORITY WHIP

COMMITTEES:
BANKING, FINANCE AND URBAN AFFAIRS

MERCHANT MARINE AND FISHERIES

CHAIRMAN, SUBCOMMITTEE ON PANAMA CANAL/OUTER CONTINENTAL SHELF

#25

RECEIVED
OFFICE OF THE CHAIRMAN
1982 SEP 17 AM 11:19
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

September 15, 1982

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

Dear Paul:

I am writing today to request your support for Kenneth Henshaw of Sturgis, Kentucky, as Director of the Federal Reserve Bank for the Louisville District in Kentucky.

It is my understanding that Dr. James F. Thompson, a professor at Murray State University in Murray, Kentucky, is retiring as the Director and has recommended Kenneth for the position. It is further my understanding that Kenneth has the respect and support of his peers in Union County and is the only individual of the three who will be nominated who is from western Kentucky.

Enclosed is a copy of Kenneth's resume for your purusal. I believe you will agree that Kenneth Henshaw is well qualified for the position, and I trust that he will be given every consideration.

Thank you for your attention to this matter.

With best wishes for you, I am

Sincerely yours,

Carroll Hubbard

Carroll Hubbard
Member of Congress

CH:lmg

Removal Notice

FRASER

The item(s) identified below have been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to personally identifiable information.

Citation Information

Document Type: Resume

Number of Pages Removed: 1

Citations: Resume, Kenneth Henshaw, 1982.

October 6, 1982

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

Dear Mr. Barnard:

Thank you for your letter of September 21, 1982, concerning proposed modifications to the Federal Reserve Bank check collection services.

The Federal Reserve Banks have restructured their interdistrict transportation system (ITS) in order to improve the speed with which checks are collected. With the modifications to ITS, the Federal Reserve is proposing to accept checks at later hours than they currently are accepted. In addition, the Reserve Banks propose to establish 12:00 noon as the uniform presentment time for checks drawn on Reserve city depository institutions and certain large institutions located outside Reserve cities. The combination of these changes is expected to increase the number of checks collected in one day, thus improving availability for depository institutions and their customers.

The comment period has just ended. Our staff reports a very large number of public comments from commercial banks, savings and loan associations, credit unions, trade associations, consumer groups and members of the public. It is too soon to have even a preliminary assessment of these comments.

Once the comments have been analyzed and summarized by the staff, the Board will carefully evaluate them in the further consideration of this proposal. We appreciate the efforts of all those who commented on this proposal.

The Federal Reserve System is committed to the full implementation of the Monetary Control Act of 1980. We believe our actions, including the essential elements of the current proposal, will continue to demonstrate our commitment to the spirit and intent of the Act.

We will advise you of the action taken on this proposal.

Sincerely,

S/ Paul

ECMcE:LSM:CO:pjt (#V-219)
bcc: Mr. McEntee
Mrs. Mallardi (2)
Mr. Meeder

Action assigned Mr. Allison

DOUG BARNARD, JR.
10TH DISTRICT, GEORGIA

COMMITTEES:
BANKING, FINANCE AND URBAN AFFAIRS
GOVERNMENT OPERATIONS

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

DISTRICT OFFICES:
STEPHENS FEDERAL BUILDING
ROOM 128, BOX 3
ATHENS, GEORGIA 30601
(404) 546-2194

407 TELFAIR STREET
P.O. BOX 10123
AUGUSTA, GEORGIA 30903
(404) 724-0739

NEWTON COUNTY
EXECUTIVE OFFICE BUILDING
COVINGTON, GEORGIA 30209
(404) 787-2110

September 21, 1982 #219

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

Dear Mr. Chairman:

The proposed changes in times and conditions for check clearances concerns me a great deal. As now formulated, these proposals give a clear competitive advantage to the Federal Reserve's check clearing activities and courier service over those offered by correspondent banks and private courier services.

While the entire issue of granting the Federal Reserve a competitive imbalance over its commerical rivals is very serious, I am especially concerned with the effect the flexibile delivery schedules will have on private dispatch services, including one that is headquartered in my area, the Dispatch Courier Group.

Allowing Federal Reserve transportation services later presentment deadlines than its private competitors is both unfair and likely to have a severe impact on their future viability. If this proposal is approved without including delivery schedules that are uniform for both Federal Reserve Banks and private service providers in both price and time, many jobs will be unnecessarily lost as private dispatch services that are unable to compete are forced out of business.

When I moved to include the provision in P.L. 96-221 which mandated that the Federal Reserve cut float, there was no intention to allow it to price its services in such a way that private competitors would be forced out of business. I urge you to alter this proposal to allow equal conditions, times and pricing with private competitors including private dispatch services.

Sincerely,

Doug Barnard Jr

Doug Barnard, Jr.

October 6, 1982

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

Dear Senator Bentsen:

Thank you for your letter of September 3 enclosing correspondence from your constituent, Ms. Jill Ann Jones, regarding employment with the Federal Reserve Bank of Dallas.

As a matter of operating policy, each Federal Reserve Bank handles its own employment program. We have forwarded a copy of your letter and Ms. Jones' correspondence to the Federal Reserve Bank of Dallas. Therefore, Ms. Jones may wish to contact:

Ms. Carla M. Warberg
Vice President
Federal Reserve Bank of Dallas
Dallas, Texas 75222

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

Sincerely,

(Signed) William R. Maloni

William R. Maloni
Special Assistant to the Board

~~XWX~~
CWW:CO:pjt (#V-207)
bcc: Ms. Carla M. Warberg (FRB, Dallas; w/copy of incoming)
Mr. Wood
Mrs. Mallardi

Action assigned Mr. Shannon

LLOYD BENTSEN
TEXAS

COMMITTEES:
FINANCE
ENVIRONMENT AND PUBLIC WORKS
JOINT ECONOMIC
SELECT COMMITTEE ON INTELLIGENCE

United States Senate
WASHINGTON, D.C. 20510

September 3, 1982

#207

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYST
1982 SEP -7 PM 12:48
RECEIVED
OFFICE OF THE CHAIRMAN

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

Dear Mr. Chairman:

I recently received the enclosed constituent inquiry, and I would very much appreciate your providing me with any pertinent information you might have regarding the matter.

Your kind assistance is greatly appreciated.

Sincerely,

Lloyd Bentsen

Lloyd Bentsen

Enclosure

PLEASE REPLY TO:

912 Federal Building
Austin, Texas 78701
ATTN: Robert Block

AUG 30 1982

Autre

SEP 1 1982

August 24, 1982

Senator Loyd Bentsen
1100 Commerce
Dallas, Texas 75202

Dear Senator Bentsen,

Upon graduation from Texas Tech University this December, I would like to work for the Federal Reserve Board in Dallas, Texas as a bank examiner.

If you would provide me with any information which might enhance my possibilities of being hired by this prestigious and honorable branch of the United States Government, I would be eternally grateful.

Please direct any correspondence to:

Jill Ann Jones
4630 55th Street #237
Lubbock, Texas 79414

Thank you for your help in this matter.

Sincerely,

Jill

Jill Ann Jones

JAJ/jv

LLOYD BENTSEN
TEXAS

COMMITTEES:
FINANCE
ENVIRONMENT AND PUBLIC WORKS
JOINT ECONOMIC
SELECT COMMITTEE ON INTELLIGENCE

United States Senate
WASHINGTON, D.C. 20510

October 8, 1982

RE: #207

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1982 OCT 12 AM 9:41
RECEIVED
OFFICE OF THE CHAIRMAN

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

Dear Mr. Chairman:

I am writing in reference to my inquiry to which I have received no reply. I have enclosed a copy of my constituent's letter for your reference.

I would appreciate any information you can provide in this regard.

Sincerely,

Lloyd Bentsen

Lloyd Bentsen

Enclosure

PLEASE REPLY TO:

912 Federal Building
Austin, Texas 78701

AUG 30 1982

SEP 1 1982

August 24, 1982

Senator Loyd Bentsen
1100 Commerce
Dallas, Texas 75202

Dear Senator Bentsen,

Upon graduation from Texas Tech University this December, I would like to work for the Federal Reserve Board in Dallas, Texas as a bank examiner.

If you would provide me with any information which might enhance my possibilities of being hired by this prestigious and honorable branch of the United States Government, I would be eternally grateful.

Please direct any correspondence to:

Jill Ann Jones
4630 55th Street #237
Lubbock, Texas 79414

Thank you for your help in this matter.

Sincerely,

Jill

Jill Ann Jones

JAJ/jv

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

October 6, 1982

PAUL A. VOLCKER
CHAIRMAN

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

Dear Chairman English:

Thank you for bringing to my attention Ms. Susan A. Meyer's complaint about being charged for photocopies of Federal Reserve documents she requests on behalf of her newsletters. I want to emphasize at the outset that the Federal Reserve staff makes a very determined effort to provide excellent service and cooperation not only to the press but to all who exercise their rights under the Freedom of Information Act to inspect or copy our records. We take our responsibilities under the Act seriously, and I think that attitude is reflected in our good reputation in this area.

Federal Reserve regulations prescribe fees for search and for photocopying work done on behalf of the public; but the fees that are collected recover less than ten percent of the estimated costs associated with Freedom of Information requests. By this measure we subsidize requests to an extraordinarily generous degree.

Copying charges are waived chiefly in three situations. First, a great many releases, reports, and other agency documents of current public interest are provided free to anyone requesting them. In addition, the Federal Reserve fills, without charge, all orders involving fewer than 20 pages. For larger requests the staff waives photocopy charges if it determines that furnishing the information can be considered as primarily benefiting the general public. As a matter of administration, we generally do not charge search fees in connection with relatively routine requests.

Also as a matter of administration, we have not closely scrutinized requests for waiver of fees by publications whose information requests are relatively small and infrequent. On this basis, we have provided documents to Ms. Meyer and her staff from time to time in the past without charge. Recently, however, the question of their entitlement to such waivers was raised by the staff when it appeared that requests from that company were becoming more frequent and more substantial. After review of a particular request, the staff concluded that the records that were retrieved and copied in that case could not be considered as primarily benefiting the general public, but instead would chiefly benefit the commercial interests of a narrow and specialized clientele.

The Federal Reserve considers its fee waiver practices liberal, but any public agency also has a duty to see that its resources are devoted to public purposes. As the staff has explained to Ms. Meyer, both in writing and in conversation, the Federal Reserve is happy to examine each of her requests and to consider seriously any information she provides about possible benefits to the general public. We also would regard favorably efforts she may make to tailor requests that minimize costs to the Board. We are not, however, willing to waive automatically, as she wants us to do, all costs that this agency incurs on her behalf.

Ms. Meyer's case is the first fee waiver denial that has been formally contested by a publication before this agency. For that reason, it received an exceptional amount of staff time and attention. The decision does not represent a change in policy, however. The list you requested of press requests for the last year is enclosed, and you will see that, in fact, it has been our practice to charge special interest publications. In addition, a number of trade associations, law firms, and consulting firms provide services like Ms. Meyer's to similar clients, and they are expected to pay their costs.

We regard our fee practices as faithful to the law, but I appreciate your calling complaints about our performance in this area to my attention.

Sincerely,

S/Paul A. Volcker

Enclosure
JM:SLS:CO:WWW:pjt (#V-212)
bcc: Gov. Partee
Messrs. Siciliano, Wiles, McAfee, Coyne, Garwood
Ms. Arnold
Mrs. Mallardi (2)

FEDERAL RESERVE BOARD
PRESS FREEDOM OF INFORMATION REQUESTS
July 1, 1981 - September 20, 1982

This list has been compiled principally from the log of the Board's Freedom of Information Office. The log is maintained to enforce compliance with statutory time limits, and therefore does not include requests that are made in person at the office and filled immediately from supplies on hand. Most of these unlogged over-the-counter requests involve current public material, such as press releases and documents related to open Board meetings, which are distributed without charge. It is not the Office's usual practice to waive fees for other material delivered over the counter, except when the requested material is under 20 pages. To the extent they could be identified, unlogged orders by publications for materials exceeding 20 pages are included in this list, in addition to all logged orders, regardless of size.

1981	Publication	Amount	Remarks
July 1	EFT Report	$ 4.20	
July 23	St. Louis Post-Dispatch	8.00	
July 27	Fortune	36.20	
July 29	Commerce Clearing House	.20 (waived)	under 20 pages
July 29	American Banker	1.30 (waived)	under 20 pages
July 29	Wall Street Letter	1.60 (waived)	under 20 pages
Aug. 5	Newsday	9.00	
Aug. 10	Bank Focus Newsletter	.80 (waived)	under 20 pages
Aug. 14	American Banker	1.90 (waived)	under 20 pages
Aug. 18	Bank Letter	2.00	
Aug. 18	Bureau of National Affairs	12.40	
Sep. 25	Washington Financial Reports	15.20	
Sep. 30	Capitol Reports	14.60	
Oct. 13	International Banking News Service	2.20	
Oct. 16	Capitol Reports	3.00	
Oct. 19	Forbes	19.30 (waived)	public interest
Dec. 2	Capitol Reports	27.10	
Dec. 11	American Banker	11.40	
Dec. 16	Casper Star Tribune	--	press release
1982			
Jan. 7	Capitol Reports	131.20	
Jan. 20	Capitol Reports	10.00	
Jan. 21	EFT Report	31.80	
Jan. 21	Bureau of National Affairs	5.30	

1982	Publication	Amount		Remarks
Feb. 2	Washington Credit Letter	3.10		
Feb. 5	Pace Communications	15.10		
Feb. 3	Capitol Reports	3.70		
Feb. 5	Publications	15.10		
Feb. 16	Washington Post	7.70	(waived)	public interest
Feb. 17	EFT Report	3.70		
Feb. 17	American Banker	5.60		
Feb. 22	EFT Report	8.80		
Mar. 2	American Banker	5.20	(waived)	public interest
Apr. 1	Telecommunications Report	5.70	(waived)	public interest
Apr. 2	Communications Daily	5.70	(waived)	public interest
Apr. 2	Financial Services Newsletter	5.70	(waived)	public interest
Apr. 5	Fairchild Publications	5.70	(waived)	public interest
Apr. 6	Prentice-Hall	--		Board order
Apr. 20	Bureau of National Affairs	9.90		
Apr. 26	Bureau of National Affairs	15.20		
Apr. 28	Market Timing Report	2.20		
May 11	Bureau of National Affairs	12.70		
May 12	Capitol Reports	14.20	(reduced)	public interest
May 25	Commerce Clearing House	13.80		
May 25	Bureau of National Affairs	2.40		
June 29	Capitol Reports	2.70		
July 6	American Banker	13.40		
July 6	American Banker	2.80		
July 9	American Banker	2.60		
Jul 19	Bureau of National Affairs	8.00		
July 20	Bureau of National Affars	17.50		
July 23	Commerce Clearing House	2.20		
July 27	American Banker	3.40		
July 28	Bureau of National Affairs	11.30		
Aug. 6	New York Times	3.40		
Aug. 13	American Banker	13.70		
Aug. 16	San Antonio Express News	18.10		
Aug. 30	PSI Publications	9.50		
Sept. 8	Daily Bond Buyer	25.10		
Sept. 14	New York Times	1.50	(waived)	under 20 pages

Action assigned Mr. Wiles

[torn] ENN ENGLISH, OKLA., CHAIRMAN
[torn] WEISS, N.Y.
[torn] RY A. WAXMAN, CALIF.
[torn] HN L. BURTON, CALIF.
JOHN CONYERS, JR., MICH.

THOMAS N. KINDNESS, OHIO
JOHN N. ERLENBORN, ILL.
WENDELL BAILEY, MO.

225-3741

NINETY-SEVENTH CONGRESS

Congress of the United States

House of Representatives

GOVERNMENT INFORMATION AND INDIVIDUAL RIGHTS SUBCOMMITTEE
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS
RAYBURN HOUSE OFFICE BUILDING, ROOM B-349-B-C
WASHINGTON, D.C. 20515

#212

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
1982 SEP 14 AM 8:57
RECEIVED
OFFICE OF THE CHAIRMAN

September 8, 1982

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

Dear Mr. Chairman:

Susan A. Meyer, the publisher of Capitol Reports, Inc., has written to me complaining of a recent change in Federal Reserve policy with respect to fee waivers under the Freedom of Information Act. Until recently, the Federal Reserve routinely granted fee waivers to members of the press who used the FOIA to obtain information. According to Ms. Meyer, there has apparently been a change of policy, and the Federal Reserve is now denying fee waivers to at least some bona fide members of the press.

I would appreciate it if you would explain to me what the current policies of the Federal Reserve are with respect to fee waivers for the press. I would also like to know if there have been any recent changes in policy and, if there have, the reasons for the changes. Finally, I would like a list of all FOIA requests where fee waivers were denied members of the press in the last year.

Let me make clear my own view that it was Congress' intent that fee waivers should be granted liberally by agencies. It was also Congress' intent that fee waivers should be granted as a matter of course for FOIA requests submitted by legitimate press representatives. There is no more effective way to further the Act's goals of informing the public of the operation of the government than to allow the press maximum access to agency documents. Any significant deviations from the policy intended by Congress will be the subject of scrutiny from this Subcommittee.

The Honorable Paul A. Volcker
September 8, 1982

Thank you for your attention. I would like to have your response within two weeks of the receipt of this letter. If you or your staff have any questions, please contact Subcommittee counsel Robert Gellman.

Sincerely,

Glenn English
Chairman

GLE:rg:kar

October 6, 1982

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

Dear Senator Proxmire:

Thank you for your letter of September 17 forwarding correspondence you received from your constituent, Mr. Helge S. Christensen, of the Wisconsin Independent Bank.

As you are aware, on August 4, 1982, the Federal Reserve Board published for public comment a proposal to improve the speed and efficiency of the nation's payments mechanism by speeding up the collection of checks. More specifically, the Federal Reserve Banks have restructured their interdistrict transportation system (ITS) in order to improve the speed with which checks are collected. With the modifications to ITS, the Federal Reserve is proposing to accept checks at later hours than they currently are accepted. In addition, the Reserve Banks propose to establish 12:00 noon as the uniform presentment time for checks drawn on Reserve city depository institutions and certain large institutions located outside Reserve cities. The combination of these changes is expected to increase the number of checks collected in one day, thus improving availability for depository institutions and their customers.

The comment period has just ended. Our staff reports a very large number of public comments from commercial banks, savings and loan associations, credit unions, trade associations, consumer groups and members of the public. It is too soon to have even a preliminary assessment of these comments.

Once the comments have been analyzed and summarized by the staff, the Board will carefully evaluate them in the further consideration of this proposal. We appreciate the efforts of all those who commented on this proposal.

The Federal Reserve System is committed to the full implementation of the Monetary Control Act of 1980. We believe our actions, including the essential elements of the current proposal, will continue to demonstrate our commitment to the spirit and intent of the Act.

We will advise you of the action taken on this proposal.

Sincerely,

S/Paul A. Volcker

LSM:CO:pjt (#V-217)
bcc: Mr. Meeder
Mrs. Mallardi (2)

Action assigned Mr. Allison; info copy to Vice Chairman Martin

United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WASHINGTON, D.C. 20510

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1982 SEP 20 AM 9: 33
RECEIVED OFFICE OF THE CHAIRMAN

September 17, 1982

#217

The Honorable Paul Volcker
Chairman
Federal Reserve Board
20th and C Streets, N.W.
Washington, D.C. 20551

Dear Mr. Chairman:

I am forwarding to you a copy of a letter from a community banker in my home state of Wisconsin in support of improved check collection times and services.

I would appreciate your providing me with your comments so that I may respond to Mr. Christensen.

Sincerely,

William Proxmire, U.S.S.

WP/hg
enclosure

Wisconsin Independent Bank 1982 SEP 13 AM 11: 14

30 West Mifflin Box 2238 Madison, Wisconsin 53701 608-251-2001

September 8, 1982

Senator William Proxmire
5241 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator:

You and I have spoken before regarding the role of community banking and related subjects.

Currently, an ally of community banking is under pressure and needs direction. The Federal Reserve System, responding to the will of Congress, as established by the 1980 Monetary Control Act is proposing implementing improved check collection times and services. In doing so, the Fed is being accused by large banks of entering deeper in the area of correspondent banking and litigation is being threatened.

We regard the Federal Reserve as vital to the check collection process and encourage its continuing service enhancement. Also, the 1980 Monetary Control Act made it incumbent upon the Fed to act to improve the check collection process, reduce float and improve efficiency.

During this comment period, we feel it important that a government leader of your stature remind the Federal Reserve Board of the 1980 mandate of Congress and encourage the Fed's efforts in the check collection area.

Thank you.

Sincerely,

HSChristensen

Helge S. Christensen
President
also
Secretary-Treasurer
Independent Bankers Association
of Wisconsin

me

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

October 1, 1982

PAUL A. VOLCKER
CHAIRMAN

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

Dear Chairman Rosenthal:

Your letter to me of September 2 requested that I provide a status report on the proposal of the Federal Financial Institutions Examination Council that all insured commercial banks be required to report quarterly to the federal banking supervisory agencies the amounts of their past-due, non-accrual and renegotiated "troubled" loans and lease financing receivables. The proposal, as originally submitted to the Office of Management and Budget, called for this information to be reported beginning with the Report of Condition for September 30, 1982, and for the information to be made available to the public beginning with the Report for March 31, 1983. (Inclusion of information on past-due loans in the quarterly Report of Condition is a new requirement for state banks supervised by the FDIC and the Federal Reserve, but for several years National banks have had to report to the Comptroller of the Currency a somewhat similar schedule, which has not been made available to the public.)

OMB disapproved the original proposal, but after some discussion has subsequently approved the proposal with a one quarter delay in implementation--i.e., reporting will begin with the Report for December 31, 1982, and the information will be made available to the public beginning with the Report for June 30, 1983. This one quarter delay in implementation, which is acceptable to the agencies, will provide banks more time to prepare for the new requirements. There is also a change in the substance of the public disclosure provision. The information on loans past due 30-89 days will not be disclosed but all the other information--90 days past-due, non-accrual, and renegotiated loans--will be made available to the public on request. This meets the industry's most serious and persuasive complaints about the dangers of possible public misinterpretation of the information and brings this disclosure into closer conformity with SEC standards. A few changes were also made in the details of the information to be reported in order to ease the reporting burden on banks. The precise nature of the information that will be collected is indicated in the enclosed draft forms for the new schedule.

Given OMB final approval of the proposal, the question of overriding OMB's decision, authority for which is given to "independent regulatory" agencies in section 3507(c) of the Paperwork Reduction Act of 1980, does not arise.

As there was some confusion in the press accounts, I should also note that the Council proposal on past-due loans was the first stage of a more comprehensive proposed revision of the quarterly Reports of Condition and Income and the only stage that has so far been submitted to OMB. The second stage provides for (a) the addition of schedules on interest-rate sensitivity and on contingent liabilities and other off-balance sheet items bearing on the condition of banks; (b) the quarterly reporting of income by smaller banks that now report on a less frequent basis; and (c) the deletion of certain schedules currently required. This second stage has been approved by the Council for implementation with the Reports for March 31, 1983, with a number of changes from the original proposal stemming from the comment letters received and from further discussions with the industry, and will shortly be submitted to OMB. The third stage--involving both additions to and deletions of reporting requirements, as well as a number of changes in the structure of the reporting format--is scheduled for implementation with the Reports for March 31, 1984. Submission of the third stage to OMB is a few months off. A version of the entire package of proposals was distributed for public comment earlier this summer and a large number of comments were received from the banking industry and from others.

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

Sincerely,

S/Paul A. Volcker

Enclosures

SS:pjt (#V-204)
bcc: Stan Sigel
Mrs. Mallardi (2)

FFIEC 021a--reporting form for banks with foreign offices or Edge Act or Agreement subsidiaries

DRAFT

Supervisory Supplement 1:

Past Due, Nonaccrual, and Renegotiated Loans and Lease Financing Receivables

	Type of Loans and Lease Financing Receivables	A Past due 30 thru 89 days & still accruing	B Past due 90 days or more and still accruing	C Nonaccrual	D Renegotia "trouble debt
1.	In domestic offices				
	a. Real estate loans	XXX	XXX	XXX	XXX
	b. Commercial and industrial loans. . .	XXX	XXX	XXX	XXX
	c. Loans to individuals for household, family and other personal expenditures	XXX	XXX	XXX	XXX
	d. Loans to finance agricultural production and other loans to farmers 1/. .	XXX	XXX	XXX	XXX
	e. All other loans and all lease financing receivables	XXX	XXX	XXX	XXX
2.	In foreign offices . . .	XXX	XXX	XXX	XXX
3.	TOTAL (sum of items 1a through 1e and 2). . .	XXX	XXX	XXX	XXX

1/ To be reported separately only if agricultural loans in the domestic offices of the bank exceed one percent of total loans. If less than one percent, include in line e.

DRAFT

FFIEC 021b--reporting form for banks with domestic offices only and with total assets of $100 million or more

Supervisory Supplement 1:

Past Due, Nonaccrual, and Renegotiated Loans and Lease Financing Receivables

	A	B	C	D
Type of Loans and Lease Financing Receivables	Past due 30 thru 89 days and still accruing	Past due 90 days or more and still accruing	Nonaccrual	Renegotia "trouble debt
1. Real estate loans	XXX	XXX	XXX	XXX
2. Commercial and industrial loans	XXX	XXX	XXX	XXX
3. Loans to individuals for household, family and other personal expenditures	XXX	XXX	XXX	XXX
4. Loans to finance agricultural production and other loans to farmers 1/	XXX	XXX	XXX	XXX
5. All other loans and lease financing receivables	XXX	XXX	XXX	XXX
6. TOTAL (sum of items 1 thru 5)	XXX	XXX	XXX	XXX

1/ To be reported separately only if agricultural loans in the domestic offices of the bank exceed one percent of total loans. If less than one percent, include in line e.

FFIEC 021c--reporting form for banks with domestic offices only and total assets of less than $100 million

DRAFT

Supervisory Supplement 1:

Past Due, Nonaccrual, and Renegotiated Loans and Lease Financing Receivables

Types of Loans and Lease Financing Receivables	A Past due 30 thru 89 days and still accruing	B Past due 90 days or more and still accruing	C Nonaccrual	D Renegotia "troublec debt
1. Real estate loans	XXX	XXX		
2. Commercial and industrial loans	XXX	XXX		
3. Loans to individuals for household, family, and other personal expenditures	XXX	XXX		
4. Loans to finance agricultural production and other loans to farmers 1/.	XXX	XXX		
5. All other loans and all lease financing receivables	XXX	XXX		
6. TOTAL (sum of items 1 thru 5)	XXX	XXX	XXX	XXX

1/ To be reported separately only if agricultural loans in the domestic offices of the bank exceed one percent of total loans. If less than one percent, include in line e.

Action assigned ~~Martha Bethea~~ Stan Sigel; info copy sent Gov. Partee

NINETY-SEVENTH CONGRESS

Congress of the United States
House of Representatives

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

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1982 SEP -3 AM 9:08
RECEIVED OFFICE OF THE CHAIRMAN

#204

September 2, 1982

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

Dear Mr. Chairman:

On Tuesday, August 31, the press reported that the Office of Management and Budget had disapproved new reporting requirements, recommended by the Federal Financial Institutions Examination Council, that would have resulted in the collection and public disclosure of past due and rescheduled loans and other data reflecting the condition of our nation's banking institutions. These press accounts indicated that the Federal Reserve Board and the FDIC possess authority to override the OMB decision.

I am writing for your assessment of and a status report on this situation. In providing the assessment and status report to the subcommittee, please include answers to the following questions:

1. a. Describe the precise nature of the information that your agency would obtain and/or publish under the Examination Council's proposal;

   b. To what extent, if any, does your agency presently receive or have easy future access to this information?

2. a. What specific impact, if any, will the OMB decision have on your plans for gathering and making public this information?

   b. State your agency's present plans for going forward with the data gathering and publication effort. If you plan to implement the Council's proposal, please state when. If you do not plan to do so, set forth the reasons why.

A response by September 15 would be appreciated.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:psb:v

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

PAUL A. VOLCKER
CHAIRMAN

September 30, 1982

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

Dear Mr. Hoyer:

Thank you for sending me a copy of the letter from Louis Goldstein, Controller of the Treasury of the State of Maryland. I agree with you that he raises some important issues regarding differences between federal and state government budgeting problems. His comment that "high-level-employment revenue estimates should be the basis for the balanced federal budget" parallels, as I remember it, some comments I made to you in our conversation.

When discussing the need for reducing the size of the federal budget deficit, I try to stress the importance of differentiating between the cyclical component of the deficit and the structural component. When deliberating on fiscal policy for long periods ahead, it is the latter which matters most. Indeed, the greatest concern now is that the structural deficit--that which would persist even after the economy returned to a satisfactory level--remains so large.

Unfortunately, there is no general agreement on precisely what level of economic activity to use. Mr. Goldstein, for example, stresses that the high-employment level used for federal fiscal policy decisions should be lower than the current concept of full employment, which is around a 5 percent unemployment rate. In the 1960s a lower unemployment rate was considered to be the proper figure. More recently, many have thought (along with Mr. Goldstein) that a level even higher than 5 percent--perhaps 6 or 6-1/2 percent--is more appropriate. While not arbitrary, it appears that the high-level unemployment figure is still not a neutral estimate which remains fixed over time, and becomes in turn part of the political (as well as "scientific") debate.

Unfortunately, projections of federal receipts and outlays, even at an agreed upon high-employment level, would contain considerable uncertainty. The state of the art for making forecasts remains such that the difference between policy views and projections is frequently difficult to discern.

As you know, the Congress already receives estimates of high-employment budget revenues and expenditures. The Congressional Budget Office provides these figures in their regular and special reports on Administration budget requests. The Bureau of Economic Analysis (in the Commerce Department) also prepares such estimates. These estimates are not binding on budget resolutions or on appropriations that must be set in terms of actual expenditures. They do, however, provide an alternative assessment of outlays and revenues, on a basis similar to that suggested by Mr. Goldstein. They are independent of forecasts of actual unemployment and may be a useful planning guide.

There, I think Mr. Goldstein is on the right track. Of course, as we have discussed, the idea of creating an independent board to estimate revenues also has some obvious attractions. However, substantial capability and expertise already exist within Congress and the Executive branch. Hence, a basic framework for some type of agreement on economic projections of the structural deficit would appear to be already at hand.

In summary, I agree with Mr. Goldstein's stress on the need to consider structural revenues and to find ways in which the government can improve the federal budgeting process. I remain somewhat doubtful that an independent revenue board would add significantly to Congressional budget deliberations. In any event, the deficit is now large enough by any definition that the need for decisive action to deal with the budget dilemma should be evident without procedural reforms, although this doesn't take away from the value of continued work on procedures.

Sincerely,

S/ Paul

AT:SL:JLK:NS:PAV:vcd (V-183)
bcc: Mr. Teplin
Ms. Lepper
Mr. Kichline
Mrs. Mallardi (2)

Action assigned Mr. Kichline

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

August 12, 1982 #183

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1982 AUG 16 AM 9:34
RECEIVED
OFFICE OF THE CHAIRMAN

The Honorable Paul Volcker
Federal Reserve Board
2000 Constitution Avenue
Washington, D.C.

Dear Chairman Volcker:

I am enclosing herewith a copy of a letter that I have received from Louis Goldstein, the Comptroller of the Treasury of the State of Maryland. I thought the letter was well done and makes some excellent points with respect to the proposals for a Board of Revenue Estimators and the definition of "revenues." I therefore thought you would find it of interest. I would appreciate any comments that you might have.

Sincerely yours,

STENY H. HOYER
Member of Congress

SHH:km

LOUIS L. GOLDSTEIN
COMPTROLLER OF THE TREASURY
STATE TREASURY BUILDING
P. O. BOX 466
ANNAPOLIS, MARYLAND 21404
269-3801

August 5, 1982

Honorable Steny H. Hoyer
Member of Congress
House of Representatives
1513 Longworth House Office Building
Washington, D.C. 20515

Dear Steny:

This is in response to your request for my comments regarding HR6866, which proposes to establish a federal Board of Revenue Estimates. I wholeheartedly support this concept, which as you know has worked extremely well in Maryland for many years.

There are several problems arising from the basic differences in federal and state budgeting environments which I wish to note. These differences may dictate a modification in the definition of revenues to be forecast by the proposed Board.

First, as you are aware, federal budget policy goes beyond state budget policy by addressing the need for countercyclical fiscal stimulus and/or restraint. Thus, it is desirable that the federal budget run appropriate deficits during recessionary periods and appropriate surpluses during peak periods of economic growth and full employment. Assuming the economy's turning points between recessions and recoveries are correctly forecast in the revenue estimating process, constraining the federal budget to estimated revenues would convert it into a pro-cyclical instrument whereby high budget growth would accompany expansion periods and slow budget growth and/or budget cutbacks would accompany recessionary periods.

Second, for numerous economic, geographic, sociologic and legal reasons, the economy of a state is much more "open" than the U.S. economy. This means that the economic impacts of internal occurances (e.g., building a road in Maryland) tend to diffuse beyond state boundaries much more so than beyond national borders. Conversely, the impacts of external occurances (e.g., building a road in Virginia) tend to be felt much more within a state than within a nation. Put another way, the nation is more sensitive to "feedbacks" than any of its component states. Thus, while revenues may be estimated independently of expenditures in a state, the level of budgeted expenditures must be considered in estimating federally-collected revenues due to the inherent feedbacks between government expenditures, economic activity, the tax base and revenues.

Third, the requirement for quarterly revisions -- while unavoidable in today's complex and fast-changing economy -- will inevitably create problems in the protracted federal budget process. While states generally adopt budgets fairly quickly and as a complete package, the federal budget evolves in stages throughout the fiscal year. This means that as many as three quarterly revisions in revenue estimates could be prepared before the entire federal budget is adopted. Significant changes in these revenue estimates (which are indeed likely to occur) could wreak havoc in this process by discovering revenue windfalls or shortfalls which may entail reopening those portions of the budget which had already been enacted.

These problems may be overcome by changing the definition of revenues. Instead of forecasting actual revenues (i.e., the amounts to be collected and available for funding the budget), the Board should be charged with estimating the actual and potential revenues associated with a reasonably high level of employment. Such a level should not be the current concept of full employment, but should be somewhat less, perhaps 6 percent to 7 percent unemployment. This would provide the following advantages:

(1) It would allow the full range of federal countercyclical policies (deficits in recessions and surpluses in boom periods) to be used to alternatively stimulate or restrain national economic growth;

(2) It would minimize the incremental impact of pending government spending policies on future economic growth, thereby removing much of this uncertainty from the underlying forecast assumptions;

(3) It should minimize the disruptive impact of fast-changing economic scenarios on future revenue prospects, thereby minimizing the size of the revisions in revenue estimates (which otherwise may wreak havoc on the budget process itself). Ordinarily, the "high-level-employment" assumption should not change significantly over the course of a year, and therefore the resulting revenue estimates should remain relatively stable. On the other hand, the transition of the economy from recession to recovery or recovery to recession can occur rather abruptly, with significant implications for revenue prospects.

In summary, I believe that high-level-employment revenue estimates should be the basis for the balanced federal budget instead of actual revenue forecasts. This substitution would probably blunt most of the serious criticisms of this approach.

Again, I am wholeheartedly in support of a federal Board of Revenue Estimates. I believe this concept would go far in restoring discipline to the federal budgeting process, and I am glad you have introduced legislation to implement it. If I can furnish additional information concerning this subject, please let me know.

With kindest personal regards and best wishes, I remain

Cordially yours,

Louis

Louis L. Goldstein
Comptroller of the Treasury

LLG:RDR:doj
cc: Robert D. Rader

HOUSE OF REPRESENTATIVES
WASHINGTON, D. C. 20515

TOBY ROTH
WISCONSIN

September 29, 1982

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1982 OCT -1 AM 8:36
RECEIVED
OFFICE OF THE CHAIRMAN

Dear Mr. Chairman:

Thank you for taking time to meet with me today. I greatly appreciated the chance to hear your assessment of our economic problems and your forecast for the future.

I was pleased to learn that we are in basic agreement about the goals for our nation's economy. You can be certain that I will keep your points in mind while traveling in my District. As you well know, many Americans are distressed by high interest rates, yet they do not fully understand all of the underlying economic problems that have lead to the current high rates. Your assessment was therefore particularly beneficial and will be useful to me when talking about this issue with my constituents.

Again, I want to thank you for meeting with me. I look forward to working with you in the future on other issues which are of mutual concern.

Sincerely,

Toby Roth

TOBY ROTH
Member of Congress

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

September 29, 1982

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

Dear Chairman Rosenthal:

In your letter to Chairman Volcker of September 28 you asked for information in the possession of the Federal Reserve identifying the individual majority controlled business interests of IRI, together with the nature of the business activity of each and the size of each. In addition, you asked for all information in the possession of the Federal Reserve regarding the U.S. business activities of each of these business entities.

As to IRI's activities in the United States, we have enclosed data on foreign investments in the United States compiled by the Commerce Department for 1977, 1978, and 1979 as well as tables from IRI Annual Reports listing all controlled companies. Additional information is contained in the most recent IRI Annual Report, a copy of which is enclosed.

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn
Assistant to the Board

Enclosures

NJ:MB:pjt (#V-224)
bcc: Ms. Jacklin
Mr. Bradfield
Mrs. Mallardi
Legal Records (2)

Action assigned to Jacklin, Dahl, Gemmill

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

#224

September 28, 1982

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

Dear Mr. Chairman:

The Commerce, Consumer, and Monetary Affairs Subcommittee, in preparation for its forthcoming hearing on September 30 on foreign investment in U.S. banks, needs background information on the nature of the commercial business interests with which the Long Island Trust has become indirectly affiliated through the Italian Government holding company IRI. You have already supplied to the subcommittee the IRI organization chart that was attached as appendix 2 to the May 21, 1982, memorandum to the Board from the Division of Banking Supervision and Regulation. This chart does not provide any information, however, on the U.S. activities of IRI's affiliates and subsidiaries, or on the sizes of the affiliates and subsidiaries.

Please provide, therefore, at least 24 hours prior to the hearing, all additional information in the possession of the Federal Reserve identifying the individual majority controlled business interests of IRI, together with the nature of the business activity of each and the size of each. In addition, please provide all information in the possession of the Federal Reserve regarding the U.S. business activities of each of these business entities.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dtb

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

PAUL A. VOLCKER
CHAIRMAN

September 29, 1982

The Honorable Robert J. Dole
Chairman
Subcommittee on Courts
Committee on the Judiciary
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I am writing to convey my views concerning proposed technical amendments to the Bankruptcy Reform Act of 1978 ("Code") that I understand will be considered by the Senate Judiciary Committee to exempt repurchase transactions ("repos") from the automatic stay provisions of the Code. These amendments are being proposed because recent developments in the repo market--including the bankruptcy of a dealer in this market--have pointed up a number of legal inconsistencies concerning risks involved in what had been thought to be a riskless transaction.

Repos are contractual agreements for the sale or loan of a security which include a provision requiring the seller or lender to take back the security at a fixed price plus, in many cases, an additional sum representing a yield on the investment. They are especially attractive to market participants because of their flexibility as to maturity and the amount that may be invested. Repos are used by a wide range of entities in addition to government securities dealers, including states, municipalities and other public bodies, financial institutions, and pension funds, to employ funds on a secure basis through temporary acquisitions of various kinds of securities, including U.S. government and agency securities, bankers' acceptances and CDs.

In addition, repos are a very important tool used in Federal Reserve open market operations and in financing the national debt. Therefore, because of this widespread use in very large amounts, it is important that the repo market be protected from unnecessary disruption.

A recent decision of the Bankruptcy Court highlights the need to review the structure of the rules affecting the treatment of repos under the Code. In a proceeding arising out of the failure of Lombard-Wall, Inc., the Bankruptcy Court in the Southern District of New York held that the holder of securities subject to a repurchase agreement was covered by the automatic stay of the Code, and that this holder was precluded from closing out its position with the debtor.

This decision casts doubt, in a bankruptcy context, on the liquidity and safety of repos. The decision not only subjected the repo participant involved in that case to unanticipated liquidity pressures, but it also exposed that participant to an increased risk of capital loss because of potential changes in interest rates. If repos are subject to the automatic stay in bankruptcy, the rippling effect of the potential loss of liquidity or capital on market participants could generally disrupt the repo market and cause an otherwise manageable and isolated problem to become generalized.

The proposed technical amendments would resolve these legal uncertainties by exempting repo transactions from the automatic stay in bankruptcy. A similar approach was taken under legislation enacted earlier this year which exempts stock brokers, security clearing agencies, commodity brokers and forward contract merchants from the automatic stay. These recent amendments, according to the House Report (No. 97-420), were intended to minimize the disruptive effects arising out of the "insolvency of one commodity or security firm," and to prevent such effects "from leading to the insolvency of other firms and possibly threatening the collapse of the affected market."

The proposed legislation has the same objective but would take a somewhat different approach. Instead of protecting certain classes of market participants, it would exempt a particular class of transactions--the repo. Because of the uniqueness of this market, I believe this is a reasonable approach.

The normal process in evaluating legislation of this kind would involve a great deal more public discussion, including an opportunity for the public to be heard at Congressional hearings, and I would usually prefer that changes of the kind now under consideration follow this route. I also believe that we should act in a manner that maintains market discipline on participants to assure the creditworthiness of the entities with which they deal.

On balance, I believe it is important to take the present opportunity to enact legislation to clarify the rules applicable to repos and to avoid what I believe to be major possibilities for disruption in the repo market. However, in this context, I believe that it would be preferable to draw the legislation in a relatively narrow manner and to confine its application to the key repo markets in U.S. government and agency securities, bankers' acceptances and certificates of deposits. A technical amendment to the Code limited in this manner would, in my view, be justified and should be enacted at the present time.

Sincerely,

Paul A Volcker

MB:mam
bcc; Mr. Bradfield
Mrs. Mallardi (2) ✓
Legal Records (2)

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

PAUL A. VOLCKER
CHAIRMAN

September 27, 1982

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

Dear Mr. Chairman:

I appreciate the opportunity to provide my views on S. 2879, the Depository Institutions Amendments of 1982, a bill which was passed by the Senate on September 24, 1982 and on which your Committee held hearings on September 20 and 21, 1982.

The bill contains eight major parts encompassing the so-called Regulator's Bill, capital assistance for depository institutions, expanded powers for thrift institutions, amendments to the National Bank Act and the Federal Credit Union Act, a limitation on the insurance activities of banks, a miscellaneous title, as well as a title on alternative mortgage transactions.

On October 29, 1981 I testified before the Senate Banking Committee on a bill containing many of the same provisions. Because the views I expressed then are still relevant to the new bill I have included a copy of this testimony for inclusion in your record.

The comments that follow are guided by the criteria cited in that testimony and are limited to the major provisions of the bill that are of concern to the Federal Reserve. I would also like to note that I have not had an opportunity to review in detail the changes made in the bill on the Senate floor.

The Regulator's Bill

The Board has been a consistent strong supporter of the Regulator's Bill. This legislation was conceived mainly as a vehicle for providing a greater flexibility for the regulators to deal with the severe problems currently facing thrift institutions. It is still vitally important for that reason. Increased flexibility for the regulators to deal with troubled depository institutions has become equally important in the light of recent problems faced by certain banks. This long sought and long delayed legislation should be enacted as soon as possible.

Capital Assistance

Title II, the capital assistance provision, enables the depository institution insurance funds to develop a program calling for the issuance of capital instruments by depository institutions in exchange for notes of the insurance agencies. These transactions are designed to bolster net worth and partially offset the effects of financial losses. The section carefully prescribes the circumstances under which institutions are to be assisted in order to assure that assistance is provided only to those institutions that have reasonable prospects of longer-term viability.

Without a capital infusion program, the number of assisted mergers and perhaps even liquidations would likely involve, in the end, commitments by the insurance funds. We believe, looked at as a budgetary matter or in terms of probable ultimate commitment of funds, capital infusion in selected instances is likely to be substantially more economical than other approaches. That result would be achieved by forestalling the need for mergers or liquidations of institutions that can be viable in the long run. At the same time, the bill should prevent the need to merge or liquidate institutions that can stand on their own feet over time, but would otherwise be required to be closed.

Together with the Regulator's Bill, the Federal Reserve supports the capital assistance legislation and urges its prompt enactment; we find the approach incorporated in S. 2879 substantially preferable to the approach in the House passed bill. These two Titles, taken together, meet one of my basic criteria for new legislation--the flexibility they provide will provide the regulators with the authority that will assist in maintaining a safe and sound banking system.

Increased Powers For Thrifts

Title III broadens the asset and liability powers of thrift institutions by permitting Federal savings and loans to make commercial loans to businesses and accept demand deposits from those that possess a business connection with the institution. In addition, it also allows overdrafts, larger limits for commercial real estate loans, leasing, and the ability to carry out these and other activities through service corporations.

Consistent with the criteria outlined in my testimony, I believe it is important to maintain thrifts as specialized lenders with a focus on meeting housing, community and smaller business needs. The scope of the powers contained in this Title providing for commercial lending in various forms is somewhat broader than necessary to meet what I envisage as the desired purpose. It follows that in my view the powers provided for in S. 2879 should not be considered as a first step toward still broader commercial lending authorities, but as a sufficient (or more than sufficient) grant of power necessary to round out their existing housing finance authorities to allow them greater flexibility to manage in a more complex financial environment and to offer more complete community financial services.

Thrifts, after passage of Title III, will continue to have a separate, different, and in some important ways more flexible regulatory environment. This arrangement can maintain any validity only so long as thrifts perform a specialized role among depository institutions; and it would be inconsistent with a safe and sound banking system to create in the future a new variety of commercial banking institutions with different powers and a separate regulatory structure. The bill, as it stands, does not fully address these issues of branching, nonfinancial ownership links, and the like reflected in my earlier testimony.

The Differential and Mandate to DIDC

Title III also speeds up the process of deregulation of interest rate ceilings now being administered by the DIDC. It would, as amended by a joint proposal of Senators Garn and Riegle, call for the elimination of all interest rate differentials no later than January 1, 1984. This proposal is fully consistent with the actions taken by the DIDC on its most recently established new deposits to eliminate the differential as interest rates decline. Now that the Treasury bill rate has declined below 9 per cent the differential has been substantially eliminated on the two most recently established by the DIDC.

The proposal also calls for the DIDC to create a new deposit instrument, not subject to a differential, that would be "directly equivalent to and competitive with" money market mutual funds. While the details of the new instrument are not explicitly provided for, it is understood that an initial minimum denomination of $5,000 is considered appropriate and that a rate ceiling, if one is imposed, should be high enough to enable depository institutions to compete effectively with alternatives available in the market. To the extent the instrument can be used for transactions purposes, considerations of competitive equity, financial structure, and monetary control raise difficult questions with respect to transaction account reserve requirements.

As you know, I have been concerned that changes in deposit instrument characteristics that could result in substantial and accelerated outflows of funds from low cost savings accounts would have major adverse consequences for thrift and bank earnings and ultimately for the financial system at a time of other economic pressures on earnings capacity and capital positions of depository institutions. In our view, there is a likelihood that any additional earnings obtained from attracting new funds to a competitive instrument and investing them at a small spread would be much more than offset by the effect of having to pay far more for the funds now in savings accounts, much of which would surely shift if a high yielding, high liquidity, low minimum balance instrument were offered by banks and thrifts. This shifting would have been all the more serious and disruptive in a high interest rate environment, but its potential consequences would be less troubling and less significant assuming a sustained decline in rates.

The concern about shifting is also relevant with respect to demand deposits, which currently may not be interest-bearing pursuant to law. To the extent the new account contemplated by the bill has transaction capability and universal eligibility, the incentives for businesses to switch over, with further adverse effects on earnings, are clear.

I am also concerned that the DIDC retain flexibility to take into acount the effects of its actions on the financial structure as well as on monetary policy. I am, for example, concerned about the stability of a financial structure which comes increasingly to rely on variable market rate financing on a demand basis, and I believe it is appropriate for the DIDC to take such topics into consideration. Moreover, the creation of a market rate transaction account is likely to induce depositors to mix their transaction balances and investment funds into one account. Such a mixing will make it much more difficult to interpret movements in the monetary aggregates.

Thus--for all these reasons--if Congress should decide to act in this area, we would prefer the legislative language which maintains the greatest degree of flexibility for the DIDC.

In this context I would like to emphasize that I fully recognize the dilemma faced by the banking industry--limited in the ability to compete for consumer deposits at money market rates and restrained in the geographic exercise of banking powers, while at the same time facing competitors who are entirely free from these impediments. Some of these restrictions have been necessary for reasons of public policy or are inherent in the business of banking. But stating the dilemma is not enough--solutions both administrative and legislative are required. Carefully crafted legislative solutions addressing both the problems of banks and of banks' unregulated competitors, and consistent with the criteria outlined in my October testimony, are essential.

In that connection I would like to recall that legislative action dealing with depository institution liability powers only addresses a part of the competitive problem. For example, money market funds, in addition to freedom from interest rate ceilings, are also not subject to reserve requirements and other regulatory constraints on bank and thrift powers. For reserve requirements in particular, not only competitive equality but also the effective conduct of monetary policy argue that all funds being used for transactions purposes be subject to similar rules. We have previously asked Congress to grant the Federal Reserve authority to impose reserve requirements on money fund shares with transactions capability; we again wish to request this legislative action. In this sense we believe the bill reflects unfinished business on the legislative agenda.

Due on Sale

Title III contains provisions for federal preemption of state laws relating to enforcement of due-on-sale clauses. In my testimony in October 1981 a majority of the Board supported federal preemption because of its importance to the health of depository institutions. The subsequent Supreme Court decision allowing enforcement of due-on-sale for federally chartered savings and loan associations creates an unequal situation that emphasizes the desirability of a uniform rule applicable to all depository institutions.

National and Member Bank Provisions

Title IV contains a variety of provisions affecting national and member banks. The Board generally supports the provisions of this Title. I would like, however, to comment separately on three of the provisions.

Lending Limits

Section 401 of this Title increases the current 10 per cent limit on loans to one borrower by national banks to 15 per cent of capital and surplus. The Board continues to oppose this expanded lending limit because of its focus on the importance of risk diversification and the need for banks to increase their capital ratios. It seems all the more inappropriate to take this step at a time when stresses on the economy are exposing the dangers of loan concentrations.

The Board believes, however, that an increase to 15 per cent to one borrower is appropriate where a bank is in a strong capital position. Thus, banks that have a relatively high capital ratio of perhaps 7 or 8 per cent would be in a better position to assume greater risk. Such a change would be especially relevant in rural areas where bank capital ratios tend to be high and the requirement of larger sized loans to individual borrowers relative to the absolute size of banks is more prevelant.

I would have no objection to a specific and separate lending limit of up to 10 per cent of capital and surplus as proposed in the bill where the loan is secured, as provided in Section 401, "by readily marketable collateral having a market value, as determined by reliable and continuously available price quotations at least equal to the amount of funds outstanding. . . ." The legislative history should be clear that the Congress is referring to loans backed by strong and stable collateral and that this provision will not, for example, expand the scope for takeover loans granted against rapidly fluctuating stock values.

Bankers Acceptances

The Board supports an increase in the limit on the amount of eligible bankers acceptances that may be issued by member banks. In the interests of competitive equality, the Board recommends that the proposal also be applied to nonmember banks just as it would be applied to branches and agencies of foreign banks. Further, it should be made clear that the Board could establish the appropriate terms and conditions for determining what constitutes participations in eligible acceptances.

Insurance Activities of Bank Holding Companies

Under the proposed legislation, bank holding companies would be prohibited from providing insurance as a principal, agent, or broker. I see no basis in the public interest to exclude or limit banks or any other depository institutions from participation in this field. On the contrary, in terms of increased competition and customer convenience, depository institution participation is very much in the public interest.

I am aware of the concern expressed by some that banks, because of their crucial position in financial dealings, have a major advantage over other underwriters and sellers of insurance. However, the Board now has the flexibility to authorize bank holding company entry into the insurance business only if it is satisfied that the standards of the Bank Holding Company Act, requiring the Board to prevent unfair competition and avoid undue concentration of resources, are fulfilled. This requirement presents fully adequate safeguards and, at this time, allows the public the full benefits of an increased variety of insurance services.

Finally, at a time when I am concerned, as I have described, about the problems posed by the competitive limitations on banks, particularly as compared with unregulated financial entities, a new statutory limitation on the activities of banking institutions seems to set a most undesirable precedent.

Bank Service Corporations

I understand that an amendment introduced on the Senate floor would increase the powers of bank service corporations, allowing them, subject to state and federal branching restrictions, to offer all customers the same services, other than deposit taking, that can be offered under existing law by banks and by bank holding companies, subject to appropriate regulatory approval. The Board has no objection to this proposal providing a flexible vehicle for banks to offer services that are presently authorized. However, the Board feels that it should be clear, and requests Congress to make it clear, that this arrangement should not establish a precedent for future decisions on the proper vehicle for the offering of any new bank services that may be authorized by regulation or legislation.

Other Provisions

I have no comment on the amendments to the Federal Credit Union Act contained in Title V, and we have no objection to the Title VI amendments to Truth-in-Lending. Moreover, the Board endorses the proposal to allow public funds to be eligible for NOW accounts.

On the other hand, three provisions of Title VII raise serious questions of fairness. Section 435 and Section 705 extend an already very prolonged delay in compliance with the basic rules separating banking and commerce. Section 711 provides an exception to laws concerning the phase-in of reserve requirements. I believe that these three provisions should not be enacted since they would provide exemptions for selected institutions from legislative requirements with which other banks have long since complied.

I am also concerned about what is omitted--authority for depository institutions to underwrite municipal revenue bonds and offer stock and bond mutual funds. In the debate of form over substance and on the scope of perceived competitive encroachments, I believe we have lost an opportunity to allow banking institutions to offer services that are fully consistent with safe and sound banking practices and with positive public benefits in terms of increased competition and a broader variety of products.

It is my hope that Congress will address these concerns and the other issues I have raised in this letter at an early time.

Sincerely,

Paul A Volcker

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

September 24, 1982

PAUL A. VOLCKER
CHAIRMAN

The Honorable Henry B. Gonzalez
House of Representatives
Washington, D.C. 20515

Dear Mr. Gonzalez:

Thank you for your letter of September 10 describing the current circumstances faced by merchants in the border area with Mexico because of Mexican exchange controls and the rapidly changing value of the peso.

In your letter, you proposed that exchange facilities be provided by the Federal Reserve and U.S. Treasury to aid U.S. businessmen and their Mexican customers in the border area who have traditionally transacted business in pesos. Even with limitations on conversion to historic levels of bank peso acquisitions, it would be extremely difficult to determine whether the pesos presented for conversion were acquired through bona fide business transactions. Thus, the facility could become a vehicle for the kind of currency speculation that already has exacerbated some of the financial difficulties in the border areas and would be, I am advised, of doubtful legality under the Federal Reserve Act because, unlike the swap facilities entered into by the Federal Reserve with foreign central banks, the Federal Reserve would have no reasonable assurance of the liquidity of the foreign currency balances it acquires. More basically, in situations of fundamental imbalances, short term and specific measures cannot substitute for the economic policies that must be adopted.

The United States already has undertaken significant efforts to seek to resolve the serious problems created by Mexico's current financial situation. The Federal Reserve and the Treasury have joined eleven other central banks, acting through the Bank for International Settlements, in providing substantial, immediate assistance to Mexico as a means of allowing development of a sound economic adjustment program in cooperation with the International Monetary Fund. Implementation of policies to stabilize the Mexican economy and its currency is the key to a return to orderly trade relations between our two countries, within the border areas and more generally.

The Honorable Henry B. Gonzalez
Page Two

I fully share your concern about the economic dislocations caused by Mexico's current problems and the particularly severe impact on the border areas. But I am convinced that a solution of practical value must be found within the framework of our relationships with Mexico generally, including common agreement as to appropriate handling of the border area with respect to Mexican exchange controls. As opportunities arise in the next few days and weeks, I believe this subject might appropriately be discussed in that larger context; without that background, I am doubtful that action along the lines you propose could be successful even in its immediate purpose of restoring more normal trade conditions.

Sincerely,

S/Paul A. Volcker

MB:NPJ:AFC:PAV:pjt (#V-213)
bcc: Mr. Bradfield
Ms. Jacklin
Mrs. Mallardi (2)
Legal Records (2)

J. WILLIAM STANTON
11TH DISTRICT, OHIO

2466 RAYBURN BUILDING
WASHINGTON, D.C. 20515
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COMMITTEE ON
BANKING, FINANCE AND
URBAN AFFAIRS

COMMITTEE ON
SMALL BUSINESS

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

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September 24, 1982

MEMORANDUM

TO: Chairman Volcker

FROM: J. William Stanton

RE: National Commission on the Federal Reserve System

The following is a rough outline of the Commission referred to in the September 14th memo (attached).

1. Establishment of the Commission

The Commission is envisioned as an independent instrument of the Federal Government.

2. Membership of the Commission (Obviously, the membership of the Commission is a key to its final report; thus you may wish to closely review or restructure this provision.)

The Commission shall be comprised of 13 members appointed as follows:

(a) The Chairman and Ranking Minority Members of the House and Senate Banking Committees;

(b) The Secretary of the Treasury;

(c) The Chairman of the Council of Economic Advisers;

(d) The Chairman of the Federal Reserve Board;

(e) The President of the New York Federal Reserve Bank;

(f) Five persons from the private sector who shall be selected by the President; the Chairman and Vice Chairman of the Commission shall be selected by the President from among the five persons from the private sector.

3. Reports of the Commission

The Commission shall report to the President and Congress 18 months after the date of enactment of this law.

4. Expenses

The expenses of the Commission shall be taken from the operating budget of the Board of Governors of the Federal Reserve System. (Alternatively, it would be necessary to authorize and appropriate approximately $2.5 million.)

5. Functions of the Commission (This is another key feature. We have included numerous possible issues for the Commission to study, including some regulatory matters. These should be refined and possibly limited.)

It is the purpose of this Commission to conduct a study of the policies, procedures, and structure of the Federal Reserve System with respect to:

(a) the formulation and implementation of monetary policy;

(b) the supervision and examination of financial institutions;

(c) the provision of services provided by the System to financial institutions;

(d) the relationship between the System, the Congress, and the executive branch;

(e) the membership of the Board of Governors and the Federal Open Market Committee;

(f) the structure of the district reserve banks;

(g) the relationship of the Federal Reserve to other countries' central banks;

(h) the relationship between the Federal Reserve System and the other Federal financial supervisory agencies; and

(i) such other subjects the Commission deems appropriate to the study.

Attachment

Orig. - Don Winn

My Coyne

TOM TAUKE
2ND DISTRICT, IOWA

CONGRESS OF THE UNITED STATES

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

July 27, 1982

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

#174

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

Indefinite

Dear Mr. Chairman:

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

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

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

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

Best wishes.

Sincerely,

Tom Tauke

Tom Tauke
Member of Congress

She's to call

Richard Gordon

only if serves a useful purpose

TT:jw

Visit Cancelled by Iowa League
Tauke's Office Called 9/1/82
RC

COMMUNICATIONS SHOULD BE DIRECTED TO THE OFFICE INDICATED.

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WASHINGTON, D.C. 20515
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