

Congressional

July - September 1983 [1]

Collection: Paul A. Volcker Papers
Call Number: MC279

Box 12

Preferred Citation: Congressional Correspondence, July-September 1983 [Folder 1]; Paul A. Volcker Papers, Box 12; Public Policy Papers, Department of Rare Books and Special Collections, Princeton University Library

Find it online: <http://findingaids.princeton.edu/collections/MC279/c462> and <https://fraser.stlouisfed.org/archival/5297>

The digitization of this collection was made possible by the Federal Reserve Bank of St. Louis.

From the collections of the Seeley G. Mudd Manuscript Library, Princeton, NJ

These documents can only be used for educational and research purposes ("fair use") as per United States copyright law. By accessing this file, all users agree that their use falls within fair use as defined by the copyright law of the United States. They further agree to request permission of the Princeton University Library (and pay any fees, if applicable) if they plan to publish, broadcast, or otherwise disseminate this material. This includes all forms of electronic distribution.

Copyright

The copyright law of the United States (Title 17, United States Code) governs the making of photocopies or other reproductions of copyrighted material. Under certain conditions specified in the law, libraries and archives are authorized to furnish a photocopy or other reproduction. One of these specified conditions is that the photocopy or other reproduction is not to be "used for any purpose other than private study, scholarship or research." If a user makes a request for, or later uses, a photocopy or other reproduction for purposes not permitted as fair use under the copyright law of the United States, that user may be liable for copyright infringement.

Policy on Digitized Collections

Digitized collections are made accessible for research purposes. Princeton University has indicated what it knows about the copyrights and rights of privacy, publicity or trademark in its finding aids. However, due to the nature of archival collections, it is not always possible to identify this information. Princeton University is eager to hear from any rights owners, so that it may provide accurate information. When a rights issue needs to be addressed, upon request Princeton University will remove the material from public view while it reviews the claim.

Inquiries about this material can be directed to:

Seeley G. Mudd Manuscript Library
65 Olden Street
Princeton, NJ 08540
609-258-6345
609-258-3385 (fax)
mudd@princeton.edu

Congressional July-September 1983



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

PAUL A. VOLCKER
CHAIRMAN

September 28, 1983

The Honorable Stan Parris
House of Representatives
Washington, D. C. 20515

Dear Mr. Parris:

Thank you for your letter of September 15 concerning the definition of the term "commercial loan" in the proposed revision of the Board's Regulation Y, which implements the Bank Holding Company Act. The proposal is part of a major revision of the regulation to clarify its terms, to speed and simplify the applications process, and to incorporate outstanding Board rulings applying the Act's provisions.

Last year, the Board defined the term "commercial loan" to include any transaction representing a credit extension to a commercial organization. This covers the purchase of commercial paper, bankers' acceptances and certificates of deposit, and the sale of federal funds. The revised definition was adopted in order to halt a pronounced and accelerating trend by nonbanking organizations, including insurance companies, securities firms, retailers, and industrial concerns, to acquire banks. This development has been accomplished through a loophole in the Bank Holding Company Act, under which the bank to be acquired ceases to make commercial loans, an essential ingredient of the "bank" definition under the Act. The bank acquired through this device retains the ability to take deposits from the public, both demand and time, to make other types of loans, to retain federal deposit insurance, and to have access to the payments system, remaining for all intents and purposes a bank.

I have stressed my concern about the broader ramifications of this development both in my recent testimony before the Senate Banking Committee and in my appearance before that Committee last April. The legislative history of the Bank Holding Company Act and the basic prudential policies which the Act was intended to effect both indicate that Congress desired the Act to cover all institutions that we commonly think of as banks--institutions that take deposits and make loans. The Board believes that the basic policies of the Act are seriously undermined by the nonbank bank phenomenon.

The Board's interpretation of commercial loan has been criticized by some, including the FDIC and former Federal Reserve Board Governor Coldwell in the letters you enclosed, as a matter more appropriately for the Congress in view of the broad policy implications involved affecting the entire financial services industry. It is for this very reason, however,

The Honorable Stan Parris
Page Two

that the Board acted to prevent preemption of Congressional deliberation and decision in this critical area and to prevent a fait accompli. As we see it, the actions we have taken are designed to preserve the Congressional intent and Congressional prerogatives, and we have been urging, in the strongest terms possible, that the Congress deal with the issue. Specifically, we have urged that Congress impose a temporary moratorium on further acquisitions of nonbank banks and then promptly consider the Administration's proposed Financial Institutions Deregulation Act.

The reason Regulation Y has become an issue is because, in proposing the revision to the regulation, the Board believed it appropriate to incorporate all important interpretations of the Act's provisions, including the Board's definition of commercial loan, and to ask for public comment on these positions. The Board has not yet reviewed the public comments submitted on the proposal and has not made any decision on whether to include the definition of bank in the final regulation. The Board expects to take up consideration of the final regulation later this fall, and I can assure you that the Board will consider your views at that time.

I appreciate receiving your comments on this matter.

Sincerely,

S/Paul A. Volcker

JVM:MF:PAV:pjt (#V-188, 8330)
bcc: All Board Members
Mr. Mattingly
Ms. Fein
G.C. Log #251
Legal Files (2)
Mrs. Mallardi (2)

COMMITTEE ON
BANKING, FINANCE AND
URBAN AFFAIRS

Action assigned
Mr. Bradfield

STAN PARRIS

8TH DISTRICT
VIRGINIA

COMMITTEE ON THE
DISTRICT OF COLUMBIA

Congress of the United States

WASHINGTON OFFICE:
230 CANNON HOUSE BUILDING
WASHINGTON, D.C. 20515
(202) 225-4378

SELECT COMMITTEE ON
NARCOTICS ABUSE AND
CONTROL

House of Representatives

CENTRAL DISTRICT OFFICE:
6901 OLD KEENE MILL RD., #101
SPRINGFIELD, VIRGINIA 22150
(703) 644-0004

CONTROL

Washington, D.C. 20515

CHAIRMAN, HOUSE TASK FORCE
ON ECONOMIC POLICY

ALEXANDRIA OFFICE:

1525 KING STREET
ALEXANDRIA, VIRGINIA 22314
(703) 648-5288

September 15, 1983

#188

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

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1983 SEP 19 AM 8:54
RECEIVED
OFFICE OF THE CHAIRMAN

Dear Mr. Chairman:

During the summer, two important events have occurred. First, the Administration has offered comprehensive legislation to update our Nation's banking laws. Second, the Federal Reserve Board has proposed a revision to Regulation Y which seeks to redefine banks and non-banks by expanding the definition of a commercial loan.

As I am sure you are aware, some members of the House and Senate, as well as a former member of the Federal Reserve's Board of Governors and the Chairman of the Federal Deposit Insurance Corporation, have charged that Regulation Y would impinge upon Congress' prerogative to decide what a "bank" is and who should regulate it.

I would be interested to have the benefit of your reaction to each of these developments. More specifically, I would be appreciative if you would explain why promulgation of Regulation Y should precede congressional consideration of the Administration's bill. Furthermore, I would like to have your response to the Coldwell letter of June 3 and the Egginton letter of July 18, a copy of each of which is attached.

Thank you for your prompt attention to this matter.

With kindest regards,

Sincerely,

Stan Parris

Stan Parris
Member of Congress

Enclosures
cc: Members of the Board of Governors

SEP/r1

JUN - 5 AM 3:53

June 3, 1983

Mr. William Wiles
Secretary
Board of Governors
Federal Reserve System
Washington, D. C. 20551

Gentlemen:

In response to the Board's invitation for comments on the proposed revision of Regulation Y, I have the following observations.

Many of the proposed changes, such as the modification or elimination of the need to apply for a non banking activity for each office, are desirable in most instances. However, I assume that in cases where the applicant is an undercapitalized organization and such a new office would dissipate some of the scarce capital there would still be a requirement to apply. If not, then the proposal is in my opinion inappropriate.

Other proposals, such as the expedited time schedule for Board handling would place so much pressure on the staff that either there will be a shortshrifed review or an extensive use of reasons to extend the processing time. While the Board's objectives to reduce the burden on the banks and shorten the time for processing are laudable, they must be tempered with the facts that only the difficult cases are now before the Board and there is a public right to comment. It does not seem to me that a careful review of such difficult cases is unreasonable or even that a 90 day schedule is unrealistic.

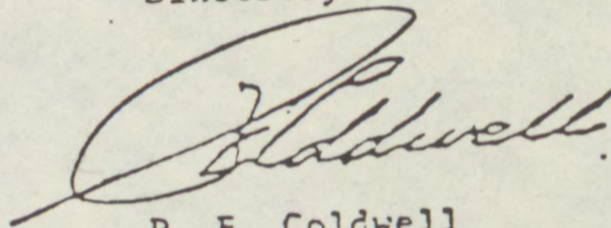
I recognize that the Federal Reserve has been severely criticized for its lengthy processing time and that some adversaries use this as a reason to advocate removal of the Board from such regulatory review. In my opinion though, the shortened time frame is a trap which will be used by critics to push for even shorter times or no review at all. I think the Board should stand on the principle of careful and adequate review of difficult and precedent setting cases. All other cases should be handled by the Reserve Banks under guideline policies and in as short a time as the banks can do the reviews necessary to insure compliance with the guidelines.

If the Board compresses its review process and misses some important point in a case, it will have done itself a disservice and will be under greater pressure to withdraw from regulatory review. In my opinion, it would be better to voluntarily withdraw than to force a slipshod job or compromise the Board's high standards.

The other proposals strike me as a mixed group. The capital requirement on stock redemption should be broadened to cover any application as a general requirement and then the notice of redemption could stay as is.

The proposed incorporation of the Board's interpretations concerning demand deposits and commercial loans seen to me as legislation by regulation. If Congress is unwilling to change such definitions it is Congress which bears the responsibility for the consequences. I would rather see the Board urge in the strongest terms a Congressional review rather than bypass the Congressional process by attempted regulatory procedures.

Sincerely

A handwritten signature in cursive script, appearing to read "P. E. Coldwell". The signature is written in dark ink and is positioned above the printed name.

P. E. Coldwell



FEDERAL DEPOSIT INSURANCE CORPORATION

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

231

1983 JUL 18 PM 3:53

RECEIVED
OFFICE OF THE SECRETARY

OFFICE OF THE CHAIRMAN

July 18, 1983

Honorable William W. Wiles
Secretary of the Board of Governors
of the Federal Reserve System
20th and Constitution Avenue, N.W.
Washington, D.C. 20551

Dear Mr. Wiles:

Subject: Docket No. R-0470, Proposed Revision to Regulation Y

We have reviewed the proposed revision to Regulation Y and are deeply concerned over the Board's attempt to resolve by regulation outstanding policy issues that are better left to Congress. The Board is attempting to resolve by regulation serious issues that will affect the entire financial industry. The Board's solution, however, can only serve as a stop-gap measure to a serious problem. As a consequence, we urge the Board to defer action on the proposal. Instead of rulemaking, a wiser alternative is to encourage Congress to immediately undertake a comprehensive review of problems arising from outdated statutory distinctions among banking institutions, thrifts, securities firms, other providers of financial services and commercial firms in general, and to enact permanent legislative solutions to these broad-based problems.

Sincerely,

Margaret L. Egginton

Margaret L. Egginton
Deputy to the Chairman

RECEIVED
OFFICE OF THE SECRETARY

1983 JUL 18 PM 3:53

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM



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

September 28, 1983

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:

Recently, I wrote to you regarding interim procedures which the Federal Reserve had adopted to limit the use of assets denominated in foreign currencies as collateral for Federal Reserve notes. In that letter, I also reported that more permanent procedures being considered would shortly be presented to the Board. I am pleased to inform you that the Board has adopted a revised procedure for securing Federal Reserve notes which will eliminate the need to use foreign-currency assets in normal circumstances.

As you know, the Federal Reserve has never experienced any Systemwide shortage of collateral for circulating Federal Reserve notes, even if assets denominated in foreign currencies were excluded from consideration. Use of foreign-currency assets as collateral arose at a few Reserve Banks because their share in System holdings of U.S. government securities had not grown proportionately with their note liabilities. Under the new procedure, which will take effect in early October, each Reserve Bank will pledge to all the Federal Reserve agents all its assets eligible for use as collateral for Federal Reserve notes. An employee of the Board, acting as assistant to all the Federal Reserve agents, will draw from all assets pledged an amount for each Reserve Bank equal to the amount of Federal Reserve notes outside the Reserve Bank's vaults. Gold certificates, SDR certificates, and U.S. government and federal agency obligations will be used first. The new procedure specifies that assets denominated in foreign currencies may be used to secure Federal Reserve notes only with the Board's specific authorization. The Board has stated explicitly, as part of the new procedure, that such authorization will be given only in unusual and exigent circumstances. I expect that the traditional assets listed above will provide more than enough collateral for Federal Reserve notes for the foreseeable future.

I appreciate your attention to the issue of Federal Reserve note collateralization. H.R. 2850, which would eliminate collateral for Federal Reserve notes, certainly deserves serious consideration. On the other hand, if the

The Honorable Walter E. Fauntroy
Page Two

Congress does not wish to eliminate the requirement for collateral completely, it could add to the list of eligible collateral notes evidencing advances to depository institutions made under section 10(b) of the Federal Reserve Act. As you are aware, notes evidencing Reserve Bank advances to depository institutions currently may be used as collateral only if the advance is made under section 13 of the Act. However, for technical reasons virtually all of our lending is accomplished under section 10(b). These changes would provide the Federal Reserve with the flexibility to assure that the nation has an adequate supply of currency in even the most extreme circumstances.

Sincerely,

S. Raw

GTS:JRA:AFC:vcd (V-90)

bcc: Mr. Schwartz
Mr. Don Adams
Legal Files (2)
Mrs. Mallardi (2) ✓
Mr. Alexander

September 27, 1983

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

Dear Chairman Fauntroy:

Thank you for your letter of September 21 regarding hearings on the causes and impact of the strong dollar.

Governor Henry C. Wallich is looking forward to appearing before your Subcommittee, on behalf of the Board, on October 5 at 10:00 a.m.

Sincerely,

SEYMOUR A. HANCOCK

CO:vcd (V-189, 3878)

bcc: Governor Wallich
Mr. Gemmill (drafting statement)
Mrs. Mallardi (2) ✓

ALTER E. FAUNTROY, D.C., CHAIRMAN

STEPHEN L. NEAL, N.C.
DOUG BARNARD, JR., GA.
CARROLL HUBBARD, JR., KY.
BILL PATMAN, TEX.
BUDDY ROEMER, LA.
BRUCE A. MORRISON, CONN.
JIM COOPER, TENN.
THOMAS R. CARPER, DEL.

GEORGE HANSEN, IDAHO
RON PAUL, TEX.
BILL McCOLLUM, FLA.
BILL LOWERY, CALIF.
JOHN HILER, IND.

U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON DOMESTIC MONETARY POLICY

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

NINETY-EIGHTH CONGRESS

WASHINGTON, D.C. 20515

H2-109, ANNEX NO. 2
WASHINGTON, D.C. 20515
(202) 226-7315

189

September 21, 1983

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

Dear Paul:

On Wednesday, October 5, 1983, the Subcommittee on Domestic Monetary Policy will meet to begin an examination of the causes and impact of the unprecedented cumulative appreciation of the dollar against the currencies of the major industrial countries of the past two years on the domestic economy.

The Subcommittee would be particularly pleased if you or your designee would provide to the Subcommittee your best assessment of the reasons for this rise of the dollar, its likely duration, and how it might be stabilized if, indeed, it should be restrained from further rises. The Subcommittee is also interested in the effects of this phenomenon on the capacity of the Federal Reserve to continue to conduct monetary policy in an orderly manner. It is also concerned with the impact of the dollar's appreciation on exports and imports, domestic employment and unemployment, domestic interest rates generally and federal debt financing costs in particular and domestic inflation rates.

In conjunction with that component of your testimony, the Subcommittee would like to know how often, under what conditions, the reasons, and at what costs the Federal Reserve, acting for itself or the Treasury, has intervened in the foreign exchange markets. The Subcommittee would like a blunt assessment of that strategy and whether it should be changed towards greater or lesser degrees of intervention. The Subcommittee is particularly interested in the impact such interventions could have on the domestic economy, how these effects are currently minimized, and whether such minimizations can be maintained over the longer run if greater intervention is sought.

The Subcommittee recognizes that the strong dollar has made imports to the United States less expensive for Americans and exports more difficult for American businesses. The Subcommittee would like

September 21, 1983

your view of the overall impact on the domestic economy of these events including any suggestions you might have on improving the market for American exports. I hope you will consider the impact on the American export industry of financing that a strong dollar might also have.

You or your designee should feel free to bring with them such individuals from the Board or any of the Reserve Banks who might be able to assist in providing answers or further comments on any of the issues raised here or which might be raised at the hearing. It has been my experience that such persons have been invaluable and you are encouraged to have them participate in these proceedings.

The Subcommittee will meet at 10:00 a.m., in Room 2222 of the Rayburn House Office Building. Committee Rules provide that witnesses should provide 100 copies of their testimony at least 24 hours before the hearing. Witnesses should also bring with them additional copies if they want to be sure that members of the press and the public who may be in attendance are to be provided with copies of their testimony. If you have any questions, please contact Howard Lee at 226-7315.

Thank you very much for your cooperation.

Sincerely yours,



Walter E. Fauntroy
Subcommittee Chairman

SEP 26 1983

The Honorable Michael D. Barnes
House of Representatives
401 Cannon House Office Building
Washington, D.C. 20515

Dear Mr. Barnes:

I am pleased to inform you that the Board of Governors of the Federal Reserve System is nominating Stephen C. Schemering, Supervisory Financial Analyst, for the Congressional Excalibur Award.

Mr. Schemering has evidenced exceptional leadership, investigation, and negotiation skills in analyzing difficult and complex financial institution supervisory problems vital to the safety and soundness of the banking industry.

Mr. Schemering's outstanding service is outlined in the enclosed nomination. We hope you will give his nomination full consideration.

Thank you for the opportunity to participate in this very worthwhile program.

Sincerely,

S/Paul A. Volcker

Enclosure

TD:sk:lc (V-154)

bcc: Govenor Gramley
Jack Ryan
David Shannon
John Weis
Tony DiGioia
Carol O'Brien
Phyllis Mulcahy
Sue Klinedinst

Ms. Mallardi (2) ✓

The Federal Reserve Board of Governors is pleased to nominate Stephen C. Schemering, Supervisory Financial Analyst, for the Excalibur Award in recognition of his outstanding efforts in handling special attention banking situations.

Since Mr. Schemering joined the Board's Division of Banking Supervision and Regulation in 1974, he has evidenced unusual skill in analyzing difficult and complex financial institution supervisory problems. His responsibilities require him to deal with extremely delicate banking matters that call for not only outstanding knowledge and financial ability, but also strong communication skills and an ability to negotiate complex issues under adverse conditions.

Some of his major responsibilities are briefing Board members and senior Board staff on significant banking developments, acting as the Board's representative in meeting with senior officials of banking organizations to review special attention situations, and maintaining a national perspective on the financial community at large.

In addition to accomplishing his regular assignments, Mr. Schemering has been responsible for critical activities normally handled at a higher level. For example, he closely worked with a multi-bank holding company and its two state member banks in Florida on a year-long problem situation, and played an important advisory role for Board testimony on the issue before Congress. The Florida banking problem required extensive review, negotiation, and supervision and a significant additional commitment not ordinarily encountered in such instances.

Due to the sensitive nature of Mr. Schemering's work, we cannot detail his full job responsibilities in this document. However, involvement with and expertise in handling complex actions has grown to the point that his leadership, investigation, and negotiation skills are considered the Board's primary resource for handling critical and delicate bank supervisory problems. In addition, he has successfully carried out projects of vital concern to the financial community.

MICHAEL D. BARNES
8TH DISTRICT, MARYLAND

ASSISTANT MAJORITY WHIP

WASHINGTON OFFICE:
401 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-5341

MONTGOMERY COUNTY OFFICE:
SUITE 302
11141 GEORGIA AVENUE
WHEATON, MARYLAND 20902
(301) 946-6801
TTY-(301) 946-0108



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

August 2, 1983

COMMITTEE ON FOREIGN AFFAIRS

CHAIRMAN,
INTER-AMERICAN AFFAIRS
MEMBER, HUMAN RIGHTS AND
INTERNATIONAL ORGANIZATIONS

COMMITTEE ON THE DISTRICT
OF COLUMBIA

MEMBER, GOVERNMENT OPERATIONS
AND METROPOLITAN AFFAIRS

CHAIRMAN,
FEDERAL GOVERNMENT SERVICE
TASK FORCE

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

Dear Mr. Volcker:

I am pleased to inform you that we are now accepting nominations for the eighth presentation of the Congressional Excalibur Award.

September 30, 1983, is the deadline for your agency to submit one or more nominations to this office which should include a letter of nomination, limited to one page, and a summary of each nominee's achievements. Nominations received after this date will be considered for a future award. As in the past, nominations for earlier Excalibur Awards will be reviewed once again.

All federal employees, civilian and military, are eligible for the Excalibur Award, and can be nominated by officials of either federal agencies or private organizations. Members of the general public may also offer nominations. Most awards are given to individuals, but a team of persons will also be considered if they worked together on a specific project.

Last February, I was privileged to honor several exemplary federal employees at the seventh presentation of the Excalibur Award: Customs Service Special Agents John Gottenborg, William Laverty and Thomas Mitchell were recognized for their outstanding courage and dedication in bringing to justice a narcotics smuggling organization; Ms. Yvonne Cartier, an employee of the Internal Revenue Service, received an Excalibur Award for her untiring efforts to assist taxpayers with special needs; and Mr. Joel Halop's

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1983 AUG -3 AM 8:48
RECEIVED
OFFICE OF THE CHAIRMAN

Honorable Paul A. Volcker
Page 2
August 2, 1983

leadership role in developing a new and simple method for removing asbestos insulation for the Navy Department was also recognized.

I encourage you to publicize the Excalibur Award and the upcoming nomination period for the eighth presentation. Enclosed for your reference is a fact sheet, further describing the Award, and a flyer for posting on a bulletin board. I look forward to receiving one or more nominations from your agency.

Sincerely,


Michael D. Barnes

MDB/mf

MICHAEL D. BARNES
8TH DISTRICT, MARYLAND



ASSISTANT MAJORITY WHIP

WASHINGTON OFFICE:
401 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-5341

MONTGOMERY COUNTY OFFICE:
SUITE 302
11141 GEORGIA AVENUE
WHEATON, MARYLAND 20902
(301) 946-6801
TTY-(301) 946-0108

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

COMMITTEE ON FOREIGN AFFAIRS

CHAIRMAN,
INTER-AMERICAN AFFAIRS
MEMBER, HUMAN RIGHTS AND
INTERNATIONAL ORGANIZATIONS

COMMITTEE ON THE DISTRICT
OF COLUMBIA

MEMBER, GOVERNMENT OPERATIONS
AND METROPOLITAN AFFAIRS
MEMBER, JUDICIARY AND
EDUCATION

CHAIRMAN,
FEDERAL GOVERNMENT SERVICE
TASK FORCE

EXCALIBUR AWARD

FACT SHEET

Congressman Michael D. Barnes (D-8-Md.), Chairman of the Federal Government Service Task Force, initiated the Excalibur Award in 1979. The purpose of the award is to recognize and honor outstanding contributions made by federal civilian and military personnel.

WHAT ARE ITS OBJECTIVES?

- o To encourage initiative and excellence in performance by government employees
- o To publicize such achievements and enhance public appreciation of the merit and performance of government employees, helping to counter the negative image sometimes associated with government service
- o To help attract talented persons to the federal service

WHAT ARE THE CRITERIA FOR THE SELECTION OF NOMINEES?

On a regular basis, candidates for the Excalibur Award are sought who exemplify:

- o Outstanding efforts or leadership in solving problems at local, national, or international levels
- o Exceptional scientific, technical, or administrative achievements
- o Superior service to the public, such as the improvement of efficiency including simplification of government regulations
- o Ability to overcome obstacles to organizational objectives, such as making substantial savings in expenditures
- o High personal integrity, moral character and courage in dealing with difficult or sensitive problems

- o Unusual degree of imagination and initiative involved in a specific achievement impacting on the agency and the public

WHO IS ELIGIBLE AND HOW ARE NOMINATIONS MADE?

All federal career civilian and military employees are eligible. Normally, each award goes to one individual, but a small team of persons who have worked jointly on a project may also be considered.

Nominations are invited on a continuing basis from heads and other officials of federal departments and agencies, from other organizations and from the general public.

Nominations summarizing the individual's achievement should not exceed one page in length. Interested persons should advise Rep. Michael D. Barnes, Room 401 Cannon House Office Building, Washington, D.C. 20515 (301-946-6801) of their nominees.

WHO WILL SELECT THE AWARD RECIPIENT?

Final selections are made by an impartial committee, appointed by Rep. Barnes, composed of eight distinguished citizens drawn from a wide variety of professions and experiences. The Chairman of the Excalibur Award Selection Committee is Mr. Harry McPherson, attorney and former White House Counsel to President Lyndon Johnson. Other Selection Committee members include: Hon. Joseph D. Tydings, attorney and former U.S. Senator from Maryland; Mr. Nicholas Nolan, Secretary-Treasurer of the American Federation of Government Employees; Dr. Estelle Ramey, professor of Physiology and Biochemistry at Georgetown University Medical School and Advisor to the Director of the National Institutes of Health; Mr. John Heller, Assistant to the Comptroller General of the United States; Mr. Robert R. Nathan, economic consultant; Mr. Gary Hymel, Gray & Co.; Mr. Chris Matthews, Assistant to House Speaker Tip O'Neill; and Dr. Douglas Labier, psychoanalyst and associate with the Washington-based Project on Technology, Work and Character.

HOW IS THE AWARD GIVEN?

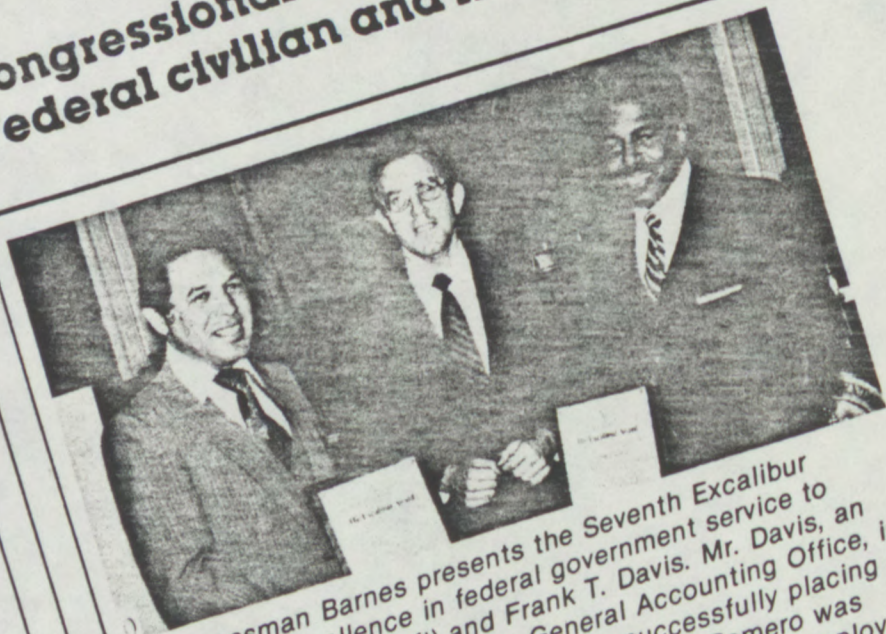
The award is granted in the form of a plaque and an honorary citation. It is presented by Rep. Barnes at a ceremony held at the U.S. Capitol, in the presence of other members of Congress, officials of the executive branch, members of the Excalibur Award Selection Committee, and representatives of the news media.

Excalibur award

excellence in public service

congressional award for

Federal civilian and military personnel



Congressman Barnes presents the Seventh Excalibur Award for excellence in federal government service to Carlos J. Romero (left) and Frank T. Davis. Mr. Davis, an Outplacement Officer at the General Accounting Office, is a highly regarded career counselor successfully placing an average of 200 employees each year. Mr. Romero was honored for his role in furthering federal sector employment for women and minorities. He is an Equal Opportunity Specialist with the Labor Department.

contributions at local, national or
international levels
let the nation know
about the many outstanding
men and women in government
citation presented
at U.S. Capitol ceremony

September 23, 1983

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

Dear Chairman St Germain:

Thank you for your letter of September 16 concerning your hearings on H.R. 3535, the Demand Deposit Equity Act of 1983.

Governor J. Charles Partee is looking forward to appearing before the Subcommittee, on behalf of the Board, on October 25 at 10:00 a.m.

Sincerely,

S/ Paul A. Volcker

CO:pjt (#355-8334)

bcc: Gov. Partee
Don Kohn

Mrs. Mallardi

V-126 + V-148



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

September 20, 1983

PAUL A. VOLCKER
CHAIRMAN

The Honorable Doug Barnard, Jr.
Chairman
Subcommittee on Commerce, Consumer
and Monetary Affairs
Committee on Government Operations
House of Representatives
Washington, D.C. 20515

Dear Chairman Barnard:

This is in further response to your letter of July 25, 1983 in which you requested information on a sample of referrals of possible criminal violations by substantial insiders, officers, or directors of certain state member banks. The sample, which was selected by your staff, is comprised of referrals made during the period January 1, 1980 to December 31, 1981, and involves banks having a supervisory (CAMEL) composite rating of 3, 4, or 5 at any time during the reporting period. Federal Reserve procedures, worked out in conjunction with staffs of the enforcement agencies, encourage banks to make referrals directly to the appropriate authorities. During the conduct of bank examinations, System supervisory personnel check to determine that such referrals were properly made by the bank, and make additional referrals based upon relevant information that comes to light during the examination. It is our understanding that, for the purpose of the present study, your staff is interested primarily in referrals made by the Federal Reserve to the Justice Department, and not those referrals made solely by the banks.

A review of our records reveals that the Federal Reserve made four referrals meeting the criteria established by your staff; although two of the situations involved were also referred by the bank. Pursuant to an informal staff level agreement between the Federal regulators, your Subcommittee and the Justice Department, it is our understanding that we should provide you with a description of each referral omitting all references to the names of the individuals and the banks involved. A more detailed description of each case in the form of the actual referral document has been sent to the Justice Department so that they may provide the additional information you need on the dispositions of the cases without identifying the names of individuals or banks. It is our further understanding that the Justice Department will provide you with its findings directly.

Following is a brief description of each referral made by the Federal Reserve that meets the criteria and conditions established by your staff:

Case #1:

A referral was made on July 17, 1980 involving the entire board of directors of a community bank in the southeastern section of the United States. The referral alleged possible criminal violations of 18 USC 656 (willful misapplication of funds) and 18 USC 1005 (false entries) totaling \$3,780.86.

Case #2:

Numerous referrals were made from September 7, 1978 through October 15, 1980 involving two lending officers of a regional bank in the middle Atlantic section of the United States. The referrals alleged the possibility of fraudulent conduct by the lending officers regarding extensions of credit to various borrowers. At the time of the referrals, the extent of the alleged criminal activities and the amount of loss, if any, to the bank, could not be determined.

Case #3:

A referral was made on April 10, 1981 involving a senior vice president of a regional bank in the midwestern section of the United States. The referral alleged that the individual embezzled \$18,000 from the bank and applied the funds to his demand deposit account at the bank. The officer was subsequently discharged from the bank.

Case #4:

A referral was made on September 21, 1981 involving the first vice president and senior lending officer of a community bank in the midwestern section of the United States. The referral alleged that the officer, in an effort to conceal the fact that two loans for which he was responsible were about to be charged-off, forged two notes for \$5,000 and \$8,000, respectively, to replace the charged-off loans. The officer made full restitution for the amount involved and was allowed to resign his position at the bank.

The Honorable Doug Barnard, Jr.
Page Three

The banks involved in cases #1, #3, and #4 required more than normal supervision by virtue of CAMEL composite ratings of 3 assigned as a result of examinations conducted during the period January 1, 1980 to December 31, 1981. The bank in case #2 required special supervisory attention by virtue of a composite 4 rating assigned as a result of examinations conducted during the same period; this bank was marginally upgraded to composite 3 in late 1981 because of its improved condition. In addition, the bank in case #2 was operating under a cease and desist order issued by the Federal Reserve Board because of poor asset quality, low capital, and problems in its trust activities area. This cease and desist order has since been lifted because of the bank's improved condition and new management. It is generally the policy of the Federal Reserve to take formal supervisory action against institutions rated composite 4 or worse. In addition to action taken by the Federal Reserve, cases #3 and #4 were also referred to enforcement authorities by the bank itself.

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

Sincerely,

S/Paul A. Volcker

THP:RS:CO:pjt (#V-148)
bcc: Tom Pritchard
Rich Spillenkothen
Jack Ryan
Mrs. Mallardi (2)

Mr. Cary Copeland
Department of Justice
Office of Legislative Affairs
Room 1142 Main Justice
Washington, D.C. 20530



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

August 22, 1983

PAUL A. VOLCKER
CHAIRMAN

The Honorable Doug Barnard, Jr.
Chairman
Subcommittee on Commerce, Consumer
and Monetary Affairs
Committee on Government Operations
House of Representatives
Washington, D.C. 20515

Dear Chairman Barnard:

I am writing in response to your letters of July 11 and 25, requesting certain information pertaining to a list of banks that have either been closed or required FDIC merger assistance since January 1, 1980. Your letter of July 11 seeks information on criminal referrals involving substantial insiders, officers or directors. Pursuant to instructions from your staff, it is our understanding that the Subcommittee is interested in referrals made since January 1, 1978, exclusively by the Federal Reserve and not those referrals initiated by the commercial banks themselves. Your letter also addresses supervisory enforcement actions as they pertain to the list of closed banks.

A review of our records reveals that a criminal referral was made on March 15, 1982, involving a senior bank official of Aquia Bank and Trust Company, Stafford, Virginia, which was closed and whose assets were sold on April 3, 1982. The referral alleged that the individual diverted \$15,000 of the proceeds of a loan for his own use. To the best of our knowledge no indictment has been brought against the individual by the Justice Department at this time, and an investigation is still ongoing. On January 18, 1982, the Aquia Bank and Trust Company consented to the Federal Reserve's issuance of a cease and desist order against the bank and one individual as an officer and director. Staff at the Justice Department has indicated to us that the foregoing information is sufficient to track the relationship between the referral made by the Federal Reserve and any subsequent Justice Department action.

With respect to Metropolitan Bank and Trust Company, Federal Reserve examiners participated in investigations conducted by a special strike force under the auspices of the Department of Justice and the Federal Bureau of Investigation. Federal Reserve personnel assisted in the gathering of information on the activities and transactions involving insiders and certain other individuals associated with the bank, and worked closely with appropriate law enforcement officials. We have

The Honorable Doug Barnard, Jr.
Page Two

recently learned that indictments for fraud have been brought against the former president of the bank and another individual with business connections to the bank. From June of 1981 until its subsequent receivership, Metropolitan Bank and Trust was operating under a cease and desist order addressing the bank's liberal lending policies, poor loan administration, substantial amount of classified and nonaccrual loans, operating and loan losses, eroding capital position, and declining liquidity.

In addition to these actions and supervisory efforts, each of the other state member banks on the list enclosed with your letter was the subject of a formal supervisory enforcement order. Specifically, South Side Bank, Northwest Commerce Bank, Columbia Pacific Bank and Trust Co., and United Southern Bank were operating under cease and desist orders addressing certain unsafe and unsound banking practices, including high levels of classified loans and liberal lending policies.

The remainder of the information requested in your letter of July 25 will be supplied to you by September 20. I hope this information is helpful to your Subcommittee.

Sincerely,

S/Paul A. Volcker

RS:CO:pjt (#V-126 & #V-148)
bcc: Rich Spillenkothen
Mr. Ryan
Mrs. Mallardi (2)

Action assigned Mr. Ryan

DOUG BARNARD, JR., GA., CHAIRMAN

RONALD D. COLEMAN, TEX.
JOHN M. SPRATT, JR., S.C.
JOHN CONYERS, JR., MICH.
ELLIOTT H. LEVITAS, GA.
HENRY A. WAXMAN, CALIF.

NINETY-EIGHTH 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

JUDD GREGG, N.H.
WILLIAM F. CLINGER, JR., PA.
TOM LEWIS, FLA.

MAJORITY—(202) 225-4407

83282

July 25, 1983

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

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1983 JUL 28 AM 9:35
RECEIVED
OFFICE OF THE CHAIRMAN

RE: Hearings on Criminal Referrals

Dear Mr. Volcker:

I am writing in further reference to my letters of June 3 and July 11, 1983, concerning our continuing study of criminal referrals of bank officers, directors, and insiders by the federal banking agencies to the Justice Department. On July 20, 1983, the subcommittee's staff met with representatives from all the banking agencies to discuss the design of a statistical sample of referrals by all the agencies.

At that meeting, Bill Maloni and Tom Pritchard from your office indicated that the Federal Reserve is proceeding to comply with the request I made at our June 28 hearing for all the banking agencies to provide the subcommittee with information on their criminal referrals in banks that have failed or have required FDIC merger assistance since January 1, 1980. The Fed's contribution to this request, they said, will be provided to the subcommittee by August 15, 1983.

The primary purpose of the meeting, however, was to design a statistical sample of recent criminal referrals that meets three basic criteria: first, it must provide the subcommittee with information sufficiently specific, comprehensive and authoritative to justify report findings and recommendations on the effectiveness of the criminal justice system as it relates to serious banking misconduct; second, it should not unduly burden the banking agencies; and, third, it should protect from public view the identities of unindicted persons and institutions who are the subjects of such referrals. The sample outlined below meets these three criteria and will provide the basis for the subcommittee's report.

With the exception of the closed bank information referred to above, the sample will also supersede our earlier requests for information. Please keep in mind that the purpose of this sample is quite simple: to find out what action is taken against individuals referred by the various agencies to the Justice Department for possible criminal prosecution.

In order to protect the identity of persons referred for possible prosecution but never actually indicted, it will be necessary for your regional offices to contact the U.S. Attorneys' offices in the jurisdictions where the banks are located in order to determine the disposition of each referral. We have requested, and should receive, the full cooperation of the Justice Department and local U.S. Attorneys in compiling this information.

The Sample

1. Size of Sample

Please provide the information specified in "2" below on all criminal referrals made by the Federal Reserve:

- a. between January 1, 1980, and December 31, 1981; and
- b. that pertain only to individual bank officers, directors, and insiders (e.g. major shareholders); and
- c. that involve member banks which, at any time during the sample time period, were operating under a composite CAMEL rating of "3", "4", or "5".

2. Information Requested

Please provide a history of each referral, consisting of the following:

a. Criminal Referral by the Federal Reserve

1. Indictment Secured - If an indictment has been secured against the individual(s), then provide an unexpurgated copy of the actual referral document sent by the Federal Reserve to the Justice Department or to the local U.S. Attorney. If a copy of the document is not available, then provide a summary of the information contained in the referral.
2. Indictment Not Secured - If no indictment has been secured against the individual(s), then provide either a copy of the actual referral document, omitting all references to the name(s) of the individual(s) and the institution(s) involved. Or, if the actual referral document is not available, indicate the official position of the person, the size and regional location of the bank, and a brief description of the criminal violation alleged.

b. Prosecutorial Action Taken

Please request the Justice Department or the U.S. Attorney in each case to furnish the following:

1. Indictment Secured - If an indictment has been secured against the individual(s), provide a brief description of the charges contained in the indictment (or a copy of the indictment itself), the date of indictment, and the ultimate disposition of the case, including sentence imposed. If the case was nolle prosequied, dropped, or dismissed after indictment, explain why.

2. Indictment Not Secured - If no indictment has been secured against the individual(s), then indicate whether:
- A. the case has been declined,
 - B. the referral is still the subject of an ongoing investigation, or
 - C. an indictment will be sought.

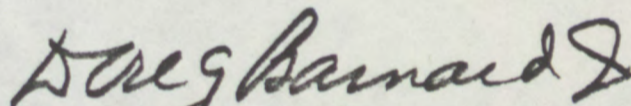
c. Other Civil Action

As to each criminal referral, indicate whether the Federal Reserve has taken any civil action against the subject person or his/her bank for the specific conduct forming the basis of the criminal referral. Describe the nature of the civil action and the date that it was taken. If no action was taken, why not?

Please provide this information to the subcommittee no later than September 20, 1983. Please contact Mr. James M. Pates on the subcommittee staff, at 226-2498, if there are any questions.

Thank you for your continued cooperation in this matter.

Sincerely,



Doug Barnard, Jr.
Chairman

DB: jmp:v

Action assigned to Jack Ryan.

DOUG BARNARD, JR., GA., CHAIRMAN
RONALD D. COLEMAN, TEX.
JOHN M. SPRATT, JR., S.C.
JOHN CONYERS, JR., MICH.
ELLIOTT H. LEVITAS, GA.
HENRY A. WAXMAN, CALIF.

NINETY-EIGHTH 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

126

JUDD GREGG, N.H.
WILLIAM F. CLINGER, JR., PA.
TOM LEWIS, FLA.

MAJORITY—(202) 225-4407

July 11, 1983

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1983 JUL 13 AM 9:44
RECEIVED
OFFICE OF THE CHAIRMAN

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

Dear Mr. Volcker:

This is in further reference to my letter to you dated June 3, 1983, regarding the Subcommittee's hearing on the investigation and prosecution of criminal violations of banking laws by bank officers, directors and insiders. As you know, a hearing was held on June 28, 1983, and testimony of your agency was presented.

Regrettably, all of the information originally requested was not supplied by your agency. In some instances, the Board either ignored our requests for information completely or supplied incomplete and inadequate data. This prevents the subcommittee from properly assessing your law enforcement efforts in this area.

Since the subcommittee intends to continue this investigation and to issue a report on the subject, I am writing now to ask again that the originally requested information, as well as certain additional information, be supplied to the subcommittee. We will, of course, give serious consideration to your views on the necessity of protecting the confidentiality of any data. The subcommittee will insist on an accurate method of identifying each individual person referred to the Justice Department, whether by name, referral number, or docket number, since this is the only way to track each referral from one agency to another.

The specific purposes of our investigation are (1) to determine the scope of recent criminal referrals of bank insiders by the bank regulatory agencies to the Justice Department, (2) to determine the timeliness and success of the referrals and their disposition, and (3) to determine whether there is any civil enforcement action taken by the banking agencies in each case. In order for the subcommittee to make these assessments, the following additional data must be supplied.

I. Information Requested at June 28 Hearing

At the June 28 hearing, I requested that the banking agencies provide certain information on their criminal referrals involving banks that have been closed or have required FDIC merger assistance since January 1, 1980. Please

provide to the subcommittee as soon as possible, but in no event later than July 28, 1983, a list of all criminal referrals made by the Federal Reserve Board since January 1, 1978, to the Justice Department alleging possible illegal acts by bank officers, directors, and insiders in the banks listed on the attached schedule. Provide appropriate identifying information so that the subcommittee can properly track the relationship between Justice Department dispositions and banking agency civil actions. Include named defendants where indictments have been secured. Also include the date of the referral, a description of the alleged violation, the date of indictment (if applicable), and the disposition, including sentence imposed. If, for any reason, you are unable to provide the requested material, please explain.

II. A Sample of Criminal Referrals

This subcommittee will be issuing a report on the handling of bank insider referrals and we need specific information on actual referrals. The June 28 hearing revealed that none of the agencies currently maintains records tracking the disposition of a referral after it is made. Therefore, in order for the subcommittee to compile satisfactory statistics from all of the agencies, we will need, at minimum, to select a sample from the referrals requested in Questions 1(d) and 1(e) of my June 3 letter to you.

The subcommittee would like to obtain a sample that is not unduly burdensome. Therefore, I would like for the appropriate person on your staff to contact Mr. James M. Pates on the subcommittee staff, at 226-2498, as soon as possible to arrange a conference of all the banking agencies and the Justice Department in order to meet and to design a statistical sample that is both useful to the subcommittee and manageable to the agencies.

Regardless of the size of the sample, the following information will be needed on each referral within the statistical sample:

1. The name (or other identifying information as explained above) of the person referred, the institution involved, a description of the offense and the statute violated, the date of referral, the date of indictment (if applicable), and the ultimate disposition (i.e. all information requested in Questions 1(d) and 1(e) of the June 3 letter).
2. Any civil enforcement action taken by the Federal Reserve Board, either before or after the date of its criminal referral, against each individual. For each civil action taken, describe the nature of the action and the date it was taken. If no action was taken, why not?

I am certain that we can work together on this investigation and that we can assist each other in improving the criminal enforcement of our country's banking laws.

Sincerely,

Doug Barnard, Jr.
 Doug Barnard, Jr.
 Chairman

DB: jmp:v
 Attachment

INSURED BANKS CLOSED/REQUIRING ASSISTANCE BY THE FDIC
 JANUARY 1, 1980 THROUGH JUNE 17, 1983

<u>Name and Location</u>	<u>Date of closing or Deposit assumption</u>	<u>Allowance for losses</u>
Bank of Lake Helen Lake Helen, Florida	January 11, 1980	0.00
First National Bank of Carrington Carrington, North Dakota	February 12, 1980	1,786,000.00
Mohawk Bank & Trust Company Greenfield, Massachusetts	February 16, 1980	0.00
The Citizens State Bank Viola, Kansas	June 4, 1980	24,000.00
City and County Bank of Campbell County, Jellico, Tennessee	June 28, 1980	7,456,000.00
The Mission State Bank & Trust Company, Mission, Kansas	August 8, 1980	9,183,000.00
The Metro Bank of Huntington, Inc. Huntington, West Virginia	September 12, 1980	1,407,000.00
The Rochelle Bank and Trust Company, Rochelle, Illinois	October 11, 1980	571,000.00
Citizens State Bank of Galena Galena, Kansas	November 21, 1980	533,000.00
East Gadsden Bank Gadsden, Alabama	December 31, 1980	0.00

* Merger Assistance Transaction
 ** Special Assistance Transaction

INSURED BANKS CLOSED/REQUIRING ASSISTANCE BY THE FDIC
 JANUARY 1, 1980 THROUGH JUNE 17, 1983

<u>Name and Location</u>	<u>Date of closing or Deposit assumption</u>	<u>Allowance for losses</u>
The Des Plaines Bank Des Plaines, Illinois	March 14, 1981	1,217,000.00
South Side Bank Chicago, Illinois	March 14, 1981	3,095,000.00
Peoples Banking Company Boston, Georgia	March 17, 1981	355,000.00
Northwest Commerce Bank North Bend, Oregon	June 19, 1981	605,000.00
Southwestern Bank Tucson, Arizona	September 25, 1981	0.00
High Lakes Community Bank La Pine, Oregon	October 23, 1981	680,000.00
Midtown National Bank Pueblo, Colorado	October 30, 1981	3,051,000.00
F Greenwich Savings Bank* New York, New York	November 4, 1981	334,962,144.50
Central Savings Bank* New York, New York	December 4, 1981	131,675,259.00
Union Dime Savings Bank* New York, New York	December 18, 1981	61,099,323.03

* Merger Assistance Transaction

** Special Assistance Transaction

INSURED BANKS CLOSED/REQUIRING ASSISTANCE BY THE FDIC
 JANUARY 1, 1980 THROUGH JUNE 17, 1983

<u>Name and Location</u>	<u>Date of closing or Deposit assumption</u>	<u>Allowance for losses</u>
Western Savings Bank* Buffalo, New York	January 15, 1982	30,500,000.00
The First National Bank and Trust Company of Tuscola Tuscola, Illinois	February 6, 1982	1,760,000.00
Metropolitan Bank and Trust Company Tampa, Florida	February 12, 1982	10,140,000.00
Farmers and Mechanics Savings* Bank of Minneapolis Minneapolis, Minnesota	February 20, 1982	62,961,700.00
Bank of Yorkville Yorkville, Tennessee	February 20, 1982	1,256,000.00
The Bank of Woodson Woodson, Texas	March 1, 1982	187,000.00
Fidelity Mutual Savings Bank* Spokane, Washington	March 11, 1982	35,261,484.00
United States Savings Bank of* Newark, New Jersey Newark, New Jersey	March 11, 1982	65,001,905.25
The New York Bank of Savings* New York, New York	March 26, 1982	421,429,668.43

* Merger Assistance Transaction
 ** Special Assistance Transaction

(Continued)

-2-

Western Saving Fund Society of* Philadelphia Haverford, Pennsylvania	April 2, 1982	175,437,378.00
The First National Bank in Humboldt, Iowa Humboldt, Iowa	April 2, 1982	10,941,000.00
Aquia Bank and Trust Company Stafford, Virginia	April 3, 1982	2,014,000.00
National Security Bank Tyler, Texas	April 16, 1982	367,000.00
Pacific Coast Bank San Diego, California	April 29, 1982	2,306,000.00
Carroll County Bank Huntingdon, Tennessee	April 30, 1982	0.00
Coles County National Bank of Charleston Charleston, Illinois	May 1, 1982	1,390,000.00
Community Bank of Washtenaw Ypsilanti, Michigan	May 15, 1982	1,356,000.00
Banco Regional Bayamon, Puerto Rico	June 12, 1982	0.00
Citizens Bank Tillar, Arkansas	June 23, 1982	232,000.00
Farmers State Bank of Lewistown Lewistown, Illinois	June 25, 1982	4,050,000.00
The Belle Bland Bank Bland, Missouri	July 2, 1982	118,000.00

* Merger Assistance Transaction

** Special Assistance Transaction

(Continued)

-3-

Penn Square Bank, National Association Oklahoma City, Oklahoma	July 5, 1982	46,000,000.00
The Bowie County State Bank Hooks, Texas	July 27, 1982	3,072,000.00
Guaranty Bond State Bank Redwater, Texas	July 27, 1982	4,368,000.00
Unity Bank and Trust Company Boston, Massachusetts	July 30, 1982	2,406,000.00
Mt. Pleasant Bank and Trust Company Mt. Pleasant, Iowa	August 6, 1982	0.00
Abilene National Bank Abilene, Texas	August 6, 1982	0.00
First Security Bank of North Arkansas Horseshoe Bend, Arkansas	August 27, 1982	4,694,000.00
Security Bank and Trust Company Cairo, Illinois	August 27, 1982	1,492,000.00
Western National Bank Santa Ana, California	August 27, 1982	1,746,000.00

* Merger Assistance Transaction
** Special Assistance Transaction

(Continued)

-4-

Hohenwald Bank and Trust Company Hohenwald, Tennessee	September 3, 1982	0.00
United Mutual Savings Bank* New York, New York	September 24, 1982	30,000,000.00
Oklahoma National Bank** and Trust Company Oklahoma City, Oklahoma	October 3, 1982	3,227,000.00
Tri-State Bank Markham, Illinois	October 8, 1982	229,000.00
Mechanics Savings Bank Elmira, New York	October 15, 1982	0.00
Cedar Bluff Bank Cedar Bluff, Alabama	November 2, 1982	606,000.00
The First National bank of South Charleston South Charleston, West Virginia	November 5, 1982	4,054,000.00
Texas Bank of Amarillo Amarillo, Texas	November 5, 1982	882,000.00
Bank of Quitman Quitman, Arkansas	November 12, 1982	2,089,000.00
Ranchlander National Bank Melvin, Texas	November 19, 1982	1,361,000.00
The Ballinger County bank Lutesville, Missouri	December 10, 1982	316,000.00
The Security State Bank Mooreland, Oklahoma	December 16, 1982	535,000.00

* Merger Assistance Transaction

** Special Assistance Transaction

INSURED BANKS CLOSED/REQUIRING ASSISTANCE BY THE FDIC
 JANUARY 1, 1980 THROUGH JUNE 17, 1983

<u>Name and Location</u>	<u>Date of closing or Deposit assumption</u>	<u>Allowance for losses</u>
The Madison County Bank Fredericktown, Missouri	January 21, 1983	310,000.00
Dry Dock Savings Bank New York, New York	February 9, 1983	32,456,110.00
State Bank of Barnum Barnum, Minnesota	February 9, 1983	1,403,000.00
American State Bank Bradley, Illinois	February 12, 1983	1,478,000.00
United American Bank in Knoxville Knoxville, Tennessee	February 14, 1983	60,000,000.00
Merchants and Farmers State Bank Blythe, California	February 18, 1983	828,000.00
American City Bank Los Angeles, California	February 25, 1983	39,531,000.00
Newport Harbour National Bank Newport Beach, California	March 11, 1983	7,177,000.00

* Merger Assistance Transaction
 ** Special Assistance Transaction

(Continued)

-2-

Pan American National Bank Union City, New Jersey	March 18, 1983	2,690,000.00
Columbia Pacific Bank & Trust Company Portland, Oregon	March 18, 1983	4,439,000.00
Prairie County Bank Hazen, Arkansas	March 24, 1983	566,000.00
Bear Creek Valley Bank Phoenix, Oregon	March 25, 1983	2,198,000.00
The Ina State Bank Ina, Illinois	April 8, 1983	NOT AVAILABLE
Bank of San Marino San Marino, California	April 8, 1983	NOT AVAILABLE
Sparta-Sanders State Bank Sparta, Kentucky	April 15, 1983	NOT AVAILABLE
Heritage Bank Ashland, Oregon	April 29, 1983	NOT AVAILABLE

* Merger Assistance Transaction
** Special Assistance Transaction

12-

(Continued)

-3-

First National Bank of of Oak Lawn Oak Lawn, Illinois	April 29, 1983	NOT AVAILABLE
Smith County Bank Carthage, Tennessee	May 6, 1983	NOT AVAILABLE
City and County Bank of Knox County Knoxville, Tennessee	May 27, 1983	NOT AVAILABLE
United Southern Bank of Nashville Nashville, Tennessee	May 27, 1983	NOT AVAILABLE
United American Bank in Hamilton County Chattanooga, Tennessee	May 27, 1983	NOT AVAILABLE
City and County Bank of Roane County Kingston, Tennessee	May 27, 1983	NOT AVAILABLE
City and County Bank of Anderson County Lake City, Tennessee	May 27, 1983	NOT AVAILABLE
The Commercial Bank of California Los Angeles, California (West Hollywood)	May 27, 1983	NOT AVAILABLE
Community Bank Hartford, South Dakota	June 17, 1983	NOT AVAILABLE

* Merger Assistance Transaction

** Special Assistance Transaction



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

September 19, 1983

PAUL A. VOLCKER
CHAIRMAN

The Honorable Paul Tribble
United States Senate
Washington, D. C. 20510

Dear Senator Tribble:

On behalf of the Board, I want to thank you for your letters of August 31 suggesting that the definition of the term "commercial loan" be deleted from the proposed revision of Regulation Y, which implements the Bank Holding Company Act. The proposal is part of a major revision of the regulation to clarify its terms, to speed and simplify the applications process and to incorporate outstanding Board rulings applying the Act's provisions.

Early this year, the Board defined the term "commercial loan" to include any transaction representing a credit extension to a commercial organization. This covers the purchase of commercial paper, bankers' acceptances, and certificates of deposit and the sale of federal funds. This revised definition was adopted in order to halt a pronounced and accelerating trend by nonbanking organizations, including insurance companies, securities firms, retailers and industrial concerns, to acquire banks. This has been accomplished through a loophole in the Bank Holding Company Act, under which the bank to be acquired ceases to make commercial loans, an essential ingredient of the "bank" definition under the Act. The bank acquired through this device retains the ability to take deposits from the public, both demand and time, to make loans, to retain federal deposit insurance and to have access to the payments system, remaining for all intents and purposes a bank.

I have stressed my concern about the broader ramifications of this development both in my recent testimony before the Senate Banking Committee and in my appearance last April. The legislative history of the Bank Holding Company Act and the basic prudential policies under which the Act was intended to effect both indicate that Congress desired the Act to cover all institutions that we commonly think of as banks--institutions that take deposits and make loans. The Board believes that the basic policies of the Act are seriously undermined by the non-bank phenomenon. It is our hope that the Congress will deal with the broad policy issues I have discussed with the Banking Committee through either the moratorium proposal submitted by the Board or by prompt action on the Administration's proposed Financial Institutions Deregulation Act.

The Honorable Paul Tribble
Page Two

The reason Regulation Y has become an issue is because, in revising the regulation, the Board believed it appropriate to incorporate all important interpretations of the Act's provisions, including the Board's definition of bank, and to ask for public comment on these positions. The Board has not yet reviewed the public comments submitted on the proposal and has not made any decision on whether to include the definition in the final regulation. The Board expects to take up consideration of the final regulation later this fall and I can assure you that the Board will consider your views at that time.

I appreciate receiving your comments on this matter.

Sincerely,

S/Paul A. Volcker

JVM:CO:AFC:vcd (V-182)

bcc: All Board Members
Mr. Mattingly
Legal Files (2)
Mrs. Mallardi (2)

Ms. Fein

LLOYD BENTSEN
TEXAS

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

United States Senate
WASHINGTON, D.C. 20510

August 31, 1983

#183

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1983 SEP -6 AM 9:43
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 concerning my previous inquiry on behalf of Keith McGarrahan of Preston Securities. A copy of his most recent correspondence is attached for your reference.

I would appreciate whatever additional information or comments you may have on this matter at this time.

Sincerely,

Floyd Bentsen
Floyd Bentsen

Enclosure

PLEASE REPLY TO:

912 Federal Building
Austin, Texas 78701
ATTN: Jill Kolbe


PRESTON SECURITIES
MEMBER NEW YORK STOCK EXCHANGE

424 LAMAR BLVD EAST
SUITE 210

ARLINGTON, TEXAS 76011
METRO 461-1591

NOV 25 1983

August 19, 1983

Mr. Lloyd Bentsen
United States Senate
703 Hart Senate Office Building
Washington, D. C. 20510

Dear Senator Bentsen:

It is very difficult to believe that you've taken my correspondence seriously. Obviously, Mr. Volcker, not you, nor your aides have read my letters.

Mr. Volcker didn't even begin to address the problems discussed. In fact he ignored them and even accused us of asking special favors.

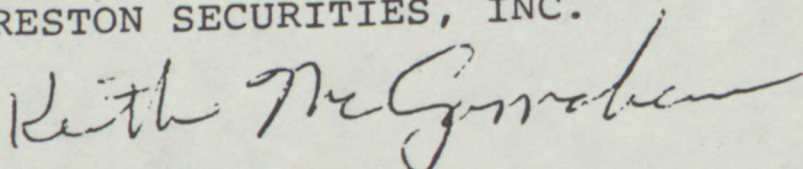
We've complained about these matters for years. The problems are attitude (making it hard for companies to get approval), misinformation, and general disregard for small companies and smaller brokerage firms.

We've explained this over and over. Volcker sends you a copy of his "strange" reply and you don't even question as to why he doesn't address the problems outlined.

Being effective in the Senate doesn't mean shuffling papers and simply sending copies. We wish someone would read them with the idea of solving a problem.

Sincerely,

PRESTON SECURITIES, INC.


Keith McGarrahan
Vice President

KMcG/bt

cc: Paul A. Volcker

cc: Registered Representative Magazine

cc: The Wall Street Journal
Attn: Amanda Bennett



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

September 14, 1983

The Honorable Joseph M. Gaydos
House of Representatives
Washington, D.C. 20515

Dear Mr. Gaydos:

I am writing in response to your letter to the Chairman of the House Banking Committee, the Honorable Fernand St Germain, requesting comment on an inquiry received from your constituent, Mrs. Priscilla Falk of Pittsburgh, Pennsylvania, concerning the purchase of banks and farmlands by Arab nationals. Chairman St Germain asked that we respond directly to you on this matter.

Concerning the foreign ownership of U.S. banks, under federal law there is generally no restriction on the nationality of persons owning the shares of banks chartered in the United States. The issue of foreign ownership of U.S. banks has been studied on many occasions by various groups, including committees of the Congress. There is no indication that foreign ownership of U.S. banks is detrimental to the U.S. economy.

The acquisition of U.S. banks by foreign parties generally is governed by the Bank Holding Company Act. Section 3 of that Act, which sets forth the criteria the Federal Reserve Board is to consider when acting on an application, does not distinguish between acquisitions by foreign and domestic companies. The Act instructs the Board when reviewing proposals to consider the probable effects on competition, the convenience and needs of the community to be served, and the financial and managerial resources of the organizations involved. If these considerations are favorable, there is no basis in the law for denying applications by either foreign or domestic parties. The Board invites comment from the public in regard to the factors mentioned above.

In acting on applications by foreign organizations to acquire U.S. banks, the Board has generally found a showing of net benefits to the public. These usually take the form of capital injections to the U.S. banks, thereby improving their condition, the addition of managerial resources, and the offering of new product services. Many of these acquisitions, by strengthening the U.S. bank being acquired, also lead to increased competition. Moreover, U.S. banks acquired by a foreign party must, of course, continue to comply with all U.S. banking laws and are supervised by the appropriate federal and state regulators.

The Honorable Joseph M. Gaydos
Page Two

Concerning foreign ownership of U.S. farmlands, a report by Economic Research Service of the United States Department of Agriculture entitled "Foreign Ownership of U.S. Agricultural Land Through December 31, 1982" indicates that foreign persons owned 13.5 million acres, or slightly more than 1 percent, of U.S. agricultural land (farmland and forestry) as of December 31, 1982. Forest land accounts for 55 percent of all foreign-owned acreage, cropland for 13 percent, pasture and other agricultural land for 27 percent, and nonagricultural and unreported uses for 5 percent. Foreign persons from Canada, the United Kingdom, Hong Kong, West Germany, and the Netherlands Antilles account for 75 percent of the foreign-held acreage.

The largest number of acres owned by foreign persons was reported in Maine. Foreign holdings in Maine account for 14 percent of the total privately owned agricultural land in Maine. Except for Maine, foreign holdings are concentrated in the South and West--34 percent of the holdings are in the South and 31 percent in the West. According to the report, foreigners do not appear to be taking purchased agricultural land out of production.

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

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn
Assistant to the Board

cc: Chairman St Germain

JSK:pjt (#V-168)

bcc: Jim Keller

Jack Ryan

Mrs. Mallardi ✓

Action assigned Jack Ryan

FERNAND J. ST GERMAIN, R.I., CHAIRMAN
 HENRY B. GOZALEZ, TEX.
 JOSEPH G. MITCHELL, N.J.
 FRANK ANNUNZIO, ILL.
 PARR: J. MITCHELL, MD.
 WALTER E. FAUNTROY, D.C.
 STEPHEN L. NEAL, N.C.
 JERRY M. PATTERSON, CALIF.
 CARROLL HUBBARD, JR., KY.
 JOHN J. LAFALCE, N.Y.
 NORMAN E. D'AMOURS, N.H.
 STAN LUNDINE, N.Y.
 MARY ROSE OAKAR, OHIO
 BRUCE F. VENTO, MINN.
 DOUG BARNARD, JR., GA.
 ROBERT GARCIA, N.Y.
 MIKE LOWRY, WASH.
 CHARLES E. SCHUMER, N.Y.
 BARNEY FRANK, MASS.
 BILL PATMAN, TEX.
 WILLIAM J. COYNE, PA.
 BUDDY ROEMER, LA.
 RICHARD H. LEHMAN, CALIF.
 BRUCE A. MORRISON, CONN.
 JIM COOPER, TENN.
 MARCY KAPTUR, OHIO
 BEN ERDREICH, ALA.
 SANDER M. LEVIN, MICH.
 THOMAS R. CARPER, DEL.
 ESTEBAN E. TORRES, CALIF.

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

NINETY-EIGHTH CONGRESS

2129 RAYBURN HOUSE OFFICE BUILDING
 WASHINGTON, D.C. 20515

August 12, 1983

#169

CHALMERS P. WYLIE, OHIO
 STEWART B. MCKINNEY, CONN.
 GEORGE HANSEN, IDAHO
 JIM LEACH, IOWA
 RON PAUL, TEX.
 ED BETHUNE, ARK.
 NORMAN D. SHUMWAY, CALIF.
 STAN PARRIS, VA.
 BILL MCCOLLUM, FLA.
 GEORGE C. WORTLEY, N.Y.
 MARGE ROUKEMA, N.J.
 BILL LOWERY, CALIF.
 DOUG BEREUTER, NEBR.
 DAVID DREIER, CALIF.
 JOHN HILER, IND.
 THOMAS J. RIDGE, PA.
 STEVE BARTLETT, TEX.

225-4247

RECEIVED
 OFFICE OF THE CHAIRMAN
 1983 AUG 15 AM 8:59
 FEDERAL RESERVE SYSTEM
 BOARD OF GOVERNORS
 OF THE

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

Dear Mr. Chairman:

Enclosed please find a letter from the Honorable Joseph M. Gaydos in which he requests information on the purchase of farmlands and banks by Arab nations.

It would be appreciated if you could provide Congressman Gaydos directly any information available on this subject.

Sincerely,

Fernand J. St Germain
 Fernand J. St Germain
 Chairman

Enclosure

June 22, 1983

Honorable Fernand J. St Germain
Chairman, Committee on Banking,
Finance and Urban Affairs
2129 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

Enclosed please find a copy of a letter from my constituent,
Mrs. Priscilla Falk, of Pittsburgh, Pennsylvania.

In her letter, Mrs. Falk addresses the issue of the purchase
of farmlands and banks by Arab nations. Any information that
you could send to me from your committee relating to these
issues would be greatly appreciated.

With warm personal regards, I am,

Sincerely yours,

JOSEPH M. GAYDOS
MEMBER OF CONGRESS

JMG:mkf
Enclosure

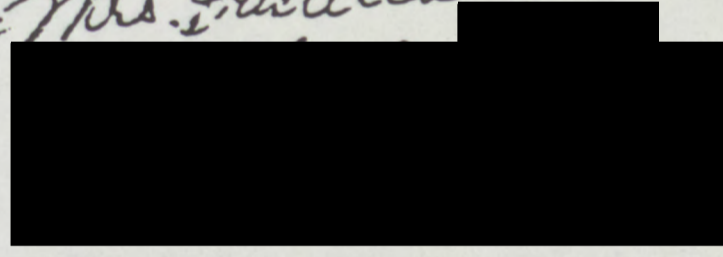
Copy

Rep. Frank [unclear] June 1, 1983
Dear Sir,

RECEIVED
WASHINGTON OFFICE
JUN - 6 AM 9:20
1983

It is to my regret
that I am not in favor
of giving any assistance
to the Banking industry.
Is anything being done about
the Arabs buying up
farmland and Banks
in our country?

Sincerely,
Mrs. Lucille Fair



September 8, 1983

The Honorable Lloyd Bentsen
United States Senate
Washington, D. C. 20510

Dear Lloyd:

Thank you for your letter of August 31 recommending Harry Jorgenson to fill the vacancy in the Board's Congressional Liaison Office. I can assure you that Harry's qualifications will receive careful consideration when the Board makes a decision regarding this vacancy.

The Board appreciates receiving your recommendation.

Sincerely,

S/ Paul

CO:vcd (V-181) (83-461)

bcc: Mrs. Mallardi (2) ✓

LLOYD BENTSEN
TEXAS

United States Senate

WASHINGTON, D.C. 20510

August 31, 1983

#181

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

COMMITTEES:
FINANCE
ENVIRONMENT AND PUBLIC WORKS
JOINT ECONOMIC
SELECT COMMITTEE
ON INTELLIGENCE
JOINT COMMITTEE
ON TAXATION
RECEIVED
OFFICE OF THE CHAIRMAN
1983 SEP -2 AM 10:42
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

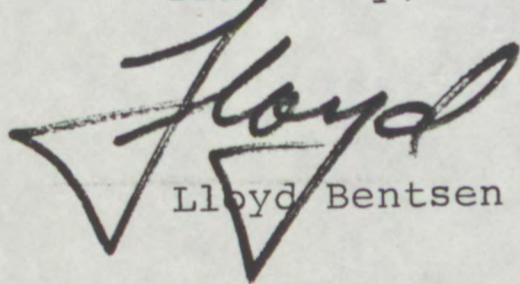
Dear Paul:

It has come to my attention that Harry Jorgenson is interested in a position in your Congressional liaison office. I would like to take this opportunity to recommend Harry for this position.

I have known Harry since 1973, when he worked for the Joint Economic Committee. For the past six years, he has provided assistance to me and my staff, as a Senior Attorney with the Legal Division, Board of Governors of the Federal Reserve System. Throughout our association, he has shown himself to be courteous, responsive, and knowledgeable -- traits which I believe would be invaluable to any Congressional liaison office. His Hill experience, combined with his knowledge of the FED, enables him to understand both the needs of your agency, and their relationship to Congressional inquiries.

I trust you will give Harry's application the utmost consideration. If I can be of further assistance, please do not hesitate to contact me.

Sincerely,


Lloyd Bentsen

September 8, 1983

The Honorable Parren J. Mitchell
House of Representatives
Washington, D.C. 20515

Dear Parren:

Thank you for your recent letter on behalf of Mr. Jack R. Marchbanks, who expressed an interest in employment with the Federal Reserve Board.

Our Division of Personnel has been in touch with Mr. Marchbanks. Ms. Juanita Johnson has interviewed Mr. Marchbanks and explored potential career opportunities with him. Mr. Marchbanks will be interviewed in the Division of Banking Supervision and Regulation on September 21 for the position of financial analyst. I can assure you that he will receive full consideration.

We appreciate having your recommendation on behalf of Mr. Marchbanks.

Sincerely,

S/ Paul

CO:DJW:pjt (#V-173)
bcc: Mr. Shannon
Ms. Johnson
Mrs. Mallardi (2) ✓

DEPUTY WHIP

COMMITTEES:

CHAIRMAN SMALL BUSINESS COMMITTEE

SUBCOMMITTEES:

CHAIRMAN OF THE SUBCOMMITTEE ON SBA AND SBIC AUTHORITY, MINORITY ENTERPRISE AND GENERAL SMALL BUSINESS PROBLEMS

BANKING, FINANCE AND URBAN AFFAIRS COMMITTEE

SUBCOMMITTEES:

HOUSING

JOINT ECONOMIC COMMITTEE

SUBCOMMITTEES:

INVESTMENT, JOBS AND PRICES TRADE, PRODUCTIVITY AND ECONOMIC GROWTH

PARREN J. MITCHELL
7TH DISTRICT, MARYLAND

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

#173

August 18, 1983

CONGRESSIONAL BLACK CAUCUS

CHAIRMAN OF THE SUBCOMMITTEE ON MINORITY ENTERPRISE, ECONOMIC DEVELOPMENT AND HOUSING

OFFICE ADDRESSES:

DISTRICT OF COLUMBIA OFFICE:

2367 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-4741

BALTIMORE DISTRICT OFFICES:

GEORGE FALLON FEDERAL BUILDING
ROOM 1018

31 HOPKINS PLAZA
BALTIMORE, MARYLAND 21201
(301) 962-3223

1903 BLOOMINGDALE ROAD
BALTIMORE, MARYLAND 21216
(301) 962-4531

Mr. Paul A. Volcker
Chairman
Board of Governors of the
Federal Reserve System
Constitution Avenue and
21st Street
Washington, D.C. 20551

Dear Mr. Volcker:

Paul

I strongly recommend that your personnel division carefully consider Mr. Jack R. Marchbanks for a staff position with the Offices of the Board of Governors. Mr. Marchbanks has impressed the United States House of Representatives Small Business Committee with his knowledge of minority business financing and minority contractor surety bonding. He also has a solid background in commercial banking, community affairs and economics. Mr. Marchbanks appears well-qualified for the Public Affairs section that reports directly to the Board of Governors and equally qualified for your Banking Supervision and Regulation Division.

Sincerely,

Parren J. Mitchell

Parren J. Mitchell,
Member of Congress

PJM:cbt

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1983 AUG 19 AM 9:33
RECEIVED
OFFICE OF THE CHAIRMAN

September 7, 1983

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

Dear Chairman Jepsen:

Enclosed is a copy of a report on foreign exchange operations by the Treasury and the Federal Reserve covering the period from February 1983 through July 1983. The report will be printed in the September issue of the Federal Reserve Bulletin. It is being released to the press for use in tomorrow morning's newspapers.

Copies of the report are also being sent to the Chairmen of other interested Committees. Additional copies are enclosed for the use of members and staff of your Committee.

Sincerely,

S/Paul A. Volcker

Enclosures (30 copies)

Identical ltrs. to Chrmn. Jake Garn, Senate Bkg., 20 copies
Chrmn. St Germain, House Bkg., 50 copies

JRC:pjt
bcc: Mrs. Mallardi (2)

September 7, 1983

The Honorable John Heinz
Chairman
Subcommittee on International Finance
and Monetary Policy
Committee on Banking, Housing and
Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Chairman Heinz:

Enclosed is a copy of a report on foreign exchange operations by the Treasury and Federal Reserve covering the period from February 1983 through July 1983. The report will be printed in the September issue of the Federal Reserve Bulletin. It is being released to the press for use in tomorrow morning's newspapers.

Sincerely,

S/Paul A. Volcker

Enclosure

Identical letters also sent to those on attached list.

JRC:pjt
bcc: Mrs. Mallardi (2) ✓

Senate

Chrmn. John Heinz
Subcmte. on International Finance and Monetary Policy
Committee on Banking, Housing and Urban Affairs

William Proxmire
Ranking Minority Member
Subcmte. on International Finance and Monetary Policy
Committee on Banking, Housing and Urban Affairs

House

Chrmn. Jerry M. Patterson
Subcmte. on International Development, Institutions and Finance
Committee on Banking, Finance and Urban Affairs

Douglas K. Bereuter
Ranking Minority Member
Subcmte. on International Development, Institutions and Finance
Committee on Banking, Finance and Urban Affairs

JEC

Vice Chrmn. Lee Hamilton
Chalmers P. Wylie (Ranking Minority of JEC, House side--sent to main offc.)
Lloyd Bentsen (Ranking Minority of JEC, Senate side--sent to main offc.)

September 7, 1983

The Honorable Denny Smith
House of Representatives
Washington, D. C. 20515

Dear Mr. Smith:

I am writing in connection with our earlier correspondence about the membership application of Great Western Bank, Dallas, Oregon. The Federal Reserve has approved the application and the applicant has been notified today. I am enclosing a copy of the Board's letter which sets forth the basis of the Board's decision.

Please let me know if I can provide any further information.

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn
Assistant to the Board

Enclosure

CO:vcd (V-110)

bcc: Mr. Egertson
Mr. Ryan
Mrs. Mallardi ✓

September 7, 1983

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

Dear Chairman Garn:

Thank you for your letter of August 30 inviting me to testify on S. 1609, the Financial Institutions Deregulation Act, and on other legislative proposals concerning the future structure of the financial services industry.

I am looking forward to appearing before your Committee on Tuesday, September 13, at 9:30 a.m.

Sincerely,

S/Paul A. Volcker

CO:DJW:pjt ((#V-180--83441)

bcc: Messrs. Soss, Bradfield, Axilrod,
Ryan, Kichline, and Corrigan
Mrs. Mallardi (2)

JAKE GARN, UTAH, CHAIRMAN

JOHN TOWER, TEXAS
JOHN HEINZ, PENNSYLVANIA
WILLIAM L. ARMSTRONG, COLORADO
ALFONSE M. D'AMATO, NEW YORK
SLADE GORTON, WASHINGTON
PAULA HAWKINS, FLORIDA
MACK MATTINGLY, GEORGIA
CHIC HECHT, NEVADA
PAUL TRIBLE, VIRGINIA

WILLIAM PROXMIRE, WISCONSIN
ALAN CRANSTON, CALIFORNIA
DONALD W. RIEGLE, JR., MICHIGAN
PAUL S. SARBANES, MARYLAND
CHRISTOPHER J. DODD, CONNECTICUT
ALAN J. DIXON, ILLINOIS
JIM SASSER, TENNESSEE
FRANK R. LAUTENBERG, NEW JERSEY

M. DANNY WALL, STAFF DIRECTOR
KENNETH A. McLEAN, MINORITY STAFF DIRECTOR

United States Senate

#180

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, D.C. 20510

August 30, 1983

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

Dear Chairman Volcker:

This letter confirms the invitation of the Senate Committee on Banking, Housing and Urban Affairs for you to appear as a witness at the legislative hearing to be held on Tuesday, September 13, 1983 starting at 9:30 a.m. in Room SD-538 of the Dirksen Senate Office Building. We will adhere to the following schedule, with each of the witnesses appearing individually:

Tuesday, Sept. 13

Chairman Volcker

Chairman Gray

Wednesday, Sept. 14

Chairman Isaac

C. Todd Conover

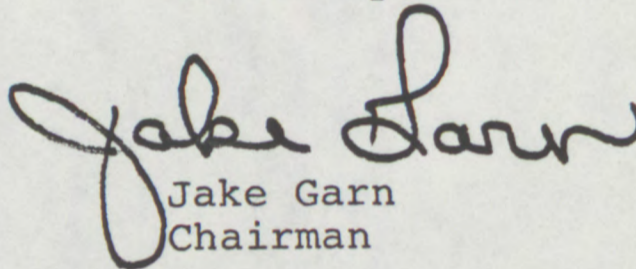
The principal purpose of the hearing is to receive testimony on S.1609, the proposal of the Administration titled the "Financial Institutions Deregulation Act of 1983", on S.1532, the Federal Reserve Board's proposal to impose a moratorium on certain acquisitions and new activities within the financial services industry, and on S.1682, the Federal Deposit Insurance Corporation's bill to limit acquisitions by nondepository institutions. In addition to testimony on those bills, we welcome your comments on any other pending legislative proposals which raise issues pertaining to the future structure of the financial services industry, such as proposals on regional interstate banking and the payment of interest on reserve balances and on checking accounts.

Enclosed is a copy of the Committee's Guidelines for Witnesses. If you or your staff have any questions, please

Honorable Paul A. Volcker
August 30, 1983
Page 2

contact John Collins or Dexter Bell of the Committee staff at
224-7391.

Sincerely,


Jake Garn
Chairman

Enclosure

JG:dbk

JOHN TOWER, TEXAS
JOHN HEINZ, PENNSYLVANIA
WILLIAM L. ARMSTRONG, COLORADO
ALFONSE M. D'AMATO, NEW YORK
BLAISE GORTON, WASHINGTON
PAULA HAWKINS, FLORIDA
MACK MATTINGLY, GEORGIA
CHIC HECHT, NEVADA
PAUL TRIBLE, VIRGINIA

WILLIAM PROXMIRE, WISCONSIN
ALAN CRANSTON, CALIFORNIA
DONALD W. RIEGLE, JR., MICHIGAN
PAUL S. SARBANES, MARYLAND
CHRISTOPHER J. DODD, CONNECTICUT
ALAN J. DIXON, ILLINOIS
JIM SASSER, TENNESSEE
FRANK R. LAUTENBERG, NEW JERSEY

M. DANNY WALL, STAFF DIRECTOR
KENNETH A. McLEAN, MINORITY STAFF DIRECTOR

United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, D.C. 20510

GUIDELINES FOR WITNESSES

1. These guidelines apply to all hearing of the Senate Committee on Banking, Housing and Urban Affairs, unless otherwise indicated.
2. All hearings will begin at 9:30 a.m. in Room SD-538 Dirksen Senate Office Building, unless otherwise indicated.
3. Committee rules require that all witnesses submit at least 75 copies of their written statements (if witness desires copies be distributed to press and public, more copies are needed) 24 hours prior to their appearance. Sundays and holidays are not to be included in determining this 24-hour period.

Statements should be delivered to Room SD-534 Dirksen Senate Office Building, Washington, D.C. 20510. Strict adherence to this rule is essential in order that Committee members may review the statements before the hearing, thus enabling the participants to more thoroughly discuss the issues involved. Statements will not be released to the news media prior to the day of your testimony.

4. Oral presentations must be limited to a brief summary not to exceed 10 minutes. Your complete statement will be printed in the hearing record.
5. Please complete the attached card and bring it to Room SD-534 Dirksen Senate Office Building prior to the hearing. You will be given copies of statements of those testifying with you at that time.

Your cooperation is appreciated.

Jake Garn
Chairman

September 6, 1983

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

Dear Walter:

I would like to thank you for sharing with us the report "Money and Near Monies: A Primer," prepared by Dr. Henderson. As you know, the Federal Reserve has for some time been concerned about the influence on the monetary aggregates of financial innovation, and we appreciate receiving the views of an outside researcher on this important matter. As the study emphasizes--and the Federal Reserve also has noted in testimony and other occasions--the process of financial deregulation and innovation has greatly complicated the interpretation and control of the monetary aggregates, which in turn has made necessary additional flexibility and judgment in the exercise of monetary policy.

I have asked our staff to review more thoroughly the analysis and conclusions of this study and will forward any comments to your Committee.

Thank you again for the study.

Sincerely,

S/ Paul

FJ:TDS:JLK:pjt (#V-175)
bcc: All Board Members
Mr. Jensen
Mr. Simpson
Mrs. Mallardi (2) ✓
Ms. Walls

Action assigned Mr. Kichline; all Governors received identical letters one response will be sent by the Chairman on behalf of the Board

WALTER E. FAUNTROY, D.C., CHAIRMAN

STEPHEN L. NEAL, N.C.
DOUG BARNARD, JR., GA.
CARROLL HUBBARD, JR., KY.
BILL PATMAN, TEX.
BUDDY ROEMER, LA.
BRUCE A. MORRISON, CONN.
JIM COOPER, TENN.
THOMAS R. CARPER, DEL.

GEORGE HANSEN, IDAHO
RON PAUL, TEX.
BILL McCOLLUM, FLA.
BILL LOWERY, CALIF.
JOHN HILER, IND.

U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON DOMESTIC MONETARY POLICY

OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
NINETY-EIGHTH CONGRESS
WASHINGTON, D.C. 20515

175

H2-109, ANNEX NO. 2
WASHINGTON, D.C. 20515
(202) 226-7315

August 18, 1983

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

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1983 AUG 22 AM 9:38
RECEIVED
OFFICE OF THE CHAIRMAN

Dear Paul:

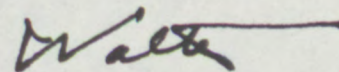
I am pleased to share with you a copy of Committee Print 98-6 entitled "Money and Near Monies: A Primer," which has been prepared for the use of the Subcommittee on Domestic Monetary Policy by Dr. John B. Henderson, Senior Specialist in Price Economics of the Economics Division, Library of Congress.

The report describes the evolution of money, examines the impact of financial innovations on the definition and measurement of money, and discusses the implications for monetary policy of these changes. I believe the report will be of great help to those who are concerned with monetary policy and how it should be conducted in today's financial and economic environment. I have already shared copies of this report with my colleagues. I wanted to be sure that you were familiar with this undertaking and kept abreast of the work and thinking of the Subcommittee.

I would be pleased to receive any comments you or your staff might have. Please send any comments or suggestions to the following address:

Subcommittee on Domestic Monetary Policy
House Office Building Annex #2 - Room H2-109
Second and D Streets, Southwest
Washington, D.C. 20515

Sincerely yours,



Walter E. Fauntroy
Chairman

September 2, 1983

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

Dear Mr. Lott:

Thank you for your letter of August 12 regarding a concern that Mr. H. P. Heidelberg, President of the Pascagoula-Moss Point Bank, had on transportation expenses incurred for food coupons that are sent to the Federal Reserve Bank of New Orleans for processing.

Mr. Robert P. Forrestal, the First Vice President at the Federal Reserve Bank of Atlanta has already been in contact with Mr. Heidelberg. I believe Mr. Forrestal's letter, which is enclosed, clearly explains to Mr. Heidelberg both the relationship between the Federal Reserve System and the Department of Agriculture (DOA), and the position of the DOA in treating food coupon transportation costs as a non-reimbursable expense.

Subsequently, Mr. Forrestal contacted the Federal Reserve Board in Washington, to request that we contact the DOA directly to raise the issue once again. We did so, and our reply to Mr. Forrestal is also enclosed for your review.

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

Sincerely,

S/Paul A. Volcker

Enclosures

RBS:CO:pjt (#V-169)

bcc: R. Sese

Mr. Farnsworth

Mrs. Mallardi (2) ✓

Action assigned Clyde Farnsworth

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

August 12, 1983

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

#169

Re: Mr. H. P. Heidelberg, Jr.
P. O. Drawer 1029
Pascagoula, Mississippi 39567

Dear Mr. Volcker:

I have recently received correspondence from Mr. H. P. Heidelberg, Jr., who contacted me regarding his problems with the Department of Agriculture and the Federal Reserve System concerning the cost of transporting food stamps.

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 Lott
Trent Lott

TL/mm
Enclosure

RECEIVED
OFFICE OF THE CHAIRMAN
1983 AUG 17 AM 8:06
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM



Pascagoula-Moss Point Bank
Moss Point and Pascagoula
Mississippi

H. P. HEIDELBERG, JR.
PRESIDENT

ADDRESS REPLY TO
P. O. DRAWER 1029
PASCAGOULA, MS 39567

July 25, 1983

Congressman Trent Lott
2400 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Lott:

Effective October 1, 1982, the Department of Agriculture apparently entered into a contract with the Federal Reserve System in which the cost of transporting food stamps from commercial banks to the nearest Federal Reserve Branch would be at the expense of the commercial banks. There is enclosed five pieces of correspondence which reads in typical bureaucratic fashion.

It is the feeling of our bank and numerous other banks with which we have discussed this matter that the favor is being done for the Department of Agriculture by the banks. We accept these food stamps as cash when deposited from retail grocers which means that we are losing a minimum of one days use of the value of the food stamps. Effective last October 1, we are now obligated to absorb the cost of delivering them to the nearest Federal Reserve Branch.

Apparently, our only recourse is one of three choices:

1. Refuse to accept food stamps on deposit.
2. Charge the retail grocer.
3. Suggest to the retail grocer that he get his food stamps to the nearest Federal Reserve Branch as best he can.

None of the above three choices are very palatable. To be quite frank, it is our opinion that the only logical solution to the matter is for the Department of Agriculture to absorb the transportation cost.

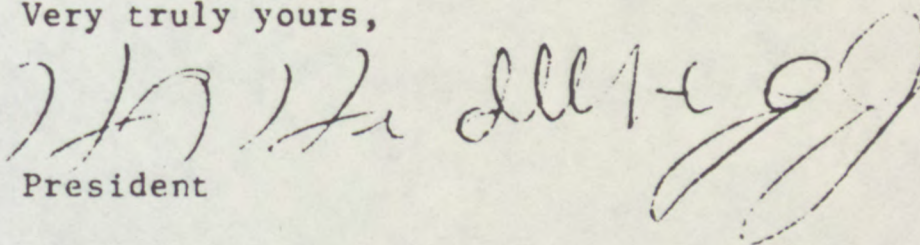
MEMBER OF FEDERAL RESERVE SYSTEM

Pascagoula-Moss Point Bank - Pascagoula, Miss.

July 25, 1983
Page Two

It would be most appreciated if you would give us the courtesy of your reply as to your feeling as to how the situation should be corrected.

Very truly yours,


President

HPHJR:lk

cc: John Hubbard, President
Mississippi Bankers Association
P. O. Box 37
Jackson, MS 39205

MEMBER FEDERAL RESERVE SYSTEM

NEW ORLEANS BRANCH
FEDERAL RESERVE BANK OF ATLANTA
NEW ORLEANS, LOUISIANA 70161

OFFICE OF
ASSISTANT VICE PRESIDENT

September 20, 1982

237 Bares
235 Meche

9071

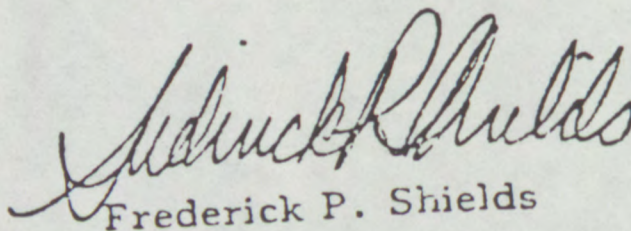
TO: ALL FOOD COUPON DEPOSITARIES

Earlier this year the New Orleans Branch of the Federal Reserve Bank of Atlanta entered into a new contract with Pony Express Courier Service for the transportation of commercial checks and other cash items. Under the contract terms, Pony Express will no longer handle the transportation of food coupons to this Branch.

Therefore, to facilitate the shipment of your food stamp deposits, we are requesting each financial institution to arrange alternative means of transportation, such as registered mail or a privately contracted courier service. We would appreciate your cooperation in making the transition by October 1, 1982.

If we can be of any assistance to you in arranging transportation alternatives, please contact Mrs. Karen Meche, Manager of Cash Services, Mrs. Audrey Bares, Assistant Manager, or me.

Sincerely,


Frederick P. Shields

PASCAGOULA-ROSS FORT BANK
PASCAGOULA, MISSISSIPPI

PASCAGOULA-ROSS FORT BANK
PASCAGOULA, MISSISSIPPI

July 20, 1983

Mr. Jack Gynn
Senior Vice President
Federal Reserve Bank of Atlanta
P. O. Box 1731
Atlanta, GA 30301

Dear Jack:

With reference to our telephone conversation Friday, there is enclosed copy of letter we received from your New Orleans Branch dated September 20, 1982. As you can observe from this letter, it was suggested that banks make other arrangements to transport food stamps to your New Orleans branch with no mention being made of the refund of shipping charges.

We, of course, give our retail grocery store customers immediate credit for these food stamps, and we cannot possibly be paid for them until the following business day by your New Orleans Branch. The result is in addition to the loss of one business day on the value of the food stamps handled, we are further required to pay the transportation cost to get them to your branch.

It is our feeling that this situation should be corrected, and the cost of transportation be paid either by the Department of Agriculture or the Federal Reserve Bank.

Sincerely,

President

HPHJR:lk

Enclosure

July 20, 1983

Mr. Clyde H. Farnsworth, Jr.
Director
Division of Federal Reserve
Bank Operations
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

Dear Clyde:

One of the old complaints in connection with the food stamp program has raised its head again. As you can see from my enclosed letter to Pat Heidelberg, Jr., President of Pascagoula-Moss Point Bank, Pascagoula, Mississippi, he has asked our help in getting the Department of Agriculture (DOA) to reconsider its position of refusing to acknowledge the cost of transporting food stamps to a Fed office for redemption as an expense the DOA will reimburse.

I know your staff maintains on-going contact with the governmental agencies that contract with us for services. At the first opportunity, I hope you will ask once again about the issue Mr. Heidelberg has raised.

Sincerely,

Robert P. Forrestal

Enclosure

bcc: Mr. Pat Heidelberg, Jr.
Mr. James Hawkins

RECORD COPY

FEDERAL RESERVE BANK
OF ATLANTA
ATLANTA, GEORGIA 30303

OFFICE OF
FIRST VICE PRESIDENT

July 20, 1983

Mr. H. P. Heidelberg, Jr.
President
Pascagoula-Moss Point Bank
Drawer 1029
Pascagoula, Mississippi 39567

Dear Pat:

This is in response to the question you recently posed to Jack Guynn concerning a bill your bank received from a courier for delivering food coupons from your bank to our New Orleans Branch.

As I think you know, the Department of Agriculture has contracted with our Federal Reserve Banks to provide certain food stamp redemption and destruction services. As our contractor, the DOA dictates just what work we are to do and what costs that agency is willing to reimburse. While the expenses incurred by Reserve Banks for verifying and destroying the food stamps are reimbursed by the Department of Agriculture (DOA), transportation expenses are specifically excluded. Accordingly, we are unable to reimburse financial institutions for the expense of delivering food coupons to us, nor are we in a position to provide transportation since these expenses would not be eligible for reimbursement by the Department of Agriculture. As you can imagine, we have had requests from other banks to reimburse transportation costs, but the DOA has held fast to the position that the cost of getting the stamps to a Federal Reserve Bank for redemption is the responsibility of the bank that takes the merchant's deposit.

Just to be sure there has been no change of heart on this point, we had our New Orleans office contact Mr. James J. Springer, Supervisor Food Coupon Specialist in the Compliance Management Section of the United States Department of Agriculture - Food Nutrition Service (USDA-FNS) Regional Office in Dallas, Texas. Mr. Springer advised that all processing and transportation expense incurred by a commercial bank is the responsibility of that institution. However, he did state that each institution is allowed by USDA-FNS to charge retailers a fee for handling their food coupon deposits.

Pat, this is one of those nagging problems bankers continue to have in connection with government programs. In light of your inquiry, I have asked our Washington staff to raise this matter again with their Washington Department of Agriculture contacts and I will be sure to be back in touch if we get any new encouragement from the Washington contact.

Bob Forrester

Sincerely,

Bob

Robert P. Forrester

cc: Mr. James Hawkins, Branch Manager
New Orleans Branch

Mr. Clyde Farnsworth, Director
Department of FRB Operations

September 2, 1983

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

Dear Mr. Vento:

Thank you for your letter of August 15,
enclosing questions you had following my recent testi-
mony before the House Banking Committee. Enclosed are
my responses to your questions. I appreciate the
opportunity to amplify my views, and hope you find
these responses useful.

Sincerely,

S/ Paul

Enclosure

DLK:SHA:pjt (#V-171)

bcc: Mr. Kohn

Mr. Axilrod

Mrs. Mallardi (2) ✓

Question #1. It is generally agreed that in August, 1982, the Federal Reserve shifted to a more accommodating monetary policy. (A move which I, incidentally, applaud.) As a result of our tight money policies of recent years, have we learned something new about the value and accuracy of using monetary aggregates as the primary measurement and criteria for the performance of the economy? If this has led us to a re-evaluation of the value of monetary aggregates as a simultaneous tool and measure of monetary policy, was this the primary cause of the shift in policy in August, 1982? If not, what was the primary cause for the August, 1982, change in policy?

The behavior of the various monetary aggregates and interest rates since the late summer of 1982 reflected both policy adaptations to shifts in the public's preferences for money and the behavior of the economy. The substantial drop of interest rates in the second half of 1982 reflected Federal Reserve easing of pressure on depository institutions reserves to help sustain money growth, the further weakening of the economy and private credit demands, and reduced inflationary expectations resulting from the sustained improvement in price performance. In the process M2 and M3 grew around the upper limits of their longer-run target ranges.

M1 growth, however, accelerated sharply and was well above its longer-run range in late 1982 and into the early part of 1983. The Federal Reserve was more accommodative to overshoots in M1 growth than it had been earlier. It had become evident that the public's demand for assets in M1, particularly for NOW accounts which paid a ceiling interest rate, had increased sharply--with the result that the velocity of M1 declined in the second half of 1982 by much more than it usually had in a cyclical contraction. In part this decline, which continued into the first quarter of 1983, reflected the special circumstance of a large movement of funds into NOW accounts--which perform both a savings and transactions function and have come to be an increasing share of M1--as the cost of holding

these highly liquid balances dropped sharply with the decline in market interest rates. More recently the velocity of M1 appears to be rising, though by less than in earlier cyclical expansions.

The atypical behavior of M1 velocity caused in part by the increased importance of NOW accounts, together with uncertain affects on M1 associated with the maturity of All Savers Certificates in the fall of 1982 and early 1983, led the Federal Reserve to place less emphasis on M1 as a policy guide than it had previously. The broader aggregates were given more emphasis, though it was recognized that these too would be distorted, at least for a time early this year, by the availability of new deposit instruments.

It seems to me that these experiences simply underscore a basic premise that has always been a key element in our approach, which is that a certain flexibility in achieving and evaluating monetary targets is needed in light of changing financial practices and institutional arrangements. Incoming data on money growth will always have to be interpreted in relation to information about a variety of economic and financial indicators. Even so, experience over long periods in a variety of circumstances has shown that, interpreted with care, monetary aggregates can be and normally are valuable guides to monetary policy formulation and implementation.

Question #2. In light of some current economic conditions, supporters of a tight money policy can make a very strong case. For example, the current federal fiscal policy is extremely expansive and the federal deficit in nominal dollar terms, in terms of percentage of G.N.P. and in terms of percentage of total savings, is extremely large. In addition, there seems to be little likelihood that reductions in federal spending or increases in federal revenue will reduce the deficit. These circumstances appear to me to be precisely the type of conditions which prompt many people (and indeed the Federal Reserve in years past) to call for a tightened money supply.

On the other hand, for the past several months, forces have acted, during a time of an accommodating Federal Reserve Board policy, to restrict the availability of credit. In spite of low inflation, real interest rates remain high enough to restrict the availability of credit to such a degree that it is not realistic to fear a new round of inflation by a rapidly expanding economy fueled with easily affordable credit. It seems to me that the effect of the market forces (higher priced credit) has been essentially the same as the effect of a tightened monetary policy (scarce supply of money, leading to higher priced credit). While the effect has been the same, the method of obtaining this result is very different.

If these market forces continue to result in high real interest rates, do you foresee a need to move away from the Federal Reserve's more accommodating monetary policy in the near future?

The overriding objective of our monetary policy is to promote a period of sustained noninflationary growth in the economy. In choosing monetary and credit growth ranges to promote this end, one of the important factors we have taken into account is the expansive stance of fiscal policy and the likelihood that the federal deficit would remain extremely large. As you note, these deficits--actual and prospective--have served to keep real interest rates at unusually high levels, but these rates apparently have not interfered with a substantial rebound in economic activity this year.

We believe our ranges for money growth are appropriate for attaining the objectives we all share for the economy. In recent months--with the economy rebounding strongly--we have moved in a measured way to a slightly

less accommodative reserve supplying posture to assure control of money growth over the longer run. This move had the effect of producing a firming in money markets in the short run, but by promoting greater confidence we would adhere to a noninflationary course, we believe these actions have helped to reduce the risk of a greater tightening in credit market conditions down the road.

The moderate rise in interest rates over recent months has reflected as well the massive borrowing needs of government, and concerns that these are beginning to compete with expanding private credit demands in a growing economy. A more accommodative monetary policy would not prevent such a conflict for a limited volume of savings, but would only promote an imbalanced recovery and future inflation and recession. A reduction in budget deficits is the key to reducing these high real rates and ensuring a balanced, sustainable expansion in economic activity.

Question #3. I have been concerned about the fact that interest rates seem to be staying at historically high levels relative to the inflation rate. (I think most economists will agree that interest rates have traditionally been approximately 3-1/2 percent above the inflation rate.) This has been true for many months now, and it seems that this irregularity is even more important now that we have begun to come out of the recession.

In the exercise of your monetary policy tools to control the money supply, to what extent are you limited by the fact that some profitable corporations, and individuals, are, in effect, only paying half of the market rate of interest on their borrowings after deducting interest expenses from their taxes?

Would you comment on whether interest rates have in part remained so high above the inflation rate because of this tax treatment?

If a substantial segment of business is sufficiently profitable to be paying a net interest rate below the rate at which their investments are inflating, does this create a distortion in the economy?

I do not view the tax treatment of interest payments as an important limitation on monetary policy, but it to some extent does influence the allocation of financial and real resources--depending on which firms or individuals are receiving favorable tax treatment on their borrowing relative to the tax treatment on their earnings, which is in turn affected by such issues as whether their earnings are in the form of current income or capital gains or the impact of using available depreciation and inventory accounting methods. While, in practice, the influence is difficult to measure, the level of real interest rates (before taxes) in the market appears to be higher than they otherwise would be, in a period of general inflation, because of various properties of the tax laws. While the basic characteristics of the tax treatment of interest have been in place for many years, the impact is different, and potentially greater, during a period of high actual or expected inflation. However, at the present time, high "real" rates in large part reflect pressures generated by current and expected unusually large federal deficits.

Question #4. Chairman Volcker, the fundamental purpose of the Humphrey-Hawkins Act is to require that in setting national economic policy, equal consideration should be given to several economic factors, such as unemployment, inflation and interest rates. However, I don't think that it can be disputed that your recent policy has concentrated on reducing inflation at the expense of the highest real interest rates and unemployment rates in memory.

For instance, in your report, you project unemployment rates in 1983 at 9-1/2 percent and about 8-1/2 percent in 1984. What if we changed the Humphrey-Hawkins Act to require you to place the greatest emphasis on unemployment?

What changes in policy would you pursue if you were required, as your primary responsibility, to achieve a 6-1/2 percent to 7 percent unemployment rate to the end of 1984?

If we were to give primary emphasis to reducing the unemployment rate to the 6-1/2 to 7 percent area by the end of 1984, we would have to increase money growth even more rapidly. But such a policy emphasis would be not only short-range but also short-sighted. The kind of aggregate demand stimulus needed to achieve such an unemployment rate by the end of 1984 if indeed that were at all possible, would give tremendous impetus to inflation and sow the seeds of future economic disruption. A longer-range focus on achieving sustainable economic expansion in the context of moderating inflation provides the best hope for achieving durable progress on the employment front.

BRUCE F. VENTO
4TH DISTRICT, MINNESOTA

2433 RAYBURN 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

Action assigned Steve Axilrod; info copy to

Mike Prell

HOUSE COMMITTEE ON
BANKING, FINANCE AND
URBAN AFFAIRS

HOUSE COMMITTEE ON
INTERIOR AND INSULAR AFFAIRS

HOUSE SELECT COMMITTEE
ON AGING

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

August 15, 1983

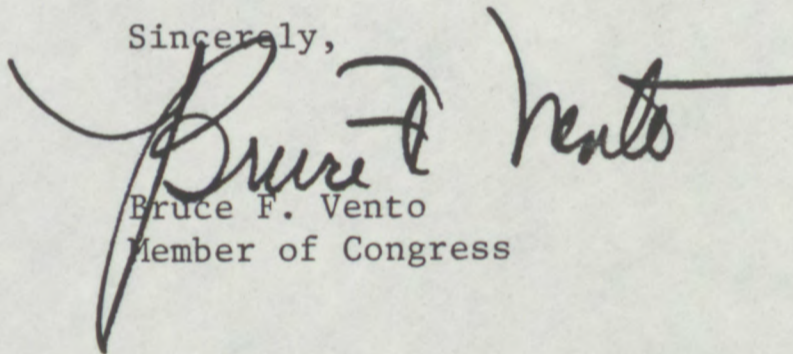
#171

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

Dear Chairman Volcker:

During your last appearance before the Banking, Finance and Urban Affairs Committee, there were several questions which I was not able to ask because of time constraints. I would appreciate your response to the four enclosed questions.

Sincerely,



Bruce F. Vento
Member of Congress

BFV/gg

Enclosures

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1983 AUG 18 AM 9:48
RECEIVED
OFFICE OF THE CHAIRMAN

Question #1

It is generally agreed that in August, 1982, the Federal Reserve shifted to a more accommodating monetary policy. (A move which I, incidentally, applaud.) As a result of our tight money policies of recent years, have we learned something new about the value and accuracy of using monetary aggregates as the primary measurement and criteria for the performance of the economy? If this has led us to a re-evaluation of the value of monetary aggregates as a simultaneous tool and measure of monetary policy, was this the primary cause of the shift in policy in August, 1982? If not, what was the primary cause for the August, 1982, change in policy?

Question #2

In light of some current economic conditions, supporters of a tight money policy can make a very strong case. For example, the current federal fiscal policy is extremely expansive and the federal deficit in nominal dollar terms, in terms of percentage of G.N.P. and in terms of percentage of total savings, is extremely large. In addition, there seems to be little likelihood that reductions in federal spending or increases in federal revenue will reduce the deficit. These circumstances appear to me to be precisely the type of conditions which prompt many people (and indeed the Federal Reserve in years past) to call for a tightened money supply.

On the other hand, for the past several months, forces have acted, during a time of an accommodating Federal Reserve Board policy, to restrict the availability of credit. In spite of low inflation, real interest rates remain high enough to restrict the availability of credit to such a degree that it is not realistic to fear a new round of inflation by a rapidly expanding economy fueled with easily affordable credit. It seems to me that the effect of the market forces (higher priced credit) has been essentially the same as the effect of a tightened monetary policy (scarce supply of money, leading to higher priced credit). While the effect has been the same, the method of obtaining this result is very different.

If these market forces continue to result in high real interest rates, do you foresee a need to move away from the Federal Reserve's more accommodating monetary policy in the near future?

Question #3

I have been concerned about the fact that interest rates seem to be staying at historically high levels relative to the inflation rate. (I think most economists will agree that interest rates have traditionally been approximately $3\frac{1}{2}\%$ above the inflation rate.) This has been true for many months now, and it seems that this irregularity is even more important now that we have begun to come out of the recession.

In the exercise of your monetary policy tools to control the money supply, to what extent are you limited by the fact that some profitable corporations, and individuals, are, in effect, only paying half of the market rate of interest on their borrowings after deducting interest expenses from their taxes?

Would you comment on whether interest rates have in part remained so high above the inflation rate because of this tax treatment?

If a substantial segment of business is sufficiently profitable to be paying a net interest rate below the rate at which their investments are inflating, does this create a distortion in the economy?

Question #4

Chairman Volcker, the fundamental purpose of the Humphrey-Hawkins Act is to require that in setting national economic policy, equal consideration should be given to several economic factors, such as unemployment, inflation and interest rates. However, I don't think that it can be disputed that your recent policy has concentrated on reducing inflation at the expense of the highest real interest rates and unemployment rates in memory.

For instance, in your report, you project unemployment rates in 1983 at 9½% and about 8½% in 1984. What if we changed the Humphrey-Hawkins Act to require you to place the greatest emphasis on unemployment?

What changes in policy would you pursue if you were required, as your primary responsibility, to achieve a 6½% to 7% unemployment rate by the end of 1984?

September 1, 1983

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

Dear Tom:

Thank you for your note of August 17 enclosing a letter from Mr. Ben E. Lusk regarding the difficulties faced by the American coal industry in exporting.

The Federal Reserve recognizes that the current strength of the dollar exchange rate is having an adverse impact on a range of U.S. industries, both exporters and those competing with imports from abroad. Reflecting the combined effects of the strong dollar and relatively weak demand abroad, our nonagricultural exports have declined by around 10 percent in volume over the past year.

As your note observes, the strength of the dollar exchange rate derives importantly from purchases by foreign investors of dollar assets, reflecting both the historically high rates of return on these assets and the significant reduction in inflation that has been achieved.

You ask about recommendations for reducing the attractiveness of dollar assets to foreign investors. Other things equal, lower levels of interest rates on dollar assets would work in that direction, and I continue to feel that the most important step we could take in this area is to reduce the federal budget deficit.

Sincerely,

S/ Paul

RFG:CO:pjt (#V-174)
bcc: Mr. Gemmill
Mrs. Mallardi (2) ✓

tion assigned Mr. Truman

HOUSE OF REPRESENTATIVES, U.S
WASHINGTON, D.C.

#174

..... August 17....., 19.....8

Hon. Paul A. Volcker
Chairman, Board of
Governors of the Federal
Reserve System
Constitution Avenue
and 21st Street
Washington, D.C. 20551

The attached communication is submitted for your consideration, and to ask that the request made therein be complied with, if possible.

If you will advise me of your action in this matter and have the letter returned to me with your reply, I will appreciate it.

Paul, I would appreciate your commenting on the attached, as well as any recommendations you might have on how to reduce the attractiveness of the U. S. dollar to overseas investors.

Tom

Very Truly yours,

.....
M.C.

Ala, 4th TB:cl

..... District.

1377 K Street, N.W., Suite 900
Washington, D.C. 20005
Telephone (202) 789-0641

AUG 5 1983
Ben Lusk
Washington Representative

**DRUMMOND
COAL
COMPANY**

July 25, 1983

The Honorable Tom Bevill
2407 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Bevill:

I am writing to you on behalf of Drummond Coal Company and Alabama By-Products, two relatively large coal companies in the U.S. that are faced with a very paradoxical situation of which I am sure you would want to be advised.

While our country is experiencing an economic recovery, those of us in the export coal business are experiencing difficulties in selling our coal to those countries whose currencies are not as strong as the dollar.

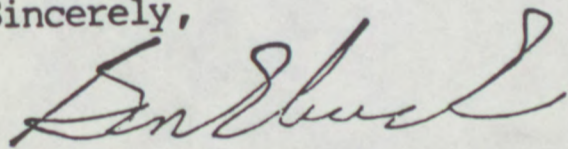
As the attached copy of a telex from Italsider indicates, Italy is having difficulties purchasing American Coal because the dollar has become so strong against the Italian lire.

Although we are all in favor of a strong economy, we're also concerned about losing our export markets overseas. We obviously have no solution, however we are hopeful you can provide us with some advice as to how to handle this very perplexing problem.

In addition, I'm sure other commodities exported from the U.S. are facing similar problems and should also be considered.

Any help, advice or suggestions you may have would be greatly appreciated. Thank you for your kind consideration to this very pressing problem.

Sincerely,



Ben E. Lusk
Washington Representative



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

PAUL A. VOLCKER
CHAIRMAN

August 30, 1983

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

Dear Mr. Chairman:

I share your concern about the need to undertake promptly the inquiry into the leak of information from the Midyear Monetary Policy Report to the Congress.

At the same time, I am frankly disappointed about the procedure outlined in your most recent letter calling upon the GAO exclusively, for the reasons we discussed on the telephone some time ago and which I thought were persuasive to you as well. While I respect the integrity and general competence of the GAO, I would greatly prefer, as you know, participation of an independent outside party with relevant investigatory experience.

However, given the passage of time, in the interest of getting on with the job, I am prepared to concur in the arrangements you propose for a GAO investigation under agreed terms of reference. In this connection, I believe we are agreed that the investigation is to focus on determining responsibility for the leak, and that it will not, of course, encompass procedural or substantive questions of monetary policy.

My staff has already cataloged the persons who had access to the documents from the time that the decisions were made on July 13, to the time of their official release on July 20, and this preliminary work should assist in expediting the task of the investigators.

Sincerely,

FILE COPY.

MB/mam



V-179

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

August 30, 1983

PAUL A. VOLCKER
CHAIRMAN

The Honorable Quentin N. Burdick
United States Senate
Washington, D. C. 20510

Dear Senator Burdick:

Thank you for your letter of August 23 regarding concerns your constituents expressed relating to the Board's proposal to amend Regulation Y, its regulation governing bank holding companies. Specifically, they express concerns about the proposed changes to the provisions of the regulation governing the redemption by a bank holding company of its own securities.

Currently, the Board's Regulation Y (12 CFR 225.6) requires a notice to the Board for any proposed redemption by a bank holding company of its own equity securities if the consideration paid for the shares exceeds 10 percent of the net worth of the bank holding company. The Board reviews the notice to determine whether the redemption would adversely affect the safety or soundness of the organization. Under the proposed amendments to Regulation Y, no notice would be required for any redemption if, after the redemption, the bank holding company meets the standards for adequate capitalization established by the Board of Governors and the Comptroller of the Currency. The Board generally regards these standards as the minimum for safe and sound operation of banking organizations.

The proposal also allows a bank holding company to make redemption of its stock without regard to these capital standards under two additional circumstances. First, a company may make de minimis redemptions equal to one percent of its net worth in any 12 month period. Second, a company may apply to the Board for its approval to make redemptions in unusual circumstances. In considering those requests, it is contemplated that the Board would consider the overall effects of the proposed redemption on the capitalization of the bank holding company.

The proposed revision of the redemption provisions emphasizes that the Board's primary concern with such redemptions is the effect they have on bank holding company capitalization. In a redemption situation, the holding company's capital is reduced through the retirement of its capital stock and, in many cases, this reduction in capital is accompanied by a corresponding increase in the indebtedness of

The Honorable Quentin N. Burdick
Page Two

the holding company to finance the redemption. In other words, in many cases, a redemption involves the substitution of debt for capital in the bank holding company. Under the proposal, the ability to make redemptions that reduce the holding company's capital and increase its indebtedness is made contingent upon the bank holding company satisfying the interagency capital standards. The proposal is premised upon the belief that a reduction in a bank holding company's capital may not be consistent with safe and sound banking practice where the holding company's capital will be below the minimum capital standards established by the Board and the Comptroller of the Currency.

The Board has received numerous comments on the proposed amendment, primarily from small banking organizations. The main thrust of the comments is directed to the fairness of the proposed provision that no redemption be permitted without prior approval where the bank holding company has a debt-to-equity ratio in excess of 30 percent following the redemption. The comments have raised concern that application of the Board's capital standards in a redemption situation will seriously limit the transferability of small banking organizations.

While the Board is concerned with adequate capitalization of bank holding companies, the Board has also recognized the unique function of small one-bank holding companies in facilitating the transfer of ownership of small banking organizations. (Policy Statement on Assessment of Financial Factors of One-Bank Holding Companies, March 28, 1980.) Because of this concern, the Board has, in proposals involving the ownership of small banking organizations, permitted liberal debt-to-equity ratios substantially in excess of the 30 percent level on the basis that the bank holding company would direct its efforts to reducing its debt-to-equity ratio over a relatively short time span in order that its improved debt capacity will allow it to serve as a source of strength should the subsidiary bank require assistance.

The Board's staff is reviewing modifications to the proposed stock redemption proposal in light of the Board's previously stated policy regarding the transfer of ownership of small banking organizations and the Board's concerns with the capital adequacy of the nation's banks. I appreciate having your constituents' views, and their concerns will be presented to the Board when it takes action on the proposal. I will be happy to let you know when the Board reaches a final decision on the matter.

Sincerely,

(VM:)CO:pjt (#V-179)
bcc: Mrs. Mallardi (2)

S/Paul A. Volcker

MARK O. HATFIELD, OREG., CHAIRMAN

TED STEVENS, ALASKA
LOWELL F. WEICKER, JR., CONN.
JAMES A. MC CLURE, IDAHO
PAUL LAXALT, NEV.
JAKE GARN, UTAH
THAD COCHRAN, MISS.
MARK ANDREWS, N. DAK.
JAMES ABDNOR, S. DAK.
ROBERT W. KASTEN, JR., WIS.
ALFONSE M. D'AMATO, N.Y.
MACK MATTINGLY, GA.
WARREN RUDMAN, N.H.
ARLEN SPECTER, PA.
PETE V. DOMENICI, N. MEX.

JOHN C. STENNIS, MISS.
ROBERT C. BYRD, W. VA.
WILLIAM PROXMIRE, WIS.
DANIEL K. INOUE, HAWAII
ERNEST F. HOLLINGS, S.C.
THOMAS F. EAGLETON, MO.
LAWTON CHILES, FLA.
J. BENNETT JOHNSTON, LA.
WALTER D. HUDDLESTON, KY.
QUENTIN N. BURDICK, N. DAK.
PATRICK J. LEAHY, VT.
JIM SASSER, TENN.
DENNIS DE CONCINI, ARIZ.
DALE BUMPERS, ARK.

J. KEITH KENNEDY, STAFF DIRECTOR
FRANCIS J. SULLIVAN MINORITY STAFF DIRECTOR

United States Senate

COMMITTEE ON APPROPRIATIONS
WASHINGTON, D.C. 20510

August 23, 1983

#179

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1903 AUG 25 AM 9:15
RECEIVED
OFFICE OF THE CHAIRMAN

Mr. Paul A. Volcker
Chairman
Board of Governors
Federal Reserve System
Constitution Avenue and 21st Street
Washington, D.C. 20551

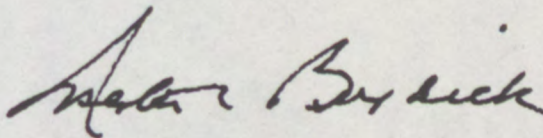
Dear Mr. Volcker:

Enclosed are copies of letters I have received from constituents of mine in North Dakota.

I thought you would be interested in their comments.

With kind regards, I am

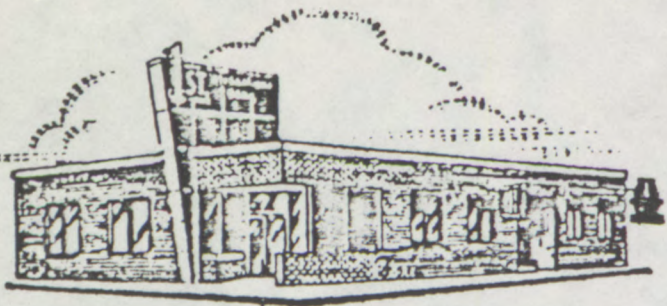
Sincerely,



Quentin N. Burdick

QNB: spc

Enclosures



FIRST INTERNATIONAL BANK

MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION

WAFFORD CITY, N. DAK.

58854

August 12, 1983

Secretary
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

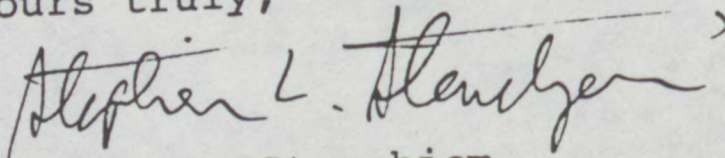
Dear Sir:

RE: Proposed Revision to Regulation Y
Regarding Bank Holding Companies

I am writing this letter to express my objection to the portion of the proposed revision relating to your attempt to effectively prohibit stock redemptions by bank holding companies unless certain minimum capital standards are met. If your proposed regulation should go into effect locally owned financial institutions will cease to exist because of the personal debt load required as a result of a bank purchase and the inability to service that debt. It will not be feasible to transfer total ownership by using the concept of the holding company redemption of bank stock.

Under the proposed legislation only very large holding companies would be able to redeem holding company stock, which means the smaller independent community banks will be at a distinct disadvantage. Locally owned independent banks have always been an integral and important part of our banking system, and without them our country would suffer a great loss. Please carefully consider your proposal and after consideration please forget and withdraw this provision.

Yours truly,


Stephen L. Stenehjem
Vice President

SLS/ljj

cc: Honorable Mark Andrews, Senator
Honorable Quentin Burdick, Senator /
Honorable Byron Dorgan, Congressman

**HEKTNER LYBECK ERICKSON
INSURANCE, INC.**

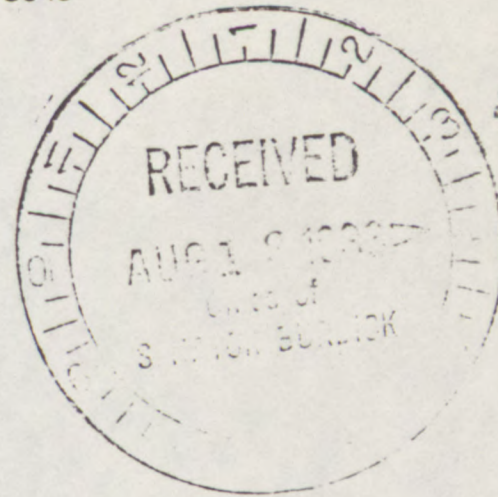
Tele.-1-701-293-0011

AGENTS

Hektner
Brian Lybeck
m Erickson
urt Hektner
aul Lybeck
ert Van Engelenhoven
arwin Konrad

3030 13th Ave. So. • P.O. Box 3045

Fargo, North Dakota 58108



August 9, 1983

Senator Burdick
United States Senate
Washington DC 20000

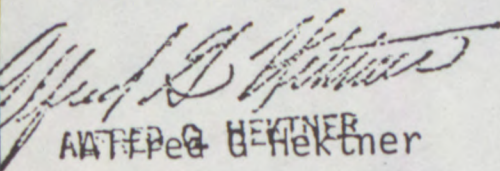
Dear Quentin:

I am writing to you concerning the bank holding activities. I understand there is legislation pending to make revisions, some of which I understand are not to the best interest of the consumer. I am enclosing an article from the Independent Agent which outlines the insurance agents views and concerns. Please note the portion I have underlined.

I do thank you for keeping this in mind when and if this legislation comes before you.

Yours very truly,

HEKTNER-LYBECK-ERICKSON


Alfred G. Hektner

AGH:do

Enc.

— A LOCAL INDEPENDENT AGENCY —

"PROTECTING YOUR BUSINESS, FARM, HOME, AUTO, CROP AND LIFE"

Removal Notice



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: Newsletter

Number of Pages Removed: 2

Citations: Independent Insurance Agents Association. "IIAA Spells Out Reasons for Bank Restrictions." *Window On Washington*, July 1983.



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

August 29, 1983

Mr. Louis Ross
P.O. Box 653
Beverly Hills, California 90213

Dear Mr. Ross:

At the request of Chairman Annunzio, I am pleased to respond to your letter of July 20, asking whether a lender must furnish a consumer with Truth in Lending disclosures and a right of rescission notice in a consumer home loan transaction, in which the lender acquires a security interest in the consumer's home in the form of a deed of trust with the right of foreclosure.

Under the current Regulation Z (effective October 1, 1982) which implements the Truth in Lending Act, the answer to the question depends upon whether the lender granting the credit is subject to Regulation Z, and if so, whether the credit is subject to the right of rescission. I will first address the question of whether Truth in Lending disclosures should have been given in this case.

Section 226.2(a)(17) of Regulation Z defines a creditor as a person who offers or extends consumer credit that is subject to a finance charge more than 25 times (or more than 5 times for transactions secured by a dwelling) in a calendar year. If the lender in your transaction meets the definition of a creditor as stated above, the individual must provide the consumer with the Truth in Lending disclosures required by Section 226.18 of the Regulation.

As to the question of whether the transaction would be rescindable, it first would have to be granted by a creditor as defined in the paragraph above. Unless the credit is granted by someone subject to the regulation, neither the disclosure nor the right of rescission requirements would apply. Assuming the credit has been granted by a creditor as defined in Regulation Z, section 226.23(a) of the Regulation gives consumers the right to rescind credit transactions secured by their principal dwelling if the credit extended is for a purpose other than for the acquisition or initial construction of the consumer's principal dwelling. Consequently, if an individual meeting the definition of creditor is extending credit to a consumer for a purpose other than for the acquisition or initial construction of a dwelling, such as for home improvements, the right of rescission would apply, and the creditor must provide the consumer with the notice of the right to rescind. If the consumer,

Mr. Louis Ross
Page Two

however, is going to use the credit extended to finance the acquisition or construction of a principal dwelling, the right of rescission would not apply, regardless of whether or not the individual granting the credit meets the definition of a creditor as defined by the Regulation.

The questions and answers (Appendix A of Regulation Z) submitted by you applied to Regulation Z before it was revised in April of 1981 to implement major changes to Truth in Lending enacted in 1980.

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

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn
Assistant to the Board

cc: Chairman Annunzio

MW:CO:pjt (#V-157)
bcc: Ms. Whitehead
Mrs. Mallardi ✓

FRANK ANNUNZIO, ILL., CHAIRMAN
FERNAND J. ST GERMAIN, R.I.
HENRY B. GONZALEZ, TEX.
JOSEPH G. MINISH, N.J.
BILL PATMAN, TEX.
BRUCE F. VENTO, MINN.
MIKE LOWRY, WASH.

CURTIS A. PRINS,
STAFF DIRECTOR

TELEPHONE: 226-3280

RON PAUL, TEX.
CHALMERS P. WYLLIE, OHIO
JOHN HILER, IND.
THOMAS J. RIDGE, PA.

U.S. HOUSE OF REPRESENTATIVES
NINETY-EIGHTH 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

August 3, 1983

RECEIVED
OFFICE OF THE CHAIRMAN

1983 AUG - 4 PM 12: 04

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

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

Dear Mr. Chairman:

Enclosed is a copy of a letter I have received from Mr. Louis Ross, who requests an official interpretation of the Federal Reserve Board's Truth in Lending Regulation Z as it pertains to the consumer's right of rescission in transactions secured by the consumer's home.

I have written to Mr. Ross and indicated that the Board will respond directly to him.

Thank you for your cooperation in this matter.

With every best wish,

Sincerely,

Frank Annunzio
Frank Annunzio
Chairman

Enclosure

July 20, 1983

Committee on Banking, Finance & Urban Affairs
Rayburn House Office Building, Room 2129
Washington, D.C. 20515

Attention: Congressman Frank Annunzio
Chairman, Subcommittee on
Consumer Affairs

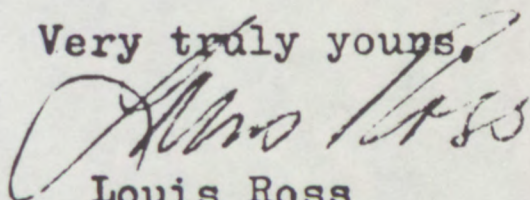
Dear Congressan Annunzio:

I am requesting an official interpretation of the meaning of the questions and answers as shown on the enclosed copy of Appendix A of Regulation Z (1977), applicable to the following question:

In a consumer home loan transaction in which the lender acquires a security interest in the consumer's home in the form of a deed of trust with the right of foreclosure, is it mandatory by Federal law that the lender furnish the consumer the required material disclosures stating the costs of the loan and the Notice of Right of Rescission to cancel the loan transaction, if the consumer desires to do so?

I would appreciate your earliest attention and reply.

Very truly yours,



Louis Ross
P.O. Box 653
Beverly Hills, Ca 90213

Encl. Appendix A, Reg. Z
Page 100 (1977)

APPENDIX A

Q: Must I use the Board's Annual Percentage Rate tables?

A: No. You may wish to purchase specially prepared tables for your type of business from one of several table or chart publishers. Trade associations and financial institutions can be helpful also. (Reg. Z/226.5(c)(2))

Q: Must the creditor always show the annual percentage rate?

A: Generally yes, except that on credit other than open end credit, if the finance charge is \$5 or less, and applies to credit of \$75 or less, it need not be shown. The same exception applies to a finance charge of \$7.50 or less on credit of more than \$75. (Reg. Z/226.8(b)(2)(i) and (ii))

SOME QUESTIONS AND ANSWERS ABOUT REAL ESTATE

Q: Is real estate credit covered under Regulation Z?

A: Yes. All real estate credit *in any amount* is covered under this Regulation when it is to an individual and not for business purposes, except that real estate credit for agricultural purposes in excess of \$25,000 is exempt. (Reg. Z/226.3)

Q: Does such real estate credit cover more than mortgages?

A: Yes, very definitely. Any credit transaction (other than a business credit transaction) that involves any type of security interest in real estate of a consumer is covered. (Reg. Z/226.2(dd), (ee), (ff) and (gg))

Q: Are there any special provisions that apply to real estate credit?

A: Two basic points:

1. In many cases, you do not have to show the total dollar amount of the finance charge on a credit sale or first mortgage loan to finance the purchase of the customer's dwelling. (Reg. Z/226.8(c)(8) and (d)(3); 226.808)
2. In many instances, your customer has the right to cancel a credit arrangement within three business days if his residence is used as collateral for credit. (Reg. Z/226.9)

Q: Must a creditor inform his customer of the right to cancel?

A: Yes. He must furnish the Notice prescribed by the Regulation. (Reg. Z/226.9(b))

Q: What must the customer do to cancel a real estate transaction under the Regulation?

A: A customer may cancel a transaction

1. by signing and dating the Notice to customer required by Federal law, which he receives from the creditor, *and* either
 - (a) mailing the Notice to the creditor at the address shown on the Notice,
 - (b) delivering the Notice to the creditor at the address shown on the Notice either personally or by messenger (or by other agents).
- or* 2. by sending a telegram to the creditor at the address shown on the Notice. A brief description of the transaction which the customer wishes to cancel should be included in the telegram,
- or* 3. by preparing a letter (or other writing) which includes a brief description of the transaction which he wishes to cancel, *and* either
 - (a) mailing the letter (or other writing) to the creditor at the address shown on the Notice,
 - (b) delivering the letter (or other writing) to the creditor at the address shown on the Notice either personally or by messenger (or by other agents).



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

August 26, 1983

PAUL A. VOLCKER
CHAIRMAN

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

Dear Senator Boren:

Thank you for your letter of August 17 regarding concerns your constituents expressed relating to the Board's proposal to amend Regulation Y, its regulation governing bank holding companies. Specifically, they express concerns about the proposed changes to the provisions of the regulation governing the redemption by a bank holding company of its own securities.

Currently, the Board's Regulation Y (12 CFR 225.6) requires a notice to the Board for any proposed redemption by a bank holding company of its own equity securities if the consideration paid for the shares exceeds 10 percent of the net worth of the bank holding company. The Board reviews the notice to determine whether the redemption would adversely affect the safety or soundness of the organization. Under the proposed amendments to Regulation Y, no notice would be required for any redemption if, after the redemption, the bank holding company meets the standards for adequate capitalization established by the Board of Governors and the Comptroller of the Currency. The Board generally regards these standards as the minimum for safe and sound operation of banking organizations.

The proposal also allows a bank holding company to make redemption of its stock without regard to these capital standards under two additional circumstances. First, a company may make de minimis redemptions equal to one percent of its net worth in any 12 month period. Second, a company may apply to the Board for its approval to make redemptions in unusual circumstances. In considering those requests, it is contemplated that the Board would consider the overall effects of the proposed redemption on the capitalization of the bank holding company.

The proposed revision of the redemption provisions emphasizes that the Board's primary concern with such redemptions is the effect they have on bank holding company capitalization. In a redemption situation, the holding company's capital is reduced through the retirement of its capital stock and, in many cases, this reduction in capital is accompanied by a corresponding increase in the indebtedness of

the holding company to finance the redemption. In other words, in many cases, a redemption involves the substitution of debt for capital in the bank holding company. Under the proposal, the ability to make redemptions that reduce the holding company's capital and increase its indebtedness is made contingent upon the bank holding company satisfying the interagency capital standards. The proposal is premised upon the belief that a reduction in a bank holding company's capital may not be consistent with safe and sound banking practice where the holding company's capital will be below the minimum capital standards established by the Board and the Comptroller of the Currency.

The Board has received numerous comments on the proposed amendment, primarily from small banking organizations. The main thrust of the comments is directed to the fairness of the proposed provision that no redemption be permitted without prior approval where the bank holding company has a debt-to-equity ratio in excess of 30 percent following the redemption. The comments have raised concern that application of the Board's capital standards in a redemption situation will seriously limit the transferability of small banking organizations.

While the Board is concerned with adequate capitalization of bank holding companies, the Board has also recognized the unique function of small one-bank holding companies in facilitating the transfer of ownership of small banking organizations. (Policy Statement on Assessment of Financial Factors of One-Bank Holding Companies, March 28, 1980.) Because of this concern, the Board has, in proposals involving the ownership of small banking organizations, permitted liberal debt-to-equity ratios substantially in excess of the 30 percent level on the basis that the bank holding company would direct its efforts to reducing its debt-to-equity ratio over a relatively short time span in order that its improved debt capacity will allow it to serve as a source of strength should the subsidiary bank require assistance.

The Board's staff is reviewing modifications to the proposed stock redemption proposal in light of the Board's previously stated policy regarding the transfer of ownership of small banking organizations and the Board's concerns with the capital adequacy of the nation's banks. I appreciate having your constituents' views, and their concerns will be presented to the Board when it takes action on the proposal. I will be happy to let you know when the Board reaches a final decision on the matter.

Sincerely,

S. Paul

(VM:)CO:pjt (#V-172)
bcc: Mrs. Mallardi (2)

DAVID BOREN
OKLAHOMA

WASHINGTON OFFICE:
RUSSELL BUILDING
WASHINGTON, D.C. 20510

STATE OFFICES:
621 NORTH ROBINSON
OKLAHOMA CITY, OKLAHOMA 73102
440 SOUTH HOUSTON
TULSA, OKLAHOMA 74127
MUNICIPAL BUILDING
SEMINOLE, OKLAHOMA 74868

MEMBER:
COMMITTEE ON FINANCE
COMMITTEE ON AGRICULTURE,
NUTRITION AND FORESTRY
COMMITTEE ON SMALL BUSINESS

United States Senate

WASHINGTON, D.C. 20510

August 17, 1983

#172

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1983 AUG 19 AM 9:34
RECEIVED
OFFICE OF THE CHAIRMAN

Mr. Paul A. Volcker
Chairman, Board of Governors of the
Federal Reserve System
Constitution & 21st St.
Washington, D.C. 20551

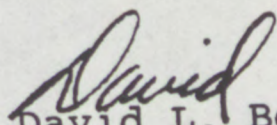
Dear Paul:

I have received comments from some smaller banks in Oklahoma regarding the updating of Regulation Y by the Federal Reserve Board.

More specifically, their concern is that proposed Treasury stock notification changes will eliminate the use of stock redemption as a vehicle for ownership changes. Apparently, these changes will have a disproportionate impact on small bank holding companies.

I look forward to receiving your comments on this issue. Thank you for your assistance.

Sincerely,


David L. Boren
U.S. Senator

DLB:dba



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

August 26, 1983

PAUL A. VOLCKER
CHAIRMAN

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

Dear Mr. Frenzel:

Thank you for your letter of August 17 regarding the Board's proposal to amend Regulation Y, its regulation governing bank holding companies. Specifically, you express concern about the proposed changes to the provisions of the regulation governing the redemption by a bank holding company of its own securities.

Currently, the Board's Regulation Y (12 CFR 225.6) requires a notice to the Board for any proposed redemption by a bank holding company of its own equity securities if the consideration paid for the shares exceeds 10 percent of the net worth of the bank holding company. The Board reviews the notice to determine whether the redemption would adversely affect the safety or soundness of the organization. Under the proposed amendments to Regulation Y, no notice would be required for any redemption if, after the redemption, the bank holding company meets the standards for adequate capitalization established by the Board of Governors and the Comptroller of the Currency. The Board generally regards these standards as the minimum for safe and sound operation of banking organizations.

The proposal also allows a bank holding company to make redemption of its stock without regard to these capital standards under two additional circumstances. First, a company may make de minimis redemptions equal to one percent of its net worth in any 12 month period. Second, a company may apply to the Board for its approval to make redemptions in unusual circumstances. In considering those requests, it is contemplated that the Board would consider the overall effects of the proposed redemption on the capitalization of the bank holding company.

The proposed revision of the redemption provisions emphasizes that the Board's primary concern with such redemptions is the effect they have on bank holding company capitalization. In a redemption situation, the holding company's capital is reduced through the retirement of its capital stock and, in many cases, this reduction in capital is accompanied by a corresponding increase in the indebtedness of

The Honorable Bill Frenzel
Page Two

the holding company to finance the redemption. In other words, in many cases, a redemption involves the substitution of debt for capital in the bank holding company. Under the proposal, the ability to make redemptions that reduce the holding company's capital and increase its indebtedness is made contingent upon the bank holding company satisfying the interagency capital standards. The proposal is premised upon the belief that a reduction in a bank holding company's capital may not be consistent with safe and sound banking practice where the holding company's capital will be below the minimum capital standards established by the Board and the Comptroller of the Currency.

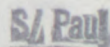
The Board has received numerous comments on the proposed amendment, primarily from small banking organizations. The main thrust of the comments is directed to the fairness of the proposed provision that no redemption be permitted without prior approval where the bank holding company has a debt-to-equity ratio in excess of 30 percent following the redemption. The comments have raised concern that application of the Board's capital standards in a redemption situation will seriously limit the transferability of small banking organizations.

While the Board is concerned with adequate capitalization of bank holding companies, the Board has also recognized the unique function of small one-bank holding companies in facilitating the transfer of ownership of small banking organizations. (Policy Statement on Assessment of Financial Factors of One-Bank Holding Companies, March 28, 1980.) Because of this concern, the Board has, in proposals involving the ownership of small banking organizations, permitted liberal debt-to-equity ratios substantially in excess of the 30 percent level on the basis that the bank holding company would direct its efforts to reducing its debt-to-equity ratio over a relatively short time span in order that its improved debt capacity will allow it to serve as a source of strength should the subsidiary bank require assistance.

The Board's staff is reviewing modifications to the proposed stock redemption proposal in light of the Board's previously stated policy regarding the transfer of ownership of small banking organizations and the Board's concerns with the capital adequacy of the nation's banks. I appreciate having your views, and your concerns will be presented to the Board when it takes action on the proposal. I will be happy to let you know when the Board reaches a final decision on the matter.

Sincerely,

(VM):CO:pjt (V-177)
bcc: Mrs. Mallardi (2)

S. Paul

BILL FRENZEL
THIRD DISTRICT, MINNESOTA

WASHINGTON OFFICE
1626 LONGWORTH BUILDING
202-225-2871

Congress of the United States
House of Representatives

Washington, D.C. 20515

August 17, 1983

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

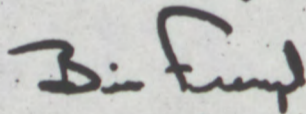
Dear Mr. Chairman:

I am writing to express my opposition to the Federal Reserve's proposed amendments to Section 225.41 of Regulation Y, which implements the Bank Holding Company Act.

These proposals would clearly hurt private and family owned banks, making it almost impossible for a small, one-bank holding company to redeem its own stock. I question the necessity of these revisions, and hope they will not be approved. In my judgment, the current rules, allowing a holding company to redeem its own stock with a 45-day prior notice, are sufficient.

Enough changes are already shaking up the banking system, especially the small independents. Let's not add burdens that are not needed.

Yours very truly,



Bill Frenzel
Member of Congress

BF:pd

MINNESOTA OFFICE
MAYBETH CHRISTENSEN
Room 345
8120 PENN AVENUE SOUTH
BLOOMINGTON, MINNESOTA 55431
612-881-4600

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1983 AUG 23 AM 11:32
RECEIVED
OFFICE OF THE CHAIRMAN

#177

//

SOCIAL ENGAGEMENTS -- IMF MEETINGS

Friday, September 23

6:30 - G-Five Meeting & Dinner (stag)

Saturday, September 24

G-Ten Meeting

5-8 Cocktail Buffet - Goldman Sachs, F Street Club

8:30 G-Five Dinner (stag)

Sunday, September 25

12:00-2:00 ^{Interim Committee} Luncheon - Continental Illinois National Bank, Shoreham, Palladian Room

3:00 Per Jacobson Lecture

12:30 Mrs. Volcker - Luncheon - Mrs. Clausen & Mrs. de Larosiere @ F St. Club

5-7 Reception - Cleary, Gottlieb, Steen & Hamilton (for Pres. Asian Development Bank), Atrium

5:30-7:30 Reception - Euro-clear Clearance System Public Limited Co., Four Seasons Hotel

6-8:30 Reception - Istituto Mobiliare Italiano, Metropolitan Club

8:00 Dinner - Peg & Don Platten, Department of State

8:00 on Reception & Buffet Supper, Morgan Stanley, Corcoran Gallery of Art

Monday, September 26, 1983

- 12;00-3;00 Reception & Buffet Luncheon - Manufacturers Hanover Trust - Washington Hilton
- 5;30-7;30 Reception - Amsterdam-Rotterdam Bank, Woodrow Wilson House, 2340 S St.
- 6;00-8;00 Reception - Brown Brothers Harriman & Co. - Shoreham Hotel, Diplomat Room
- 8;00 Black tie Dinner - Bank of America, City Tavern Club, 3206 M St. NW (Prussia)
- 7;30 Reception & Dinner - Citibank, Meridian House, 1630 Crescent Place, NW (Wriston)
- 8;30 Black tie dinner - Lewis Preston, Morgan Bank, 2900 N St. N.W.

Tuesday, September 27

- 12;15 Luncheon (PAV) - Merrill Lynch Capital Markets - Shoreham, Ambassador Room
- 12;00 (PAV) - Luncheon - Brasilinvest, Shoreham Hotel, Regency Ballroom
- 1:00 (PAV) - Luncheon - Delegations from Western Hemisphere Countires, Shoreham, Blue Rm
- 5;30-8;00 Reception - Northern Trust Corp., F Street Club
- 5-7;30 Reception - Credit Suisse First Boston Ltdl, 3327 P St. NW
- 5;30-7;30 Reception - ABECOR - Madison Hotel, Dolley Madison Ballroom
- 6;00-8;00 Reception - First National Bank of Chicago, Corcoran Gallery
- 6;00-8;00 Reception - Federal National Mortgage Association, 3900 Wisconsin Avenue
- 6;30-9;30 Reception - American Express, Meridian House
- 7;00-8;00 Cocktails & Dinner - Merrill Lynch, Capitol Building
- 8;00-8;30 Reception & Dinner - Mr. & Mrs. Clausen & Mr. & Mrs. de Larosiere, Shoreham

Wednesday, September 28, 1983

- 12:00 N Luncheon (PAV) - First Chicago, Ritz-Carlton Hotel, Chesapeake Room
- 6-8 Joint Fed-Treasury Reception, National Gallery
- 6-8 Reception - National Bank of Abu Dhabi & Abu Dhabi Int. Bank, Sheraton Carlton
- 7-9 Reception - Gulf International Bank, Shoreham, Diplomat Room
- 5:30-8 Reception - Industrial Bank of Japan, Madison, Dolley Madison Salon
Dinner - Salomon Brothers (Herny Kaufman) City Tavern Club
- 6-10:00 Cocktail-Bufferet - Merrill Lynch - The Foundry

Thursday, September 29

- 5:30-7:30 Reception - Mr. Watanabe, Bank of Tokyo, Madison, Dolley Madison Ballroom

August 26, 1983

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

Dear Mr. Patman:

With regard to your letter of August 16, while I am glad to characterize the few conversations I had with members of the public in reference to the IMF legislation, I do not believe it would be appropriate to identify the particular people involved. All four people with whom I specifically recall discussing the approaching vote on the IMF legislation were individuals that I had reason to believe were themselves interested in the strength and stability of that institution and appreciated the importance of certain of the policy issues or questions that had been raised in Congressional debate. One of those persons is a former senior Federal Reserve official; one was a small banker with whom I am acquainted; the others had financial experience.

In each case, I simply called to the attention of the person involved the fact that action on the legislation was approaching and reviewed some of the Congressional concerns or questions that had been expressed to me. In that context, I indicated that members of the Congress might be interested in knowing of their response to the questions that had been raised with me. As I hope this makes apparent, no systematic effort was made and I initiated no effort to "follow up" with those contacts.

As to your substantive question, the issue is not the attractiveness of apartheid or communism--they plainly are not--but rather the most suitable forums for dealing with these very legitimate concerns. As elaborated in some earlier correspondence which I've enclosed, I do not believe that the IMF would be an appropriate or especially productive forum for pursuing essentially political issues.

Sincerely,

S/Paul A. Volcker

Enclosures

PAV:NMS:pjt (#V-170)
bcc: Mrs. Mallardi (2)

(Enclosures: Ltr. dtd. 5/6/83 to Chrmn. St Germain from Chrmn. Volcker on SDR and ltr. dtd. 5/25/83 to Chrmn. Hatfield from Chrmn. K Volcker.)

BILL PATMAN
14TH DISTRICT, TEXAS

Action assigned Neal Soss

1408 LONGWORTH BUILDING
WASHINGTON, D.C. 20515
(202) 225-2831

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

August 16, 1983

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

#170

P.O. DRAWER A
GALVESTON, TEXAS 77962
(409) 762-3300
AUG 18 AM 9:46
RECEIVED
OFFICE OF THE CHAIRMAN
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Dear Chairman Volcker:

Thank you for your August 11 letter correcting the record concerning your testimony before the Subcommittee on Domestic Monetary Policy on August 3.

Your correction, stating that you later recalled three conversations resulting from getting in touch with members of the public in Representatives' districts to influence the Representative to vote for the IMF bill, confirms that you had four such conversations. You had testified that you had talked to only one private person about that matter.

I appreciate your providing this additional information, and I will provide a copy of your letter to the Subcommittee Chairman, the Honorable Walter E. Fauntroy, so the record can be corrected.

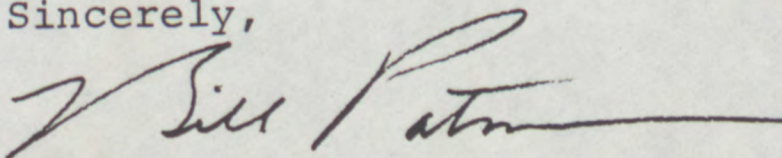
Meanwhile, my office has received several telephone calls asking which Representatives' districts were involved in your calls and what persons you asked to contact those Representatives. I also would like to have that information and, therefore, request your kind cooperation in providing it to me at your earliest convenience.

As you know, I remain deeply disturbed about the potential impact of the \$8.4 billion proposed additional U. S. commitment to the IMF. My concerns are about the effect that this diversion of funds from the U. S. money supply may have on interest rates in this country, the \$8.4 billion increase in our national deficit (even though this is an off-budget commitment), and the potential for increasing inflation because of the restricted availability of funds for domestic lending.

A final question, to which I would appreciate your response: do you support the amendments to deny IMF loans to countries practicing apartheid and to countries under Communist government control?

I look forward to hearing from you in the near future.

Sincerely,



WNP:bb



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

August 24, 1983

PAUL A. VOLCKER
CHAIRMAN

The Honorable Tony Coelho
House of Representatives
Washington, D.C. 20515

Dear Mr. Coelho:

Thank you for your letter dated August 5 regarding a proposed agricultural credit corporation to be affiliated with Pacific Valley National Bank of Modesto, Modesto, California ("Pacific Valley"), and PV Financial, Modesto, California.

It is my understanding that in April 1983, Pacific Valley contacted the Comptroller of the Currency concerning the permissibility of its investment in an agricultural credit corporation under section 24(7) of the National Bank Act, 12 U.S.C. § 24(7). The permissibility of this investment is subject to the Comptroller's determination and is pending before the Comptroller.

As a separate matter, by letter dated June 16, 1983, PV Financial requested that the Board exempt transactions between Pacific Valley and the agricultural credit corporation from the collateral and lending requirements of section 23A of the Federal Reserve Act, 12 U.S.C. § 371c.

Section 23A is designed to protect banks from abuse in financial transactions with entities with which they are affiliated. Section 23A imposes collateral requirements and lending restrictions on such transactions in order to protect the bank and its depositors from losses that might result from "non-arm's length" transactions between the bank and its affiliate.

Prior to the passage of the Banking Affiliates Act of 1982, ("Act"), section 23A did not apply to affiliates engaged solely in the business of an agricultural credit corporation. In 1982, Congress eliminated this exemption when it passed the Act as part of the Garn-St Germain Depository Institutions Act.

Although Congress eliminated the specific exemption for agricultural credit corporations, Congress generally authorized the Board to exempt specific transactions or relationships from the Act if the exemption would be in the public interest and consistent with the purposes of section 23A.

The Honorable Tony Coelho
Page Two

PV Financial has requested an exemption, and I am informed that the Board staff is currently preparing to submit PV Financial's request to the Board for its consideration. In preparing PV Financial's request for an exemption, Board staff is examining the history and supervisory aspects of transactions between banks and agricultural credit corporations to determine whether an exemption would create any concern.

I appreciate receiving your views on this matter, and your concerns will be presented to the Board when it takes action on this proposal in the near future. I will be happy to let you know when the Board reaches a final decision on the matter.

Sincerely, .

S/Paul A. Volcker

PGN:CO:NS:pjt (#V-164)
bcc: Ms. Mardolilli
Mrs. Mallardi (2)
Legal Records (2)

Action assigned Mr. Bradford

COMMITTEE ON AGRICULTURE

SUBCOMMITTEES:

- COTTON, RICE AND SUGAR
- LIVESTOCK, DAIRY AND POULTRY
- DOMESTIC MARKETING, CONSUMER RELATIONS AND NUTRITION

COMMITTEE ON INTERIOR AND INSULAR AFFAIRS

SUBCOMMITTEES:

- WATER AND POWER RESOURCES
- OVERSIGHT AND INVESTIGATIONS

MAJORITY WHIP-AT-LARGE

DEMOCRATIC STEERING AND POLICY COMMITTEE

TONY COELHO
15TH DISTRICT, CALIFORNIA



#164

216 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-6131

DISTRICT OFFICES:

FEDERAL BUILDING
1130 O STREET, ROOM 2001
FRESNO, CALIFORNIA 93721
(209) 487-5004

FEDERAL BUILDING
415 WEST 18TH STREET
MERCED, CALIFORNIA 95340
(209) 383-4455

FEDERAL BUILDING
1125 I STREET
MODESTO, CALIFORNIA 95354
(209) 327-5000

RECEIVED
OFFICE OF THE CHAIRMAN
AUG 11 AM 8:56
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Congress of the United States

House of Representatives

Washington, D.C. 20515

August 5, 1983

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

Dear Mr. Volcker:

I am writing to bring your attention to a case now pending with the Federal Reserve Board and the Comptroller of the Currency.

Pacific Valley National Bank of Modesto, California has submitted a proposal for a Agricultural Credit Corporation. The original application was dated April 1983.

It seems that no decision on this case has been made, because the legal staffs of both agencies are having difficulty in developing the legislative history, from which a policy decision can be made. While I realize that there are many other things which your people are concerned about, I would think that four months should be adequate time to research this case, even though this is a precedent setting matter.

The contact person in the Federal Reserve is Pam Nardolilli at 202/452-3289, and in the Comptroller's office, the case is being handled by Suzanne L'Hernault at 202/447-1942. As requested by Ms. L'Hernault, both my office, and the office of Senator Pete Wilson have made requests for copies of the related legislation, and will be forwarding that on to her.

I would appreciate your consideration of this matter, and I urge that some action be taken as soon as possible. Agribusiness is the lifeblood of many Californians, and the approval of Pacific Valley National Bank's proposal will be of great benefit to many of our citizens.

Thank you for your assistance. I look forward to your reply.

Sincerely,

T. Coelho

TONY COELHO
MEMBER OF CONGRESS

LAW OFFICES
ROSENBLUM, PARISH & BACIGALUPI
PROFESSIONAL CORPORATION

JERALD E. ROSENBLUM
VICTOR J. BACIGALUPI
JEFFREY J. PARISH
HENRY P. WINETSKY
JOHN E. MCINERNEY III
JOSEPH G. MASON
ROBERT L. GORMAN
BRADFORD N. DEWAN
JANE E. ROSS
RICHARD S. SOROKO
THOMAS M. DUFFY
STEPHEN M. WURZBURG
STUART D. SCHEINHOLTZ
GLENN E. WESTREICH
THOMAS N. MAKRIIS
WAYNE L. BENDER
JEFFREY M. SULENSKI

TENTH FLOOR
114 SANSOME STREET
SAN FRANCISCO, CALIF. 94104
(415) 421-8232
TELECOPY (415) 397-5383
TELEX 278319RRPB

SEVENTH FLOOR
85 ALMADEN BOULEVARD
SAN JOSE, CALIF. 95113
(408) 977-0120
TELECOPY (408) 977-0129

OF COUNSEL
RONALD L. LUDWIG
THOMAS SCHNECK
JOHN E. CURTIS JR.

PLEASE REPLY TO:
San Francisco

June 16, 1983

COPY

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

Attention: Mr. William W. Wiles
Secretary

Re: PV Financial (Modesto, California)
Proposed Agricultural Credit Corporation

Dear Mr. Wiles:

We represent PV Financial, a California corporation and bank holding company registered with the Board of Governors under the Bank Holding Company Act of 1956, as amended. PV Financial owns all of the issued and outstanding capital stock of Pacific Valley National Bank, Modesto, California (the "Bank"). This letter is in regard to Section 23A of the Federal Reserve Act.

Background

PV Financial was incorporated on February 2, 1982, to coordinate and direct the activities necessary to organize the Bank. Following a public offering of 800,000 shares of the Common Stock of PV Financial, the Bank commenced operations on November 1, 1982. Enclosed herewith is the PV Financial Prospectus dated July 29, 1982 and its 1982 Annual Report. The Bank offers a full range of commercial banking services, with emphasis on business customers involved in food production and agriculture.

The Bank's primary service area consists of the City of Modesto, California, and the balance of Stanislaus County, the southern areas of San Joaquin County and the northern areas of Merced County. The leading commodities produced in Stanislaus County are milk, chickens and eggs, almonds, walnuts, cattle and calves, peaches, grapes, silage, and tomatoes. One of the leading producers of wines in

Board of Governors of the
Federal Reserve System
June 16, 1983
Page Two

the world, Gallo Winery, is located in Stanislaus County and in 1982 the County had a total of 20,416 acres producing grapes. Figures published by the Stanislaus County Department of Agriculture indicate that Stanislaus County had total agricultural production valued at \$746,105,400 in 1982. The value of all agricultural production in California in 1981 was \$15,858,209,000, of which the Counties of Merced, San Joaquin and Stanislaus accounted for \$2,286,850,000. As these figures indicate, agriculture is a major economic activity in the Bank's service area.

The Chief Executive Officer of PV Financial and the Bank is Robert J. Cardoza. Mr. Cardoza was formerly President and Chief Executive Officer of the Modesto Production Credit Association, a position he held since 1972, and from 1968 to 1972 he served as Assistant General Manager of the Merced Production Credit Association. The Modesto Production Credit Association is one of the largest of such associations in the United States. Mr. Cardoza has had extensive agricultural lending experience.

Other members of the Board of Directors of PV Financial have substantial experience in agriculture related enterprises. We refer you to pages 18-20 of the Prospectus dated July 29, 1982 for a description of this experience. One Director, E. Brice Draper, is Vice Chairman of the Board of Directors of Tri-Valley Growers, the largest canning and marketing cooperative in the State of California. Another of the Directors, Mr. Clare L. Berryhill, is the current Director of Food and Agriculture for the California State Department of Agriculture.

The net proceeds to PV Financial from the sale of its Common Stock were approximately \$7,950,000, of which \$5,000,000 was used to purchase 500,000 shares of the \$5.00 par value stock of the Bank. The balance was reserved for other activities, including the possibility of an investment in an agricultural credit corporation.

Agricultural Credit Corporation

PV Financial proposes to organize a California corporation named "Valley Ag Credit Corporation" (the "Corporation") to make loans to farmers and ranchers for agricultural purposes, including the breeding, raising, fattening and marketing of livestock. Such loans would be

Board of Governors of the
Federal Reserve System
June 16, 1983
Page Three

originated by the Bank and sold to the Corporation or originated by the Corporation itself. The Corporation would engage in no other business. The offices of the Corporation would be located at 1302 "J" Street, Modesto, California, the same location as PV Financial and the Bank, and officers of PV Financial would also serve as officers of the Corporation.

The Corporation is expected to establish a discount relationship with the Federal Intermediate Credit Bank of Sacramento (the "FICB") whereby funding would be provided to the Corporation through the discount or sale of individual loans or by direct loans to the Corporation pursuant to procedures prescribed by the FICB. In order to qualify for FICB funding, the Corporation will be required to maintain the quality of its loan portfolio to meet FICB standards. It is expected that loans originated by the Bank and sold to the Corporation would be transferred without recourse. Mr. Cardoza has met with FICB officials regarding the establishment of a discount relationship and those discussions are continuing. PV Financial intends to proceed with a formal application in the near future, and the FICB is expected to find the Corporation eligible to utilize its services. To obtain information on the FICB funding program, as necessary, we would suggest that you contact Mr. George M. Anderson, President of the FICB, at (916) 485-6140.

We refer to Application of Otto Bremer Co., Docket No. BHC-58, January 12, 1961 (CCH Banking Law Reporter, 1960-1966, ¶93,220), a copy of which is enclosed, for an example of an agricultural credit corporation organized by a registered bank holding company. There are business reasons why the Bank does not propose to discount directly with the FICB, some of which are also covered in the Otto Bremer matter.

The Bank has agricultural loan demand exceeding its capacity, and creation of the Corporation is expected to be more effective in responding to such demand than would a one-time addition of capital to the Bank. The lending limit for loans discounted with the FICB in relation to any one customer would be 50% of the Corporation's capital and surplus, and the ratio of total liabilities of the Corporation (including the line of credit established with the

Board of Governors of the
Federal Reserve System
June 16, 1983
Page Four

FICB initially) to net worth of the Corporation would be allowed to at least seven-to-one. Neither PV Financial nor the Bank will be required to guarantee the Corporation's obligations to the FICB.

Bank Holding Company Act

The purchase by PV Financial of shares in an agricultural credit corporation is permissible under Section 4(c)(5) of the Bank Holding Company Act, as such an investment is authorized for national banking associations under the provisions of Section 5136 of the Revised Statutes (12 USC 24). In addition, Section 4(c)(1) of the Bank Holding Company Act permits the acquisition of shares of any company engaged or to be engaged solely in furnishing services to or performing services for the bank holding company or its banking subsidiaries. The Corporation would act as an adjunct to the Bank for the purpose of facilitating the Bank's operations. We refer to the Board of Governors interpretation at 4-196 of the Federal Reserve Regulatory Service, Volume I (1967 Fed. Res. Bull. 1911; 12 CFR 225.122). Thus, based on Sections 4(c)(1) and 4(c)(5), PV Financial would not be required to make application to the Board of Governors for permission to acquire shares of the Corporation.

As already indicated, the Chief Executive Officer of PV Financial, and the person with the most FICB agricultural lending experience, is Robert J. Cardoza. Although Mr. Cardoza is also Chief Executive Officer of the Bank, the President and Chief Operating Officer of the Bank is Raymon R. Rhode. Mr. Rhode is also a director of the Bank but is not a director of PV Financial. Overall coordination of the Corporation's relationship with the FICB, and administration of the Corporation's loan portfolio, will be under the control of PV Financial.

In terms of the accounting treatment of the Corporation's loan portfolio, there are advantages to consolidating the Corporation as a subsidiary of PV Financial rather than as a subsidiary of the Bank. Whereas the Bank is in the business of gathering deposits and then employing those funds to make loans, the Corporation will have no deposits to match the loans being discounted with the FICB. Consequently, a consolidation of the Corporation with the Bank would tend to distort the call reports and other financial statements of the Bank. PV Financial would not have this problem.

Board of Governors of the
Federal Reserve System
June 16, 1983
Page Five

This proposed investment has been discussed with Mr. Harry W. Green, Vice President, Bank Holding Company and International Regulation, Federal Reserve Bank of San Francisco (telephone 415-974-2235). Also, the legal aspects have been discussed with Mr. William L. Cooper, Associate General Counsel, Federal Reserve Bank of San Francisco (telephone 415-974-2254). They are being provided copies of this letter.

12 USC 24

It is contemplated that the Bank would also purchase shares of stock issued by the Corporation, pursuant to the authority contained in 12 USC 24 Seventh. Further, the Bank expects that it would own at least 80% of the total dollar amount of the capital stock of the Corporation. Nevertheless, stock purchased by the Bank would be of such a type or class that PV Financial rather than the Bank would hold control of the Corporation. The business reasons for structuring the Corporation as a subsidiary of PV Financial have been mentioned above.

Paragraph Seventh of 12 USC 24 authorizes a national banking association to purchase for its own account "shares of stock" issued by an agricultural credit corporation. It further provides that unless the association owns at least 80% of the stock, the amount invested by the association is limited to 20% of the unimpaired capital and surplus of the association. No distinction between voting and non-voting stock is expressed. In the absence of such a distinction, we are of the view that "stock" in the context of an agricultural credit corporation means any type of capital stock, whether common, preferred, voting or non-voting. We have requested confirmation of this view from the Comptroller of the Currency, and our request is now pending. Copies of this letter are also being sent to Mr. Frank Rath in the Comptroller's Washington, D.C. office (telephone 202-447-1880) and Mr. Joe Pogar in the Comptroller's San Francisco Office (telephone 415-974-8593).

Section 23A of the Federal Reserve Act

Regarding the Federal Reserve Act, we are concerned that the Bank's proposed purchase of stock not be construed as a "covered transaction" within the meaning of Paragraph (b)(7) of Section 23A, i.e. "a purchase of or an investment in securities issued by the affiliate". Prior to enactment of the Garn-St. Germain Depository Institutions

Act of 1982, an agricultural credit corporation was expressly excluded from the definition of "affiliate". Paragraph (b)(2) no longer contains such a reference. However, we believe the proposed agricultural credit corporation is still outside the coverage of Section 23A, for the following reasons:

- (1) Paragraph (d) of Section 23A exempts certain transactions from the restrictions in Paragraph (a). One such category is the purchase of securities issued by any company of the kinds described in Section 4(c)(1) of the Bank Holding Company Act of 1956. Among the companies described in Section 4(c)(1) are companies that furnish services to or perform services for the bank holding company or its banking subsidiaries. The Corporation will be such a company, as already described above.
- (2) The 10 and 20 percent restrictions in Paragraph (a) of Section 23A, when read in conjunction with Paragraph (b)(7)(B), appear to place a limit on the amount of agricultural credit corporation stock that may be purchased by a member bank. However, Paragraph Seventh of 12 USC 24 already deals with this specific type of investment. There it is provided that a 20 percent limit would apply unless the national bank owns 80 percent or more of the corporation's stock, in which case there is no limit. Since 12 USC 24 deals with the specific subject, its provisions should control over the more general coverage of Section 23A. We believe the Board of Governors has generally followed such an approach in reference to statutory subsidiaries; for example, in regard to premises holding companies and the overlap of 12 USC 371d and Section 23A, see 12 CFR 250.200 and 12 CFR 225.101, and in regard to small business investment companies see 12 CFR 225.111 (although agricultural credit corporations may also qualify as small business investment companies, national banks may disregard the investment limitations of 15 USC 682(b) in the case of agricultural credit corporations; see Comptroller of the Currency, Staff Interpretive Letter, February 10, 1981, cited at Section 33.05 of Volume 2, Banking Law, Whitley, Schlichting, Rice and Cooper, published by Matthew Bender).

Board of Governors of the
Federal Reserve System
June 16, 1983
Page Seven

We respectfully request your confirmation that the proposed investment is outside the coverage of Section 23A. If the Board of Governors is unable to agree, we respectfully request an order of the Board of Governors exempting this transaction from such requirements. We believe an exemption would be in the public interest and consistent with the purposes of Section 23A, as provided in paragraph (e) (2) of Section 23A.

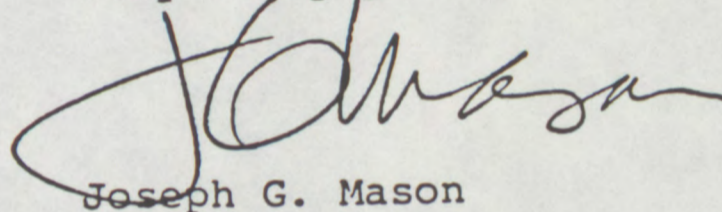
The principal purpose of Section 23A is to safeguard the resources of a bank against misuse for the benefit of organizations under common control with the bank. It was designed to prevent a bank from risking too large an amount in affiliated enterprises, and to assure that extensions of credit to affiliates will be repaid. In the case at hand, such concerns are not warranted. The FICB will provide funds to the Corporation by discounting or purchasing individual loans or by direct loan to the Corporation pursuant to procedures prescribed by the FICB. All loans must be made for agricultural purposes, must meet FICB requirements, and must be of such character as to assure liquidation of the obligations within a reasonable time consistent with sound lending and agricultural practices. Loan documentation and credit analysis information required for each loan is prescribed by the FICB. The activities of the Corporation will be confined to making agricultural loans and discounting them with the FICB. More than 75% of the discounted loans are expected to be secured by collateral. The Bank's investment in the Corporation would represent an interest in loans meeting FICB quality standards which, in turn, meet or exceed the quality standards for loans made by the Bank and retained for its own account. Such an investment would not be a misuse of funds of the type which Section 23A is designed to prevent.

The proposed investment will promote the agricultural industry of the State of California and the farmers, ranchers and growers in the Bank's serving area by making more loans available to the industry than otherwise would be the case. PV Financial and the Bank can better serve the needs of the community, making possible increased productivity, without increasing the risk to the Bank. Accordingly, an exemption from Section 23A would be in the public interest.

Board of Governors of the
Federal Reserve System
June 16, 1983
Page Eight

If any further information would be helpful,
please do not hesitate to contact us.

Very truly yours,

A handwritten signature in dark ink, appearing to read "J. Mason", written over the typed name below.

Joseph G. Mason

JGM:dg
Enclosure

cc: Mr. Harry W. Green
Mr. William L. Cooper
Mr. Frank Rath
Mr. Joe Pogar
Mr. Robert J. Cardoza
Mr. Gary G. Butler

August 23, 1983

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

Dear Tom:

Thank you for your letter of August 9 outlining the concerns of your constituents about interest rates. The thrust of their complaints seems to be that interest rates at their present levels are too high to be consistent with sustained economic recovery, containment of foreign debt problems, and a healthy balance of trade.

Let me assure you that it is the objective of Federal Reserve policy to promote a sustained recovery consistent with containing inflation over the longer run. Such a recovery would, over time, do much to ameliorate the foreign debt problems and stimulate a healthier balance of trade. Some moderate fluctuations in short-term interest rates can be expected to occur in the course of such an expansion. Indeed, small increases in rates now may be the necessary price of steps to avoid renewed inflation. Such small increases may help to avoid sharper increases later on, rather than being a precursor of the rapid run-up in rates which tends to be associated with steps to contain an inflation that is already rampant.

In my view, the important elements contributing to the current high level of longer-term interest rates are fears that inflation will reaccelerate and concern about the implications of continuing huge federal budget deficits. Thus, successful economic policies that contain inflationary pressures even as the economy recovers will contribute importantly to a downtrend in long-term interest rates. Similarly, further congressional actions that reduce the structural imbalance between revenues and expenditures also will work toward lowering interest rates and creating an economic environment conducive to balanced growth over the longer run.

I hope these comments are useful to you and your constituents.

Sincerely,

S/ Paul

DJ:SL:MLK:mrk
(#V-163)

cc: D. Johnson, S. Lepper, J. Kichline
Mrs. Mallardi - 2



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

August 22, 1983

PAUL A. VOLCKER
CHAIRMAN

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

Dear Mr. Vento:

Thank you for your recent letter concerning the proposed revision of Regulation Y. Your letter urges the Board to delay, for a period of 90 days, action on those portions of Regulation Y that would broaden the definition of a commercial loan for purposes of determining whether an institution is a bank under the Bank Holding Company Act. You state that Board action on the Regulation Y proposal would be inconsistent with ongoing Congressional consideration of draft legislation that deals with the definition of the term bank.

The Board has indicated its support for the enactment of legislation that will address the issues raised by the acquisitions of "nonbank banks" by securities, insurance and other firms. To avoid preemption of Congressional discretion by a continuation of such acquisitions, the Board has forwarded for Congressional consideration draft legislation to halt temporarily new acquisitions of banks and thrifts by nondepository institutions. In addition, Congress now has before it, in the form of the Treasury's proposed Financial Institutions Deregulation Act of 1983, a comprehensive draft bill that addresses these and other fundamental issues. In view of the present confusion regarding the appropriate definition of the term bank and related issues, the Board hopes that Congress will act quickly on either the draft moratorium bill proposed by the Board or the draft Treasury bill which the Board has endorsed.

The Board's proposal to amend the bank definition in Regulation Y is merely one part of a complete revision of that regulation that has been in progress for some time. This revision was undertaken as part of the Board's general Regulatory Improvement Project, and has resulted in the receipt of several hundred comments from the public concerning all aspects of Regulation Y. As proposed by the Board, the revised Regulation Y would, among other things, significantly reduce the regulatory burden now placed on bank holding companies by streamlining the procedures that holding companies must follow before engaging in new activities.

The normal course of the Board's administration of the Bank Holding Company Act required the Board to address both the commercial loan and demand deposit portions of the bank definition in some detail during 1982. The Board's actions in this

The Honorable Bruce F. Vento
Page Two

respect were taken in the context of specific applications without any opportunity for public comment on the broader issues raised by those applications. The draft revision of the bank definition contained in Regulation Y represents a proposal to codify the positions previously taken by the Board. In the absence of such a rulemaking proceeding, there would have been no opportunity for public comment on these prior decisions. Thus, we believe that the proposed revision of Regulation Y provides a desirable opportunity for public participation where such participation might otherwise have been unavailable. In addition to the fact that the proposed bank definition is consistent with actions previously taken by the Board in individual cases, it is also consistent with the various legislative proposals now pending before Congress. As a general rule, any entity that would be a bank under the definition proposed by the Board also would be a bank under the proposed legislation mentioned above as well as under the FDIC's bill and the bill introduced by Chairman St Germain.

The Board's proposal to revise Regulation Y has been outstanding since late May and the period for public comment was only closed as of August 1. The Board, of course, will consider all comments received in deciding how to finalize the draft regulation, including those that you have submitted. Review of the comments received will take some time, and your letter will be considered by the Board when it acts on the final regulation. As is apparent, de facto the proposed change will not become effective--assuming the Board agrees to the proposal--until weeks after the Congress has returned from recess.

I appreciate receiving your views on this matter.

Sincerely,

S/Paul A. Volcker

VM:AFC:PAV:pjt (#V-138)
bcc: Mr. Mattingly
G.C. Log 188
Legal Files (2)
Mrs. Mallardi (2)

BRUCE F. VENTO
4TH DISTRICT, MINNESOTA

2433 RAYBURN 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

138

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

July 18, 1983

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1983 JUL 21 PM 12: 19
RECEIVED
OFFICE OF THE CHAIRMAN

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

Dear Mr. Chairman:

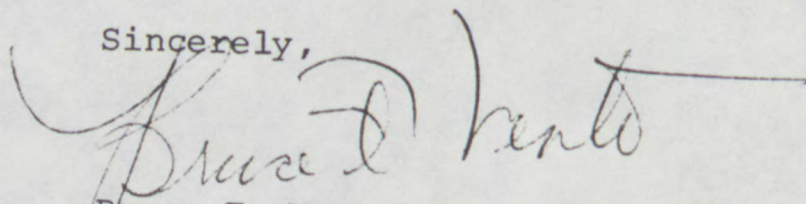
On May 20th, the Federal Reserve Board issued proposed regulations to substantially revise Regulation Y. I am concerned about these proposed changes for two reasons: first, the scope of the substantive change in the powers and policies of the Federal Reserve Board, and second, the effect of such changes on Congressional consideration of pending legislation.

The proposed revision of Regulation Y would substantially broaden the definition of a commercial loan. As you know, the definition of a commercial loan is of crucial importance in determining what a bank is and for engaging the Bank Holding Company Act of 1970. In addition, the proposed revision substantially modifies the powers of the Federal Reserve Board, the Comptroller of the Currency and the Federal Deposit Insurance Corporation. While these changes may have significant merit, they are of such a sweeping nature as to require closer Congressional examination.

There have been several pieces of legislation introduced recently which would provide for a moratorium or provide a substantial revision in the laws governing financial institutions. This legislation is receiving active consideration by Congress. Where this legislation and your proposed regulations concern the same subject, Congress, not the Federal Reserve Board, must establish the federal policy.

For these reasons I urge you to delay the implementation of the proposed changes in Regulation Y for 90 days to allow Congress to fully consider the issues involved and act on the pending legislation. I appreciate your consideration of my request.

Sincerely,


Bruce F. Vento
Member of Congress

BFV:ccj

cc: Preston Martin, Vice Chairman
Henry C. Wallich, Member
Lyle E. Gramley, Member
J. Charles Partee, Member
Nancy H. Teeters, Member
Emmett J. Rice, Member

August 22, 1983

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

Dear Senator Hawkins:

Thank you for your letter restating your views about the disposition of the stock warrants obtained by the U.S. government in the course of guaranteeing loans to the Chrysler Corporation.

As you may already be aware, the Loan Guarantee Board has agreed to sell the warrants, without modification of their terms, to the public through a process of competitive bidding. We expect several syndicates of investment bankers to submit bids for the warrants; Chrysler also is welcome to participate in this process, with the price it submits to be judged along with the others. The Board believes that this approach will maximize the returns to the taxpayer and thus will accomplish the objective stated in your letter.

I appreciate your interest in this matter.

Sincerely,

S/Paul A. Volcker

DK:EM:JLK:AFC:pjt (#V-166)
bcc: Mr. Kohn
Ms. Mallinson
Ms. Ray
Mrs. Mallardi (2)

JAKE GARN, UTAH, CHAIRMAN

JOHN TOWER, TEXAS
JOHN HEINZ, PENNSYLVANIA
WILLIAM L. ARMSTRONG, COLORADO
ALFONSE M. D'AMATO, NEW YORK
SLADE GORTON, WASHINGTON
PAULA HAWKINS, FLORIDA
MACK MATTINGLY, GEORGIA
CHIC HECHT, NEVADA
PAUL TRIBLE, VIRGINIA

WILLIAM PROXMIRE, WISCONSIN
ALAN CRANSTON, CALIFORNIA
DONALD W. RIEGLE, JR., MICHIGAN
PAUL S. SARBANES, MARYLAND
CHRISTOPHER J. DODD, CONNECTICUT
ALAN J. DIXON, ILLINOIS
JIM SASSER, TENNESSEE
FRANK R. LAUTENBERG, NEW JERSEY

M. DANNY WALL, STAFF DIRECTOR
KENNETH A. McLEAN, MINORITY STAFF DIRECTOR

United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, D.C. 20510

August 11, 1983

166

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1983 AUG 12 AM 9:18
RECEIVED
OFFICE OF THE CHAIRMAN

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

Dear Chairman Volcker:

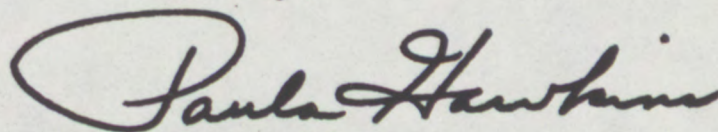
In view of recent announcements concerning the disposition of Chrysler warrants held by the federal government, I wanted to renew my request to you to use your voice and vote as a member of the Oversight Board to ensure that the taxpayers receive full market value for their investment.

From this perspective, it would be wrong to accede to suggestions to shorten the maturity date from 1990 or to sell the warrants back to Chrysler at a discount. Nor would similar ideas be agreed to if this transaction is conducted, as it should be, at an "arms length" basis.

Instead, I believe the federal government should sell the warrants on the open market. Or, if there is reason to believe a higher price will be achieved, these warrants should be sold to a major investment banking house.

My impression from the meeting we had in my office in early July, prior to your confirmation hearings, was that you shared this view and I trust our joint position will be agreed to by the other two Board members, too.

Sincerely,



Paula Hawkins
United States Senator

PH:ssh



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

August 22, 1983

PAUL A. VOLCKER
CHAIRMAN

The Honorable Quentin N. Burdick
United States Senate
Washington, D. C. 20510

Dear Senator Burdick:

Thank you for your letter of August 8 enclosing letters from your constituents regarding the Board's proposal to amend Regulation Y, its regulation governing bank holding companies. Specifically, your constituents express concern about the proposed changes to the provisions of the regulation governing the redemption by a bank holding company of its own securities.

Currently, the Board's Regulation Y (12 CFR 225.6) requires a notice to the Board for any proposed redemption by a bank holding company of its own equity securities if the consideration paid for the shares exceeds 10 percent of the net worth of the bank holding company. The Board reviews the notice to determine whether the redemption would adversely affect the safety or soundness of the organization. Under the proposed amendments to Regulation Y, no notice would be required for any redemption if, after the redemption, the bank holding company meets the standards for adequate capitalization established by the Board of Governors and the Comptroller of the Currency. The Board generally regards these standards as the minimum for safe and sound operation of banking organizations.

The proposal also allows a bank holding company to make redemption of its stock without regard to these capital standards under two additional circumstances. First, a company may make de minimis redemptions equal to one percent of its net worth in any 12 month period. Second, a company may apply to the Board for its approval to make redemptions in unusual circumstances. In considering those requests, it is contemplated that the Board would consider the overall effects of the proposed redemption on the capitalization of the bank holding company.

The proposed revision of the redemption provisions emphasizes that the Board's primary concern with such redemptions is the effect they have on bank holding company capitalization. In a redemption situation, the holding company's capital is reduced through the retirement of its capital stock and, in many cases, this reduction in capital is accompanied by a corresponding increase in the indebtedness of

The Honorable Quentin N. Burdick
Page Two

the holding company to finance the redemption. In other words, in many cases, a redemption involves the substitution of debt for capital in the bank holding company. Under the proposal, the ability to make redemptions that reduce the holding company's capital and increase its indebtedness is made contingent upon the bank holding company satisfying the interagency capital standards. The proposal is premised upon the belief that a reduction in a bank holding company's capital may not be consistent with safe and sound banking practice where the holding company's capital will be below the minimum capital standards established by the Board and the Comptroller of the Currency.

The Board has received numerous comments on the proposed amendment, primarily from small banking organizations. The main thrust of the comments is directed to the fairness of the proposed provision that no redemption be permitted without prior approval where the bank holding company has a debt-to-equity ratio in excess of 30 percent following the redemption. The comments have raised concern that application of the Board's capital standards in a redemption situation will seriously limit the transferability of small banking organizations.

While the Board is concerned with adequate capitalization of bank holding companies, the Board has also recognized the unique function of small one-bank holding companies in facilitating the transfer of ownership of small banking organizations. (Policy Statement on Assessment of Financial Factors of One-Bank Holding Companies, March 28, 1980.) Because of this concern, the Board has, in proposals involving the ownership of small banking organizations, permitted liberal debt-to-equity ratios substantially in excess of the 30 percent level on the basis that the bank holding company would direct its efforts to reducing its debt-to-equity ratio over a relatively short time span in order that its improved debt capacity will allow it to serve as a source of strength should the subsidiary bank require assistance.

The Board's staff is reviewing modifications to the proposed stock redemption proposal in light of the Board's previously stated policy regarding the transfer of ownership of small banking organizations and the Board's concerns with the capital adequacy of the nation's banks. I appreciate having your constituents' views, and their concerns will be presented to the Board when it takes action on the proposal. I will be happy to let you know when the Board reaches a final decision on the matter.

VM:vcd (#V-160)

bcc: Messrs. Mattingly &
Bradfield
Legal Files (2)
Mrs. Mallardi (2)

Sincerely,

S/Paul A. Volcker

QLO discussing with Legal

MARK O. HATFIELD, OREG., CHAIRMAN

TED STEVENS, ALASKA
LOWELL P. WEICKER, JR., CONN.
JAMES A. MC CLURE, IDAHO
PAUL LAXALT, NEV.
JAKE GARN, UTAH
THAD COCHRAN, MISS.
MARK ANDREWS, N. DAK.
JAMES ABDNOR, S. DAK.
ROBERT W. KASTEN, JR., WIS.
ALFONSE M. D'AMATO, N.Y.
MACK MATTINGLY, GA.
WARREN RUDMAN, N.H.
ARLEN SPECTER, PA.
PETE V. DOMENICI, N. MEX.

JOHN C. STENNIS, MISS.
ROBERT C. BYRD, W. VA.
WILLIAM PROXMIRE, WIS.
DANIEL K. INOUE, HAWAII
ERNEST F. HOLLINGS, S.C.
THOMAS F. EAGLETON, MO.
LAWTON CHILES, FLA.
J. BENNETT JOHNSTON, LA.
WALTER D. HUDDLESTON, KY.
QUENTIN N. BURDICK, N. DAK.
PATRICK J. LEAHY, VT.
JIM SASSER, TENN.
DENNIS DE CONCINI, ARIZ.
DALE BUMPERS, ARK.

J. KEITH KENNEDY, STAFF DIRECTOR
FRANCIS J. SULLIVAN, MINORITY STAFF DIRECTOR

United States Senate

COMMITTEE ON APPROPRIATIONS
WASHINGTON, D.C. 20510

#160

August 8, 1983

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1983 AUG - 9 PM 1:11
RECEIVED
OFFICE OF THE CHAIRMAN

Mr. Paul A. Volcker
Chairman
Board of Governors
Federal Reserve System
Constitution Avenue and 21st Street
Washington, D.C. 20551

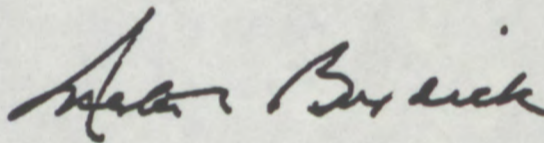
Dear Mr. Volcker:

Enclosed are copies of letters I have received from constituents of mine in North Dakota.

I thought you would be interested in their comments.

With kind regards, I am

Sincerely,



Quentin N. Burdick

QNB:spc

Enclosures

SECURITY STATE BANK

OF ROBINSON

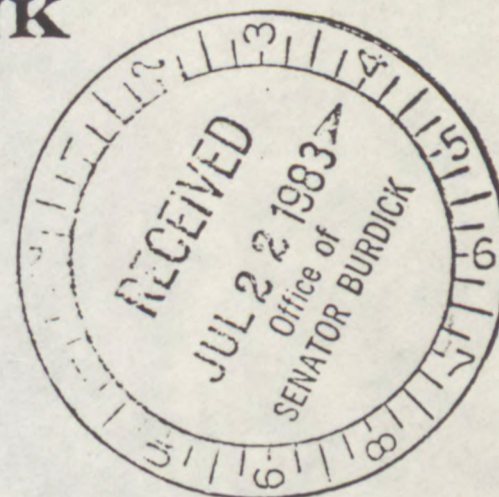
MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION

P.O. BOX 37

ROBINSON, N. DAK. 58478

392-8411

July 15, 1983



Secretary
Board of Governors
Federal Reserve System
Washington, D. C. 20551

Re: Proposed Revision to Regulation Y

Dear Members of the Board of Governors:

Please consider our objection to the Proposed Revision to Regulation Y which would seem to prohibit a holding company from redeeming any significant amount of its own stock.

The effect this change would have on our Bank and Bank Holding Company would be very undesirable. Ownership of the stock in the Robinson Bank Holding Company is 88% in one family, a family which is dedicated to serving the financial needs of this community and has so functioned since 1922. There is a third generation now working in the bank and hoping to acquire ownership.

The proposed limitations would make it impractical for these family members, or even for outside investors, to acquire the stock. The present regulations provide for responsible transfers of ownership that makes repayment of debt feasible. To take away or change the existing advantage would render our stock of little value.

We applied for and were granted permission to establish a One Bank Holding Company in 1980. There was a considerable amount of expense involved in filing the application and setting up the holding company. This action was carried out on the assumption that we could depend on the existing regulations.

These are trying times for a bank in a farming community, agriculture is the sole industry here. We think it is important to maintain local financial services. Please do not regulate us out of existence.

Yours very truly,

A handwritten signature in cursive script that reads "Robert V. Wells".

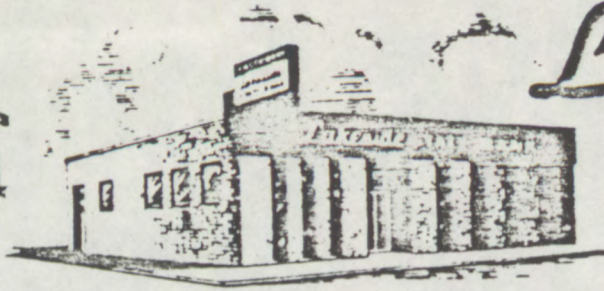
Robert V. Wells
President

cc: Senator Mark Andrews
Senator Quentin Burdick ✓
Representative Byron Dorgan

Serving You Since '22



Member FDIC



Lakeside STATE BANK

Phone 701 - 627-4717

P. O. Box 787

NEW TOWN, NORTH DAKOTA 58763

July 23, 1983



Secretary
Board of Governors
Federal Reserve System
Washington, D. C. 20551

Re: Regulation Y - Elimination Stock Redemptions

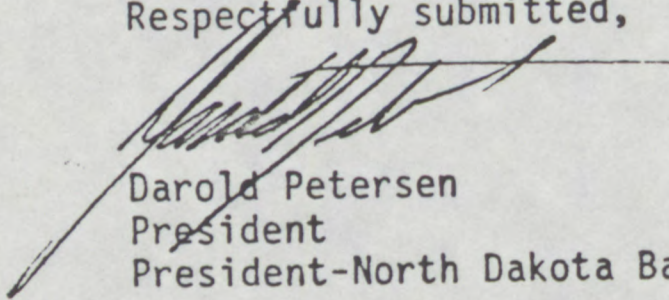
Gentlemen:

Please take into consideration at your hearing on the above subject, the serious effect you would have on the small family and/or community investor banks.

Under your proposed changes, these type of banks would eventually disappear from the scene. This type of revision would be very serious, especially now, with the Community Bank fighting for existence in the BANK - NON BANK revolution.

The long range effect on small town USA and rural America could be serious.

Respectfully submitted,


Darold Petersen
President
President-North Dakota Bankers Association

DP/mp

cc: Mark Andrews - United States Senator
Quentin N. Burdick - United States Senator
Byron L. Dorgan - United States Representative

OWNB
dakota western bank
Bowman, North Dakota 58623
(701) 523-5616



July 19, 1983

Secretary
Board of Governors
Federal Reserve System
Washington, D. C. 20551

Re: Regulation Y

Gentlemen:

I seriously doubt the practicality of the proposed change to regulation Y, as it affects One Bank Holding Companies.

I believe it will adversely affect the sale of small banks and their ability to pass on stock from generation to generation.

In my opinion, rural America wants and needs the small banks. This has been America's source of credit over the two centuries of its life. Let's keep America strong with its natural source of credit.

Respectfully submitted,

Albert E. Bowman
Albert E. Bowman
President

DWB
Dakota Western Bank
Bowman, North Dakota 58623
(701) 523-5616



July 19, 1983

Secretary
Board of Governors
Federal Reserve System
Washington, D. C. 20551

Re: Regulation Y

Dear Secretary:

I wish to vigorously object to the proposed changes to Regulation Y. The proposed regulation would seriously restrict the marketability of the holding company stock.

I feel the Fed currently has powers that are sufficient to restrict stock redemptions that would jeopardize the safety of the subsidiary bank.

Sincerely,

Lorraine Bowman

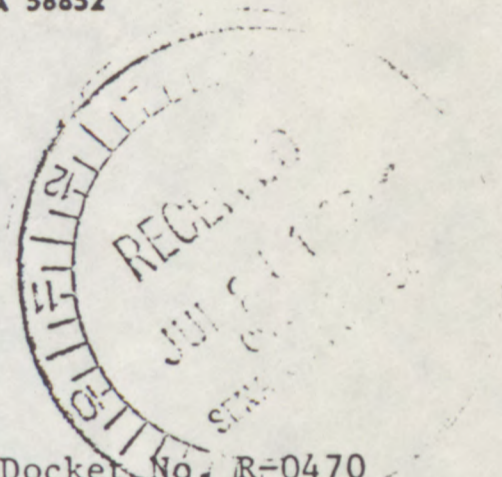
Lorraine Bowman
Board Director
Dakota Western Bank
Bowman, ND 58623

THE BANK OF TIOGA

TIOGA, NORTH DAKOTA 58852

July 21, 1983

Mr. William W. Wiles, Secretary
Board of Governors
Federal Reserve System
Washington, D.C. 20551



RE: Docket No. R-0470
Bank Holding Companies and
Change in Bank Control

Dear Mr. Wiles:

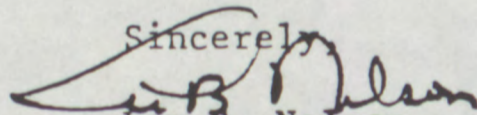
The proposed revision by the Federal Reserve Board concerning the Bank Holding Companies and Change in Bank Control would have a very negative impact on the future for private ownership of small banks. This change would about eliminate holding company stock redemptions and all its benefits.

Our Bank Holding Company is owned by a small group of shareholders. If redemptions by a holding company were to be prohibited, then the marketability of our shareholders stock would be seriously impaired. One of the reasons for establishing a one bank holding company was to provide a source for stock redemption or market for our stockholders stock. The result of this proposal is to eliminate completely this reason to have a holding company for a small bank.

I urge you not to implement this regulation. Should this regulation be implemented, I am sure you will eliminate the private ownership of nearly every small bank in North Dakota. I know that in our situation we would not have any choice but to sell out to a large bank, probably out of our area, should we have to find a market for any of our shareholders stock without our holding company source as a purchase of this stock.

In closing, if the proposed regulation becomes final, the impact on small bank holding companies and independently owned community banks such as our would be devastating. Please reconsider your proposed revision of Regulation Y, "Bank Holding Companies and Change in Bank Control" and not adopt this revised regulation.

Sincerely,

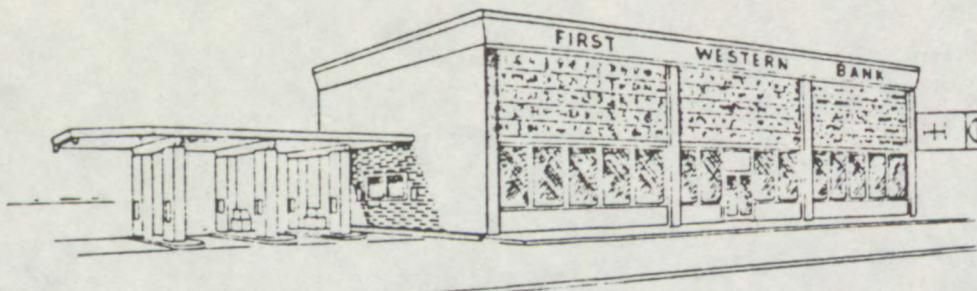

Lee B. Nelson
President

CC: The Honorable Mark Andrews
U.S. Senate

The Honorable Quentin N. Burdick ✓
U.S. Senate

The Honorable Byron L. Dorgan
U.S. Representative

LBS/vs

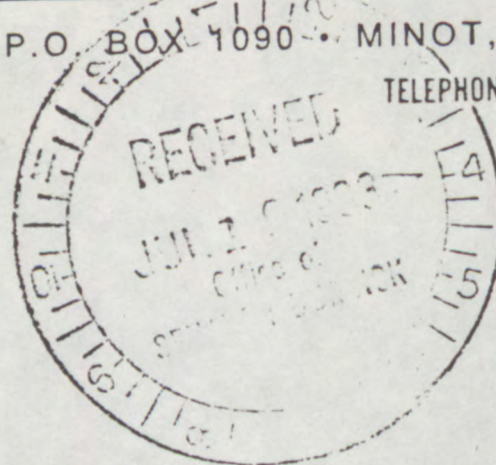


FIRST WESTERN

BANK

P.O. BOX 1090 • MINOT, NORTH DAKOTA • 58702

TELEPHONE 852-3711



July 14, 1983

Secretary
Board of Governors
Federal Reserve System
Washington, DC 20551

Gentlemen:

I am writing in regard to your proposed change in regulations in regard to holding company stock redemptions. Why are you proposing such a change? There certainly has been no demonstrated need for such a change and under the current regulations you can prohibit any redemption by a holding company if it is considered to be in any way unsafe or unsound. The new proposed regulations offer no attempt to relate the new test in ratios to the safety and soundness of a holding company. It appears the proposed regulation is simply an arbitrary set of new ratios having no relationship to the underlying financial position of the holding company.

Obviously, such a regulation would increase pressure to sell to outside parties. That leads to the question, who are the "outside parties" that would be able to buy a community bank? The answer seems to be only large multibank holding companies whose stock is publicly traded and who do not rely on redemption to provide marketability. Furthermore, with the limitation of possible buyers a decline in the value of independently owned community bank stock would certainly occur, and this result would come only because a regulatory agency eliminated the internal marketability of the community bank stock through its arbitrary restriction of a bank holding company's corporate power of redemption.

We who are involved in community banking are already facing many new challenges and changes. Such a regulation would only increase pressures and difficulties we now face and is entirely unnecessary.

I strongly urge you to reconsider and leave the regulations as to the redemption of holding company stock as the now are. Thank you very much.

Very truly yours,

J.H. Hoeven, Jr.
President

JHH:cm



Union State Bank

Hazen, North Dakota 58545

[701] 748-2233

STATIONS STANTON - ZAP

July 15, 1983

Secretary
Board of Governors
Federal Reserve System
Washington, D.C. 20051

Re: Regulation "Y"

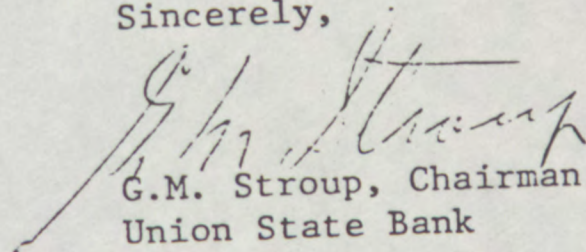
Dear Sir:

We have been planning on forming a Bank Holding Company primarily to insure the continuation of our bank as a community-owned bank serving the local area. Under the proposal of the Federal Reserve Board to revise regulation "Y", it would become virtually impossible for local community-minded investors to own an independent bank and would make it necessary for estates to sell their stock to the large Bank Holding Companies causing the demise of the small independent banks and eventually the dual banking system.

The large number of locally owned banks throughout the nation must indicate the value of these institutions in developing and maintaining rural America. These smaller institutions, being the majority in numbers, need the advantages enjoyed by the large financial institutions to remain competitive and maintain independent status.

Therefore, we urge that the proposed revision to regulation "Y", relating to the redemption of stock by the Bank Holding Companies, be reconsidered allowing the present regulations to remain.

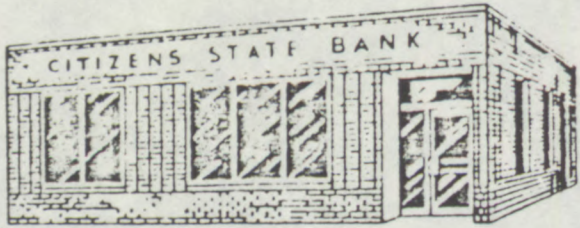
Sincerely,



G.M. Stroup, Chairman of the Board
Union State Bank

GMC/jh

cc: The Honorable Mark Andrews
The Honorable Quentin N. Burdick
The Honorable Byron L. Dorgan
North Dakota Bankers Association



Citizens STATE BANK

PETERSBURG, N. DAK. 58272

(701) 345-8282



July 14, 1983

Secretary
Board of Governors
Federal Reserve System
Washington, DC 20551

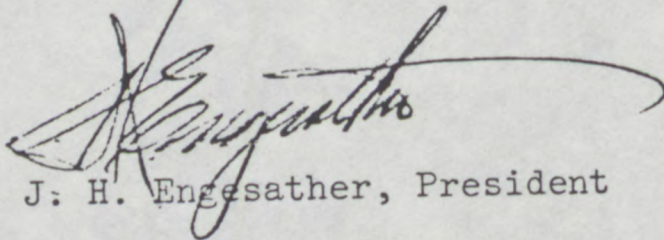
Dear Sir:

This letter is to convey my strong opposition to the proposal of the Fed. to limit holding company stock redemptions.

This proposal would undermine the strength of the community banks of this country. It would, in effect, make it practically impossible for smaller banks to transfer ownership, thereby forcing them out of business or selling out to the large multi-bank holding companys who could care less about service to rural America. other than to draw funds for investment elsewhere.

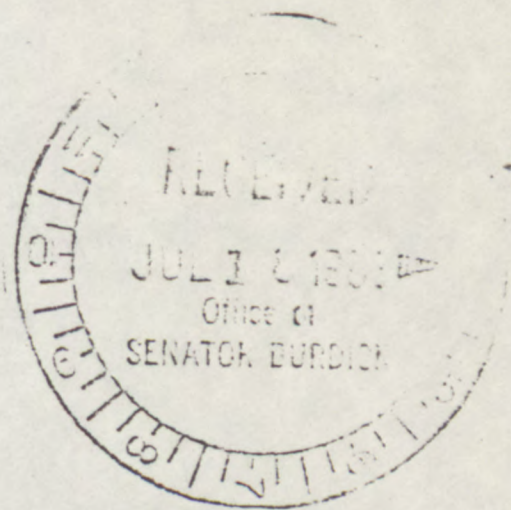
I respectfully request your support to defeat this proposal and to preserve this much needed tool for use in the orderly transfer of small banks.

Yours very truly,



J. H. Engesather, President

cc: Senator Mark Andrews
Senator Quentin N. Burdick
Representative Byron L. Dorgan



Secretary
Board of Governors
Federal Reserve System
Washington, D.C. 20551

Secretary :

I wish to strongly object to the proposed revision to Regulation Y. Such action would hinder the marketability of holding company stock and discriminate unfairly against well managed profitable banks.

It is my understanding that the Federal Reserve Board currently possesses the power to deny any redemption that may jeopardize the financial safety and soundness of a holding company.

It is my contention that most bank failures have resulted from mismanagement and not from leveraged stock redemptions.

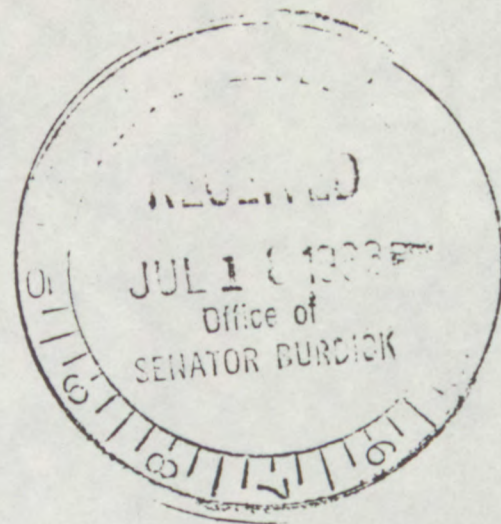
Sincerely,

Roger N. Berglund
Executive Vice President
RNB/bfm

c



Post Office Box 468
Lakota, ND 58344
701 247-2413



July 14, 1983

Secretary
Board of Governors
Federal Reserve System
Washington, D. C. 20551

Dear Sir:

The State Bank of Lakota objects to the Federal Reserve Board proposed changes in its regulation Y, which will substantially eliminate holding company stock redemptions.

The shareholders of our Bank Holding Company rely heavily on our redemption powers in structuring the holding company's ownership. As the holding company is owned by a family, the current redemption power is needed to provide estate liquidity while at the same time enabling family members to maintain control of the bank without incurring a large personal debt.

Under the current regulations large stock redemptions still have to be approved by the Federal Reserve Board and safety or soundness of the Holding Company is not threatened.

We ask you not to adopt the proposed changes on holding company redemptions as this will have a negative impact on the future for private ownership of small banks.

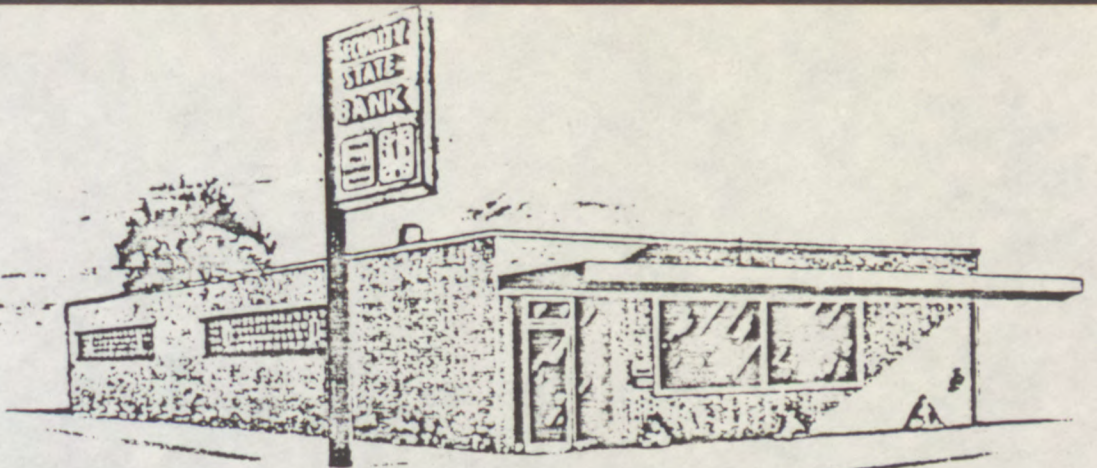
Sincerely,

Aron D. Anderson
Executive Vice President

ADA/

Security State Bank

HANNAFORD • NO. DAK. 58448



PHONE 769-2121

Secretary, Board of Governors
Federal Reserve System
Washington, D. C. 20551

Dear Sir:

RE: DOCKET NO. R-0470
PROPOSED SECTION 225.4 (b) Purchase or redemption by a
bank holding company of its own securities

The proposed change in the regulation would create a definite hardship in our family situation.


Our family at the present time owns a small multiple bank holding company which has debt from the purchase of one additional bank, the plans were that when this debt was reduced the holding company would start a program to purchase the stock owned by myself. In eight years when I reached retirement age the program would be complete and my stock would be owned by the holding company, the children would then own and continue to operate the two banks in the holding company.

This change would also create a hardship in case of my death, at the present time the holding company could purchase my stock, the estate would have liquidity needed to pay estate taxes and the operation would continue on in the family, should the change be approved the family would have a large debt or be forced to sell the stock outside of the family.

We urge your rejection of the above proposed change.

Thank you.

Sincerely yours,


W. O. Brown, President

cc: Senator Mark Andrews
Senator Quinton Burcidk
Representative Byron Dorgan



July 12, 1983

Secretary
Board of Governors
Federal Reserve System
Washington, DC 20551

RE: Regulation Y revisions

Dear Sir:

We wish to comment on the proposed changes in your regulation which would substantially eliminate holding company redemptions and all of its benefits.

These changes would create an undue hardship upon small one bank holding companies in which the holding company is owned by one family and/or a small group of stockholders. It would destroy family succession plans for keeping ownership of a bank in the family and, in the case of a small group of stockholders, the proposed change would seriously impair the marketability of each shareholders shares.

It appears the proposed regulation is an arbitrary set of new ratios which have no relationship whatever to the underlying financial condition of the holding company. We strongly urge that this proposed regulation be dropped.

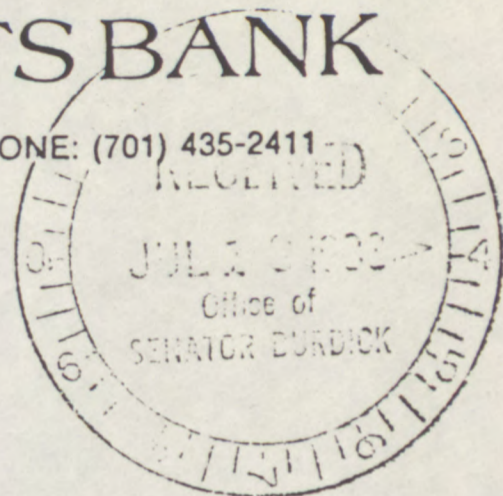
Sincerely,

Richard A. Beall
Vice President & Cashier

Linda D. Beall
Vice President

FARMERS and MERCHANTS BANK

WIMBLEDON, NORTH DAKOTA 58492 • PHONE: (701) 435-2411



Secretary, Board of Governors
Federal Reserve System
Washington, D.C. 20551

Dear Sir:

RE: Docket No. R-0470
Proposed Section 225.4 (b) Purchase or redemption by a
bank holding company of its own securities.

After reviewing the above proposal I have to tell you that
it definitely is a bad proposal as far as the small bank
holding companies in our area are concerned.

Our own holding company owns two small banks and was set up
for the purpose of my brothers and I to be able to eventually
purchase my fathers stock and continue on with family owner-
ship of the banks. What you have proposed would negate any
use of our holding company for such redemption.

I would encourage the Board to reject this proposal as it
would end the advantage of the small bank holding companies
continuity.

Sincerely,

A handwritten signature in cursive script, appearing to read "J. A. Brown", is written over the typed name.

J. A. Brown
Exec. Vice President

cc: Senator Mark Andrews
Senator Quentin Burdick
Representative Byron Dorgan

Wheeler, Wolf, Peterson, Schmitz, McDonald & Johnson

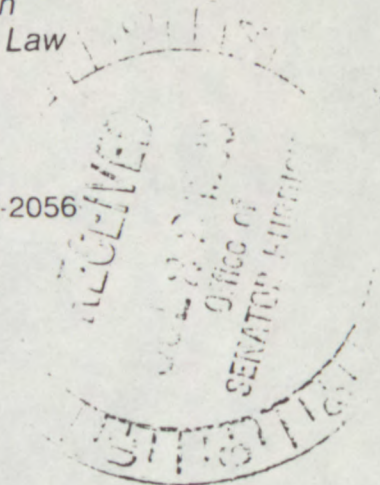
A Professional Corporation
Attorneys and Counselors at Law

R. W. WHEELER
ALBERT A. WOLF
DAVID L. PETERSON
ORELL D. SCHMITZ
JACK McDONALD JR.
CHARLES E. JOHNSON
FRANK J. WIKENHEISER
WILLIAM D. SCHMIDT
GREGORY C. LARSON
JO WHEELER JOHNSON
STEVEN L. LATHAM
LISA J. WHEELER

220 North Fourth Street
Post Office Box 2056
Bismarck, North Dakota 58502-2056
(701) 223-5300

Linton Office

FRANK J. WIKENHEISER
POST OFFICE BOX 427
LINTON, NORTH DAKOTA 58552
(701) 254-4836



July 18, 1983

Secretary
Board of Governors of
the Federal Reserve System
Washington, D. C. 20551

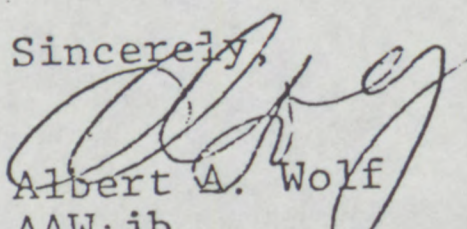
Dear Gentlemen:

I wish to voice the concerns of the Independent Community Banks of North Dakota as to the proposed regulations concerning one bank holding company stock redemptions. Ownership of over one-half of the 130 independent community banks in North Dakota are owned by one bank holding companies presently. The continuing ability to maintain independent community banks to serve the various small communities in North Dakota is dependent upon the ability of the holding company to redeem the stock of deceased family members. Obviously the effects of this proposed regulation would hit hardest the very small community banks that are now already finding difficulty serving their customers under ever-changing and unpredictable deregulation.

As a secondary effect, of course, the proposed regulation works a severe hardship upon persons who have built equity in bank stock ownership over the years and whose retirement programs are dependent upon the readily marketable bank stock owned by them. The alternative would be to have the surviving shareholders incur personal debts to make such purchases of stock of deceased shareholders.

I hope that the concern for small financial institutions who provide the primary lending to American agriculture will be recognized and this regulation for control of stock redemption will be rejected.

Sincerely,


Albert A. Wolf
AAW:jb

cc: Honorable Byron L. Dorgan
Honorable Mark Andrews
Honorable Quentin N. Burdick
ICBND

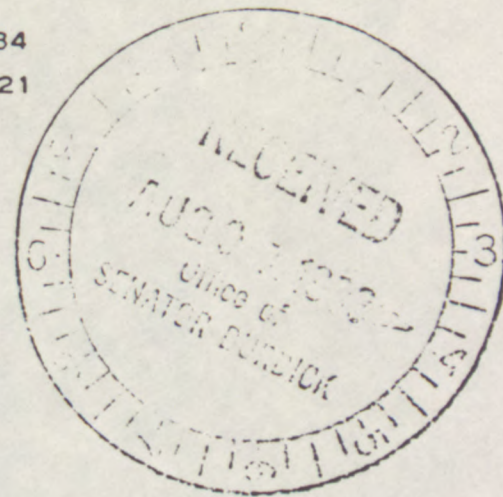
CITIZENS STATE BANK OF PEMBINA COUNTY

CAVALIER, NORTH DAKOTA 58220 • 265-8484

STATIONS AT: NECHE, N.D. 58265 • 886-7521

PEMBINA, N.D. 58271 • 825-6289

July 27, 1983



William W. Wiles, Secretary
Board of Governors of the
Federal Reserve System
20th and Constitution Ave. N.W.
Room B-2223
Washington, D.C. 20551

Re: Docket No. R-0470

Dear Mr. Wiles:

The Citizens State Bank is owned by a one bank holding company which was formed a few years ago primarily to take advantage of the fact that a bank holding company provided our owners with benefits which would enable them to maintain independent ownership. We, as owners, felt we could plan our estates to allow passage of the stock ownership to our spouses and children.

The proposed revision of Regulation Y would effectively eliminate benefits such as stock redemption by the one bank holding co. Elimination of this benefit could provide problems with passage of stock ownership. It could also possibly limit future marketability of our Bank.

We question the necessity of a change in Regulation Y. The safety and soundness of our Banks has most certainly not been jeopardized by the present regulation.

We wish to object strenuously to the proposed revision of Regulation Y and also wish to place ourselves on record in opposition.

Yours very truly,

A handwritten signature in cursive script that reads "James H. Duncan".

James H. Duncan
President

*Senator:
Thought you
might be
interested
Jim*

...GATEWAY TO CANADA...

MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION

August 5, 1983

Dear :

Thank you for contacting my office regarding proposed changes to banking regulations.

Accordingly, I am forwarding a copy of your letter to Dr. Paul Volcker so we can be sure it gets reviewed at that level.

With kind regards, I am

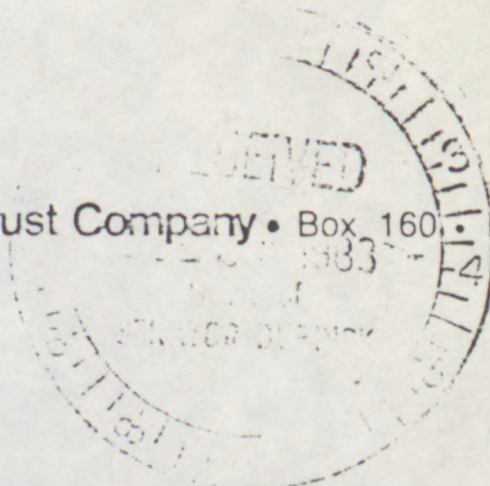
.Sincerely,

Quentin N. Burdick

QNB:spc

RAMSEY

National Bank & Trust Company • Box 160 • Devils Lake, North Dakota 58301 • 662-4024



July 22, 1983

Secretary to
Board of Governors
Federal Reserve System
Washington, D. C. 20551

Re: Proposed Changes
Bank Holding Co.

Gentlemen:

I am strongly opposed to the May 25, 1983 recommended changes.

A 1% limitation on the purchase or redemption of its securities is very unsatisfactory.

These changes appear to me to be the work of Chase Manhattan or Citi-Corp banks. Only the large banks would be able to live with the proposed changes.

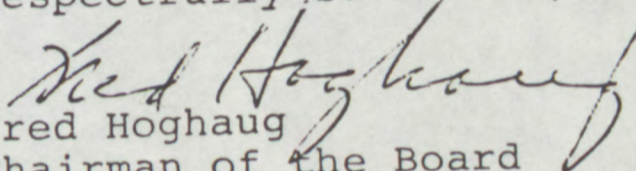
Check the Capital Ratios, Earnings and Service to their own people and you will see the banks on "Main Street" are doing a far better job than the large city banks. This proposal seems to have in mind the liquidation or consolidation of the small bank. WHY?



Page 2
Secretary to Board of Governors
Federal Reserve System
July 22, 1983

I hope these changes will be defeated or drastically
changed for the better.

Respectfully submitted,


Fred Hoghaug
Chairman of the Board

FH:fl

cc: The White House
Washington, D. C.
Senator Mark Andrews
Washington, D. C.
Senator Quentin Burdick
Washington, D. C.
Representative Byron Dorgan
Washington, D. C.
Independent Bankers Assn.

P. S. Photo copy of Commercial West article is enclosed.

Removal Notice



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: Magazine article

Number of Pages Removed: 2

Citations: Costley, J. Kevin. "Fed Wants To Limit Holding Company Stock Redemptions." *Commercial West*, July 2, 1983.



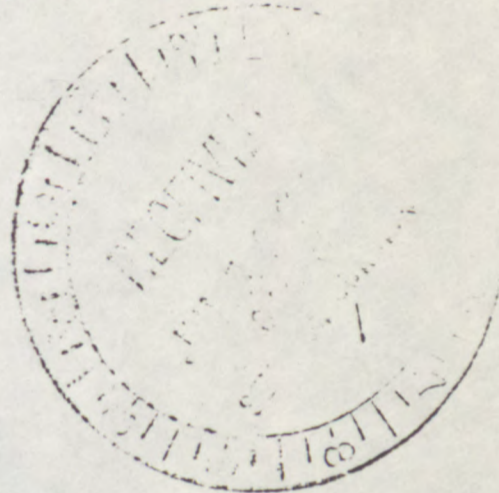
Western STATE BANK

P. O. BOX 610

PHONE 701-662-4936

DEVILS LAKE, NORTH DAKOTA 58301

July 7, 1983



The Honorable Byron L. Dorgan
United States House of Representatives
427 Cannon House Office Building
Washington, D. C. 20515

The Honorable Mark Andrews
United States Senator
417 Russell Senate Office Building
Washington, D. C. 20510

✓ The Honorable Quentin N. Burdick
United States Senator
451 Russell Senate Office Building
Washington, D. C. 20510

Gentlemen:

This correspondence is submitted in reference to the proposed changes by the Federal Reserve Board to substantially eliminate Bank Holding Company stock redemptions and all of its benefits.

There are more than 500 independently held Bank Holding Companies in the Ninth Federal Reserve Region alone - many of the Bank Holding Companies were formed to allow for the advantage of repurchasing or redeeming its own stock.

Numerous banks throughout the upper midwest are formed under the One Bank Holding provision by local community minded investors who chose to provide financial service to specifically benefit the population within that community. If the proposed regulation should go into effect, locally supported financial institutions will cease to exist when considering the personal debt load required as the result of the purchase and the inability to establish a market within commonly used "buy-sell agreements". Under the proposed regulation, it will not be feasible to transfer total ownership to children by using the concept of the holding company redemption of bank stock.

Under the proposed legislation, only very large holding companies could redeem holding company stock as the criteria for a purchase or redemption of its equity security makes it practically impossible to exercise any redemption power.

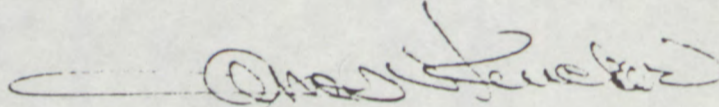
LB

MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION

The Honorable Byron L. Dorgan
The Honorable Mark Andrews
The Honorable Quentin N. Burdick
July 7, 1983
Page 2

I ask that you take immediate action to avoid this proposed regulation.
If it should be approved, I feel that the independent community bank position
within our communities cannot survive.

Yours very truly,



James V. Kuchar
President

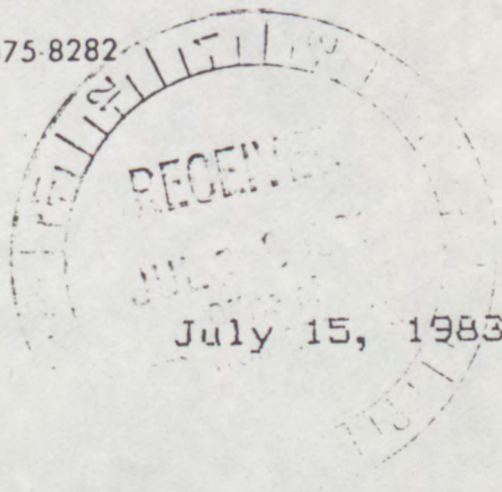
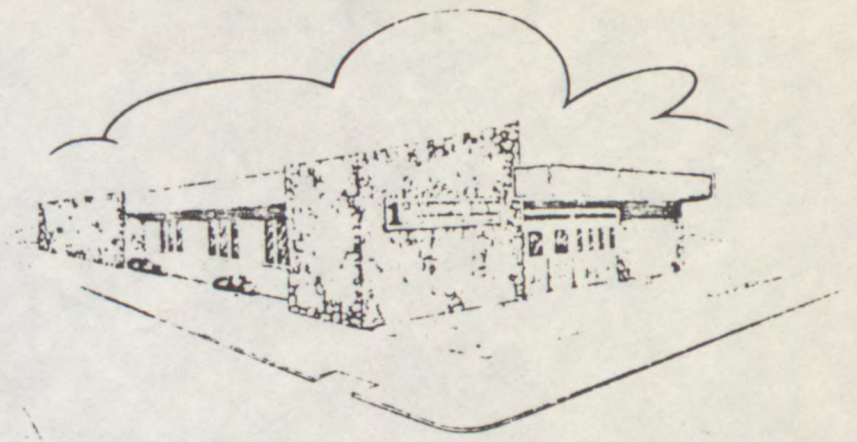
JVK:ms

the **1st National Bank**
OF BELFIELD

BELFIELD, NORTH DAKOTA 58622

TELEPHONE: (701) 575-8282

STATION AT SOUTH HEART



Secretary
Board of Governors
Federal Reserve System
Washington, DC 20551

RE: Regulation "Y" Revision

Gentlemen:

The purpose of this letter is to respond to your proposed revision of Regulation "Y"! This revision could have a substantially adverse effect on small One Bank Holding Companies and private ownership of small banks in general.

Without small country banks in the upper midwest, it would be difficult to provide financial service to their customers. Numerous banks in the upper midwest are formed under the One Bank Holding provision which provides an opportunity to redeem stock of persons choosing to sell their interest.

If the proposed regulation should go into effect, it will mean that small banks would cease to exist because of the personal debt load that would be required to purchase the stock and at the same time it would be difficult to establish a market for the stock.

We do not want to make it difficult to transfer ownership of a bank to the children if it is a family bank.

If this proposal goes into effect, it is my belief that demise of community banks is inevitable. Over the years, the banking industry had to struggle for survival and this type of proposal could end it all for community banks.

I would urge you to scrub this proposal for the benefit of banking industry and keep these small country banks in business.



OLD-FASHIONED FRIENDLINESS WITH MODERN SERVICE

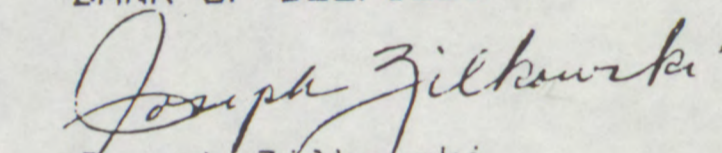


Board of Governors
Page 2
July 15, 1983

Let's not present an opportunity for large holding companies to become larger.

Thanking you kindly,

THE FIRST NATIONAL
BANK OF BELFIELD


Joseph Zilkowski
President

JZ:amd

cc: The Honorable Byron L. Dorgan
The Honorable Mark Andrews
The Honorable Quentin N. Burdick
North Dakota Bankers Association

FRANKLIN G. LARSON
North Valley
Valley City, North Dakota

July 13, 1983

Honorable Senator Quentin Burdick
Senate Office Building, Suite SH 511
Washington, DC 20510

Dear Senator Burdick:

Enclosed for your consideration is a copy of my comments to the Federal Reserve Board relative to proposed changes, regarding stock redemptions, in Regulation Y which governs bank holding companies.

I urge your support in opposition to this unneeded and restrictive regulation.

Sincerely yours,

Franklin G. Larson

FRANKLIN G. LARSON

Valley City, North Dakota 58072

July 13, 1983

Secretary, Board of Governors
Federal Reserve System
Washington, DC 20551

Dear Sir:

RE: DOCKET NO. R-0470
PROPOSED SECTION 225.4(b) Purchase or redemption by a bank
holding company of its own securities

As a banker in rural North Dakota I am seriously opposed to the Federal Reserve Board's proposal to all but eliminate the redemption of bank holding company stock in the future.

I believe it is an attempt by governmental agencies to over-regulate the small businessmen and make it more difficult for him to survive.

I see no need for the Board to be so restrictive on redemptions.

The Board already has the power to disapprove redemptions that do not strengthen the subsidiary bank. Why then do you need to establish more regulations. The proposed regulation will limit the options available for sales and purchases of the stock of bank holding companies. Officers of banks will no longer be able to obtain substantial ownership of a bank unless they are independently wealthy. It is difficult enough to keep quality employees in rural communities. You are just adding more obstacles in their path to their long-range goals of bank ownership.

This is just one more step in the direction of big holding companies owning all the banks in the nation.

By eliminating the redemption feature for small holding companies the big billion dollar corporation banks will have significant less competition in their efforts to expand their bank acquisitions in the rural areas.

As an independent banker I just cannot see how this will strengthen the local communities in North Dakota.

Secretary, Board of Governors
Page 2

This proposal will also cause serious tax consequences to the independent banker.

In order for any redemption of stock to receive capital gains treatment it must be significant in order to meet criteria established by the Internal Revenue Service.

Your proposal forbids the redemption of any significant amount and, therefore, if any of my stock is redeemed I must pay tax on the gain at ordinary tax rates. Why penalize me on an investment that I've held for many years. I have a right to capital gains treatment. This proposal will take away that right. Our governmental agencies must stop making regulations which are directly opposed to another agency's regulation with the small businessman caught in the middle.

If you want to promote big banks in taking over the banking industry and forcing out the independent bankers, then the proposed regulation will do exactly that.

If you want to keep strong local management in the banking industry and not put obstacles in the way for their ownership of banks, then you will reject the present redemption proposal.

Sincerely yours,

Franklin G. Larson



Secretary, Board of Governors
Federal Reserve System
Washington, D. C. 20551

Dear Sir:

We have read with a great deal of interest and concern, the proposed changes by the Fed dealing with additional limitations for redemption of Bank Holding Company stock. In order that you might have a greater insight into our concern in this matter, I will provide a brief background of the history of our present bank ownership, and the community we serve.

Our town, Harvey, North Dakota, has a population of 2500 people, a hospital, 6 doctor clinic, nursing home facilities, 2 banks, 2 savings and loan branches, 4 implement dealers, 3 large grocery stores and many other businesses, churches, clubs, and organizations. Even though our town is small in population, our community, which includes smaller surrounding towns and rural residences, provides the goods and services necessary for the needs of the area.

The controlling interest of the Bank (80%) was acquired in October 1983 by five local individuals, two of which, the president and myself, are active in day to day management. Through the years we have struggled to maintain and build a strong capital base for our rapidly growing bank while at the same time trying to service the debt on an individual basis. We also had some very serious concerns as to how the continuity of the Bank would be maintained if one of the group should die. It would be very difficult for the majority of us to purchase the stock as we were already heavily indebted on a personal basis.

As a solution to the debt servicing and continuity problems, our group formed a Bank Holding Company in June of 1982. This was an expensive and time consuming step, however, this move has promoted a feeling that debt reduction and continuity of management would be maintained. The five members have a buy sell agreement in which the holding company would purchase the shares of one of the group should events necessitate this action.

Since the Federal Reserve Board already makes a review when a significant block of holding company shares are proposed for transfer or redemption, I do not feel that the new arbitrary ratios and percentages are needed nor are they fair or equitable when applied to banks of differing size and composition.

The local Bank with people making the policies who live in the area are the lifeblood of a small community. I can point out many examples of a weak bank in a small town and I can show you that the town is surely dying. We do not need, nor can we afford to have regulatory change that will limit the already limited purchasers and investors in small town banks, for a small town is only as strong as the support it gets from its local financial institutions.

The below named members of our newly formed Holding Company are very much opposed to the proposed regulatory changes concerning stock redemption.

James Lewis

Robert Berg

Lawrence Mertz

Gary Bergstrom

Norman Weckerly

Sincerely,

Gary Bergstrom
Gary Bergstrom, Secretary
First Bank Holding Co.
Harvey, North Dakota

Removal Notice



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: Magazine article

Number of Pages Removed: 1

Citations: Costley, J. Kevin. "Fed Wants To Limit Holding Company Stock Redemptions." *Commercial West*, July 2, 1983.

JOHN D. BANKER, President
E. C. BANKER, Vice-President

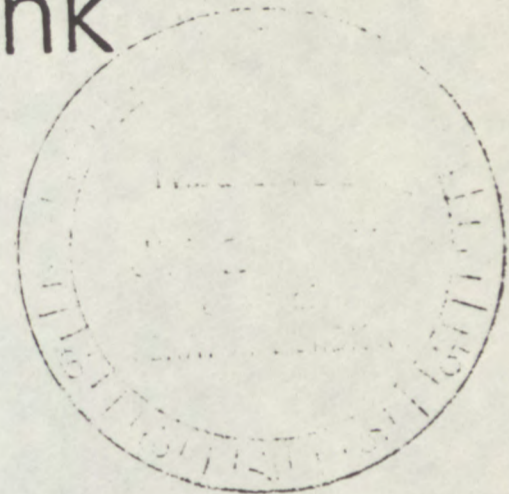
JAMES E. MATHIASON, Executive Vice-President
THEODORE F. FOSS, Ass't Vice-Pres. & Ag. Rep.
MELBA E. GILSETH, Cashier

Citizens State Bank

Member of Federal Deposit Insurance Corporation

Telephone 756-6364
MOHALL, NORTH DAKOTA 58761

July 14, 1983



Secretary
Board of Governors
Federal Reserve System
Washington, D. C. 20551

Dear Mr. Secretary,

I would like to add my "two-cents worth" to the multitude of comments you are receiving concerning the proposed "Revision" to Regulation Y.

I hope in your consideration of this change, you give proper perspective to the effect of such a change on the small banks of our nation. Also at the same time consider the importance of the small community bank to the communities of this nation.

We have just been thru a period of our economic history that would have eliminated many of our small businesses and farms if it were not for the concerned community banks. We as community banks are aware and working in our communities with concern for more than the "bottom line". We strive to keep all viable businesses and farms in operation and realize the necessity of, and have the ability for, analysis of the situation on a local level. This would be lost if the ownership of our community banks were in the hands of "outsiders" and big city banks.

The current redemption of stock feature of Reg Y allows for ownership of our small community banks to stay that way by providing a means by which individuals with limited financial resources are able to finance the purchase of same. It also provides a means of "in-family" transfers of ownership necessary in many cases.

During the ten year period from 1970 to 1980, the proportion of banking offices affiliated with Bank Holding Companies went from 12% to 56% indicating the need for such a viable tool. Also the number of applications by Bank Holding Companies approved increased from 900 in 1977 to 1,500 in 1980, a mere three years hence. This too speaks for itself.

To indicate the reaction to the proposed revision on a local level, both the Independent Community Banks of North Dakota and the North Dakota Bankers Assoc. have advised North Dakota banks of the gravity of the action. They are concerned because such an action would have a grave effect on all rural banks. Please consider this when the revision is reviewed.

Let Our Bank Be Your Bank

Citizens State Bank

Member of Federal Deposit Insurance Corporation

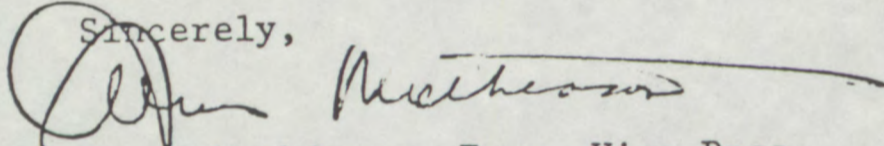
Telephone 756-6364
MOHALL, NORTH DAKOTA 58761

Reg Y Revision. p2

I urge you to delete that portion of the revision that relates to the prohibition of stock redemption by bank holding companies. As stated above, this stock redemption ability is necessary for the survival of our community banks and the communities they serve.

Thank you in advance for your consideration.

Sincerely,



James Mathiason, Exec. Vice Pres.
The Citizens State Bank
Mohall, North Dakota 58761

cc: The Honorable Mark Andrews
The Honorable Quentin N. Burdick
The Honorable Byron L. Dorgan

Let Our Bank Be Your Bank

Scandia AMERICAN BANK

P. O. BOX 9
STANLEY, NORTH DAKOTA 58784



July 13th, 1983

Secretary
Board of Governors
Federal Reserve System
Washington, D. C. 20551

Dear Sir:

Re: Revision of Regulation Y.

I am very concerned about a proposed change in the above regulation by the Federal Reserve Board which could have a substantially negative impact on the future for private ownership of small banks.

It seems this is a assault on the private ownership of banks and may in the future force the sale of small banks to multi-holding company regional bank systems.

The objectional part of the revision relates to the Fed's attempt to effectively prohibit stock redemptions by bank holding companies unless a certain minimum capital standards are met. This surely will prove expecially costly to family-pnwed banks

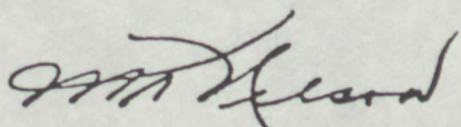
During the late 1920's and 1930's the big banks helped bring down the smalls; evidently history always has a way of repeating itself; only this time around, an effort of this nature would only in time do away with the small's; and, our duall banking system as we know it today will be gone.

Prudence in money and credit does not necessarily eminate from Governmental agencies or a money centered controlled banking system, which these proposed changes would bring eventually. These proposals would only servie to stymie individualism and our ways of free enterprise.

Our country may be facing critical financial problems and it is high time for management of financial institutions to shape up and get their house in order; and, I feel we can do this the old fashioned way. Let us not proceed with new changes which will only make our problems worse in the long term. A little more restraint and backbone by our regulators will certainly do much more than re-writing the rules.

Thank you for your thoughtfull considerations.

Very truly yours,


M. T. Nelson, Pres.

Founded On Security - Built On Service

BRADY, MARTZ & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

24 WEST CENTRAL

P. O. BOX 848

MINOT, NORTH DAKOTA 58701

TELEPHONE: (701) 852-0196

MEMBERS OF.

AICPA

American Institute of
Certified Public Accountants

OTHER OFFICES:

1913 SOUTH WASHINGTON
P. O. BOX 1076
GRAND FORKS, ND 58201
TELEPHONE: (701) 775-4685 OR
(701) 775-5516

305 DE MERS
P. O. BOX 165
EAST GRAND FORKS, MN 56721
TELEPHONE: (218) 773-3414

July 6, 1983

Secretary, Board of Governors
Federal Reserve System
Washington, DC 20551

Re: Regulation Y.

Gentlemen:

A recent article in Commercial West indicates that the Board of Governors is contemplating changes in its regulations relating to bank holding company stock redemptions.

As accountants and advisors to a number of small community banks in our area, we feel somewhat alarmed by this, as it appears that such an amendment as outlined in the Commercial West article would negate a great deal of planning for most or all of these one-family banks that we serve.

While we are not familiar with all of the complexities involved with the larger holding companies, we would want to prevail upon you to consider the granting of an exemption to holding companies having total resources or total assets of less than \$200,000,000. Such an exemption would enable many, if not most, of these family owned community banks to retain and operate them, as desired when the parent-owners retire and pass on.

It would also appear that the proposed regulation is designed to give the larger bank holding companies a big boost in that it will almost require that the small community locally-owned banks will eventually become "subs" of the larger regional bank holding companies. Of course, this would serve to stymie individualism, and the American concept of entrepreneurship. To have these banks owned by the larger holding companies will almost assure the disappearance of the small town along with its banks, since continued operation will be determined only by profitability.

While we do realize that the safety and soundness of the banks must be protected, we are doubtful that the proposed regulation would not make for problems greater than those supposedly solved.

Your full consideration of this matter will be appreciated.

Yours very truly,

BRADY, MARTZ & ASSOCIATES, P. C.

By _____
Baldwin E. Martz

BEM/llh

*Moving - here is the letter I was
referring to on the tele today.
The deadline for writing to the
Board is July 18. ☺*



TOWNER
COUNTY

State Bank
CANDO, NORTH DAKOTA

58324



July 13, 1983

Secretary, Board of Governors
Federal Reserve System
Washington, DC 20551

RE: Docket No. R-0470
Proposed Section 225.4(b) Purchase or redemption by a bank
holding company of its own securities.

Dear Sir:

This letter is to express my deep concern over the proposed revision in regulation Y relative to bank holding company redemptions. We are an independent community bank located in north central North Dakota with assets of \$20 million. Our bank was founded 15 years ago with 180 stockholders investing in "their" bank. Cando has had another bank since 1888, however when this bank became a member of a Minneapolis based multi-holding company many of the financial needs of the community were no longer met. There was a great urgency for Towner County State Bank which has since captured almost 40% of the market share. Our independent bank not only benefited our customers, but also the customers of the other bank because of the new competition they faced.

Although we are not currently affiliated with a one bank holding company, we are in the process of forming one. Under the current regulations, the holding company will enable the majority stockholder to transfer stock to minority shareholders, such as myself, upon his death. This redemption will provide the liquidity to his estate to pay estate taxes while at the same time enabling the stockholders in our community to maintain control without incurring substantial personal debt.

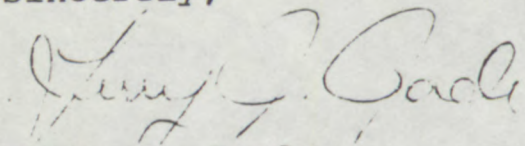
The intended purpose of this regulation appears to be to strengthen the bank by not allowing the bank holding company to reduce their equity by redemption. However, the side effects may do just the opposite. The young managers of family-owned independent community banks will not have the means to retain majority ownership when the current owners pass on. Ironically, the community banks such as Towner County State Bank, whose purpose of formation was to increase competition and offer better services, will become prey to the same big banks and have no other choice than to sell out. That sounds to me like we are going backwards.

YOUR Home Owned Independent Bank

Secretary, Board of Governors
Federal Reserve System
Page 2

The Federal Reserve Board already has a procedure in place where a stock redemption can be prohibited if the Board determines that such a transaction would jeopardize the safety and soundness of a holding company. The Board's emphasis in recent months has been deregulation and increased competition. We agree that it is fair that the community banks must learn to compete and still remain profitable. However, it would be quite unfair if the Federal Reserve Board eliminated the internal marketability of independent bank stock through a restriction of a holding company's power of redemption. By so doing, you would be taking away our chance to remain in business and compete. I urge your rejection of section 225.4(b) as proposed.

Sincerely,



Terry J. Jorde
Vice President

TJJ/sg

cc: Senator Mark Andrews
Senator Quentin Burdick
Representative Byron Dorgan

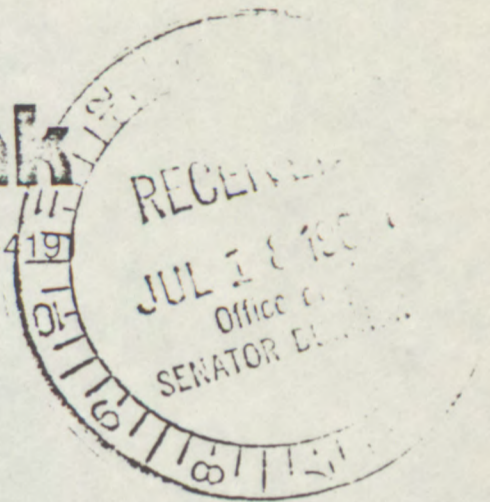


Farmers & Merchants Bank

Beach, North Dakota 58621

Station at Medora

701 872-4197



July 13, 1983

The Honorable Quentin Burdick
U.S. Senate
451 Russell Office Building
Washington, D.C. 20510

Dear Senator Burdick:

I wish to comment on the proposed revisions of the Stock Redemption Section of Regulation Y.

As a stockholder and officer in two small banks, the proposed revisions appear to have a very adverse effect on the long-range planning and goals that have been established by the Boards of Directors and stockholders of our banks, and I'm sure of many other small banks throughout the country.

Paragraphs (b), (2), (iii), (A), and (B) severely limit the use of the one bank holding company as an estate planning vehicle. Granted, a new bank holding company application could be processed each time a redemption occurs, but this would certainly put an unnecessary amount of work on your staff and would certainly increase the cost and time of ownership transfers. As a minority stockholder (25% interest) in a one bank holding company, I am concerned that if this proposed change is enacted, it will be very hard for me to dispose of my stock interest in the bank holding company. As you are well aware, it is almost impossible for individuals to purchase bank stock, due to the IRS limitations on the deductibility of investment interest expense; this proposed change almost certainly precludes the bank holding company from redeeming 100 percent of my stock interest. It is very easy to see that the marketability of any significant minority interest will be greatly reduced. I do not think this was the original intent of the Bank Holding Company Act.

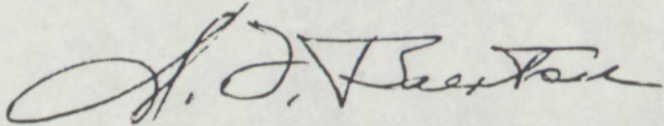
As a banker, I believe in maintaining a strong financial position for the bank holding company and subsidiary bank. I can see no problems related to the Board's requiring these Capital & Debt to Equity ratios within a reasonable period of time subsequent to redemption, such as in the bank holding company formation requirements.

I sincerely hope this is not just another step toward eliminating the

The Honorable Quentin Burdick
July 13, 1983
Page 2

small, privately owned bank. Our bank is located in a community of 1,400 people and has provided uninterrupted service to the community for 76 years. This bank and others like it throughout our country are still a very important cog in the local economic structure. The proposed revisions seriously threaten this situation.

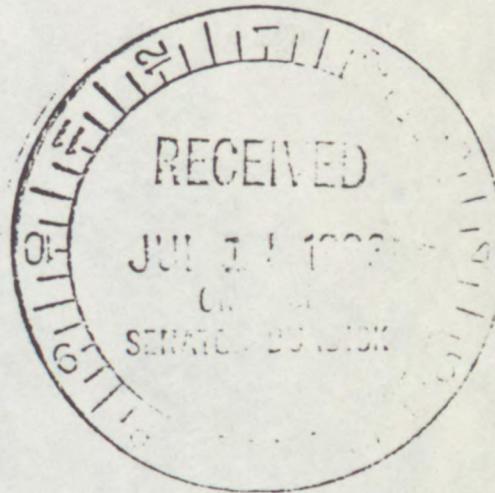
Sincerely,



D. F. Baertsch
President

DFB:eah

July 12, 1983



Secretary
Board of Governors
Federal Reserve System
Washington, D.C. 20551

Dear Sir:

This Department and the North Dakota State Banking Board oppose the proposed revision to Regulation Y which would effectively prohibit stock redemptions by bank holding companies.

We believe that present regulations are adequate with regard to stock redemptions by bank holding companies and that the option to complete a stock redemption should remain open to the shareholders of holding companies. We fear that the proposed regulations would eliminate the stock redemption option, for all practical purposes, which would cause substantial hardship on shareholders, inhibit business planning, and significantly affect business plans previously put into effect, without contributing to proper regulatory activity. We fear that this rule would make it significantly more difficult to maintain local ownership and control of North Dakota banks and that it would lead to increased concentration of financial resources to the detriment of the citizens of North Dakota and of this republic.

Locally owned banks in North Dakota have made important contributions to the citizens of North Dakota. We deem it important that they be permitted to continue to meet the changing times. The proposed regulation changes regarding stock redemptions by bank holding companies would adversely affect their ability to remain viable under local ownership and control.

We ask that the proposed regulations be withdrawn or rejected.

Sincerely,

L. M. Stenehjem, Jr.
Commissioner
Chairman, State Banking Board

LMS:sr

cc: Sen. Andrews, Sen. Burdick, Rep. Dorgan, NDEA



The
FIRST NATIONAL BANK OF LINTON

LINTON, NORTH DAKOTA 58552
July 12, 1983

To The Secretary
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551



Re: Proposed Change to Regulation Y

Gentlemen:

The proposed prohibition of stock redemption by bank holding companies will NOT be in the best interest of small closely held North Dakota banks.

Our small North Dakota banks depend too much on the work and investing of very few individuals in so many cases that the stock redemption might be the only way to make a viable deal for a bank purchaser.

If we make it so that our small banks have to dilute the ownership much in the same way that the mutual S & Ls do, then it becomes a question of "who is in charge here"? Hired management becomes more a possibility, and with the idea of making his position secure, in one way or another.

Please, this is NOT good for North Dakota small banks.

Thank you.

Very truly yours,

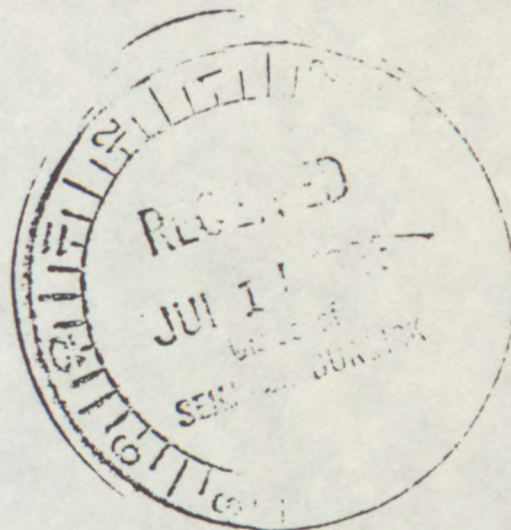
K. A. Meier

cc: B. Dorgan
M. Andrews
Q. Burdick

NORTHERN PLAINS BANCSHARES, INC.
FARGO NATIONAL BANK BUILDING
MAIN at BDWY.
FARGO, N. D. 58124

July 12, 1983

Secretary, Board of Governors
Federal Reserve System
Washington, DC 20551



Dear Sir:

RE: DOCKET NO. R-0470
PROPOSED SECTION 225.4(b) Purchase or redemption by a bank
holding company of its own securities

I am enclosing herein a copy of a letter sent to you by our
Certified Public Accountant, Charles Bailly & Company. This
letter also accurately reflects our view on this subject.

The proposed revision of Regulation Y could hamper the conti-
nuity of management and the community ownership of Northern
Plains Bancshares, Inc. and its principal asset, The Fargo
National Bank & Trust Company.

We would urge you not to adopt the proposed revisions.

Respectfully yours,

David D. Gordon
President

DDG:bb

Enclosure

cc: ~~Senator Mark Andrews~~
✓ Senator Quentin Burdick
Representative Byron Dorgan

Charles Bailly & Company

Certified Public Accountants

Suite 1100
Fargo National Bank Building
Fargo, North Dakota 58124
Telephone (701) 237-5275

Associates in principal cities
of United States, Canada,
Mexico and Europe.

July 8, 1983

Secretary, Board of Governors
Federal Reserve System
Washington, DC 20551

Dear Sir:

RE: DOCKET NO. R-0470
PROPOSED SECTION 225.4(b) Purchase or redemption by a bank
holding company of its own securities

The proposed revision in regulation Y relative to bank holding company redemptions if enacted will place a very heavy burden and undo restrictions on the independent community banks. We urge you to seriously address this issue which is of great concern to many bankers in the Upper Midwest.

In this day of deregulation, we believe the proposed section 225.4 Corporate Practices places increased regulatory pressure on bank holding companies, especially those with total assets of less than \$150 million. We see that this proposed regulation, if passed, could be the beginning of the end for independent ownership of many community banks.

It appears the overall purpose of the proposed regulation is to strengthen the subsidiary bank by not allowing the bank holding company to reduce their equity by a redemption. In actuality if you look beyond the monetary aspects of the transaction the proposed regulation will weaken a significant number of community banks in our area.

In our experience, the redemption process has not been used to bring in new management but has been used to allow present management, who have been minority stockholders, a means of obtaining control of banks which they have worked in for many years, a means where second and third generation bankers could remain in banking. These people are familiar with the needs of their communities, they are familiar with the people and are able to make better banking decisions because of this. They are the managers that are best able to deal with the new challenges in

the banking industry. By putting obstacles in their way to obtaining majority ownership, we cannot see how this can strengthen the community bank. It is the goal of many in the business environment to strive to keep the younger generation in the rural areas. We envision this as putting one more obstacle in their path in their goal to stay at home and possibly someday owning the community bank they work in.

The regulators have been stressing long-range planning in the banking industry. Therefore, various buy-sell agreements have been entered into to preserve the continuity of management. What good is this planning when it is all nullified by regulations many years after the buy-sell agreements were entered into.

We see this issue as a big bank-small bank issue. The proposed revision will have little effect on the large billion dollar metro banks but will impact directly the rural community banks. Even though there are different guidelines based on bank size, the proposed special guidelines for banks under \$150 million do little if anything to help the small bank. Why add this unfair regulation to an industry that already is faced with a significant challenging and changing environment.

The big banks won't be hampered by the proposed regulation and will, in fact, be benefited by it since it will eliminate a lot of their competition when looking at purchasing the smaller banks. The Board is keenly aware of competition as it relates to the banking industry's service to its customers. Why then should regulations be made which will decrease the competition when it comes to the acquisition of bank holding company stock.

As we're sure you are aware, present Internal Revenue Service laws require a significant amount of stock to be redeemed either by a substantial disproportionate redemption or a complete termination of interest in order for the stockholder to receive capital gains treatment on the transaction. With a debt to equity ratio of no more than 30 percent being allowed by the proposed regulation changes, the redeemed stockholder will inevitably be taxed at ordinary income tax rates on the gain on his investment which he has held for many years.

Why make regulations which prohibit taxpayers from meeting other governmental agencies criteria for obtaining reasonable tax treatment. The IRS requires significant redemptions in order to qualify for capital gains. This regulation prohibits significant redemptions. Once again the taxpayer is squeezed by two conflicting regulatory requirements.

Secretary, Board of Governors
Federal Reserve Systems
Page 3

If the Board believes additional guidelines are necessary, why not have them similar to the current regulations as it relates to bank holding company application criteria with total assets less than \$150 million. Under these guidelines redemptions would be subject to the same criteria as used by the Board when the holding company was originally formed. If the holding company was deemed to be a source of strength when it was formed under those criteria, it will continue to be a source of strength if it maintains the same criteria for redemptions.

In summary, we believe the proposed regulation relative to redemptions is unfair and will further jeopardize the existence of the independent community banks. We urge your rejection of section 225.4(b) as proposed.

Sincerely yours,

CHARLES BAILLY & COMPANY

jp

cc: Senator Mark Andrews
Senator Quintin Burdick
Representative Byron Dorgan

Charles Bailly & Company

Certified Public Accountants

Suite 1100
Fargo National Bank Building
Fargo, North Dakota 58124
Telephone (701) 237-5275

Associates in principal cities
of United States, Canada,
Mexico and Europe.

July 8, 1983



Honorable Senator Quentin Burdick
Senate Office Building, Suite SH 511
Washington, DC 20510

Dear Senator Burdick:

The Federal Reserve Board is proposing changes in Regulation Y which governs bank holding companies. We believe a section of the proposed changes dealing with stock redemptions will have a detrimental impact on North Dakota and our business communities throughout the state.

We are enclosing a copy of our comments to the Board and solicit your support in opposition to this section of the proposed regulations which unduly restricts the ownership structure of bank holding companies.

In addition we are enclosing an article which summarizes the issues involved.

Thank you in advance for your consideration.

Sincerely yours,

CHARLES BAILLY & COMPANY

Fred L. Manuel

Charles Bailly & Company

Certified Public Accountants

Suite 1100
Fargo National Bank Building
Fargo, North Dakota 58124
Telephone (701) 237-5275

Associates in principal cities
of United States, Canada,
Mexico and Europe.

July 8, 1983

Secretary, Board of Governors
Federal Reserve System
Washington, DC 20551

Dear Sir:

RE: DOCKET NO. R-0470
PROPOSED SECTION 225.4(b) Purchase or redemption by a bank
holding company of its own securities

The proposed revision in regulation Y relative to bank holding company redemptions, if enacted will place a very heavy burden and undo restrictions on the independent community banks. We urge you to seriously address this issue which is of great concern to many bankers in the Upper Midwest.

In this day of deregulation, we believe the proposed section 225.4 Corporate Practices places increased regulatory pressure on bank holding companies, especially those with total assets of less than \$150 million. We believe that this proposed regulation, if passed, could be the beginning of the end for independent ownership of some community banks.

It appears the overall purpose of the proposed regulation is to strengthen the subsidiary bank by not allowing the bank holding company to reduce its equity by a redemption. In reality if you look beyond the monetary aspects of the transaction the proposed regulation will weaken a significant number of community banks in our area.

In our experience, the redemption process has not been used to bring in new management but has been used to allow present management, who have been minority stockholders, a means of obtaining control of banks which they have worked in for many years, a means where second and third generation bankers could remain in banking. These people are familiar with the needs of their communities, they are familiar with the people and, therefore, are better able to make banking decisions. They are the managers that are best able to deal with the new challenges in

the banking industry. By placing obstacles in their way to obtaining majority ownership, we cannot see how this can strengthen the community bank. It is the goal of many in the business environment to strive to keep the younger generation in the rural areas. We envision this as one more hindrance in their goal to remain at home and possibly someday assuming ownership of the community bank they work in.

The regulators have been stressing long-range planning in the banking industry. Accordingly, various buy-sell agreements have been entered into to preserve the continuity of management. The value of this planning is questionable when it is all nullified by regulations many years after the buy-sell agreements were entered into.

We perceive this issue as a big bank-small bank issue. The proposed revision will have little effect on the large billion dollar metro banks but will impact directly the rural community banks. Even though there are different guidelines based on bank size, the proposed special guidelines for banks under \$150 million do little if anything to help the small bank. The addition of this regulation to an industry that is already faced with increasingly challenging and complex environment is injurious.

The big banks won't be hampered by the proposed regulation and will, in fact, be benefited by it since it will eliminate a lot of their competition when looking at purchasing the smaller banks. The Board is keenly aware of competition as it relates to the banking industry's service to its customers. Why then should regulations be made which will decrease the competition when it comes to the acquisition of bank holding company stock.

As you are undoubtedly aware, present Internal Revenue Code requires a significant amount of stock to be redeemed either by a substantial disproportionate redemption or a complete termination of interest in order for the stockholder to receive capital gains treatment on the transaction. With a debt to equity ratio of no more than 30 percent being allowed by the proposed regulation changes, the redeemed stockholder will inevitably be taxed at ordinary income tax rates on the gain on his investment which he has held for many years.

Why make regulations which prohibit taxpayers from meeting other governmental agencies criteria for obtaining reasonable tax treatment. The IRS requires significant redemptions in order to qualify for capital gains. This regulation prohibits significant redemptions. Once again the taxpayer is squeezed by two conflicting regulatory requirements.

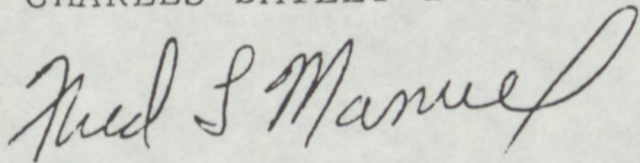
Secretary, Board of Governors
Federal Reserve Systems
Page 3

If the Board believes additional guidelines are necessary, why not design them in conjunction with current regulations, particularly those relating to bank holding company application criteria with total assets less than \$150 million. Under these guidelines redemptions would be subject to the same criteria as used by the Board when the holding company was originally formed. If the holding company was deemed to be a source of strength when it was formed under those criteria, it will continue to be a source of strength if it maintains the same criteria for redemptions.

In summary, we believe the proposed regulation relative to redemptions is unfair and will further jeopardize the existence of the independent community banks. We urge your rejection of section 225.4(b) as proposed.

Sincerely yours,

CHARLES BAILLY & COMPANY



jp

cc: Senator Mark Andrews
Senator Quentin Burdick ✓
Representative Byron Dorgan

SECURITY STATE BANK

OF NEW SALEM



New Salem, North Dakota 58563

Phone 843-7521

Member
FDIC

A. C. GOETZ, President

July 12, 1983

Secretary
Board of Governors
Federal Reserve System
Washington, D.C. 20551

Dear Secretary:

A proposed revision by the Federal Reserve Board to Regulation Y could have a substantial negative impact on the future for private ownership of small banks. The part that is objectionable relates to the Federal Reserve Board's attempt to effectively prohibit stock redemption by Bank Holding Companies unless certain minimum capital standards are met. This would prove costly to family owned banks. Under this proposal only very large holding companies could redeem holding company stock as the criteria for a purchase or redemption of its equity security makes it practically impossible to exercise any redemption power.

You are encouraged to take immediate action to reject this proposed regulation. If it is approved, the Independent Community Banks position in small communities will not survive.

Sincerely yours,

A handwritten signature in cursive script that reads "A.C. Goetz".

A.C. Goetz
President

ACG/dm

cc:

The Honorable Mark Andrews

The Honorable Quentin N. Burdick

The Honorable Byron L. Dorgan

BETTER LIVING BEGINS AT



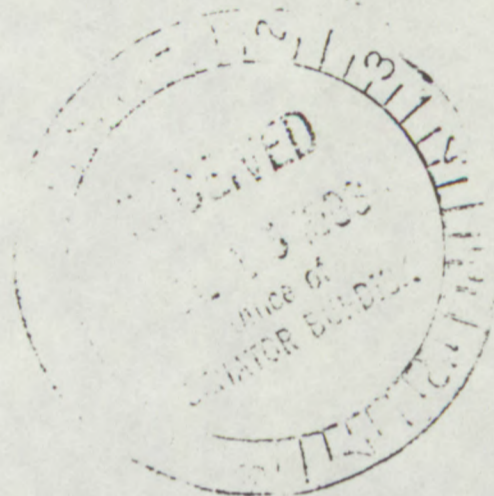
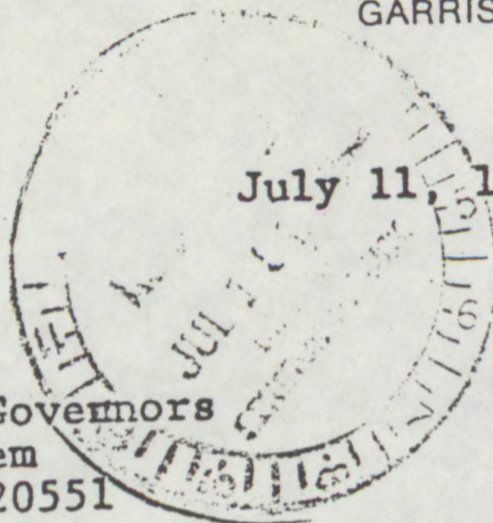
YOUR FULL SERVICE BANK



GARRISON STATE BANK

GARRISON, NORTH DAKOTA 58540

Telephone (701)463-2262



Secretary, Board of Governors
Federal Reserve System
Washington, D. C. 20551

Gentlemen:

C
O
P
Y
In response to an article that appeared in the July second issue of Commercial West, concerning the placing limits on Holding Company stock redemptions.

I feel this would place a very serious obstacle in Holding Companies owning small family banks. This could make the sale of stock in small towns difficult. In years past there have been times when it was very difficult to sell stock in a small town bank. This regulation could cause a return to this situation.

To me it appears that it would give the large bank Holding Companies another advantage over the small family owned bank. In the long run this could serve to curtail individualism and the American concept of entrepreneurship. Our nation needs all sizes of banks, and care should be taken to insure that the small family owned and operated bank will remain in existence.

I fully realize that the safety of the banks must be protected, but care and consideration should be given to insure that it is not done at the expense of the smaller banks.

Your consideration of this matter will be sincerely appreciated.

Sincerely,

Wayne A. Stroup
President

WAS:pb

August 22, 1983

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 just wanted to take a moment to thank you for your letter of June 30 enclosing a copy of your letter to Chairman Rodino regarding H.R. 3418, to amend the Bankruptcy Code with regard to certain repurchase agreements.

I certainly appreciate all you have done with regard to this legislation and should you need anything further, please do not hesitate to let me know.

Sincerely,



CO:pjt (#V-119)
bcc: Mr. Bradfield (w/copy of incoming)
Ms. Nesse (w/copy of incoming)
Mrs. Mallardi (2)

Acknowledgement being drafted by CLO

WALTER E. FAUNTROY, D.C., CHAIRMAN

STEPHEN L. NEAL, N.C.
DOUG BARNARD, JR., GA.
CARROLL HUBBARD, JR., KY.
BILL PATMAN, TEX.
BUDDY ROEMER, LA.
BRUCE A. MORRISON, CONN.
JIM COOPER, TENN.
THOMAS R. CARPER, DEL.

GEORGE HANSEN, IDAHO
RON PAUL, TEX.
BILL McCOLLUM, FLA.
BILL LOWERY, CALIF.
JOHN HILER, IND.

U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON DOMESTIC MONETARY POLICY

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

NINETY-EIGHTH CONGRESS

WASHINGTON, D.C. 20515

H2-109, ANNEX NO. 2
WASHINGTON, D.C. 20515
(202) 226-7315

June 30, 1983

#119

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1983 JUL -5 AM 8:55
RECEIVED
OFFICE OF THE CHAIRMAN

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

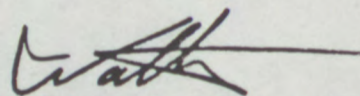
Dear Paul:

I am forwarding to you a copy of the correspondence I have sent to the Honorable Peter W. Rodino, Jr. Chairman of the Committee on the Judiciary regarding H.R. 3418, a bill to amend Title 11 of the United States Code with regard to certain repurchase agreements.

A copy of my full statement, along with the text of the bill and a section-by-section may be found in the Congressional Record of June 27, 1983 on pages E3183 - E3187.

This legislation rose out of hearings held by the Subcommittee on April 25, 1983 on the Safety, Soundness, Structure and Function of Domestic Institutions Engaged in the Purchase and sale of United States Government Debt Instruments. It was developed with the full cooperation of the staff of the Federal Reserve and particularly, Janet Nesse an attorney in the legal division. I would be most appreciative if you would convey to her my appreciation.

Sincerely yours,



Walter E. Fauntroy
Chairman

WALTER E. FAUNTROY, D.C., CHAIRMAN

STEPHEN L. NEAL, N.C.
DOUG BARNARD, JR., GA.
CARROLL HUBBARD, JR., KY.
BILL PATMAN, TEX.
BUDDY ROEMER, LA.
BRUCE A. MORRISON, CONN.
JIM COOPER, TENN.
THOMAS R. CARPER, DEL.

GEORGE HANSEN, IDAHO
RON PAUL, TEX.
BILL McCOLLUM, FLA.
BILL LOWERY, CALIF.
JOHN HILER, IND.

U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON DOMESTIC MONETARY POLICY

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

NINETY-EIGHTH CONGRESS

WASHINGTON, D.C. 20515

H2-109, ANNEX NO. 2
WASHINGTON, D.C. 20515
(202) 226-7315

June 30, 1983

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

Dear Paul:

I am forwarding to you a copy of the correspondence I have sent to the Honorable Peter W. Rodino, Jr. Chairman of the Committee on the Judiciary regarding H.R. 3418, a bill to amend Title 11 of the United States Code with regard to certain repurchase agreements.

A copy of my full statement, along with the text of the bill and a section-by-section may be found in the Congressional Record of June 27, 1983 on pages E3183 - E3187.

This legislation rose out of hearings held by the Subcommittee on April 25, 1983 on the Safety, Soundness, Structure and Function of Domestic Institutions Engaged in the Purchase and sale of United States Government Debt Instruments. It was developed with the full cooperation of the staff of the Federal Reserve and particularly, Janet Nesse an attorney in the legal division. I would be most appreciative if you would convey to her my appreciation.

Sincerely yours,

Walter E. Fauntroy
Chairman

WALTER FAUNTROY DC CHAIRMAN

STEPHEN NEAL NC
DICK BARNARD JR GA
CARROLL HUSTARD JR KY
BILL PATMAN TEX
BUDDY PRYMER IA
BRUCE A. MORRISON CONN
JIM COOPER TENN
THOMAS R. CARPER DEL

GEORGE HARTEN IDAHO
RON PAUL TEX
BILL MCCOLLUM FLA
BILL LOWERY CALIF
JOHN HILL IND

U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON DOMESTIC MONETARY POLICY

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

NINETY-EIGHTH CONGRESS

WASHINGTON, D.C. 20515

June 29, 1983

The Honorable Peter W. Rodino, Jr.
Chairman
Committee on the Judiciary
U.S. House of Representatives
Washington, D. C. 20510

Dear Peter:

Last April 25, 1983, the Subcommittee on Domestic Monetary Policy of which I am Chairman for the Committee on Banking, Finance and Urban Affairs held, as a part of its continued oversight on circumstances and events which affect the conduct of money and credit policies, hearings on the safety, soundness, structure and function of domestic institutions engaged in the purchase and sale of United States government debt instruments. One of the issues raised at that hearing concerned the need for clarification of the treatment of repurchase agreements under the Bankruptcy Code.

That uncertainty has been highlighted by the filing in the Bankruptcy Court in the Southern District of New York, a chapter 11 bankruptcy petition by Lombard-Wall, Inc. in August 1982. A bench decision in the Lombard-Wall case held that the holder of securities subject to a repurchase agreement was subject to the automatic stay of the Code and that this holder was precluded from closing out its position with the debt without approval of the Court. Lombard-Wall Incorporated v. Columbus Bank & Trust Co., et al. (In re Lombard-Wall, Inc.) No. 82 B 11556, Bankr. Ct., S.D.N.Y. bench decision, September 16, 1982.

This holding has made clear the risks to the market created by the Code's stay and avoidance provision and demonstrated that PL 97-222 is not sufficient in scope to protect the market from major dislocations caused by the bankruptcy of market participants. The effect on the capacity of the ability of the Federal Reserve to conduct monetary policy and to function as the fiscal agent of the United States is also jeopardized. The Federal Open Market Committee, through the trading desk at the New York Federal Reserve Bank, makes extensive use of repos in regulating the supply of funds in the execution of monetary policy. Repos have become a highly flexible and effective short-term tool for the Federal Reserve to adjust reserves for short periods of time without disruption of the Government securities market and it depends on broadbased public participation. These repurchase agreements are also crucial to

June 29, 1983

the financing of the public debt and any question about their liquidity can have an adverse impact causing disruptions in the placement of the debt and increases in the interest rates paid by the United States and, as Federal Securities are the most credit favored of all debt instruments, ultimately on interest rates paid by all other borrowers.

As a result of these hearings I have introduced H.R. 3418 which are amendments intended to clarify the treatment of these repurchase agreements under the bankruptcy code.

These amendments are designed to protect the financial markets from the disruption that would result from the bankruptcy of a major participant in the market and should aid in the further smooth functioning of the market by eliminating questions about the possible treatment of a repurchase agreement in the event of a bankruptcy.

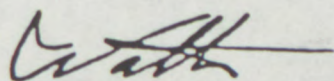
These amendments are supported by the Federal Reserve as well as by participants in the repurchase agreement market. Broad support for the legislation has been obtained from security dealers, money market mutual funds, financial institutions, states, municipalities, and pension funds.

While I understand and agree with your view that the issues raised by the Supreme Court in its decision styled Northern Pipeline Construction Co. v. Marathon Pipe Line Co., 102 S.Ct 2858 (1982), ought to be resolved prior to other changes in the Bankruptcy Code, it is my considered opinion that these particular amendments should be enacted as promptly as possible to guard against any disruption of the nation's financial markets and the Federal Reserve System's capacity to conduct monetary policy or act as fiscal agent of the United States. The sheer magnitude of the market --over \$100 Billion is outstanding each day-- warrants this unusual consideration which I hope your Committee will be able to give it.

For your use, I have included copies of the bill, the statement I inserted into the Record on June 27, 1983, and the materials provided to this Subcommittee by the Honorable Anthony M. Solomon, President of the Federal Reserve Bank of New York at the hearing held by my Subcommittee. I would be pleased to further discuss this matter with you and, when appropriate, to testify and share with you the findings of my own Subcommittee. Additional assistance on this matter may be obtained from the Staff Director of my Subcommittee, Howard Lee, by calling 226-7315.

With kindest regards to you and every good wish, I am

Sincerely yours,



Walter E. Fauntroy
Chairman



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

August 22, 1983

PAUL A. VOLCKER
CHAIRMAN

The Honorable Timothy J. Penny
House of Representatives
Washington, D. C. 20515

Dear Mr. Penny:

Thank you for your letter of August 9 regarding the Board's proposal to amend Regulation Y, its regulation governing bank holding companies. Specifically, you express concern about the proposed changes to the provisions of the regulation governing the redemption by a bank holding company of its own securities.

Currently, the Board's Regulation Y (12 CFR 225.6) requires a notice to the Board for any proposed redemption by a bank holding company of its own equity securities if the consideration paid for the shares exceeds 10 percent of the net worth of the bank holding company. The Board reviews the notice to determine whether the redemption would adversely affect the safety or soundness of the organization. Under the proposed amendments to Regulation Y, no notice would be required for any redemption if, after the redemption, the bank holding company meets the standards for adequate capitalization established by the Board of Governors and the Comptroller of the Currency. The Board generally regards these standards as the minimum for safe and sound operation of banking organizations.

The proposal also allows a bank holding company to make redemption of its stock without regard to these capital standards under two additional circumstances. First, a company may make de minimis redemptions equal to one percent of its net worth in any 12 month period. Second, a company may apply to the Board for its approval to make redemptions in unusual circumstances. In considering those requests, it is contemplated that the Board would consider the overall effects of the proposed redemption on the capitalization of the bank holding company.

The proposed revision of the redemption provisions emphasizes that the Board's primary concern with such redemptions is the effect they have on bank holding company capitalization. In a redemption situation, the holding company's capital is reduced through the retirement of its capital stock and, in many cases, this reduction in capital is accompanied by a corresponding increase in the indebtedness of

The Honorable Timothy J. Penny
Page Two

the holding company to finance the redemption. In other words, in many cases, a redemption involves the substitution of debt for capital in the bank holding company. Under the proposal, the ability to make redemptions that reduce the holding company's capital and increase its indebtedness is made contingent upon the bank holding company satisfying the interagency capital standards. The proposal is premised upon the belief that a reduction in a bank holding company's capital may not be consistent with safe and sound banking practice where the holding company's capital will be below the minimum capital standards established by the Board and the Comptroller of the Currency.

The Board has received numerous comments on the proposed amendment, primarily from small banking organizations. The main thrust of the comments is directed to the fairness of the proposed provision that no redemption be permitted without prior approval where the bank holding company has a debt-to-equity ratio in excess of 30 percent following the redemption. The comments have raised concern that application of the Board's capital standards in a redemption situation will seriously limit the transferability of small banking organizations.

While the Board is concerned with adequate capitalization of bank holding companies, the Board has also recognized the unique function of small one-bank holding companies in facilitating the transfer of ownership of small banking organizations. (Policy Statement on Assessment of Financial Factors of One-Bank Holding Companies, March 28, 1980.) Because of this concern, the Board has, in proposals involving the ownership of small banking organizations, permitted liberal debt-to-equity ratios substantially in excess of the 30 percent level on the basis that the bank holding company would direct its efforts to reducing its debt-to-equity ratio over a relatively short time span in order that its improved debt capacity will allow it to serve as a source of strength should the subsidiary bank require assistance.

The Board's staff is reviewing modifications to the proposed stock redemption proposal in light of the Board's previously stated policy regarding the transfer of ownership of small banking organizations and the Board's concerns with the capital adequacy of the nation's banks. I appreciate having your views, and your concerns will be presented to the Board when it takes action on the proposal. I will be happy to let you know when the Board reaches a final decision on the matter.

Sincerely,

VM:vcd (V-165)
bcc: Messrs. Mattingly &
Bradfield
Legal Files (2)
Mrs. Mallardi (2)

S/Paul A. Volcker

TIMOTHY J. PENNY
1ST DISTRICT, MINNESOTA

COMMITTEES:
AGRICULTURE
VETERANS' AFFAIRS

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

August 9, 1983

A/65

WASHINGTON OFFICE:
501 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-2472

DISTRICT OFFICES:
PARK TOWERS
22 NORTH BROADWAY
ROCHESTER, MINNESOTA 55901
(507) 281-6053

BLUE EARTH COUNTY GOVERNMENT CENTER
P.O. Box 3148
MANKATO, MINNESOTA 56001
(507) 625-6921

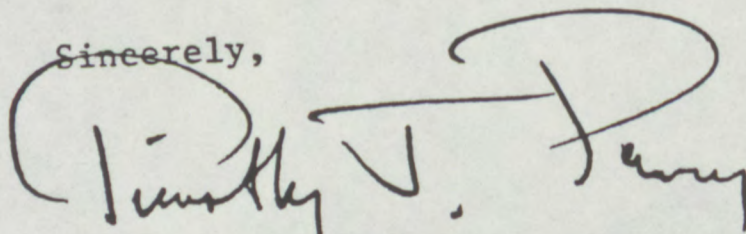
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1983 AUG 11 AM 8:58
RECEIVED
OFFICE OF THE CHAIRMAN

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

Dear Chairman Volcker:

Many bankers and other concerned individuals from Minnesota have contacted me objecting to the possible changes in Regulation Y now under consideration by the Federal Reserve Board. They are legitimately concerned about the impact of this proposed change on small banks and small bank holding companies. Please consider their objections and respond to me before a final decision is made on this particular revision of the regulations.

Sincerely,



TIMOTHY J. PENNY
Member of Congress

TJP/FS/1th
Enclosures

HARMONY STATE BANK
3 MAIN AVE N
HARMONY MN 55939 15AM

Western Union Mailgram



4-0225695196 07/15/83 ICS IPMBNGZ CSP WSHB
5078866922 MGM TDBN HARMONY MN 76 07-15 1148A EST

cat-12180
P A12180

CONGRESSMAN TIMOTHY J PENNY
501 CANON OFFICE BLDG
WASHINGTON DC 20515

THE PROPOSED REGULATION Y SECTION 225.4 WILL ADVERSELY AFFECT PRIVATE OWNERSHIP OF SMALL BANKS AND WILL LIMIT CONTINUITY OF OWNERSHIP. IT WILL MARKEDLY REDUCE THE MARKETABILITY OF MINORITY INTEREST OF PRIVATELY OWNED BANK HOLDING COMPANY STOCK, AND IT WILL ADVERSELY AFFECT OR ELIMINATE EMPLOYEE STOCK OPTION PLANS WE'RE FIRMLY AGAINST THE PROPOSED REGULATION PLEASE HELP US.

LEONARD D SKAALEN PRESIDENT HARMONY STATE BANK HARMONY MN

11:50 EST

MGMCOMP

FIRST NATIONAL BANK OF STEWARTVILLE
P.O. Box 385
Stewartville, MN 55976

July 18, 1983

Mr. William W. Wiles, Secretary
Board of Governors of the
Federal Reserve System
20th & Constitution Ave. NW
Room B-2223
Washington, DC 20551

RE: "Docket No. R-0470"

Dear Mr. Wiles:

In reference to "Docket No. R-0470", any additional restrictions in the redemption of One Bank Holding Company's stock would impair the ownership of independent banks through OBHC's and because the Fed now has the 45 day prior notice requirement, we feel the safety and soundness issue is already covered. The proposed additional restrictions could ultimately reduce substantially the number of independent small town banks which in turn would be detrimental to the rural communities that these banks serve.

Sincerely,

Don K. Podein, President
1st National Bank of Stewartville, MN

cc: Senator David Durenberger
Senator Rudy Boschwitz
Congressman Timothy J. Penny

DKP/mlk

Farmers & Merchants State Bank

"Your Home Owned Bank"
612-243-3702

July 15, 1983

Congressman Timothy J. Penny
501 Cannon Office Building
Washington, D.C. 20515

Dear Congressman Penny:

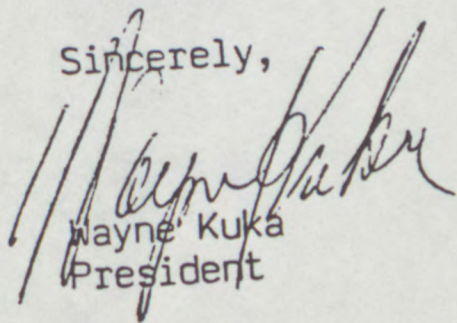
I strongly feel the proposed revisions to Regulation Y by the Federal Reserve Board would be a real setback for rural Minnesota. The small independently owned banks are fulfilling the financial needs of the communities at a reasonable cost.

I admit, they will bring up situations where a bank is probably not performing as well as it should. However, these are strictly a few isolated situations. All in all, I am sure there is no question that the Minnesota banks do a good job for their community. They are part of the community and are very involved in the development of that area.

If the proposed regulations were to pass, this would open the door to the large financial institutions and would treat the small banks as strictly a branch of the larger bank. I'm sure not only would the cost of banking increase, but it would take away the strong personal ties of the bank to the community. All in all, I feel the community would suffer.

I would appreciate any help that you can give us in opposing this proposal. If there is any additional information or anything you would like, I would gladly supply it at your request.

Sincerely,



Wayne Kuka
President

IW



BOX 137
PAYNESVILLE, MINNESOTA 56362



JANESVILLE STATE BANK

JANESVILLE, MINNESOTA 56048

July 15, 1983

Congressman Timothy J. Penny
501 Cannon Office Building
Washington, D.C. 20515

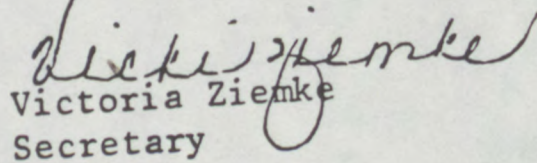
Dear Congressman Penny:

Joe is gone from the bank for a couple of days and before he left he asked that I contact you regarding the proposed revision and update of Regulation Y.

On behalf of Joe, would you please do everything you can to prevent this change by the Federal Reserve Board.

Thank you.

Sincerely,


Victoria Zienke
Secretary

Patrick V. Hart

ATTORNEY AT LAW

100 SOUTH BROADWAY
WELLS, MINN. 56097
PHONE: 507/553-3805

July 13, 1983

Representative Tim Penny
2344 Rayburn House Office Building
Washington, D.C. 20515

Dear Tim,

Enclosed is a copy of my letter to the Secretary of the Federal Reserve Board concerning the proposed regulation restricting bank holding company stock redemptions.

If you are not familiar with this area, I recommend for your study an article by Kevin Costley of the Minneapolis law firm of Lundquist and Vennum from the July 2, 1983 issue of Commercial West. A copy of the article is enclosed.

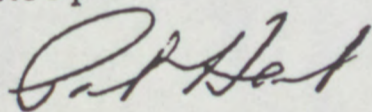
Obviously, I do not feel that the proposed regulation is designed to help the small businessman nor even to help with enforcing the safety and soundness of bank holding companies and their bank subsidiaries.

I do not have a bank holding company at the present time but I intend to apply for the formation of one in the near future and this regulation will make it even more difficult for my family to continue to engage in banking in the future.

I would appreciate the transmittal of your concern to the Federal Reserve Board on behalf of all small businessmen who own banks.

Thank you for your consideration.

Respectfully,



Patrick V. Hart
Attorney at Law

PVH:kgn

Enc.

Patrick V. Hart

ATTORNEY AT LAW

100 SOUTH BROADWAY
WELLS. MINN. 56097
PHONE 507/553-3805

July 13, 1983

Secretary
Board of Governors of the Federal Reserve System
Washington, D.C. 20551

Re: Proposed Change in Regulation Regarding
Redemption of Stock by a Bank Holding Company

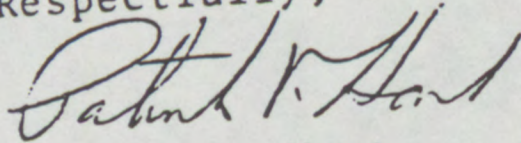
The Board's proposed changes in the regulations regarding redemption of stock by a bank holding company are unnecessary and unduly restrictive.

It seems that the Federal Reserve Board is making a conscious effort to limit the market for the stock of small one bank holding companies in order to force the sale of said stock to larger multi-bank holding companies. This appears to be nothing more than an effort by big government to cater to the desires of big business.

There is no need for a change in the regulations as a redemption under the current rules is prohibited if it would be unsafe and unsound for the holding company and the bank. The challenges facing a small bank in today's economy and changing financial services delivery system are tough enough in this era of "deregulation" without having regulators changing the regulations to unduly restrict the small businessman.

The Board's continued reliance on a case by case review of each stock redemption by a bank holding company as to the safety and soundness of such redemption is preferred to an arbitrary and capricious application of statistical criteria.

Respectfully,



Patrick V. Hart
Attorney at Law

PVH:kgn

Removal Notice



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: Magazine article

Number of Pages Removed: 2

Citations: Costley, J. Kevin. "Fed Wants To Limit Holding Company Stock Redemptions." *Commercial West*, July 2, 1983.



CARVER COUNTY
STATE BANK

Chaska, Minnesota 55318
Phone 612-448-2100

July 11, 1983

SECRETARY
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

DOCKET NO. R-0470

Dear Sir:

I object strongly to the proposed revision of the stock redemption section of Regulation Y. The future of most small town banks would be severely curtailed with the passage of such legislation.

Our small 25 million bank has just completed the holding company transformation, buy-sells are in place, insurance finding purchased and so forth. This procedure is the only vehicle I had as majority stockholder to affect an orderly and economical transfer of ownership over a 10 to 15 year period. The only other solution available to me would have been an outright sale of the bank. I was extremely reluctant to sell to a large outside conglomerate or holding company as our bank had been in our family control for 120 years. I also had to consider my own estate planning and the careers of two other bank officers that participated with me on the holding company formation. Without the present Minnesota holding company rules and regulations I could not have accomplished what had to be done. Hence, I object very strongly to the proposed revision of the stock redemption section of Regulation Y.

Very truly yours,

D. W. DuToit Jr.

Daha
D. W. DuToit Jr.
Chairman

cc: Bankers Resource Center, Inc.
Bank Holding Company Association
of Minnesota

enc.

TIM
THIS REVISION
MUST NOT BE
MADE. WOULD
KILL US. *DJR.*

Security State Bank

OF
MANKATO
MADISON AVENUE & LONG STREET
POST OFFICE BOX 3109
MANKATO, MINNESOTA 56001
TELEPHONE (507) 625-1121



July 15, 1983

The Honorable Timothy J. Penny
501 Cannon House Office Building
Washington, D.C. 20515

RE: Proposed Changes in Section 225.4(b)
Docket No. R-0470

Dear Representative Penny:

I respectfully request that you contact the Secretary of the Board of Governors of the Federal Reserve System opposing the above-mentioned proposed changes for the following reasons:

1. The proposed criteria (6% bank capital to assets and no more than 30% debt to equity in the holding company) which would have to be met for approval are much tougher than those now in place for the formation of a new bank holding company.
2. It would reduce the holding company's ability to sell stock to infuse capital in its subsidiary bank.
3. This would eliminate the ability for a small bank holding company to make a market in minority stock.
4. Redemptions from an individual's estate would be much tougher if not impossible.
5. Employee Stock Ownership Plans (E.S.O.P.'s) which look to the holding company for redemption would be crippled.
6. Buy/sell agreements would be impractical under the proposed changes.

Should the proposed changes take place, it threatens every small bank holding company and its ownership and threatens the very existence of independent banking in this country. Your help in this matter is needed immediately as letters and contacts must be received by the Federal Reserve System on July 18, 1983.

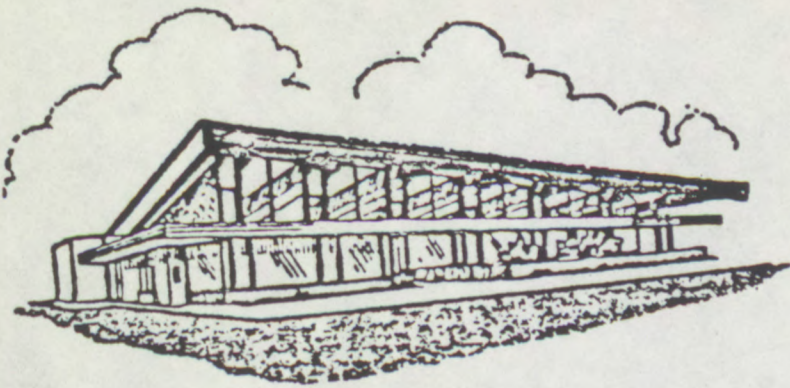
Sincerely,

SECURITY STATE BANK OF MANKATO

A. C. Norland
Chairman of the Board

AN INDEPENDENT FULL SERVICE BANK
MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION

dmw



THE FIRST NATIONAL BANK
LE CENTER, MINNESOTA 56057
LE CENTER

Phone: 612-357-2273

July 15, 1983

Congressman Timothy J. Penny
501 Cannon Office Building
Washington, D.C. 20515

Re: Stock Redemption Docket #R-0470
and Regulation Y Revisions, Section #225.4

Dear Congressman Penny:

I am writing this letter in objection to the implementation of the new Section which is referenced above. This law, if authorized, represents a dangerous precedent whereby a federal regulatory agency may prohibit a banking organization from conducting a standard, legal corporate practice unless that organization meets certain standards established by the regulatory agency.

Secondly, because of the minimum standards to be imposed by the Board, the proposed regulation will adversely affect private ownership of small banks, in that it will severely limit Bank Holding Companies as estate planning vehicles and will limit continuity of ownership. It will also adversely affect or eliminate employee stock option plans. This will, of course, place a substantial economic hardship on private owners of small banks, and they will be forced to file new BHC formation applications with the Federal Reserve System as an alternative to a stock redemption.

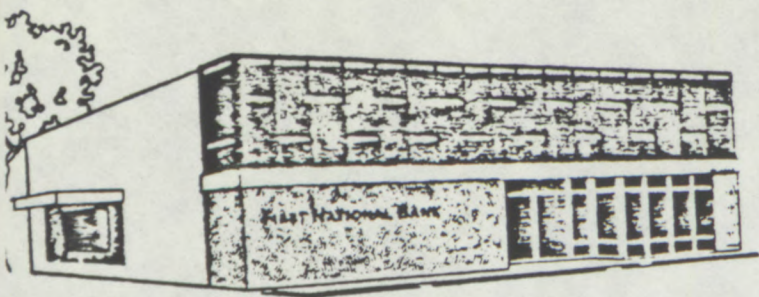
Please note my opposition to this proposal.

Sincerely,

Charles L. Traxler
President

CLT/bjn

fnb



ST. CHARLES
1130 WHITEWATER AVE. • (507) 932-4610

FIRST NATIONAL BANK
ST. CHARLES IN MN 55972



UTICA 55979
(507) 932-4486 • (507) 523-2700

July 15, 1983

Congressman Timothy J. Penny
501 Cannon Office Building
Washington, D.C. 20515

Re: Proposed Reg. Y, Section 225.4 Subd. (b)

Dear Congressman Penny:

We at the First National Bank in St. Charles, Minnesota, are opposed to the proposed revisions to Regulation "Y", Section 225.4 Subd. (b), because it will seriously hurt the owners of small banks.

We feel there is a question as to whether the Board is authorized by law to implement this subsection.

Many small banks are family owned and ownership is passed on. This revision of Regulation "Y" will adversely effect private ownership of small banks in that it will limit bank holding companies as estate planning vehicles.

It will also reduce marketability of minority interest of privately owned bank holding company stock. It would also just about eliminate employee stock option plans.

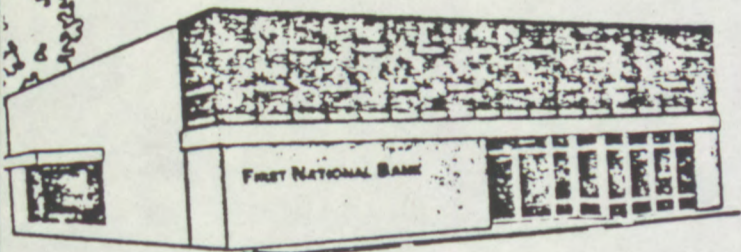
We feel this places a substantial economic hardship on private owners of small banks.

Thank you for any consideration in this matter.

Sincerely,

Jerry A. Fix
President

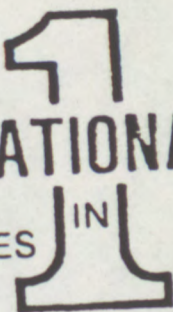
JAFmc



ST. CHARLES
1130 WHITEWATER AVE. • (507) 932-4610

FIRST NATIONAL BANK

ST. CHARLES



MN 55972



UTICA 55979
(507) 932-4486 • (507) 523-2700

July 14, 1983

Docket R-0470
Secretary
Board of Governors
Federal Reserve System
Washington, D.C. 20551

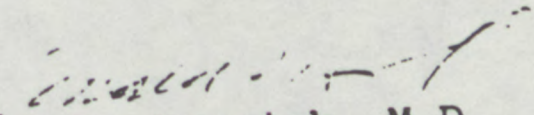
Dear Sir:

I wish to register my absolute opposition to the proposed change in Regulation Y regarding stock redemptions.

Because of the minimum standards to be imposed by the Board this proposed regulation will adversely affect private ownership of small banks in that only large corporations will be capable of purchasing said banks. It will thereby limit the market for such banks and create a concentration and hence a monopoly of financial institutions being in the hands of very small groups. It will furthermore limit the continuity of ownership and will markedly reduce the marketability of minority interests of privately owned bank and bank holding company stock.

It will furthermore adversely affect or eliminate the employee stock option plans that own bank holding company stock and thereby remove incentives which are routinely taken for granted by most corporations.

Respectfully yours,


Donald W. Herrick, M.D.
Chairman

DWH:je

FNB First national bank

P.O. BOX 385 • (507) 533-4731 • STEWARTVILLE, MN 55976

July 14, 1983

Docket R-0470
Secretary
Board of Governors
Federal Reserve System
Washington, D.C. 20551

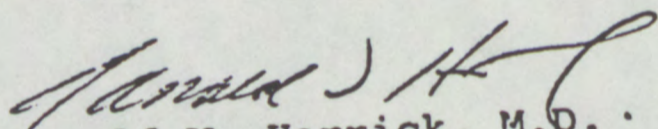
Dear Sir:

I wish to register my absolute opposition to the proposed change in Regulation Y regarding stock redemptions.

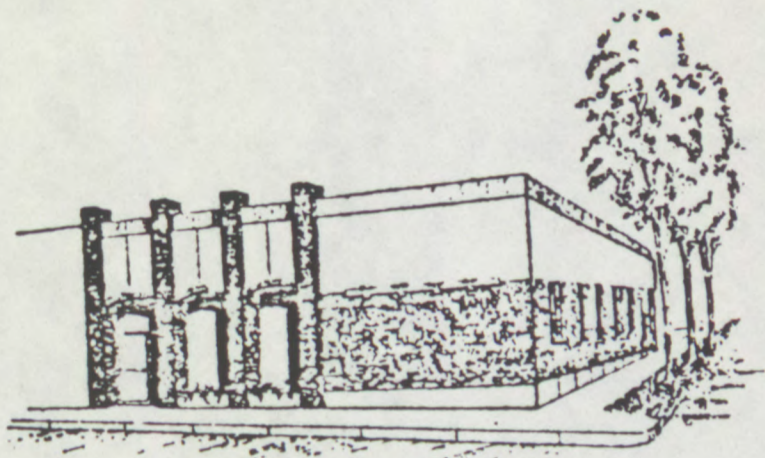
Because of the minimum standards to be imposed by the Board this proposed regulation will adversely affect private ownership of small banks in that only large corporations will be capable of purchasing said banks. It will thereby limit the market for such banks and create a concentration and hence a monopoly of financial institutions being in the hands of very small groups. It will furthermore limit the continuity of ownership and will markedly reduce the market-ability of minority interests of privately owned bank and bank holding company stock..

It will furthermore adversely affect or eliminate the employee stock option plans that own bank holding company stock and thereby remove incentives which are routinely taken for granted by most corporations.

Respectfully yours,


Donald W. Herrick, M.D.
Chairman

DWH:je



M. A. PASSER, President

FIRST NATIONAL BANK

KIESTER, MINNESOTA 56051

July 13, 1983

Congressman Timothy J. Penny
501 Cannon Office Bldg.
Washington, D.C.

20515

Re: Docket R-0470, Regulation Y
Section 225-4, Stock Redemptions

Dear Congressman Penny:

We are writing this letter to voice our opposition to the changes which are being proposed in Section 225-4.

We are opposing these changes because:

1. This would eliminate the ability for small bank holding companies to make a market in minority stock.
2. It would reduce the holding companies ability to sell stock to infuse capital in it's subsidiary bank.
3. Redemptions from estates would be much tougher, if not impossible.
4. Employee stock ownership plans which look to the holding company for redemption would be difficult.
5. Many buy-sell agreements would be impractical.

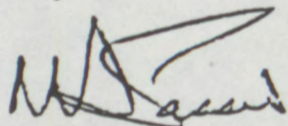
"THE FRIENDLY BANK ON THE CORNER"

What appears to be a rather insignificant change to existing regulations will only increase the ease in which the large banking organizations may eventually acquire the small privately owned banks. It would severely limit bank holding companies as estate planning vehicles and would also limit continuity of ownership. This would definitely place economic hardship on private owners of small banks, which would be forced to file new bank holding company formation applications as an alternative to stock redemption. Additionally, there are many buy-sell agreements wherein the bank holding company is contractually obligated to purchase shares of one or more shareholders under certain conditions. Without this ability to redeem stock a significant hardship could be placed on continuity of bank holding ownership by a given family or group and potential market ability of minority interest will be substantially reduced.

In closing we feel this proposal threatens every small bank holding company and it's ownership. We request that you tell the Federal Reserve System to stop rushing such major changes through.

Thanking you in advance for your consideration.

Very truly yours,



M. A. Passer
President

MAP:ls

July 14, 1983

The Honorable Timothy J. Penny
501 Cannon Office Building
Washington, D.C. 20510

RE: Proposed changes in Reg. Y Section 225.4,
Subd. (b)

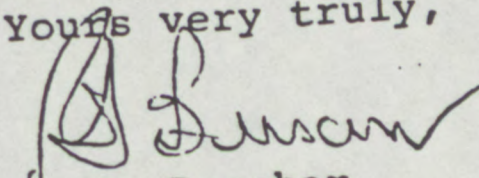
Dear Mr. Penny:

I respectfully urge your support in opposition to the above captioned proposed changes by the Federal Reserve Board. I feel these proposed changes represent a dangerous precedent, whereby a federal regulatory agency may prohibit a banking organization from conducting a standard, legal corporate practice unless the organization meets certain standards established by the regulatory agency. Also, because of the minimum standards to be imposed by the Board, the proposed regulation will adversely affect private ownership of small banks, in that they will severely limit bank holding companies as an estate planning vehicle and will limit continuity of ownership. It will further markedly reduce the marketability of the minority interest of privately owned bank holding company stock; and it will adversely affect or eliminate employee stock option plans ("ESOPS") that own bank holding company stock. This will result in a substantial economic hardship on private owners of small banks, and they will be forced to file new bank holding company formation applications with the Federal Reserve System as an alternative to a stock redemption.

For the above reasons, I urge your support in defeating these proposed new changes in the Bank Holding Company Act of 1956 as amended in the change in the Bank Control Act of 1978.

Thank you for your consideration.

Yours very truly,



R. J. Buscher
Chairman
Chief Executive Officer

RJB:dah

AMERICAN STATE BANK

302 NORTH FRONT STREET, P.O. BOX 880, MANKATO, MINNESOTA 56001-PH. (507)345-4531
401 PARKWAY, P.O. BOX 40, EAGLE LAKE, MINNESOTA 56024-PH. (507)257-3830

July 13, 1983

Congressman Timothy J. Penny
501 Cannon Office Bldg.
Washington, D.C.

80515

Re: Docket R-0470, Regulation Y
Section 225-4, Stock Redemptions

Dear Congressman Penny:

We are writing this letter to voice our opposition to the changes which are being proposed in Section 225-4.

We are opposing these changes because:

1. This would eliminate the ability for small bank holding companies to make a market in minority stock.
2. It would reduce the holding companies ability to sell stock to infuse capital in it's subsidiary bank.
3. Redemptions from estates would be much tougher, if not impossible.
4. Employee stock ownership plans which look to the holding company for redemption would be difficult.
5. Many buy-sell agreements would be impractical.

What appears to be a rather insignificant change to existing regulations will only increase the case in which the large banking organizations may eventually acquire the small privately owned banks. It would severely limit bank holding companies as estate planning vehicles and would also limit continuity of ownership. This would definitely place economic hardship on private owners of small banks, which would be forced to file new bank holding company formation applications as an alternative to stock redemption. Additionally, there are many buy-sell agreements wherein the bank holding company is contractually obligated to purchase shares of one or more shareholders under certain conditions. Without this ability to redeem stock a significant hardship could be placed on continuity of bank holding ownership by a given family or group and potential market ability of minority interest will be substantially reduced.

In closing we feel this proposal threatens every small bank holding company and its ownership. We request that you tell the Federal Reserve System to stop rushing such major changes through.

Thanking you in advance for your consideration.

Very truly yours,

Edward Eilertson

Edward Eilertson
Chairman of the Board of Directors
1st National Bank of Kiester
Kiester, Minnesota 56051



ARLINGTON STATE BANK
Banking-Insurance-Real Estate



H. W. LYNCH
President

230 WEST MAIN
ARLINGTON, MINNESOTA 55307
Office 612-964-2256
Home 612-964-5408

July 14, 1983

Congressman Timothy J. Penny
501 Cannon Office Building
Washington, D.C. 20515

Dear Congressman Penny:

On May 19, 1983, the Federal Reserve Board issued a notice of proposed revisions to Regulation Y. This regulation represents the Board's implementation of the Bank Holding Company Act of 1956, as amended. The proposed revision is under a new section numbered 225.4 and has two subsections. In subsection (b) entitled "Purchase or Redemption by a Bank Holding Company of its Own Securities", the prior notification requirements have been replaced by a blanket prohibition on stock redemptions by a BHC, unless it complies with the minimum standards in the Board's policy statement on capital adequacy. The proposed language for Section 22.4(b) is as follows:

(b) Purchase or redemption by a bank holding company of its own securities. A bank holding company may not purchase or redeem its equity securities, unless:

- (1) the gross consideration paid for the securities, when added to the net consideration paid for all similar transactions during the preceding 12-month period, is not more than \$10 million or 1 percent of the bank holding company's net worth, whichever is less or,
- (2) the bank holding company has:
 - (i) consolidated assets of \$1 billion or more, and after the purchase or redemption, its consolidated primary capital-to-assets ratio is at least 5 percent;

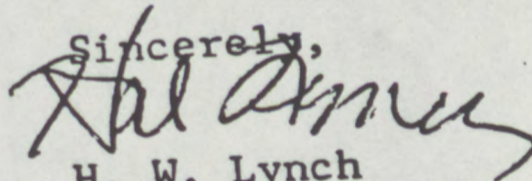
(2) cont'd

- (ii) consolidated assets of \$150 million to \$1 billion, and after the purchase or redemption, its consolidated primary capital-to-total assets ratio is at least 6 percent; or
- (iii) total banking assets of \$150 million or less, and after the purchase or redemption,
 - (A) the primary capital-to-total assets ratio of the bank holding company (consolidated) is at least 6 percent, or
 - (B) the primary capital-to-total assets ratio of each subsidiary bank of the holding company is at least 6 percent and the debt-to-equity ratio of the parent bank holding company (nonconsolidated) is no more than 30 percent; or
- (3) the bank holding company obtains the prior approval of the Board for the redemption or purchase on the basis of unusual circumstances.

The subsection that I seriously object to is subsection (b) as there is a serious question as to whether the Board is authorized by law to implement this subsection, which, if issued and upheld, represents a dangerous precedent whereby a federal regulatory agency may prohibit a banking organization from conducting a standard, legal corporate practice unless that organization meets certain standards established by the regulatory agency. Secondly, because of the minimum standards to be imposed by the Board, the proposed regulation will adversely affect private ownership of small banks, in that it will severely limit BHC's as estate planning vehicles and will limit continuity of ownership; it will markedly reduce the marketability of minority interests of privately owned BHC stock; and it will adversely affect or eliminate employee stock option plans (hereinafter "ESOPS") that own BHC stock. This will, of course, place a substantial economic hardship on private owners or small banks, and they will be forced to file new BHC formation applications with the Federal Reserve System as an alternative to a stock redemption.

This is a very serious situation. Many of your strongest supporters are substantial investors in small town bank holding companies. We need your immediate support and help in this situation and will greatly appreciate everything you can do to assist us. Laws should be made by duly elected representatives of the people, not by the edict of bureaucrats. I would like to hear from you on this.

Sincerely,



H. W. Lynch
President

HWL:dp

JOHN A. FISCHER
[REDACTED]
[REDACTED]
[REDACTED]

July 14, 1983

Representative Tim Penney
501 Cannon Building
Washington, D.C. 20515

Dear Representative Penney:

Enclosed please find a copy of a letter I have recently written to the Secretary of the Board of Governors of the Federal Reserve System on behalf of The Fischer Corporation with respect to their proposed change to Regulation 'Y' of the Bank Holding Company Act. The proposed change effectively eliminates bank holding companies from redeeming their own stock; this being a technique frequently used by holding companies to facilitate the transfer of stock from a father to his children and is currently a technique that is available to any corporation.

This change has such a devastating effect in that it could virtually eliminate independent community banking as we know it today.

The Minnesota Legislature has taken great time and effort to provide for the transfer of closely held property (mainly farms and other small businesses) from a father to his children. This was done because of the belief that a child should be able to keep what his parents have worked so hard to build. On the Federal level, changes to the estate tax laws have been adopted for the same reason. On the other hand, this Federal Reserve proposal would virtually make it impossible for many bankers to pass their banks on to their children.

As you may not have even heard of this proposal, I am also enclosing an article written by a local attorney which explains the current regulation and the proposed change.

My father has been involved in his local community bank for over fifty years. To deprive him of passing this asset to his children does not appear to be just, fair or reasonable.

It would at least seem reasonable that a material change such as this would require legislative, and not administrative, action. Anything that you can do to see that the proposed change is not put into law would be appreciated.

Very truly yours,

John A. Fischer

John A. Fischer

JAF/jw
Enclosures

Removal Notice



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: Magazine article

Number of Pages Removed: 3

Citations: Costley, J. Kevin. "Fed Wants To Limit Holding Company Stock Redemptions." *Commercial West*, July 2, 1983.

JOHN A. FISCHER
[REDACTED]
[REDACTED]
[REDACTED]

July 14, 1983

Secretary, Board of Governors
Federal Reserve System
Washington, D.C. 20551

Re: Docket No. R-0470

Dear Sir:

This letter is written on behalf of The Fischer Corporation ("Fischer") in response to the Federal Reserve Board's ("Fed") request for comment with respect to proposed changes in Regulation 'Y' of the Bank Holding Company Act. Specifically, this letter addresses the proposed change to Section 225.4(b) which would effectively eliminate redemptions by a bank holding company of its own stock.

Fischer is a small multibank holding company whose subsidiaries are the Security State Bank of Lewiston ("Lewiston") and the First State Bank of Wykoff ("Wykoff"). Fischer was formed in 1978 mainly as an estate planning vehicle for Webster A. Fischer, the President and Chief Executive Officer of Fischer and Lewiston, and an officer and director of Wykoff. Mr. Fischer is the majority stockholder of Fischer and has been actively involved in Lewiston for over fifty years. Mr. Fischer's intentions were to plan an effective and economical transfer of his assets to his children at the time of his death. At the time it applied to become a holding company, Fischer met with representatives of the Fed of Minneapolis and discussed in detail the use of redemptions to provide liquidity to Mr. Fischer's estate for the payment of estate taxes.

With seemingly adequate estate planning provided for, and with each member of Webster Fischer's immediate family being interested in the banking industry, Fischer acquired the Wykoff Bank in 1981. Again, with the estate planning in mind, Fischer discussed with representatives of the Fed of Minneapolis the use of redemptions within the holding company. At that time, Fischer even committed to restricted redemption levels within the holding company so that Fischer would always remain financially sound and be a source of strength to its banks. At the suggestion of the representatives of the Fed, Fischer even purchased life insurance policies on each of Mr. Fischer's children payable to Fischer. Upon the death of any of these persons (all actively involved as either an officer and/or director of Lewiston or Wykoff), Fischer would receive the necessary funds to redeem their stock. Again, Fischer was used as an estate

planning tool and was positioned so that it would remain a financial strength to its banks.

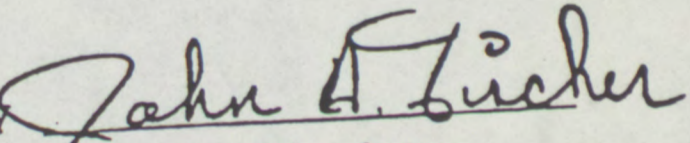
The proposed changes to Section 225.4(b) of Regulation 'Y' would have the devastating effect of making all of this estate planning virtually worthless. Fischer has always used available cash to reduce its debt; it has never paid any dividends. Accordingly, on the death of Mr. Fischer, his children would not have the personal funds necessary to buy stock from his estate. Even if such funding could be accomplished, it would require repayment with after tax dollars, dollars obviously withdrawn from the holding company (or the subsidiary banks) through salaries or dividends. This could have a serious negative effect on the strength Fischer could provide to Lewiston or Wykoff.

Fischer fully realizes that holding companies can currently perform redemptions which can substantially harm their financial position. However, the current Regulation 'Y' provides means for the Fed to prevent such abuses. The proposed regulation effectively eliminates the use of redemptions even to those holding companies that are financially strong and to those who have made commitments to the Fed with respect to redemptions AND have met those commitments. In short, the proposed regulation appears to be simply an arbitrary set of new ratios having no relationship to the underlying financial condition of the holding company. The proposed regulation could easily force the elimination of independent community banking as we know it today. Only the extremely wealthy or large publicly owned holding companies that normally do not use redemptions could afford to remain in the banking business. Not only would previously well planned and thought out estate planning become worthless, but the selling price that an estate could ask for a holding company could be reduced possibly to the level of a "distress sale".

Fischer respectfully requests (1) that the comment period for any change to Section 225.4(b) of Regulation 'Y' be extended in order that a full and complete review of this proposed change can be analyzed and (2) when the final regulations are adopted, no changes be made to the current Regulation 'Y' with respect to redemptions or (3) if changes are made to Section 225.4(b), they permit realistic redemptions by estates.

Very truly yours,

The Fischer Corporation

by 
John A. Fischer,
Secretary

JAF/jw



Lakeland State Bank



PEQUOT LAKES, MINNESOTA 56472 • 218/568/4025
BRANCH OFFICE: CROSSLAKE, MINNESOTA 56442

GLENN S. BIRKELAND, *President*

July 14, 1983

Congressman Timothy J. Penny
501 Cannon Office Building
Washington, D. C. 20515

Dear Cpngressman Penny,

I recently received notice that the Federal Reserve Board is receiving comments on revision of Regulation Y pertaining to the ownership of small banks by one-bank holding companies. I sincerely believe that the change in the regulation, as proposed, would be very detrimental to the small banks in the United States. It is my interpretation that the one-bank holding company was implemented to allow small banks to be owned by individuals and allow the transfer of the stock.

I would urge you to work against the change in Regulation Y as now proposed by the Federal Reserve Board. Thank you very much for your cooperation.

Yours very truly,

GSB/mf



MINNESOTA BANKERS ASSOCIATION
 332 BAKER BUILDING • MINNEAPOLIS, MINNESOTA 55402
 (612) 338-7851

HERBERT A. LUND, PRESIDENT
 SECURITY STATE BANK, ALBERT LEA
 GALEN T. PATE, FIRST VICE PRESIDENT
 SIGNAL HILLS STATE BANK, WEST ST. PAUL
 CLINTON D. KURTZ, SECOND VICE PRESIDENT
 CITIZENS STATE BANK, MORRIS
 JAMES R. JORSTAD, TREASURER
 CITIZENS STATE BANK, HAYFIELD

TRUMAN L. JEFFERS
 EXECUTIVE VICE PRESIDENT
 WAYNE F. BERTHAUME
 ADMINISTRATIVE VICE PRESIDENT
 JOHN S. JACKSON
 GENERAL COUNSEL
 MARGARET GOFF
 INSURANCE DEPARTMENT MANAGER

July 14, 1983

The Honorable Timothy J. Penny
 501 Cannon Office Building
 Washington, D.C. 20515

Re: Proposed Revision and Update of
 Regulation Y

Dear Congressman Penny:

The Federal Reserve Board has announced proposed revisions to Regulation Y which will seriously impact private owners of small banks. Your office has no doubt received numerous calls and letters on the issue. It is believed that the proposed regulation will adversely affect private ownership of small banks in that it will seriously limit bank holding companies as estate planning vehicles, limit the continuity of ownership by reducing the marketability of minority interests of privately owned bank holding company stock, as well as adversely affecting employee stock option plans that own such stock.

As a means of acquainting you with the issue, enclosed are comments prepared by a senior consultant with Bankers Resource Center, Inc., a Minneapolis firm.

I believe the comment period with respect to the proposed rule has been extended to August 1. Our office would appreciate whatever assistance you deem appropriate with respect to effecting Board reconsideration of its proposal.

Thank you.

Very truly yours,

John S. Jackson
 John S. Jackson
 General Counsel

JSJ:jab

Enclosure

cc: Herbert A. Lund
 Galen T. Pate

COMMENTS ON THE PROPOSED REVISIONS TO REGULATION Y

Introduction

The Board of Governors of the Federal Reserve System (hereinafter the "Board") is proposing a change to Regulation Y that does not appear to be authorized by statute and would arbitrarily set a supervisory precedent of potentially far-reaching proportions. Moreover, the new regulation would represent a clear and present threat to the continuation of private ownership of commercial banks. What would appear at first glance to be a rather insignificant change to an existing regulation, will only increase the ease with which the large banking organizations may eventually acquire the small, privately owned banks, leaving only a few megabanks from which the public may seek banking services.

On May 19, 1983, the Board issued a notice of proposed revisions to Regulation Y. This regulation represents the Board's Implementation of the Bank Holding Company Act of 1956, as amended (12 U.S.C. 1841 et seq.) and the Change in Bank Control Act of 1978 (12 U.S.C. 1817 (j)). The notice states that the proposed revision is part of the Board's program to improve and simplify its regulations. In fact, the summary language used in the notice would lead one to believe that the revisions as proposed are innocuous enough, so that those affected or potentially affected should be in favor of, or not object to, the revisions. This reasoning seems valid except for the amendment being proposed to section 225.6 of Regulation Y entitled "Corporate Practices", which is the subject of this paper.

The Current Regulation

Currently, section 225.6 specifies the notification requirements for a bank holding company (hereinafter "BHC") planning to purchase or redeem its own shares. Essentially, a BHC is required to notify its Federal Reserve Bank at least 45 days prior to a planned purchase or redemption of its own stock if the purchase price is equal to 10 per cent or more of the company's net worth. The only way the Board can prevent such a transaction is through the successful issuance of a cease and desist order, wherein the proposed transaction is deemed to constitute an unsafe or unsound practice, or the transaction would violate an applicable law, rule, regulation or order, or any condition imposed by, or written agreement with, the Board.

The current regulation was implemented in 1976 primarily to prevent excessive releveraging of BHCs in conjunction with a change in control. Often such releveraging effectively circumvented the Board's power to approve or deny BHC formations. The purpose and necessity of this section was diminished with passage of the Change in Bank Control Act of 1978. This law gave the Board direct authority to deny a proposed change in control of an existing BHC, whether or not a stock redemption is involved.

The Proposed Regulation

The proposed revision is under a new section number 225.4, and has two subsections. Subsection (a), entitled "Bank holding company policy and operations", codifies the policy of the Board that a BHC should serve as a source of strength for its subsidiaries and conduct its bank and nonbank operations in accordance with sound banking policy and practice. Also, subsection (a) describes the provision of the Bank Holding Company Act that authorizes the Board to order divestiture of a nonbank subsidiary or activity under certain adverse circumstances. It is not this subsection, but subsection (b) of the new 225.4 that is objectionable.

In subsection (b), entitled, as before, "Purchase or redemption by a bank holding company of its own securities", the prior notification requirements have been replaced by a blanket prohibition on stock redemptions by a BHC, unless it complies with the minimum standards in the Board's policy statement on capital adequacy. Exceptions would be permitted by the Board only in unusual circumstances or if the redemption is de minimus. The official language proposed for section 225.4 follows:

SECTION 225.4 -- CORPORATE PRACTICES

(a) Bank holding company policy and operation. (1) A bank holding company shall serve as a source of financial and managerial strength to its bank subsidiaries and shall conduct all of its operations in accordance with sound banking policy and practice.

(2) Whenever the Board believes an activity or control of a nonbank subsidiary constitutes a serious risk to safety, soundness, or stability of a bank subsidiary of a bank holding company, and is inconsistent with sound banking principles or the purposes of the BHC Act, the Board may require the bank holding company to terminate the activity or to terminate control of the subsidiary, as provided in section 5(e) of the BHC Act.

(b) Purchase or redemption by a bank holding company of its own securities. A bank holding company may not purchase or redeem its equity securities, unless:

(1) the gross consideration paid for the securities, when added to the net consideration¹ paid for all similar transactions during the preceding 12-month period, is not more than \$10 million or 1 percent of the bank holding company's net worth, whichever is less, or

(2) the bank holding company has:

(i) consolidated assets of \$1 billion or more, and after the purchase or redemption, its consolidated primary capital-to-assets ratio is at least 5 percent;

(ii) consolidated assets of \$150 million to \$1 billion, and after the purchase or redemption, its consolidated primary capital-to-total assets ratio is at least 6 percent; or

(iii) total banking assets of \$150 million or less, and after the purchase or redemption,

(A) the primary capital-to-total assets ratio of the bank holding company (consolidated) is at least 6 percent or

¹ For the purposes of this section, "net consideration" is the gross consideration paid by the company for all of its equity securities purchased or redeemed during the period minus the gross consideration received for all of its equity securities sold during the period other than as part of a new issue.

(B) the primary capital-to-total assets ratio of each subsidiary bank of the holding company is at least 6 percent and the debt-to-equity ratio of the parent bank holding company (nonconsolidated) is no more than 30 percent; or

(3) the bank holding company obtains the prior approval of the Board for the redemption or purchase on the basis of unusual circumstances.

Objections

From a banker's point of view, there are substantial objections to subsection (b) as proposed. First, there is a serious question as to whether the Board is authorized by law to implement this subsection, which, if issued and upheld, represents a dangerous precedent whereby a federal regulatory agency may prohibit a banking organization from conducting a standard, legal corporate practice unless that organization meets certain standards established by the regulatory agency. Secondly, because of the minimum standards to be imposed by the Board, the proposed regulation will adversely affect private ownership of small banks, in that it will severely limit BHCs as estate planning vehicles and will limit continuity of ownership; it will markedly reduce the marketability of minority interests of privately owned BHC stock; and it will adversely affect or eliminate employee stock option plans (hereinafter "ESOPs") that own BHC stock. This will, of course, place a substantial economic hardship on private owners of small banks, and they will be forced to file new BHC formation applications with the Federal Reserve System as an alternative to a stock redemption. The reasons for arriving at the aforementioned conclusions are set forth in the ensuing paragraphs.

(1) Absence of Statutory Authority

In proposing the new section 225.4, the Board is relying on 12 U.S.C. 1844(b), which refers to Board authority to implement the Bank Holding Company Act of 1956, and 12 U.S.C. 1818(b)(3), which authorizes the Board to issue cease and desist orders against BHCs. Cease and desist orders are primarily issued in response to unsafe or unsound practices, or violations of laws, rules, and regulations. It appears that subsection (a) refers to 12 U.S.C. 1844(b), and subsection (b) refers to 12 U.S.C. 1818(b)(3).

The Board, through the new section 225.4(b), is contending it has the authority to prohibit a standard corporate practice by a BHC if the BHC does not meet certain standards promulgated by the Board. By direct implication, the Board is saying that it considers a stock redemption to be unsafe or unsound whenever a BHC does not meet specified standards as determined by the Board.

Apparently, the Board has used the case law history of the Office of the Comptroller of the Currency (hereinafter "OCC"), wherein the OCC declared that the practice of not retaining certain insurance income in a bank to be unsafe or unsound and issued regulations outlawing such activity. The OCC requires that income earned from the sale of credit life, health, and accident insurance sold in conjunction with the making of loans in a bank must remain in the bank.

The Board, in its bank supervisory and regulatory capacity, has never before proposed or issued a regulation that bans a legal corporate practice unless specified standards are met. While the Board may contend it is relying on legal support from the case law of the OCC's regulation prohibiting an insurance practice determined to be unsafe or unsound, the Board is not proposing to prohibit a practice considered by it to be unsafe or unsound. To the contrary, the Board wants to prohibit a standard, acceptable corporate practice whenever a certain capital standard, as determined by the Board, is not being met. This is an important distinction to draw between the regulation issued by the OCC and that being proposed by the Board. On this basis alone, the Board should be precluded from issuing the proposed amendment.

(2) Establishes Dangerous Precedent

If the Board succeeds in issuing this amendment, a dangerous precedent will be established as it relates to supervision of banking organizations by the Federal Reserve System and other federal bank regulatory agencies. By not allowing a stock redemption to take place unless minimum capital standards are maintained, the Board is contending in effect that capital of a BHC should not be reduced as a result of a conscious action of BHC management. On the face of it, such a restriction does not appear unreasonable, since a stock redemption reduces capital and financial strength. However, does it not logically follow that the Board may similarly want to prohibit payment of dividends by a BHC unless minimum capital standards are maintained? After all, the payment of dividends also reduces capital. And, if the debt to equity relationship is an issue, the Board could also be expected to prohibit any increase in debt unless minimum capital standards are maintained. Similar prohibitions could also be established to include corporate salaries and other controllable expenses, as well as the structure of assets and liabilities.

In other words, a precedent would be established whereby the Board could prevent a banking organization from conducting its business (i.e. take over management) unless it met specific standards established by the Board. The statutory reference used by the Board in proposing section 225.4(b) does not appear to authorize such outright control over banking organizations. A reasonable thought process must lead one to conclude that if the Board does not have the authority to place outright controls on dividends, debt levels, asset and liability structures, and other management prerogatives, the Board certainly does not have the authority to so restrict stock redemptions.

(3) Minimum Standards are Inconsistent with Policy on Capital Adequacy

Even if one could somehow make a reasonable argument that the Board does have the statutory authority to issue the proposed revision to Regulation Y, the minimum standards imposed by the Board are so restrictive that most typical stock redemptions by a small BHC normally could not take place.

The Board states in the document issued for public comment that it proposes the following:

. . . to prohibit a bank holding company from purchasing or redeeming its equity securities, unless, after giving effect to the redemption or acquisition, the bank holding company complies with the minimum standards in the Board's Policy Statement on Capital Adequacy.

Without taking issue with the reasonableness or legal authority of the Board's policy on capital adequacy issued in concert with the OCC, the Board is proposing to incorporate more into the minimum standard for small BHCs (consolidated assets of less than \$150 million) than is included in the capital adequacy guidelines. The capital adequacy guidelines issued to each Federal Reserve Bank state, in part, the following:

Capital Adequacy Guidelines

1. Application of guidelines. The guidelines program will generally apply to national and State member banks and bank holding companies on a consolidated basis. However, for holding companies under \$150 million in consolidated assets, the capital guidelines will apply to the bank only, provided:

(1) the holding company does not engage directly or indirectly in any nonbanking activity involving significant leverage; and (2) no significant debt of the parent is held by the general public. If these conditions are met, the holding company, other things being equal, is less likely to pose additional risks to the bank, and the condition of the bank is generally felt to be separable from the condition of the holding company. Under these conditions, therefore, the holding company for purposes of capital analysis will generally not be consolidated and subject to the imposition of capital guidelines on what are usually lower consolidated ratios.

The guidelines go on to explain that a minimum acceptable capital to assets relationship for a subsidiary bank of a small BHC is 6%. However, the Board apparently realized that their proposed regulatory amendment would be essentially ineffective in prohibiting many significant stock redemptions by small BHCs if only the minimum capital standard for the subsidiary bank were applied. Therefore, the Board added a debt to equity criterion at the parent BHC level, insofar as stock redemptions are concerned. The 30% debt to equity minimum standard, as proposed, is the level that the Board requires for a BHC to demonstrate it can meet by the twelfth year after formation. This is in conjunction with an application filed with the Board to form a BHC.

The relationship of debt to equity, while a factor in analyzing a BHC's overall financial condition, is not explicitly a part of the capital adequacy guidelines issued by the Board as they relate to either small or large BHCs. Many BHCs are considered to be in satisfactory financial condition with debt to equity percentages far in excess of 30%. The Board certainly has not previously intimated that a debt to equity level exceeding 30% is an unsafe

or unsound condition. If such were the case, many of the BHC applications recently approved by the Board would constitute approvals of BHCs with debt to equity levels considered to be unsafe or unsound, in the context of the proposed revisions. Thus, incorporation of the debt to equity standard appears unreasonable and unwarranted.

In this same vein, the Board has added an alternative standard for a small BHC to meet, which is a consolidated capital to assets relationship of 6%. Such a standard is also not a part of the capital adequacy guidelines for small BHCs. Yet this alternative standard would nevertheless have an effect similar to the debt to equity standard. This is true because a small BHC with significant leverage would not normally be able to meet the 6% consolidated percentage of capital to assets standard, unless its subsidiary bank had a capital ratio substantially in excess of 6%, or even 7%. In fact, if a BHC's subsidiary bank had a 7% capital to assets percentage and the bank stock was being carried at book value by the parent BHC, the BHC's debt to equity position could not exceed 14% without the consolidated capital to assets relationship falling to below 6%. Thus, the incorporation of a 6% consolidated capital to assets ratio for small BHCs as an alternative minimum standard appears unreasonable and unwarranted.

(4) Adverse Effect on Private Ownership of Small Banks

With the highly restrictive minimum standards being proposed by the Board before a stock redemption may be transacted, the new regulation poses a significant threat to private ownership of small banking organizations.

For example, many BHCs are formed for estate planning purposes, wherein controlling ownership by a given family can be more readily continued upon the death of a family member. The BHC normally has the capacity to borrow money to redeem BHC shares owned by the deceased person to pay estate taxes and/or to provide for orderly distribution of estate assets. Larger correspondent banks are usually willing to lend an amount up to 100% of the book value of the subsidiary bank stock owned by the BHC. Also, normally there is very little market for BHC stock owned by minority investors, except for the willingness and capacity of the BHC to purchase such stock. Often, the BHC has ready access to funds by borrowing against its subsidiary bank stock and, unlike most individuals, has the privilege and right as a tax shelter to service the associated debt with pre-tax dollars. In addition, there are many buy-sell agreements, wherein the BHC is contractually obligated to purchase shares of one or more shareholders under certain conditions.

Without the ability to redeem stock, a significant hardship could be placed on continuity of BHC ownership by a given family, and potential marketability of minority interests will be substantially reduced. As to the effect on ESOPs, as an integral part of such programs, ESOPs have a contractual right to put their BHC stock back to the BHC at a predetermined price in relation to book value. Without this put option, the attractiveness of ESOPs buying BHC stock is substantially reduced, since a ready market for the stock does not otherwise exist.

Conclusion

In revising the stock redemption section of Regulation Y as proposed, the Board would be clearly exceeding its supervisory and regulatory authority over banking organizations and would be contributing to the demise of private ownership of commercial banks.

The banking community must not only understand the implications and consequences of the proposed regulation, it must take immediate and decisive action to prevent issuance of the regulation. The Board very seldom makes material changes to, or rescinds, a proposed regulation issued for public comment. Therefore, objections to the proposed regulation must be made on both an individual and national scale, including communication with congressional representatives, especially those on banking committees. Only then will there be a chance to convince the Board not to revise the regulation in question in the unwarranted manner as proposed.



VALLEY NATIONAL BANK

LE SUEUR, MINNESOTA 56058

PHONE 612 665-3371

July 18, 1983

Congressman Timothy J. Penny
501 Cannon Building
Washington, D. C. 20515

Dear Mr. Penny:

I am enclosing for your information a copy of a letter sent to the secretary of the Board of Directors of the Federal Reserve System commenting on changes in the Fed.'s Regulation Y and how it would affect us in our bank and our community. I have presumed that the reader of the letter has access to the specifics of the proposal and therefore I did not cover them there limiting my comments to my personal reactions.

If issues such as these or similar ones should be presented to the Congress I feel that you should have the benefit of my views. I understand that at the present time this issue does not involve the Senate.

Thank you and best wishes.

Sincerely,

John A. Chamberlain
President

JAC:cjg

Enclosure



VALLEY NATIONAL BANK

LE SUEUR, MINNESOTA 56058

PHONE 612 665-3371

July 15, 1983

Mr. William W. Wiles
Secretary
Board of Governors of the Federal Reserve System
Washington, D. C., 20551

Dear Sir:

RE: Comment on Docket # R-0470, Regulation Y

I am completely opposed to these changes as proposed because they will adversely affect private ownership of community banks such as ours through limiting continuity of that private ownership with too-stringent rules on stock redemptions by bank holding companies. In my opinion, community banks are the number one ally and advocate for entrepreneurial small businesses which are also privately owned and this continues to be our strength based on our sense of obligation to our communities. By placing this economic hardship on owners of community banks, you invite greater economic hardship and disadvantage to the communities we serve.

If we are prohibited, through inappropriate regulation, from transferring ownership to the next generation of the family or to another private investor, our community banks will be then eventually sold to the only buyers left - the large banks who already have lower capital requirements and greater exposure to loss than the community banks do, according to recent reports in the press. I do not believe that the best long-term interests of Le Sueur, Minnesota, can be served by a branch manager or field vice-president who, to be promoted in his own career, will be on the local scene for a relatively short time. I, on the other hand, have lived here most of my life and am committed to quality financial services for my community. We are committed to Main Street, Le Sueur.

The sale of this bank at some point in the future to a large bank or banking company might well return us more cash than a sale to a family member or private investor, but I am not interested in being a financial manipulator or magnate. I have to believe the majority of my peers are like me in this regard and we are unjustly discriminated against with this particular plan to address what you must believe to be abuses in another segment of the industry.

Mr. William W. Wiles
page two
July 15, 1983

Furthermore, I feel that regulation of what is essentially the safety and soundness of banks through attention to capital adequacy is already adequately addressed through present procedures involving review upon application of proposed stock redemptions on a case-by-case basis applying capital adequacy standards which have just been reclarified and promulgated and which will now be enforced by our primary regulator, the Comptroller of the Currency. This all calls to mind the country admonition that "If it ain't broke, don't fix it." Capital adequacy standards were just "fixed" this spring! Furthermore, your agency still holds ample leverage through the present bank holding company regulations including the power of cease and desist which can be used when discipline is needed.

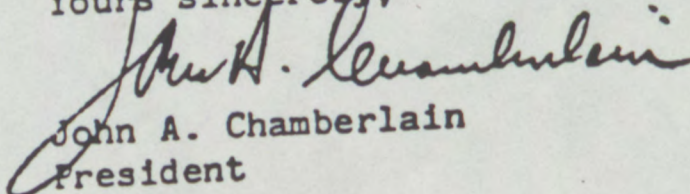
With regard to procedure, further comment is in order. The invitation to comment on this issue from the Minneapolis Federal Reserve Bank dated May 25, 1983, covered this incompletely-considered proposal in a one sentence paragraph on the back page following what otherwise appears to be good and reasonable "revision to ease regulatory burden and to clarify and simplify the regulations..." It wasn't until this week when the real impact of this proposal was disclosed to us by the Minnesota Bankers Association, the press, and others, but the comment period closes July 18, 1983.

In sum, small business and investment in small business including family farms, a traditional uniqueness and strength of American free enterprise, is already beleaguered and now further threatened in this fashion by clouding the future of small business's number-one cheerleader -- the privately owned community bank. Further discouragement of investment in community banks will discourage small town business and free enterprise as we know it today. I believe we and the regulators both want to meet the same ends of sound banking, strong, stable local and national economies, and a healthy spirit of competition, self determination, and free enterprise.

We request further reconsideration by you to take these factors into consideration and we hope they are received in the same good faith as they are offered.

Yours sincerely,

cc:
Sen. David Durenberger
Sen. Rudy Boschwitz
Rep. Timothy J. Penny
Federal Reserve Bank
of Minneapolis


John A. Chamberlain
President

and
Vice President, Secretary & Treasurer
Valley Bancorporation, Inc.

JAC:cjg



**Maplewood
State Bank**

WHITE BEAR AND BEAM AVENUES
P. O. BOX 2028
MAPLEWOOD, MINNESOTA 55109

(612) 777-7700

July 18, 1983

Congressman Timothy J. Penny
501 Cannon Office Building
Washington, D.C. 20515

RE: Proposed Revision and Update of Regulation Y

Dear Congressman Penny:

Maplewood State Bank is an independent locally owned State chartered bank with assets totalling approximately thirty million dollars.

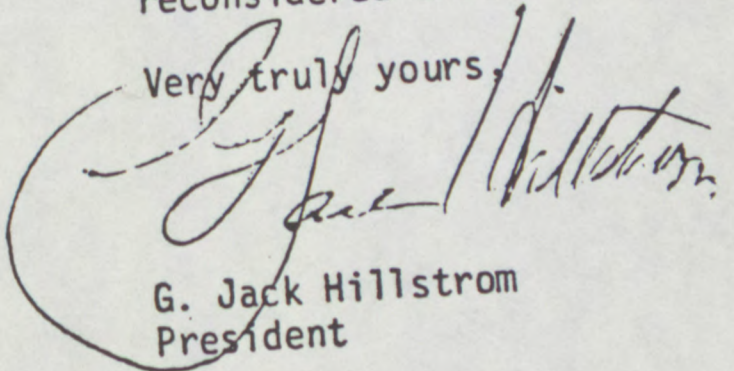
We feel that the proposed regulation will adversely affect private ownership of small banks in that it will severely limit bank holding companies as an estate planning vehicle and will limit continuity of ownership.

It will also reduce the marketability of minority interests of privately owned bank holding company stock. It also appears that it will adversely affect or eliminate employee stock option plans that own bank holding company stock.

We believe that this will place a substantial economic hardship on private owners of small banks such as ours and that small banks may be forced to file new bank holding company formation applications with the Federal Reserve System as an alternative to stock redemption.

We ask that proposed Regulation Y Section 225.4, Subdivision B be reconsidered and eliminated.

Very truly yours,


G. Jack Hillstrom
President

GJH/pm

FSB **farmers STATE BANK**
33 North Main Sherburn, MN 56171
TELEPHONE (507) 764-4311

July 13, 1983

Secretary, Board of Governors
of the Federal Reserve System
Washington, D.C. 20551

Re: Docket No. R-0470

Dear Sir:

I am writing to you concerning your proposed ruling regarding bank holding companies.

If I understand the proposal, it would mean severely restricting the ability of bank holding companies share holders to transfer their stock. I am totally opposed to such irrational, short sighted thinking.

I put a group together three years ago to buy the Farmers State Bank of Sherburn, Sherburn, Minnesota (14M assets) with the blessing of Federal Reserve of Minneapolis. We purchased the Bank to strengthen the Bank and the Community and to own something rather than work for someone. If one of my partners dies, or wants to sell his shares we will not be able to buy these thru the holding company and therefore must sell to a large holding company probably at a reduced price.

Why do you want large banking systems???

America was build on small private ownership!! Please reconsider your proposal.

Sincerely,

James D. Lytle
President

JDL/amr



PEOPLES
STATE
BANK

TELEPHONE: 507/243-3511

OF MADISON LAKE

P.O. BOX 218 • MADISON LAKE, MINNESOTA 56063

July 21, 1983

Congressman Timothy J. Penny
501 Cannon Office Building
Washington, D. C. 20515

Dear Congressman Penny:

I am writing in reference to the proposed revision of Regulation Y by the Federal Reserve Bank and its effect on the private owners of small banks. I am sure that you have been contacted by more than one of your constituents relative to this proposal because it will have a distinctly adverse effect on the possibility of retaining local and independent control of financial institutions. It would seem to me that it should be a litmus test of the dedication of the Democratic Party and yourself to the idea of maintaining a small business and not taking steps which would aid and abet the concentration of financial resources in this Country. That is precisely what the consequences of the proposed Fed action would be and it almost frankly seems to me to be calculated to be aiming toward that objective.

I'm not going to write you a book on the subject, I am sure that more articulate people than I have spelled this thing out to you in a great deal of detail. I hope, however, that you will see fit to exert whatever influence you can on the Board of Governors of the Fed to cause them to see their error of their ways.

Yours truly,

W. C. Ries.
President

WCR/ba



The First National Bank

228 West Nassau
St. Peter, Minnesota 56082
507-931-4000



July 20, 1983

Congressman Timothy J. Penny
501 Cannon Office Building
Washington, DC 20515

RE: Federal Reserve Regulation Y Regulation
Section 225.4 - Corporate Practices

Dear Congressman:

I am taking this opportunity to ask your support for an objection to the proposed revision of Regulation Y that the Federal Reserve Board is now looking at. I feel that this particular revision is a serious threat to many of the banks in Minnesota as well as the Midwest and that the banking structure known today would be hampered considerably if this revision was passed.

First of all, there is a serious question as to whether the Board is authorized by law to implement this subsection, which, if issued and upheld, represents a dangerous precedent whereby a federal regulatory agency may prohibit a banking organization from conducting a standard, legal corporate practice unless that organization meets certain standards established by the regulatory agency. Secondly, because of the minimum standards to be imposed by the Board, the proposed regulation will be adversely affect private ownership in small banks, in that it will severely limit the bank holding companies as estate planning vehicles and will limit continuity of ownership. It will also reduce the marketability of minority interests of privately owned bank holding company stock and will adversely affect or eliminate employee stock plans that bank holding companies presently have. This then will, of course, place a substantial economic hardship on private owners of small banks, and they will be forced to file new bank holding company formation application with the Federal Reserve System as an alternative to a stock redemption.

I would appreciate it if you would use whatever power you have to encourage the Federal Reserve Board to approve this revision, as I am sure they are not aware of the results especially to Minnesota and the Midwest where most of the private bank holding companies are in operation.

Sincerely,

- Kermit A. Mahlum
President

FDIC

"Faith in your community begins with a bank you can trust"



Prior Lake State Bank

July 28, 1983

Congressman Timothy J. Penny
501 Cannon Office Building
Washington, D. C. 20515

Dear Mr. Penny:

I am writing you concerning the proposed Regulation Y, Section 225.9, Sub. (6) Revisions by the Federal Reserve Board. This proposed revision will have adverse impact on private ownership of small banks.

It restricts the continuity of that ownership. It would restrict the ESOP's that own bank holding company stock. It would reduce the market value of minority shares.

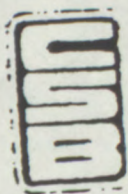
The outcome is obvious. The big get bigger, and the small locally owned banks disappear.

I look forward to your feelings and hope for your support in this matter.

Yours very truly,

R. N. Barsness
Exec. Vice President
& Cashier

RNB:jit



**CITIZENS
STATE BANK**
OF ST. LOUIS PARK

5050 Excelsior Boulevard St. Louis Park, Minnesota 55416 Phone: 926-6561

July 18, 1983

Mr. William W. Wiles, Secretary
Board of Governors of the
Federal Reserve System
20th & Constitution Ave. NW
Washington, DC 20551

RE: Docket No. R-0470

Dear Secretary Wiles:

It has come to my attention that the Federal Reserve Board of Governors is contemplating a proposed change in section 225.4 subdivision (b) of Regulation Y that will substantially change the circumstances under which a Bank Holding Company may purchase or redeem its own shares or securities.

In reading the proposed regulation it is apparent that if it is passed, the effect would be to virtually eliminate the ability of any Bank Holding Company to purchase or redeem its own securities, which is one of the primary benefits of the Bank Holding Company method of owning bank stock. I sincerely feel that this regulatory change is not in the best interest of banking and therefore should not be undertaken. My specific reasons for this attitude are in the paragraphs that follow.

I believe there is a serious question of law with regard to the board's right to implement a regulation that prohibits a corporation from conducting a standard and legal practice just because it is engaged in a particular business that is regulated by a federal regulatory agency. Since in addition to being president of this bank, I am also a lawyer. I feel I am justified in considering this legal question. In addition, I feel that with the deregulation of banking that is now occurring, banks are going to be placed under ever increasing pressure with regard to their profitability. Because of this it is going to become increasingly more difficult for banks to attract ownership from the public and one of the things that banking can least afford to lose is the support of its owners and the public as owners. The proposed regulation will eliminate a key estate planning vehicle as well as continuity of ownership and thereby take away a substantial incentive to bank ownership.

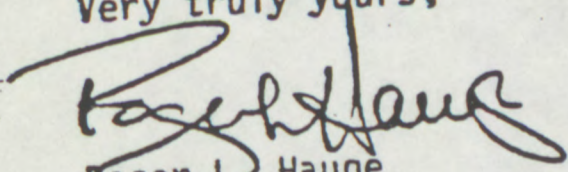
My last substantial objection to this proposed change lies in the fact that I am absolutely at a loss to figure out why any change at all is required. The Federal Reserve already has, under the present regulation, the right to stop any redemption that would threaten the safety and the soundness of the Holding Company and thereby protect and assure that the Holding Company will remain a substantial source of financial strength to the bank. Additionally I have not heard of any abuses of the present Regulation Y or of any general abuses that would require such a substantial change in a regulation of such long standing.

July 18, 1983

Mr. William W. Wiles, Secretary
Page 2

In view of the above, I am hereby respectfully requesting in the strongest possible terms that the Federal Reserve Board not adopt any part of the proposed amendment of section 225.4 of Regulation Y.

Very truly yours,


Roger L. Hauge
President

RLH:jk

cc: Senator David Durenberger
353 Russell Senate Office Building
Washington, DC 20510

Senator Rudy Boschwitz
SH-506 Hart
Washington, DC 20510

Congressman Timothy J. Penny
501 Cannon Office Building
Washington, DC 20515

Congressman Bruce F. Vento
2433 Rayburn Office Building
Washington, DC 20515

Congressman Martin Olav Sabo
436 Cannon Office Building
Washington, DC 20515

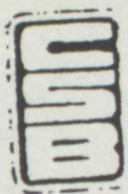
Congressman Gerry Sikorski
414 Cannon Office Building
Washington, DC 20515

Congressman Vin Weber
318 Cannon Office Building
Washington, DC 20515

Congressman Bill Frenzel
1026 Longworth Office Building
Washington, DC 20515

Congressman Arlan Stangeland
1526 Longworth Office Building
Washington, DC 20515

Congressman James Oberstar
2351 Rayburn Office Building
Washington, DC 20515



**CITIZENS
STATE BANK**
OF ST. LOUIS PARK

5050 Excelsior Boulevard St. Louis Park, Minnesota 55416 Phone: 926-6561

July 18, 1983

Mr. William W. Wiles, Secretary
Board of Governors of the
Federal Reserve System
20th & Constitution Ave. NW
Washington, DC 20551

RE: Docket No. R-0470

Dear Secretary Wiles:

It has come to my attention that the Federal Reserve Board of Governors is contemplating a proposed change in section 225.4 subdivision (b) of Regulation Y that will substantially change the circumstances under which a Bank Holding Company may purchase or redeem its own shares or securities.

In reading the proposed regulation it is apparent that if it is passed, the effect would be to virtually eliminate the ability of any Bank Holding Company to purchase or redeem its own securities, which is one of the primary benefits of the Bank Holding Company method of owning bank stock. I sincerely feel that this regulatory change is not in the best interest of banking and therefore should not be undertaken. My specific reasons for this attitude are in the paragraphs that follow.

I believe there is a serious question of law with regard to the board's right to implement a regulation that prohibits a corporation from conducting a standard and legal practice just because it is engaged in a particular business that is regulated by a federal regulatory agency. Since in addition to being president of this bank, I am also a lawyer. I feel I am justified in considering this legal question. In addition, I feel that with the deregulation of banking that is now occurring, banks are going to be placed under ever increasing pressure with regard to their profitability. Because of this it is going to become increasingly more difficult for banks to attract ownership from the public and one of the things that banking can least afford to lose is the support of its owners and the public as owners. The proposed regulation will eliminate a key estate planning vehicle as well as continuity of ownership and thereby take away a substantial incentive to bank ownership.

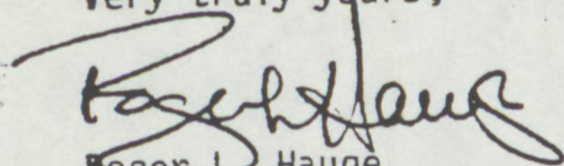
My last substantial objection to this proposed change lies in the fact that I am absolutely at a loss to figure out why any change at all is required. The Federal Reserve already has, under the present regulation, the right to stop any redemption that would threaten the safety and the soundness of the Holding Company and thereby protect and assure that the Holding Company will remain a substantial source of financial strength to the bank. Additionally I have not heard of any abuses of the present Regulation Y or of any general abuses that would require such a substantial change in a regulation of such long standing.

July 18, 1983

Mr. William W. Wiles, Secretary
Page 2

In view of the above, I am hereby respectfully requesting in the strongest possible terms that the Federal Reserve Board not adopt any part of the proposed amendment of section 225.4 of Regulation Y.

Very truly yours,


Roger L. Hauge
President

RLH:jk

cc: Senator David Durenberger
353 Russell Senate Office Building
Washington, DC 20510

Senator Rudy Boschwitz
SH-506 Hart
Washington, DC 20510

Congressman Timothy J. Penny
501 Cannon Office Building
Washington, DC 20515

Congressman Bruce F. Vento
2433 Rayburn Office Building
Washington, DC 20515

Congressman Martin Olav Sabo
436 Cannon Office Building
Washington, DC 20515

Congressman Gerry Sikorski
414 Cannon Office Building
Washington, DC 20515

Congressman Vin Weber
318 Cannon Office Building
Washington, DC 20515

Congressman Bill Frenzel
1026 Longworth Office Building
Washington, DC 20515

Congressman Arlan Stangeland
1526 Longworth Office Building
Washington, DC 20515

Congressman James Oberstar
2351 Rayburn Office Building
Washington, DC 20515

TOM LEWIS
12TH DISTRICT, FLORIDA

ROOM 1313
LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-5792

MAIN DISTRICT OFFICE:
8895 NORTH MILITARY TRAIL
SUITE 304-B
PALM BEACH GARDENS, FLORIDA 33410
TELEPHONE: (305) 627-8192

CONGRESSIONAL RURAL CAUCUS
HOUSE EXPORT TASK FORCE
CONGRESSIONAL TRAVEL
AND TOURISM CAUCUS



#163

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

August 9, 1983

COMMITTEES:
COMMITTEE ON SCIENCE
AND TECHNOLOGY
SUBCOMMITTEE ON ENERGY
DEVELOPMENT AND APPLICATIONS
SUBCOMMITTEE ON NATURAL
RESOURCES, AGRICULTURE RESEARCH,
AND ENVIRONMENT
COMMITTEE ON
GOVERNMENT OPERATIONS
SUBCOMMITTEE ON COMMERCE,
CONSUMER, AND MONETARY
AFFAIRS
SUBCOMMITTEE ON GOVERNMENT
INFORMATION, JUSTICE,
AND AGRICULTURE
SELECT COMMITTEE ON NARCOTICS
ABUSE AND CONTROL

Mr. Paul A. Volcker, Chairman
Federal Reserve Board of Governors
Twentieth Street & Constitution Ave., N.W.
Washington, D.C. 20551

Dear Mr. Volcker:

I am writing to you to outline complaints I have been hearing from my constituents regarding the specter of increasing interest rates.

Real interest rates are higher than they have been in several years and the latest news indicates that real interest rates appear to be headed toward record levels.

The economic recovery is extremely fragile and certainly could be thwarted and/or aborted by higher interest rates. All agree that the recovery will only be sustained if rates can be stabilized at reasonable (lower than present) levels.

Although the monetarists argue that there is a danger of igniting run-away inflation two or three years hence -- the near term problems of unemployment and sustaining the recovery must be given first priority.

Higher interest rates will place substantial pressure on the beleaguered and indebted LDC's and a default on loans to foreign governments would be cataclysmic and ultimately hyper-inflationary. In addition, the strength of the dollar caused by high U.S. interest rates has created a balance of payments deficit which at some point must be reconciled (at a cost of inflation).

The monetarists have had their day and their medicine has caused extreme pain. Perhaps some of this was necessary! However, the comments I have been getting indicate a belief that it is now time to allow the economy and supply side factors to work. American business will not survive another round of sky-rocketing interest rates.

I hope you will take the above remarks into consideration when making the crucial decisions about how to stabilize our economy.

Sincerely,

Tom

Tom Lewis
Member of Congress

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1983 AUG 10 AM 10:59
RECEIVED
OFFICE OF THE CHAIRMAN

TL/jhm

SLADE GORTON
WASHINGTON

COMMITTEES:
COMMERCE, SCIENCE, AND
TRANSPORTATION
BANKING, HOUSING, AND
URBAN AFFAIRS
BUDGET
SMALL BUSINESS
INDIAN AFFAIRS

United States Senate #162

513 HART SENATE OFFICE BUILDING
WASHINGTON, D.C. 20510
(202) 224-2621

2988 FEDERAL OFFICE BUILDING
915 SECOND AVENUE
SEATTLE, WASHINGTON 98174
(206) 442-5545

770 U.S. COURT HOUSE
W. 920 RIVERSIDE AVENUE
SPOKANE, WASHINGTON 99201
(509) 456-6816

FIRST FEDERAL PLAZA, SUITE 445
1220 MAIN STREET
VANCOUVER, WASHINGTON 98660
(206) 696-7838

August 4, 1983

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

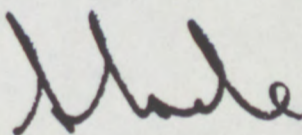
Dear Paul:

I would like to add my endorsement of Howard L. Chapman, to be appointed to one of the year-end vacancies on your Consumer Advisory Council. Although I do not personally know Mr. Chapman, I have known his family for many years, and know of him through them.

Mr. Chapman's background and experience seem to qualify him very well for a position on your Council. In his more than 25 years in private law practice in Indiana, he has specialized in consumer-related lending, advising clients in the Truth-In-Lending Act, RESPA and ECOA, as well as submitting comments to your Board in these matters. He has also worked with real estate mortgage lending practices outside of the state of Indiana.

I believe he could be an asset to your Council, and I hope that you give him every consideration.

Sincerely,



SLADE GORTON
United States Senator

SG:ct

RECEIVED
OFFICE OF THE CHAIRMAN
1983 AUG 10 AM 10:59
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM



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

August 11, 1983

PAUL A. VOLCKER
CHAIRMAN

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

Dear Mr. Harkin:

Thank you for your letter in which you state your concern over a possible tightening of monetary policy and the potential impact of such a policy on the recovery.

At this point, there is every evidence that the economy is continuing to perform very well -- indeed, much better than most of us thought likely a few months ago. Economic activity, which began to pick up near the end of last year, continues to advance at a rapid pace and appears to have a good deal of momentum. At the same time, the expansion has been accompanied by remarkably good price performance.

Yet, even as the economy expands and price increases remain moderate, widespread concerns remain over the implications of massive federal deficits for the sustainability of the economic recovery and our progress against inflation. Indeed, these concerns are heightened by the very vigor of the economic recovery which hastens the day when heavy federal credit demands clash with strengthening demands of the private sector.

As I have emphasized on many occasions, the goal of monetary policy is to promote long-term economic growth in the context of continued progress against inflation. However, monetary policy alone cannot do the job. Indeed, as the recovery proceeds, the large structural federal deficits anticipated for the foreseeable future will make our job increasingly difficult. Although private credit demands overall were moderate through most of the first half of this year, further economic expansion will inevitably lead to rising private borrowing and conflict with continued heavy federal borrowing. Should the Federal Reserve seek to ameliorate this conflict through more expansionary measures, the result would be an acceleration of money growth in the near-term and rising inflation later. With more rapid inflation -- or even the expectation of faster inflation -- there would, in any event, be upward pressure on interest rates and thus such a policy would tend to be self-defeating.

Against this backdrop, in the latter part of the second quarter, as monetary and credit growth showed some tendency to increase more rapidly than seemed consistent with our long-term policy, the Federal Open Market Committee took a slightly less

The Honorable Tom Harkin
Page Two

accommodative stance toward the provision of bank reserves and credit. Although this policy led to some back-up in market interest rates, they remain well below levels of a year ago, and it is our view that these developments do not threaten the viability of the recovery. Indeed, we believe that through such limited and timely action the chances for continued recovery have been improved. Nevertheless, a sustained and balanced expansion in economic activity will also require decisive fiscal actions that reduce significantly the federal government's large claim on our financial markets.

Thank you again for your letter, and I hope my comments have helped clarify our policy intentions.

Sincerely,

S/Paul A. Volcker

TS:FJ:JZ:vcd (V-124)

bcc: Mr. Simpson
Mr. Jensen
Ms. Ray
Mrs. Mallardi (2) ✓

*Action assigned Mr. Keihline;
info copy to Mr. Gulrod*

TOM HARKIN
5TH DISTRICT, IOWA

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

SPECIAL PHONE FOR THE
HEARING IMPAIRED
TTY-202-225-1904
VOICE-202-225-0656

COMMITTEES:
AGRICULTURE
SCIENCE AND TECHNOLOGY

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

July 8, 1983

#124

DISTRICT OFFICES:
1401 N. JEFFERSON
SUITE 1
INDIANOLA, IOWA 50125
(515) 961-8473

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

245 FEDERAL BUILDING
FT. DODGE, IOWA 50501
(515) 573-7169

Mr. Paul A. Volcker, Chairman
Board of Governors
Federal Reserve System
Constitution Avenue and 21st Street
Washington, D.C. 20551

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1983 JUL 11 AM 9:51
RECEIVED
OFFICE OF THE CHAIRMAN

Dear Chairman Volcker:

The Federal Reserve is facing an important decision. The economy is showing clear signs of recovery. However, we also have continued large budget deficits and high unemployment.

Because of monetary growth rates above the Federal Reserve targets, many are urging that the Federal Reserve tighten up on the money supply or even increase the discount rate. They fear a return to substantial inflation and that the prospect of such inflation will raise interest rates.

I urge that the Federal Reserve not tighten up the money supply or raise the discount rate. Such action would be very detrimental to the economy both in the short and long term. With the present levels of unemployment and the current low level of plant utilization, we will not see a significant increase in inflation for some time.

On the other hand, a tightening of the money supply would clearly have an immediate adverse impact on the economy. I see such a policy further strengthening the dollar, making it harder to sell our agricultural goods overseas. It would also raise interest rates abroad, limiting other countries' ability to buy grain. Higher world interest rates could also precipitate a default on foreign debts which would have disastrous consequences.

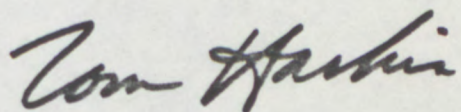
On the domestic side, while our recovery is moving ahead of most projections, it is still very fragile. Many businesses, and especially small businesses, are in an extremely weak financial position with a relatively large amount of debt. According to Dun and Bradstreet, over 15,000 businesses have failed already this year -- a rate of failure nearly three times the historical average for the 1960 to 1980 period. Any increase in interest rates would, in my opinion, not only sharply dampen the building of inventories and plans for expansion, but also push more businesses into bankruptcy. Certainly, plans for hiring additional workers would, in a great many cases, be placed on hold. In short, our recovery could turn sour with considerable speed.

Volcker
July 8, 1983
Page two

Again, I urge the members of the Open Market Committee not to tighten up on the money supply or increase the discount rate at this time.

I appreciate your attention.

Sincerely,



Tom Harkin
Member of Congress

TH/RB/kg

August 11, 1983

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

Dear Mr. Patman:

As I discussed with you on the telephone after the Subcommittee on Domestic Monetary Policy hearing last Wednesday, I do want to set the record straight with regard to one answer I gave you. In response to your question of whether I had "gotten in touch with members of the public in the representatives' districts to influence the representative to vote for the IMF bill," I said that I had talked to one private person who I thought had an interest in this. As I mentioned to you over the phone, when I returned to my office I recalled three such conversations in addition to the one that came to mind during the hearing.

I appreciate the opportunity to have this correction inserted into the hearing record.

Sincerely,

S/Paul A. Volpe

NMS:PAV:vcd

bcc: Ms. Salus
Mrs. Mallardi (2) ✓
Insert p. 94

NMS:clc

August 11, 1983

The Honorable Strom Thurmond
The President Pro Tempore
United States Senate
Washington, D. C. 20510

Dear Senator Thurmond:

Thank you for your letter of August 5 recommending Ms. Kathleen Goodpasture Smith for a position on our Consumer Advisory Council.

I can assure you that Ms. Smith will receive full consideration when the Board selects eight new Council members later this year.

The Council provides valuable assistance in advising the Board on its implementation of consumer regulations and on other consumer-related matters, and the Board is pleased to receive recommendations for qualified individuals who can contribute to the Council's work.

Again, the Board appreciates having your recommendation.

Sincerely,

S/Paul A. Volcker

CO:vcd (V-161)

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



The President Pro Tempore

UNITED STATES SENATE

August 5, 1983

#161

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1983 AUG 10 AM 10:59
RECEIVED
OFFICE OF THE CHAIRMAN

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

Dear Chairman Volcker:

I understand that Ms. Kathleen Goodpasture Smith is under consideration for appointment to the Federal Reserve Board Consumer Advisory Council.

Enclosed is a copy of her resume.

I ask that you give Ms. Smith the careful consideration that her credentials merit for appointment to this position.

With kindest regards and best wishes,

Sincerely,

Strom Thurmond

Strom Thurmond

ST:r

Enclosures

Removal Notice



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: 3

Citations: Resume, Kathleen Goodpasture Smith, 1983.

August 11, 1983

The Honorable Slade Gorton
United States Senate
Washington, D. C. 20510

Dear Senator Gorton:

Thank you for your letter of August 4 recommending Mr. Howard L. Chapman for a position on our Consumer Advisory Council.

I can assure you that Mr. Chapman will receive full consideration when the Board selects eight new Council members later this year.

The Council provides valuable assistance in advising the Board on its implementation of consumer regulations and on other consumer-related matters, and the Board is pleased to receive recommendations for qualified individuals who can contribute to the Council's work.

Again, the Board appreciates having your recommendation.

Sincerely,

*S/*Paul A. Volcker

CO:vcd (V-162)

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

SLADE GORTON
WASHINGTON

- COMMITTEES:
- COMMERCE, SCIENCE, AND TRANSPORTATION
 - BANKING, HOUSING, AND URBAN AFFAIRS
 - BUDGET
 - SMALL BUSINESS
 - INDIAN AFFAIRS

United States Senate #162

513 HART SENATE OFFICE BUILDING
WASHINGTON, D.C. 20510
(202) 224-2621

2988 FEDERAL OFFICE BUILDING
915 SECOND AVENUE
SEATTLE, WASHINGTON 98174
(206) 442-5545

770 U.S. COURT HOUSE
W. 920 RIVERSIDE AVENUE
SPOKANE, WASHINGTON 99201
(509) 456-6816

FIRST FEDERAL PLAZA, SUITE 445
1220 MAIN STREET
VANCOUVER, WASHINGTON 98660
(206) 696-7838

August 4, 1983

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

RECEIVED
OFFICE OF THE CHAIRMAN
1983 AUG 10 AM 10:59
FEDERAL RESERVE SYSTEM
BOARD OF GOVERNORS

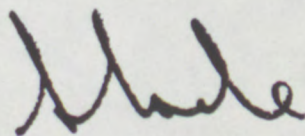
Dear Paul:

I would like to add my endorsement of Howard L. Chapman, to be appointed to one of the year-end vacancies on your Consumer Advisory Council. Although I do not personally know Mr. Chapman, I have known his family for many years, and know of him through them.

Mr. Chapman's background and experience seem to qualify him very well for a position on your Council. In his more than 25 years in private law practice in Indiana, he has specialized in consumer-related lending, advising clients in the Truth-In-Lending Act, RESPA and ECOA, as well as submitting comments to your Board in these matters. He has also worked with real estate mortgage lending practices outside of the state of Indiana.

I believe he could be an asset to your Council, and I hope that you give him every consideration.

Sincerely,



SLADE GORTON
United States Senator

SG:ct



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

CM

August 10, 1983

The Honorable Malcolm Wallop
United States Senate
Washington, D.C. 20510

Dear Senator Wallop:

Thank you for your letter of June 21 requesting our comments on correspondence you received from Ms. Catherine Thomson of Douglas, Wyoming. Ms. Thomson expressed concern regarding the Federal Reserve System's role in monetary affairs and as a bank regulator, and I hope the following is responsive to each of her concerns.

Ms. Thomson mistakenly believes that the Federal Reserve is a private corporation and first asks why the Federal Reserve uses the name "Federal". The Federal Reserve System is a creation of Congress under the Federal Reserve Act of 1913. The Federal Reserve consists of the Board of Governors and the twelve Federal Reserve Banks. As indicated in the enclosed decision, Jet Courier Services, Inc. et al. v. Federal Reserve Bank of Atlanta, the Federal Reserve is an agency of the Federal government. The seven members of the Board are appointed by the President of the United States with the advice and consent of the Senate. The Board is responsible, among other things, for determining monetary policy and generally supervising the twelve Federal Reserve Banks. Although a creation of Congress, the System was designed to act independently to ensure that it could carry out its responsibilities as the nation's central bank.

Ms. Thomson also is concerned about the purpose of the Federal Deposit Insurance Corporation and questions why it was created. She mistakenly believes that it guarantees some deposits carried by the Federal Reserve. The FDIC was created in 1933 to protect persons who deposit money in national banks or in state banks which choose this insurance protection. This insurance covers deposits up to \$100,000 and is paid to a depositor who loses his deposit when a bank fails. The Federal Reserve Banks do not accept deposits from individuals and are

not insured by the FDIC. Therefore, the FDIC does not insure deposits of the Federal Reserve.

Finally, Ms. Thomson suggests that the Federal Reserve be restructured to make it a government agency. As we indicated above, the Federal Reserve Board already is regarded as a federal agency. One primary function of the System is to effectuate monetary policy in order to maintain a stable and healthy economy. Some of the methods the Federal Reserve uses to carry out monetary control include the imposition of reserve requirements on depository institutions, adjustments in the discount rates at which depository institutions may borrow from the Federal Reserve, and open market purchases and sales of securities.

Ms. Thomson also states that the U.S. Government borrows billions of dollars from the Federal Reserve. The U.S. Treasury finances the United States budget by selling Treasury bills and Treasury bonds to the public. The Treasury is not permitted to sell these obligations directly to the Federal Reserve. Rather the Treasury sells its obligations to individuals and other investors. The Federal Reserve, however, as a means of implementing monetary policy, may purchase these securities in the secondary market from those who have purchased them from the Treasury. The Federal Reserve is not operated for a profit and returns all earnings (including interest received on government debt obligations) in excess of expenses to the U.S. Treasury. In calendar year 1982 payments to the Treasury by the Federal Reserve amounted to more than \$15 billion.

Ms. Thomson also suggests that we return to the gold standard. Often the argument is made that a return to the gold standard will cure all our economic ills. 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 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. One of the panics, in 1869, was caused when two financiers attempted to corner the commercial gold market. Thus, even when dollars

The Honorable Malcolm Wallop
Page Three

are backed by gold and silver, private market forces may upset the stability in the government-specified price between dollars and gold.

A full gold standard was in effect from 1900-1933, providing for free coinage of gold and full convertibility of currency into gold coin. The passage of the Gold Reserve Act of 1934 triggered the end of the gold-based monetary system in domestic exchange. In reference to this, one should note that there is no Constitutional requirement that the monetary system of the U.S. consist of currency backed by gold (or silver). One of the reasons for establishing the Federal Reserve System and for the demonetization of gold in the 1930's was to provide for a mechanism to make the money supply elastic to match fluctuations of the economy rather than fluctuations in the supply of a commodity, such as gold (or silver), which may be unrelated to the growth of the economy at large. We have no way of knowing what the inflation rate would be if our currency were backed by gold (and silver). However, Public Law 96-389 directed the Secretary of the Treasury to establish and chair a commission to assess and make recommendations with regard to U.S. policy concerning the role of gold in domestic and international monetary policy systems. Members of the commission included members of the Board of Governors of the Federal Reserve System, the Council of Economic Advisors, the Joint Economic Committee of Congress, the House and Senate Banking committees, and four private citizens. The Commission's report, dated March 31, 1982, concluded that a return to the gold standard at this time would not be appropriate.

As further background on the Federal Reserve, I am enclosing five pamphlets which may be of interest to Ms. Thomson.

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

Sincerely,

(Signed) Anthony F. Cole

Anthony F. Cole
Special Assistant to the Board

Enclosures

GTS:JHJ:EMB:mrk (# V-112)

bcc: Mr. Schwartz
Mr. Jorgenson
Legal Files (2)

CLO will handle response

ROBERT J. DOLE, KANS., CHAIRMAN

BOB PACKWOOD, OREG.
WILLIAM V. ROTH, JR., DEL.
JOHN C. DANFORTH, MO.
JOHN H. CHAFEE, R.I.
JOHN HEINZ, PA.
MALCOLM WALLOP, WYO.
DAVID DURENBERGER, MINN.
WILLIAM L. ARMSTRONG, COLO.
STEVEN D. SYMMS, IDAHO
CHARLES E. GRASSLEY, IOWA

RUSSELL B. LONG, LA.
LLOYD BENTSEN, TEX.
SPARK M. MATSUNAGA, HAWAII
DANIEL PATRICK MOYNIHAN, N.Y.
MAX BAUCUS, MONT.
DAVID L. BOREN, OKLA.
BILL BRADLEY, N.J.
GEORGE J. MITCHELL, MAINE
DAVID PRYOR, ARK.

#112
United States Senate

COMMITTEE ON FINANCE
WASHINGTON, D.C. 20510

ROBERT E. LIGHTHIZER, CHIEF COUNSEL
MICHAEL STERN, MINORITY STAFF DIRECTOR

June 21, 1983

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

Dear Chairman Volcker:

Enclosed is a copy of the letter which I received from Catherine Thomson of Douglas, Wyoming regarding the Federal Reserve System.

I would appreciate it if you would review the letter and answer some of her questions so that I can respond to her concerns.

Thank you very much for your time and cooperation.

Sincerely,

Malcolm Wallop

Malcolm Wallop
United States Senator

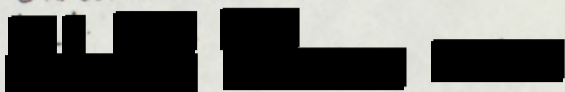
MW:tpp

Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1983 JUN 27 AM 10:43
RECEIVED
OFFICE OF THE CHAIRMAN

Book- 46

Catherine Thomson



1923 JUN 13 11:10:46

Dear *Honorable Senator Wallop*

Today, s newspaper tells of five more banks closing, making a total of twenty-three for the year so far. There are several questions that I ,d like to ask about banking etc. If you cannot answer these questons, can you tell me who will?

They are:

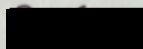
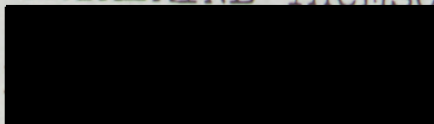
- >a. Why is the Fedderal Reserve allowed to use the name "Federal" when it is a private corporation?
- >b. Our congress was given the power to coin money & regulate the value thereof. In 1913 they gave this power to the PRIVAT corporation called "FEDERAL ESERVE CORPCRATION". Then Congress went further out on a rotten limb by setting up the FDIC guaranteeing some deposits that this private corp carries. Ridiculous? NO; IT,S STUPID.. How much longer is Congress going to allow this situation to continue?
- c. Why can,t Congress re-negotiate with Fed. Reserve Corp. making it truly a Federal Corporation? We do need some such agency to administer our money problems. we should go back on the gold standard. Since 1913 the Federal Government has BORROWED overone trillion dollars from the Fed Reserve. We are now paying over one billion a year in interest on this loan. Since these figures were compiled many millions more have been borrowed.
- d When are you, as representative of the people, going to regain control of printing and regu lating our money?

Thank you beforehand for replying.

Sincerely

Catherine Thomson

CATHERINE THOMSON



August 10, 1983

The Honorable Brian Donnelly
Chairman
Task Force on Entitlements, Uncontrollables
and Indexing
Committee on the Budget
House of Representatives
Washington, D. C. 20515

Dear Chairman Donnelly:

On behalf of the Board, I want to thank you for your letters of August 4 recommending Professor Joseph McEttrick for a position on our Consumer Advisory Council.

I can assure you that Professor McEttrick will receive full consideration when the Board selects eight new Council members later this year.

The Council provides valuable assistance in advising the Board on its implementation of consumer regulations and on other consumer-related matters, and the Board is pleased to receive recommendations for qualified individuals who can contribute to the Council's work.

Again, the Board appreciates having your recommendation.

Sincerely,

S/Paul A. Volcker

CO:vcd (V-159)

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

Mrs. Mallardi (2) ✓

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1983 AUG -8 AM 8:59

RECEIVED
OFFICE OF THE CHAIRMAN

Congress
of the
United States

House of Representatives

BRIAN DONNELLY
MASSACHUSETTS
ELEVENTH DISTRICT



COMMITTEES:
BUDGET
MERCHANT MARINE
PUBLIC WORKS AND TRANSPORTATION

August 4, 1983

#159

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

Dear Chairman Volcker:

I write to recommend Professor Joseph McEttrick of Suffolk University Law School for appointment to the Consumer Advisory Council of the Federal Reserve Board.

I have known Professor McEttrick for over 20 years and throughout that time he has been a most knowledgeable and hard-working advisor. His understanding of the complexity of consumer law, and its place within the economy, is truly impressive. That knowledge, combined with his energy and dedication, have made his assistance invaluable to me not only in my Budget Committee work, but in every matter on which we have worked together.

Further, I believe that Professor McEttrick's background and experience make him particularly well-suited for appointment to the Consumer Advisory Council. He is an authority in the area of consumer law, and currently teaches a consumer law course which emphasizes the role of the Federal Trade Commission in consumer protection, the Consumer Credit Protection Act, and the Massachusetts Consumer Protection Statute. As a recognized authority in consumer law, he testifies regularly before the Massachusetts Legislature on bills affecting consumers, and has been most influential in the drafting of consumer protection legislation.

Professor McEttrick's experience in the consumer law field is not limited to academia. He has served with distinction as a member of several government advisory bodies, including the Small Loans Regulatory Board of the Massachusetts Department of Banks and Banking, the Attorney General's Advisory Committee on Debt Collection Regulation, and the Massachusetts Judicial Nominating Commission.

In sum, I recommend Professor Joseph McEttrick to you without reservation. He would be an outstanding member of the Consumer Advisory Council.

Sincerely,

BRIAN DONNELLY
Chairman, Budget Committee
Task Force on Entitlements,
Uncontrollables and Indexing

BD:mlc
438 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-3215

2307 JOHN F. KENNEDY FEDERAL BUILDING
BOSTON, MA. 02203
(617) 223-0038

47 WASHINGTON STREET
QUINCY, MA. 02169
(617) 472-1800

61 MAIN STREET
BROCKTON, MA. 02401
(617) 583-6300

TOLL-FREE LINE TO
WASHINGTON
1-800-424-9112



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

August 8, 1983

The Honorable Connie Mack
House of Representatives
Washington, D. C. 20515

Dear Mr. Mack:

Thank you for your letter of July 14 requesting information for Mr. Boyd Nelson of Fort Myers, Florida, about Federal Reserve policy on when a depository institution must make funds available to its customers for checks deposited into their accounts.

With the exception of the State of New York, there are no legislative or regulatory rules governing the time period in which depository institutions must or must not make funds available for checks deposited. Thus, each institution sets its own policy based generally on its own experience and with a view toward protecting itself against loss in the event a check is returned unpaid and the institution is unable to recover the funds from its customer. In the State of New York, the banking commissioner was given authority recently to determine a reasonable number of days for depository institutions to delay access to funds by their customers. Also, the law requires depository institutions to disclose their funds availability policies. Comparable legislation is being considered by the California Legislature. Although the Federal Reserve has no rules or regulations governing availability practices, we do believe that customers should be informed fully of their institution's policies.

When a Federal Reserve Bank receives a check from a depository institution for collection, it gives provisional credit to the institution from zero to three business days later, depending on the location of the paying institution. The credit is "provisional" because the Reserve Bank has the right to charge immediately the account of the sending institution if a check is returned unpaid for any reason. When a check is returned unpaid, it is not uncommon for several days to elapse before the check is received by the Federal Reserve Bank of the institution which deposited the check with the Federal Reserve. The delay in receipt of returned checks is often due to the fact that these checks must be processed manually and are generally handled by each institution involved originally in the collection of the check. Collection arrangements not involving the Federal Reserve are similar.

Many depository institutions often cite the length of time required for a check to be returned unpaid as a major factor contributing to delays in making funds available to their

The Honorable Connie Mack
Page Two

customers. In the interest of encouraging greater efficiency in the payments mechanism and impacting favorably funds availability practices, the Federal Reserve has been examining ways to improve the efficiency of return item processing which contributes disproportionately to the cost of check collection. The Federal Reserve Bank of Dallas recently began a pilot program to test the feasibility of accelerating the handling of returned checks. Under the pilot program, a dishonored check would be returned directly to the institution of first deposit--bypassing (where possible) other depository institutions in the collection chain. In addition, a wire notice would be provided to the institution of first deposit for dishonored checks of \$2,500 or more.

I hope that this information is helpful to you. Please let me know if I can assist you further in this matter.

Sincerely,

(Signed) William R. Maloni

William R. Maloni
Special Assistant to the Board

MJH:CO:vcd (V-142)

bcc: M. J. Hallmon
Mrs. Mallardi ✓

CONNIE MACK
13TH DISTRICT, FLORIDA

COMMITTEES:
BUDGET

POST OFFICE AND CIVIL SERVICE

Action assigned to Mr. Farnsworth



Mrs. Mallardi

WASHINGTON OFFICE:
504 CANNON BUILDING
WASHINGTON, D.C. 20515
(202) 225-2536

DISTRICT OFFICES:
106 FEDERAL BUILDING
FORT MYERS, FLORIDA 33901
(813) 334-4424

2015 SIESTA DRIVE
SUITE 204
SARASOTA, FLORIDA 33579
(813) 366-9482

Congress of the United States

House of Representatives

Washington, D.C. 20515

July 14, 1983

#143

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

Dear Mr. Chairman:

Recently I received a telephone call from one of my constituents, Mr. Boyd Nelson of Fort Myers, Florida, regarding the amount of time it takes banks to clear a check.

Mr. Nelson is interested in the Federal Reserve's policy on this matter. I would appreciate a response.

Thank you for your help.

Sincerely,

Connie Mack
Connie Mack

CM/nfl

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1983 JUL 25 AM 9:15
RECEIVED
OFFICE OF THE CHAIRMAN