Congressional Correspondence
August - October 1983 [27]

October 5, 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 Chairman Fauntroy:

Thank you for your letter of October 3 regarding hearings on Federal Reserve reform legislation.

I look forward to appearing before your Subcommittee on October 17 at 10:00 a.m.

Sincerely,

[redacted]

CO:pjt (#V-198, 83157)

bcc: Don Kohn
Mrs. Mallardi (2)

Don Kohn will be drafting statement

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

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

#198

October 3, 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 Monday, October 17, 1983, the Subcommittee on Domestic Monetary Policy will meet to consider several bills which would affect the operations of the Federal Reserve. I would be most pleased if you could visit with the Subcommittee at that time to share your thoughts in the efficacy of any or all of them to the extent you have given them consideration.

H.R. 3868, a bill to amend the Federal Reserve Act to provide a new class of directors for Federal Reserve Banks, would establish an additional class of directors to be composed of three representatives serving staggered three-year terms to be chosen, one each from the savings banks, the credit unions, and the savings and loans, for the expressed purpose of providing thrift representation. Hearings on this bill were held on Thursday, September 15, 1983, with representatives of the trade associations. The thrifts, understandably, were in support of the bill; the American Bankers Association and the Independent Bankers Association of America were less enthusiastic. If you are prepared to comment on this legislation, I would be most pleased to receive your views at this time.

H.R. 3869, a bill to retire Federal Reserve stock, is legislation which probably should be considered along with H.R. 3868 inasmuch as H.R. 3868 would provide thrifts with representation on Reserve Bank Boards of Directors without imposing a membership requirement of the nature now imposed on those who elect the Class A and B Directors. There are other issues raised by the retirement of the Federal Reserve stock which you may wish to defer for another time if you have not had an opportunity to fully consider them. If, however, you can minimally address yourself to the issues associated with the concept of membership and an expansion of institutional representation in your comments on H.R. 3869, that would be most helpful in deciding how to further proceed on H.R. 3868.

H.R. 4009, a bill to modernize the Federal Reserve, is essentially a housekeeping bill. It does, however, deal with an issue directly affecting the office of Chairman inasmuch as it seeks to resolve questions surrounding succession in the event of absence or unavailability; the fixing of the term of the Chairman; and the removal of the District requirement on the appointment of the Chairman. The bill also contains provisions providing for the keeping of detailed minutes which would be outside of the FOIA provisions, elimination of the printing of the Annual Report by the Speaker of the House, and removal of the cap on branch building construction.

I know you have been anxious to personally comment on H.R. 4009. I look forward to hearing your views on that bill. If, additionally, you will advise me of your availability to comment on the other bills at the time of the hearing, I will prepare the hearing notices to my colleagues appropriately.

The Subcommittee will meet at 10:00 a.m. in Room 2128 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. I look forward to seeing you on the 17th.

Sincerely yours,

Walter E. Fauntroy
Subcommittee Chairman

enclosures: H.R. 3868, 3869 and 4009
Statements from 9/15/83 hearing
IBAA and ABA letters

98TH CONGRESS
1ST SESSION

H. R. 3868

To amend the Federal Reserve Act to provide for a new class of directors for Federal Reserve banks.

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 13, 1983

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

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A BILL

To amend the Federal Reserve Act to provide for a new class of directors for Federal Reserve banks.

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

SHORT TITLE

SECTION 1. This Act may be cited as the "Class D Directors Act of 1983".

CLASS D DIRECTORS

SEC. 2. Section 4 of the Federal Reserve Act is amended by inserting after the twelfth paragraph the following:

"Class D shall consist of three members who shall be designated by the Board of Governors of the Federal Reserve System. Directors shall be appointed, one from each of the following classes of depository institutions, by the Board from recommendations made to it by the members who shall represent (1) the savings banks as defined in section 3 of the Federal Deposit Insurance Act; (2) the insured credit unions as defined in section 101 of the Federal Credit Union Act; and (3) any insured institution as defined in section 401 of the National Housing Act. Directors shall serve staggered terms and it shall be the duty of the directors, at their first meeting, to designate one of the directors of this class whose term shall expire in one year from the first of January nearest to the date of such meeting, one whose term of office shall expire at the end of two years from such date, and one whose term of office shall expire at the end of three years from such date. Thereafter, every director shall be chosen as hereinbefore provided. All class D directors shall have been residents for at least two years of the district for which they are appointed and shall possess tested financial experience of the type appropriate to their class of depository institution. No class D director shall be an officer, director, employee, or stockholder of any other depository institution except of that type of depository institution which the director shall represent. Vacancies that may occur shall be filled in the manner

provided in the original selection and such appointees shall hold office for the unexpired term of their predecessors and shall be eligible for appointment to a full term. No person shall serve two or more full consecutive terms. The Board shall promulgate rules and regulations to provide for the making of suitable recommendations from which it shall make appointments and to assure that every nomination shall be made without regard to race, creed, color, sex, or national origin. The Board shall be the sole judge of suitability and should there be no suitable candidates, the Board shall fill the vacancy with an individual who, in the Board's judgment, will best represent the interests of the class of depository institutions which is vacant.".

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98TH CONGRESS
1ST SESSION

H. R. 3869

To retire Federal Reserve bank stock.

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 13, 1983

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

---

A BILL

To retire Federal Reserve bank stock.

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

SHORT TITLE

SECTION 1. This Act may be cited as the "Federal Reserve Bank Stock Retirement Act".

STOCK SUBSCRIPTIONS

SEC. 2. (a) The last sentence of the first paragraph of section 2 of the Federal Reserve Act (12 U.S.C. 222) is amended by striking out "subscribing and paying for stock" and inserting in lieu thereof "obtaining a certificate of membership".

(b) The second sentence of the third paragraph of section 2 of such Act (12 U.S.C. 282) is amended by striking out "subscribe to the capital stock" and all that follows through "gold or gold certificates." and inserting in lieu thereof "obtain a certificate of membership pursuant to the provisions of this Act.".

(c) The fourth paragraph of section 2 of such Act (12 U.S.C. 502) is amended—

(1) by striking out "shareholders" and inserting in lieu thereof "member banks"; and

(2) by striking out "the amount of their" and all that follows through the end thereof and inserting in lieu thereof "an amount equal to 6 per centum of the paid-up capital stock and surplus of such member bank.".

(d) The eighth, ninth, tenth, and eleventh paragraphs of section 2 of such Act (12 U.S.C. 283; 285) are hereby repealed.

(e) The twelfth paragraph of section 2 of such Act (12 U.S.C. 286) is hereby repealed.

(f) The first sentence of the last paragraph of section 2 of such Act (12 U.S.C. 281) is hereby repealed.

ORGANIZATION OF FEDERAL RESERVE BANKS

SEC. 3. (a) The second sentence of the first paragraph of section 4 of the Federal Reserve Act is amended by striking

out "a subscription to the capital stock of" and inserting in lieu thereof "an application for a certificate of membership in".

(b) The second paragraph of section 4 of such Act is amended—

(1) by striking out "When the minimum amount of capital stock prescribed by this Act for the organization of any Federal Reserve bank shall have been subscribed and allotted," and inserting in lieu thereof "When the organization committee shall deem that a sufficient proportion of eligible banks have applied for membership in a Federal Reserve bank in the process of organization,";

(2) by striking out "the amount of capital stock and the number of shares into which the same is divided,";

(3) by striking out "subscribed to the capital stock of" and inserting in lieu thereof "applied for membership in";

(4) by striking out "and the number of shares subscribed by each"; and

(5) by striking out "subscribed or may thereafter subscribe to the capital stock of" and inserting in lieu thereof "applied or may thereafter apply for membership in".

(c) The subparagraph numbered "Eighth" of section 4 of such Act (12 U.S.C. 341) is amended by striking out "stock".

(d) The tenth paragraph of section 4 of such Act (12 U.S.C. 302) is amended by striking out "stock-holding" and inserting in lieu thereof "member".

(e) The third sentence of the twelfth paragraph of section 4 of such Act is amended by striking out "subscriptions to the capital stock" and inserting in lieu thereof "applications for membership".

MEMBERSHIP IN THE FEDERAL RESERVE SYSTEM

SEC. 4. Section 5 of the Federal Reserve Act (12 U.S.C. 287) is amended to read as follows:

"APPLICATION FOR MEMBERSHIP

"SEC. 5. (a) The Federal Reserve banks shall have no capital stock.

"(b) A bank applying for membership in the Federal Reserve System after the effective date of the Federal Reserve System Modernization Act shall submit an application for such membership, in accordance with regulations of the Board of Governors of the Federal Reserve System, to the Federal Reserve bank of its district.

"(c) Upon the approval of an application submitted pursuant to subsection (b), the Federal Reserve bank involved shall issue to such bank a certificate attesting the member-

ship of such bank in such Federal Reserve bank and in the Federal Reserve System.

"(d) With respect to any bank which has an application for membership in the Federal Reserve System which is pending on the date of the enactment of the Federal Reserve System Modernization Act, upon the approval of such application of such bank, such Federal Reserve bank shall issue to such bank a certificate attesting the membership of such bank in such Federal Reserve bank and in the Federal Reserve System.

"(e) When a member bank voluntarily liquidates, it shall surrender its certificate of membership and cease to be a member of the Federal Reserve bank of its district and of the Federal Reserve System.

"(f)(1) Any bank which is a member bank on the date of the enactment of the Federal Reserve System Modernization Act shall be deemed to hold a certificate of membership in the Federal Reserve System and in the Federal Reserve bank of which it is a member on such date.

"(2) The Federal Reserve bank involved shall issue a certificate of membership to each such member bank as soon as practicable after the date of the enactment of such Act.".

INSOLVENCY OF MEMBER BANKS

SEC. 5. (a) The first paragraph of section 6 of the Federal Reserve Act (12 U.S.C. 288, first paragraph) is hereby repealed.

(b) The second sentence of the paragraph which, prior to the amendment made by subsection (a) of this section, was the second paragraph of section 6 of such Act (12 U.S.C. 288, second paragraph) is amended to read as follows: "The certificate of membership held by such national bank shall be surrendered to the Federal Reserve bank of its district, and such national bank shall cease to be a member of such Federal Reserve bank and of the Federal Reserve System.".

DIVISION OF EARNINGS

SEC. 6. (a) The first paragraph of section 7 of the Federal Reserve Act (12 U.S.C. 289) is amended by striking out "the stockholders" and all that follows through "have been fully met,".

(b) The second sentence of the second paragraph of section 7 of such Act (12 U.S.C. 290) is amended by striking out ", dividend requirements as hereinbefore provided, and the par value of the stock,".

(c) The third paragraph of section 7 of such Act (12 U.S.C. 531) is amended by striking out "capital stock and".

APPLICATION FOR MEMBERSHIP BY STATE BANKS

SEC. 7. (a) The first paragraph of section 9 of the Federal Reserve Act (12 U.S.C. 321, first paragraph) is amended—

(1) in the first sentence, by striking out "the right to subscribe to the stock of" and inserting in lieu thereof "membership in";

(2) by striking out the second and third sentences thereof; and

(3) in the last sentence, by striking out "stockholder" and inserting in lieu thereof "member".

(b) The first sentence of the second paragraph of section 9 of such Act (12 U.S.C. 321, second paragraph) is amended by striking out "Federal Reserve bank stock owned by the national bank shall be canceled and paid for as provided in section 5 of this Act." and inserting in lieu thereof "membership of such national bank shall be terminated and the certificate of membership canceled by the Federal Reserve bank involved.".

(c) The first sentence of the third paragraph of section 9 of such Act (12 U.S.C. 321, third paragraph) is amended—

(1) by striking out "stockholder" and inserting in lieu thereof "member"; and

(2) by striking out "stock" and inserting in lieu thereof "membership".

(d) The fifth paragraph of section 9 of such Act (12 U.S.C. 323) is hereby repealed.

(e) The first sentence of the paragraph which, prior to the amendment made by subsection (d) of this section, was the ninth paragraph of section 9 of such Act (12 U.S.C. 327) is amended by striking out "stock" and inserting in lieu thereof "certificate of membership".

(f) The paragraph which, prior to the amendment made by subsection (d) of this section, was the tenth paragraph of section 9 of such Act (12 U.S.C. 328) is amended—

(1) in the first sentence—

(A) by striking out "all of its holdings of capital stock" and inserting in lieu thereof "its certificate of membership"; and

(B) by striking out ": *Provided, however,* That no" and all that follows through "withdrawals during that year"; and

(2) in the third sentence—

(A) by striking out "stock holdings" and inserting in lieu thereof "certificate of membership"; and

(B) by striking out "a refund of its cash" and all that follows through "likewise be entitled to".

(g) The paragraph which, prior to the amendment made by subsection (d) of this section, was the sixteenth paragraph of section 9 of such Act (12 U.S.C. 333) is amended—

(1) in the first sentence, by striking out ", except that any" and all that follows through "admission to membership";

(2) by striking out the second through the seventh sentences thereof; and

(3) in the last sentence, by striking out ", except as otherwise hereinbefore provided with respect to capital stock".

(h) The last sentence of the last paragraph of section 9 of such Act (12 U.S.C. 338) is amended by striking out "stock" and inserting in lieu thereof "certificates of membership".

ASSESSMENTS ON FEDERAL RESERVE BANKS

SEC. 8. The first sentence of the third paragraph of section 10 of the Federal Reserve Act (12 U.S.C. 243) is amended by striking out "capital stock and surplus" and inserting in lieu thereof "net earnings for the immediately preceding six-month period".

BANKS IN DEPENDENCIES AND INSULAR POSSESSIONS AS MEMBER BANKS

SEC. 9. Section 19(h) of the Federal Reserve Act (12 U.S.C. 466) is amended by striking out "take stock" and

inserting in lieu thereof "apply for membership in the Federal Reserve System".

RETIREMENT OF FEDERAL RESERVE BANK STOCK

SEC. 10. The Federal Reserve Act is amended by inserting after section 5 of such Act the following new section:

"RETIREMENT OF FEDERAL RESERVE BANK STOCK

"SEC. 5A. (a) Five years after the date of the enactment of this section, each holder of stock in each Federal Reserve bank shall surrender such stock to the Federal Reserve bank involved. During the ten-year period which begins five years after the date of the enactment of this Act, each Federal Reserve bank shall pay, in ten equal annual payments, to each former holder of such stock the par value of such stock. The timing of such payments by such Federal Reserve bank during such ten-year period shall be consistent with the orderly operation of the Federal budget and the monetary control policies of the Board of Governors of the Federal Reserve System.

"(b) In any case in which a member bank voluntarily liquidates during such five-year period, upon surrendering its stock and certificate of membership to the Federal Reserve bank involved, such member bank shall promptly receive payment for such stock as specified in subsection (a), less any liability of such member bank to such Federal Reserve bank.

"(c) In any case in which a member bank shall be declared insolvent during such five-year period and a receiver is appointed for such member bank, or in any case in which a receiver is appointed for a national bank during such five-year period pursuant to the first paragraph of section 6 of this Act, upon surrendering its stock and certificate of membership in the Federal Reserve bank involved, the receiver shall promptly receive payment for such stock as specified in subsection (a), less all debts of such member bank or such national bank to the Federal Reserve bank involved.".

EFFECTIVE DATE

SEC. 11. The amendments made by this Act shall take effect on the date of the enactment of this Act, except that the amendments made by section 2(e) and section 6 shall take effect five years after such date.

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98TH CONGRESS
1ST SESSION

H. R. 4009

To modernize the Federal Reserve System.

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 28, 1983

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

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A BILL

To modernize the Federal Reserve System.

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

SHORT TITLE

SECTION 1. This Act may be cited as the "Federal Reserve System Modernization Act".

DETAILED MINUTES

SEC. 2. (a) Section 12A of the Federal Reserve Act (12 U.S.C. 263) is amended by adding at the end thereof the following:

"(d)(1) The Board of Governors of the Federal Reserve System shall take and maintain detailed minutes of all meetings of the Committee.

"(2) Subject to paragraph (3), the minutes of each such meeting shall contain a detailed record of the proceedings of such meeting and shall be prepared in accordance with publicly available guidelines prescribed by the Board. Such guidelines may authorize the inclusion of staff reports. Views expressed by any member of the Committee shall be attributed to such member in such minutes.

"(3)(A) Before the publication of any minutes in accordance with the provisions of paragraph (4), the Board may delete from such minutes any information regarding any foreign country, central bank of a foreign country, or any international institution which has a majority of members who are foreign countries or central banks of foreign countries. Any such deletion shall be indicated in such minutes.

"(B) Not later than fifteen years after the date of each meeting with respect to which information is deleted under subparagraph (A), the Board shall review such information to determine whether such information should be published.

"(C) Not later than thirty years after the date of each meeting with respect to which information is deleted under subparagraph (A) and withheld from publication under subparagraph (B), the Board shall publish such information.

"(4) The minutes of each meeting of the Committee, prepared pursuant to paragraphs (1) through (3), shall be published and be made publicly available by the Board on,

but not before, the last business day of December of the fourth calendar year following the calendar year in which the meeting involved occurs.".

(b) The amendments made by subsection (a) shall apply only to meetings of the Federal Open Market Committee which are held after the date of the enactment of this Act.

AT-LARGE APPOINTMENT OF THE CHAIRMAN

SEC. 3. The first paragraph of section 10 of the Federal Reserve Act (12 U.S.C. 241) is amended—

(1) in the second sentence—

(A) by striking out "not more than one of whom shall be selected from any one Federal Reserve District,"; and

(B) by inserting after the second sentence the following: "The President shall not appoint more than one member of the Board from any one Federal Reserve district, except that when appointing, under the following paragraph, a member who is also designated to serve as chairman of the Board, the President shall not be bound by this restriction.".

ANNUAL REPORT

SEC. 4. The seventh paragraph of section 10 of the Federal Reserve Act (12 U.S.C. 247) is amended by striking out

", who shall cause the same to be printed for the information of the Congress".

APPOINTMENT OF THE CHAIRMAN AND VICE CHAIRMAN

SEC. 5. (a) The second paragraph of section 10 of the Federal Reserve Act (12 U.S.C. 242) is amended by striking out the third sentence and inserting in lieu thereof the following: "The President shall appoint, by and with the advice and consent of the Senate, one member of the Board to serve as chairman. The term of such member as chairman shall expire on January 31 of the first calendar year beginning after the calendar year during which the term of the President who appointed such member as chairman is scheduled to expire. In the event a chairman does not complete his entire term as chairman, his successor shall be appointed to complete the unexpired portion of such term as chairman and shall serve as chairman until January 31 of the first calendar year beginning after the calendar year during which the term of the President who appointed him as chairman is scheduled to expire. The President also shall appoint, by and with the advice and consent of the Senate, one member of the Board to serve as vice chairman for a term of four years. Upon the expiration of the term of the chairman or vice chairman, the chairman or vice chairman, as the case may be, shall continue to serve in such capacity until his successor is appointed and has qualified.".

(b) The second paragraph of section 10 of the Federal Reserve Act (12 U.S.C. 242) is amended by inserting the following before the sentence which prior to the amendment made by subsection (a) of this section was the fourth sentence of such paragraph: "In the event of the absence or unavailability of the chairman, the vice chairman or (in the vice chairman's absence) another member of the Board may be designated by the chairman to perform the duties of the office of the chairman. In the event of the death or resignation of the chairman or a vacancy in the office of the chairman, the vice chairman shall perform the duties of the chairman until a successor is appointed and has qualified. In the event of the death or resignation of the chairman and the vice chairman or a vacancy in the office of the chairman and a vacancy in the office of the vice chairman, the member of the Board with the most years of service on the Board shall perform the duties of the chairman until a successor is appointed and has qualified.".

(c) The amendments made by this section shall take effect on the date of the enactment of this Act, except that the amendment made by subsection (a) shall be applicable to any person who was Chairman of the Board of Governors of the Federal Reserve System immediately prior to such effective date only upon the expiration of the full four-year term

as chairman which such person was serving immediately prior to such effective date.

BRANCH BUILDINGS

SEC. 6. The ninth paragraph of section 10 of the Federal Reserve Act (12 U.S.C. 522) is repealed.

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OPENING STATEMENT OF THE HONORABLE WALTER E. FAUNTROY
CHAIRMAN, SUBCOMMITTEE ON DOMESTIC MONETARY POLICY
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

at Hearings on

ESTABLISHING A NEW CLASS OF DIRECTORS
FOR FEDERAL RESERVE DISTRICT BANKS

Thursday, September 15, 1983 -- 10:00 A.M.
2220 Rayburn House Office Building, Washington, D.C.

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The Subcommittee will come to order.

Today, we hold hearings on an issue of importance to the operations of the Federal Reserve System. As the Members know, the Federal Reserve System is composed of 12 Federal Reserve District Banks in addition to the Board of Governors here in Washington. These District Banks and their Branch Banks handle the day-to-day responsibilities of the Federal Reserve System such as check-clearing, providing currency to financial institutions, acting as the Treasury Department's fiscal agency, regulating financial institutions, and other services to financial institutions and to the public. In addition, the Presidents of the District Banks participate in meetings of the Federal Open Market Committee, bringing the Districts' economic conditions and needs before that body's deliberations on monetary policy. Thus, the District Banks play a unique role as intermediaries between national policy decisions and the people and financial institutions of the different regions of the country.

The Boards of Directors for these District Banks reflect this unique role. At present, there are three classes of Directors at the District Banks. Three Class A Directors are elected by and represent the commercial banks of the District who hold stock in the Federal Reserve System. Three Class B directors are also elected by the stockholding member banks to represent the general public, and specifically the interests of agriculture, commerce, industry, services, labor, and consumers. Finally, three Class C directors are appointed by the Board of Governors to represent the public. The Chairman and Deputy Chairman are selected from the Class C Directors.

This system has worked well. The Monetary Control Act of 1980, however, created an anomaly. Under that Act, savings and loan associations, mutual savings banks, and credit unions were brought within the purview of the Federal Reserve System through the adoption of universal reserve requirements. These financial institutions were also granted direct access to Federal Reserve services such as check clearing, wire-transfers, and provision of currency and coin. Yet, no specific representation was provided for them on the Board of Directors of the District Banks.

I believe that this situation should be rectified, and that the best way to do this is to establish a new class of Directors to represent the savings institutions and credit unions who can now participate in the Federal Reserve System. These new Class D Directors would be composed of three representatives -- one each from the mutual savings banks, the credit unions, and the savings and loan associations -- serving staggered three-year terms. They would be appointed by the Board of Governors from recommendations made from each class of depository institutions.

The hearing today will explore whether the resulting representation of thrift institutions on District Banks would facilitate their access to the policies and facilities of the Federal Reserve System, and whether the proposed solution of Class D Directors is necessary and appropriate along with the implications of such a proposal upon the thinking that affects the conduct of monetary policy. Our witnesses include: Roy G. Green, Executive Vice President of the U.S. League of Savings Associations; H. Lee Boatwright, III, President of CentraBank in Baltimore, Maryland, testifying on behalf of the National Association of Mutual Savings Banks; Rick Wieczorek, President of the D.C. Credit Union League, testifying on behalf of the Credit Union National Association; and John H. Hutchinson, Manager of the Hamilton Standard Federal Credit Union and President of the National Association of Federal Credit Unions. The American Bankers Association and Independent Bankers Association of America will be submitting written statements later for inclusion in the record.

STATEMENT OF ROY G. GREEN

BEFORE THE SUBCOMMITTEE ON DOMESTIC MONETARY POLICY

HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

September 15, 1983

MR. CHAIRMAN:

My name is Roy G. Green of Washington, D.C. I am Executive Vice President of the United States League of Savings Institutions*.

The U.S. League is pleased to present this testimony in support of the concept embodied in the "Class D Directors Act".

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*The U.S. League of Savings Institutions, formerly the U.S. League of Savings Associations, has a membership of 3,500 companies representing over 99% of the assets of the $730 billion savings and loan business. League membership includes all types of associations -- Federal and state-chartered, stock and mutual. Recently, many prominent savings banks have joined the League as members. The principal officers are: Leonard Shane, Chairman, Huntington Beach, California; Paul Prior, Vice Chairman, New Castle, Indiana; William O'Connell, President, Chicago, Illinois; Stuart Davis, Legislative Chairman, Beverly Hills, California; and Roy Green, Executive Vice President, Phil Gasteyer, Legislative Counsel, Jim Freeman, Senior Legislative Representative, Washington, D.C. League headquarters are at 111 East Wacker Dr., Chicago, Illinois 60601. The Washington Office is located at 1709 New York Avenue, N.W., Washington, D.C. 20006. Telephone: (202) 637-8900.

As you may know, Mr. Chairman, I only recently assumed my current post as Executive Vice President of the League with overall responsibility for the direction of its Washington operations. Prior to that I served for more than twenty-five years as managing officer of three separate savings and loan associations in different parts of the nation -- most recently, First Federal Savings of Jacksonville, Florida. While managing that institution, and of some relevance to the subject-matter of today's hearing, I also was appointed as an Advisory Director the Jacksonville Branch of the Federal Reserve Bank of Atlanta (District 6). Thus, I have some personal experience with the director's role in the Federal Reserve System, though in an "advisory director" capacity.

A quick survey of the twelve Federal Reserve Banks shows that ten other savings and loan or savings bank executives are participating in directorships within the System. However, as nearly as we can determine, each of these appointments is with a branch operation of a District Bank, rather than in the existing categories: Class A (stockholding members), Class B (elected public representatives), or Class C (public representatives, including the chairman, designated by the Board here in Washington).

As the proposed legislation recognizes, since the passage of the Monetary Control Act in 1980, thrift institutions have had an increasing stake in the policy direction of the Federal

Reserve System. With the authorization of NOW accounts nationwide, the limited opportunities for commercial demand accounts provided by last year's Garn-St Germain Act, and such subsequent deregulation steps as creation of unlimited transaction (and reservable) "Super NOW" accounts, involvement by thrifts with the System and its services is expanding. While it is certainly true that most thrifts do not yet have reservable liabilities above the threshold established by Section 411 of the 1982 law, it is reasonable to expect that increasing numbers of savings institutions and credit unions will become exposed to reserve requirements as they broaden their transaction account services for the public. (Let me again compliment you, and this Subcommittee, Mr. Chairman, for your initiative in developing Section 411.)

In my judgment, the posting of reserves by thrifts will become even more likely if your full Committee and the Congress enact H.R. 3535 -- "The Checking Account Deregulation Act" introduced by the distinguuished Chairman of your full Committee, Representative St Germain. Approval of that bill would, at long last, complete the deposit deregulation process by clearing away the remaining monopolies commercial banks enjoy for attracting commercial demand accounts. The U.S. League strongly supports H.R. 3535 and looks forward to an opportunity to testify on that matter in the next few weeks.

The Monetary Control Act and its "universal" coverage for non-member thrift depositories opened the facilities of the Fed System for many purposes other than reserve requirements, of

course. A growing number of savings institutions have found the System's check collection and processing facilities superior to those available from other correspondent sources. Savings institutions and credit unions also use the Fed System routinely for coin and currency transaction services, wire transfer, safekeeping for securities, and Treasury tax and loan account processing. Thus, thrifts have a vital interest in the policies adopted by the District Banks regarding the maintenance and development of these services for all depositories. And, under the 1980 legislation, savings institutions have statutory access to the discount windows of the Fed System Banks -- though, to date, this use has been discouraged in practice.

With savings institutions and credit unions so involved today and in the future with the System, it is most appropriate in our view that the Federal Reserve Act be modernized to assure some policy-making participation. The proposal to enlarge the Boards of the District Banks from nine to twelve directors through creation of a "Class D" category would accomplish this goal.

We do, however, have a few suggestions about the details of the legislative draft as made available to us at the time this testimony was being written:

1. Unlike savings and loan associations and credit unions, traditional State-chartered mutual savings banks with FDIC insurance are generally concentrated in the Northeast and not found in all States or Federal Reserve Bank Districts.

There would be no one qualifying for appointment for the savings bank "slot" in approximately half the Districts and, in one or two others, the number of such institutions is so small that directorships could circulate among a handful of individuals. Conversely, savings banks constitute the dominant type of depository in certain Northeastern States and the rigid savings bank, savings and loan, and credit union division may, in effect, "under-represent" savings banks in those Districts. Therefore, the U.S. League would suggest that the statutory language be revised so that the Class D selections may be made from the three institutional types collectively, rather than rigidly specifying one director from each type.

2. The definition chosen for a savings and loan institution director references "section 401 of the National Housing Act." In most cases, this would be adequate; however, under last year's Garn-St Germain Act it is now possible for a savings bank receiving a federal charter from the Federal Home Loan Bank Board to choose whether it will retain FDIC insurance or switch to the FSLIC insurance-of-accounts (found in Section 401). It is not totally clear to us that the dozen or so federal savings banks falling into this unusual grouping of FHLBB-chartered, but FDIC-insured, institutions would "fit" any of the definitions spelled out in the proposal for Class D Directors. However, if the drafters chose another definition in the National Housing Act -- that appearing in Section 408(a)(1) [12 U.S.C. 1730a(a)(1)] -- any doubt would be

removed and the potential for a director's slot would be assured for these few institutions.

3. The authorizing language for Class D Directorship specifies that: "No Class D director shall be an officer, director, employee, or stockholder of any other depository institution except of that type of depository institution which the director shall represent." While we would agree that employee and director interlocks should be discouraged among the different classes of Federal Reserve Bank directorships, the prohibition against <u>any</u> stockholding seems unduly rigid. Many commercial bank and bank holding company stocks are publicly traded with thousands of stockholders -- some of whom, no doubt, are thrift executives who could make a valuable contribution to the boards of district Fed banks. Some flexibility ought to be provided so that <u>de minimus</u> stockholdings in other types of depositories do not automatically disqualify a savings institution or credit union executive from selection as a Class D Director.

4. Finally, a few minor technical adjustments may be needed in other portions of existing law such as substituting "twelve" for "nine" in the introductory sentence of 12 U.S.C. 301.

Mr. Chairman, I hope these suggestions will be helpful in improving this worthwhile legislation.

In conclusion, the U.S. League welcomes your interest in broadening the the Boards of the District Banks of the Federal

Reserve System to include participation by thrift industry executives. We are confident that they can make a meaningful contribution to the policy-making decisions of the Fed Banks and the overall functioning of our nation's central banking system.

We support this legislative initiative and hope that your Subcommittee and the Congress will move this bill forward in the months ahead.

I appreciate this opportunity to present the views of the U.S. League and look forward to your questions.

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USL WASHINGTON OFFICE
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NEWS

RELEASE IMMEDIATE
September 15, 1983

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Washington, D.C. -- The Federal Reserve Act should be modernized to include participation by savings institution executives on the boards of the district banks of the Federal Reserve System, Roy Green told a Congressional committee today.

Testifying before a House Banking, Finance, and Urban Affairs subcommittee, Green said, "The proposed legislation to create a new class of Fed directors recognizes that thrift institutions have had an increasing stake in the policy direction of the Federal Reserve System since the passage of the Monetary Control Act of 1980.

"We welcome this legislative initiative," he said.

Green is executive vice president and Washington director of the U.S. League of Savings Institutions.

The "Class D Directors Act" would enlarge the boards of the district Federal Reserve banks from nine to twelve directors. The additional three directors would represent savings banks, credit unions, and savings and loan associations. They would serve 3-year terms.

The U.S. League suggested in its testimony that the bill be revised so that the savings industry selections can be made from the three institutional types collectively rather than specifying one director from each type. Making this change would avoid under-representation of depository institutions which dominate in certain regions, Green said.

Statement of

MR. H. LEE BOATWRIGHT, III

on behalf of

the NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS

and

the NATIONAL SAVINGS AND LOAN LEAGUE

before the

SUBCOMMITTEE ON DOMESTIC MONETARY POLICY

U.S. House of Representatives

September 14, 1983

Mr. Chairman, my name is Lee Boatwright and I am the President of CentraBank if Baltimore, Maryland. I am appearing here today on behalf of the National Association of Mutual Savings Banks and the National Savings and Loan League. As you may have heard, our two associations are in the process of consolidating into one new trade association which will represent both savings banks and savings and loans. The consolidation process began early in 1983 and will culminate in the launching of the National Council of Savings Institutions on November 1, 1983.

I am pleased to have this opportunity to testify in favor of Chairman Fauntroy's bill which would create a new class of thrift directors at the twelve Federal Reserve Banks. We very much appreciate your efforts in this area, Mr. Chairman, and the prompt beginning of this hearing process.

We welcomed the invitation to testify on this subject because we believe that it is of critical importance to the long term efficiency of our depository services system and because we think that the time has come for the Federal Reserve System to treat thrift institutions as equal partners in the financial services process. I hope that my appearance here today can be of help to the subcommittee in that I have had some experience within the Federal Reserve System.

I was from 1969 to 1974 the Senior Vice President in charge of the Baltimore branch of the Federal Reserve Bank of Richmond.

We believe that it is important and appropriate that thrift institutions be represented in a formal way in the Fed system for three basic reasons. First of all, the Monetary Control Act places us under the Fed's umbrella of authority for reserve purposes. At the time of the 1980 Act, transaction balances were a small or non-existent part of our deposit base. That situation has changed and there is every reason to believe that consumers will increasingly look to thrift institutions for transaction accounts as well as savings accounts. As thrifts build up their role in this activity, and as the eight year phase-in provided in the Monetary Control Act winds down, thrifts will be increasingly posting sterile reserves with the Federal Reserve Bank, and will also become a more important part of the nation's payments system. As these trends continue, equity demands full and equal participation of thrifts in the Fed system.

Prior to the 1980 Act the Fed system was a commercial banker's system. Only Fed member banks posted reserves with the Fed banks Under that system it was not inappropriate that member banks were guaranteed representation on the boards of the twelve Federal Reserve Banks. Since the reserve obligation will fall on savings banks, savings and loan, and credit unions all the more, it is, to say the least, appropriate that these institutions be represented on these Boards along with commercial bankers.

The second reason for supporting the bill is that as thrift institutions increase their share of the transaction balances and their importance to the payments system, they will need greater access to the services of the District Banks and the banks will need a better understanding of their new clientele. The legislation before us today serves these purposes very well in our opinion.

The third reason for supporting this legislation is that many of our member institutions, specifically state chartered savings banks, are not members of the Federal Home Loan Bank system and presently rely on the Federal Reserve Banks for borrowings the rates on which are set by the Boards of Directors. These savings banks also, in many cases, rely on the Federal Reserve Banks for services.

While we are here today to endorse the legislation introduced by Chairman Fauntroy we do have a few suggestions which we hope the subcommittee will find constructive.

The legislation provides for three "Class D" directors to be appointed (one each) from the credit unions, savings and loans, and savings banks. The definition of savings bank in the bill is, however, too limited to accomplish the bill's purpose. As presently written, the definition would exclude those savings banks which convert from state to federal charter, those savings and loans which convert to Federal savings bank charter, and newly chartered Federal savings banks.

Under authority granted by the Garn-St Germain Act, the Federal Home Loan Bank Board has recently granted the first de novo charter for a Federal Mutual Savings Bank. The Board has also approved many more changes of federal savings and loans to federal savings banks (an authority which is less than a year old) and of course many of our savings banks have changed from state to federal charters, which Congress authorized in 1978. This trend will not only continue but very likely increase in the months ahead. We would therefore respectfully urge the subcommittee to adopt definitions which will accomodate the changes that are taking place and we would be pleased to provide draft language to your staff.

A second problem area has to do with the limitation of terms of office for the Class D directors. As drafted, the bill would limit the thrift directors to one full term of three years. It is our understanding that there is no similar statutory limit on the other three classes of directors, but rather there does exist a policy statement of the Board of Governors stating a preference that Class C directors be limited to two full terms. It is our understanding that some of the banks have a self-imposed limit on Class A directors. We suggest, therefore, that the issue of limitations on terms be left to the Board of Governors or set at two terms for everyone.

The third problem area has to do with eligibility to serve as a Class D director. The bill provides that a direcotr must not be "an officer, director, employee or stockholder" of any depository institutions of a type other than that which the director represents.

This provision appears to have been taken from the existing statutory standard for Class C direcotrs. Class C directors are, by law, appointed as the public interest representatives on the boards. It is from this class that the chairmen and vice chairmen of the boards are selected by the Board of Governors. The Class D directors, as we read the bill, are not of this type at all but rather are to be representatives of the thrift industry. We do not believe that the same prohibitions should be applied to them as to Class C.

We assume that the reason for this provision is to eliminate any potential conflict of interest on the part of directors. However, we are not aware of any similar restriction on the Class A directors, i.e., a commercial banker can own stock in a thrift and not be banned from this position. We suggest, therefore, that the word stockholder be dropped from the bill. We believe that the remaining restriction will be sufficient to prevent conflicts of representation.

Mr. Chairman, I would like to take this opportunity to raise a related issue not included in the legislation. As you know, the Federal Reserve Board of Governors has a number of advisory committees which meet periodically and make recommendations to the Board. Several of our members have served on the Thrift Advisory Committee and have found the experience both rewarding and worthwhile. The point I want to raise here today is that while some advisory committees are established in law, the thrift advisory committee is not. While we have no reason to think that Chairman Volker will not continue the committee, we do feel that the track record of the committee justifies giving it a statutory permanence. We respectfully urge

this subcommittee to consider including language in its legislation to accomplish this purpose.

Conclusion

In conclusion, Mr. Chairman, the National Association of Mutual Savings Banks and the National Savings and Loan League support the legislation you have introduced to provide for thrift participation in the operation of the Federal Reserve Banks. I do want to make clear that our support is based upon considerations of the role of thrift institutions in the nation's financial system and should not be interpreted to mean that we are acquiescing to the role of the Fed as a principal regulator of depository institutions. That is an issue which we and the Congress will have to grapple with when the Congress receives the report of the Bush task force on agency restructuring.

Thank you, Mr. Chairman, for the opportunity to appear here today. I look forward to your questions.

STATEMENT OF

RICK WIECZOREK, PRESIDENT

D.C. CREDIT UNION LEAGUE

ON BEHALF OF

THE CREDIT UNION NATIONAL ASSOCIATION, INC.

BEFORE THE

SUBCOMMITTEE ON DOMESTIC MONETARY POLICY

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

SEPTEMBER 15, 1983

Statement of

Rick Wieczoreck, President

D.C. Credit Union League

Before the

Subcommittee on Domestic Monetary Policy

September 15, 1983

Good Morning, Mr. Chairman and Committee Members. My name is Rick Wieczorek, President of the D.C. Credit Union League. I am appearing here today on behalf of the Credit Union National Association, INC. (CUNA). CUNA represents more than 19,000 state and federally chartered credit unions through 52 member credit union leagues. Collectively, these credit unions serve more than 48 million Americans.

I am happy to have this chance to testify in support of Chairman Fauntroy's bill to create a new class of credit union and thrift directors at the 12 Federal Reserve Banks. CUNA has called for broader representation for nearly a decade. Your legislative proposal reaffirms its importance, and we welcome your efforts to enact this recommendation into law.

We believe, Mr. Chairman that the time has come for credit unions to be represented in a formal way in the Federal Reserve System on the grounds of both equity and efficiency.

Before the Monetary Control Act was passed in 1980, the Federal Reserve System belonged largely to commercial banks. Credit unions were required to use commerical banks to gain access to the Federal Reserve's clearing and settlement facilities. Now they have direct access to these facilities under the same terms as any other financial depository, no matter how large or small. By the same token before 1980, only Federal Reserve member banks were required to post reserves with the Fed banks. This too has changed. Now credit unions must maintain reserves against certain savings accounts and transaction accounts. Since credit unions have, in effect, become paying members of the Federal Reserve System it's clearly appropriate that they be extended the privilege of representation along-side commercial bankers on the boards of the reserve banks.

In addition to acknowledging that they are equal partners in the Federal Reserve System, placing credit union members on the boards of Reserve banks would improve the overall

efficiency of the nation's payment system. Credit unions are unique financial institutions. Individually, they tend to be small depositories but collectively they hold more than $80 billion in assets for their members. Individually, they tend to operate simply, but as a cooperative collective, they are becoming part of a sophisticated electronic network that provides integrated national financial and information services.

Already credit unions are benefiting from direct access to Fed services. Over time, the credit union movement's ties to the Federal Reserve System will grow, and as this relationship develops, the district banks will need to know more about the special ways in which credit unions operate. Having such information will not only help the bank tailor its services to the particular operational needs of credit unions, it will also help credit unions learn how better to make use of those services.

Take borrowing, for example. While credit unions have taken advantage of the Fed's check clearing and currency services they have yet to make much use of their ability to borrow from the Fed's discount window. There are many explanations for this, but among them are the restrictions that the Reserve banks now impose on the type and terms of credit. We

believe that these restrictions are based in some measure on the Fed's lack of understanding of the needs of their new credit union clientele. Direct credit union representation would help bridge this information gap and increase the amount of credit union activity in this area.

In addition to helping the Federal Reserve refine its borrowing and payment services, credit unions can help the central bank fulfill another key responsibility -- its conduct of monetary policy. Because of their close affiliation with corporations and other major sponsors, credit unions are uniquely positioned to serve as early warning devices. It is not uncommon for a credit union to have advance news of a strike, for example, or a plant closing or other events that could disrupt the economy of an area served by a reserve bank. Having a credit union member on their boards would give the Fed banks early access to information that is vital to their policy-making deliberations.

CUNA is absolutely confident that the Board will not have any difficulty finding credit union people to serve in each district. Already credit union representatives sit on informal advisory boards created by seven reserve banks. For the past 3 years, for instance, I have been fortunate to

serve on the Operations Advisory Committee of the bank in Richmond. However, not all of the reserve banks have seen fit to create such advisory panels. Your bill, Mr. Chairman, would remedy this situation to the benefit of the Federal Reserve System, credit unions and the nation as a whole.

In closing I have two suggestions that I hope this Sub-committee will consider. One is simply that you expand your proposal requiring broader representation on the boards of the 12 Federal Reserve Banks to include the boards of the Federal Reserve's 25 branches as well. This would enlarge the opportunities for a mutually rewarding exchange and underscore the increasingly important role that credit unions and thrifts play in the nation's financial community.

Our second suggestion, Mr. Chairman is both precautionary and substantive. As your bill is presently drafted, it provides for three "Class D" directors to be selected -- one each -- from the credit unions, savings and loans and savings banks. We believe that the requirement that all of the various sectors of the thrift industry be represented is important to the basis thrust of your proposal. However, there may not be mutual savings banks in some Federal Reserve districts and thus no eligible candidate for one of the new director positions. We expect that the Federal Reserve will, as a

result, recommend that it be be given greater flexibility in selecting new directors from among eligible thrift representatives. To make certain that such flexibility is not abused and that all sectors of the industry are fairly represented before the Federal Reserve System, we urge you to require by statute that in every Federal Reserve district at least one of the new directors be selected from the credit union industry.

Thank you for the opportunity to testify. CUNA looks forward to working with you to help enact this legislation.

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National Association of
Federal Credit Unions

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STATEMENT OF JOHN J. HUTCHINSON

PRESIDENT OF

THE NATIONAL ASSOCIATION OF FEDERAL CREDIT UNIONS

BEFORE

THE SUBCOMMITTEE ON DOMESTIC MONETARY POLICY

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

REGARDING

THE CLASS D DIRECTORS ACT OF 1983

SEPTEMBER 15, 1983

Mr. Chairman and members of the Subcommittee on Domestic Monetary Policy, it is a pleasure for me to be here this morning. I am John J. Hutchinson, President of the National Association of Federal Credit Unions (NAFCU) and manager of Hamilton Standard Federal Credit Union in Windsor Locks, Connecticut. The National Association of Federal Credit Unions (NAFCU) is the only national organization exclusively representing the interests of our nation's Federal credit unions. There are approximately 11,400 Federal credit unions throughout the nation serving the borrowing and saving needs of more than 26 million members.

OPENING REMARKS

NAFCU appreciates the opportunity to appear before you and to testify in support of the "Class D Directors Act of 1983." This Association and the Federal credit unions we represent have a vital interest in the legislation under consideration by the Subcommittee today. It would amend the Federal Reserve Act to provide for an additional class of directors composed of persons who would represent credit unions, savings banks, and savings and loan associations for each of the twelve Federal Reserve District Banks. By expanding the boards of the District Banks, this legislation would assure broadened representation by individuals who have a unique understanding of the important role various specialized components of the financial services industry play in determining our nation's economic growth and development.

PURPOSE OF FEDERAL CREDIT UNIONS

As the members of this Subcommittee know, Federal credit unions are chartered "... to make more available to people of small means credit for provident purposes through a national system of cooperative credit, thereby helping to stabilize the

credit structure of the United States" (12 U.S.C. 1751). The Federal Credit Union Act stipulates that membership in a Federal credit union shall be limited to groups having a common bond of occupation or association, or to groups within a well-defined neighborhood, community or rural district. Accordingly, every Federal credit union is a cooperative, member-owned association, serving a limited field of membership. In addition, every Federal credit union has a dual statutory mandate to promote thrift among its members while also creating a source of credit for provident or productive purposes (12 U.S.C. 1752).

FEDERAL CREDIT UNIONS MARK 50 YEARS OF SERVICE

At their time of origin, each of our nation's traditional financial institutions was designed to perform a specific function. While a necessary and generally healthy interrelationship between credit unions, banks and savings and loan associations has emerged over the years, it is helpful for us to occasionally pause and reflect upon our history. Today, as we prepare to celebrate the 50th anniversary of the signing of the Federal Credit Union Act, the members of all Federal credit unions are justifiably proud of the fact that Federal credit unions continue to retain their unique identity in the financial marketplace, despite 50 years of growth and evolution.

In recent years credit unions have been authorized by Congress to offer their members a number of additional services. Even though credit unions are now able to provide many of the same kinds of services as other institutions, such as residential mortgages, lines of credit, and credit cards, they were authorized to do so only because their members had needs that other financial institutions were not fulfilling. However, because of the credit union's limited field of membership, credit unions do not compete in the open marketplace for potential customers. Moreover, the small

size of most credit unions has prevented the majority of them from implementing their full range of powers, since more than 87% of all credit unions have assets of less than $5 million. Expanded powers make it possible for these smaller credit unions to grow and bring to a larger percent of consumers greater opportunities to save. These increased powers have certainly helped the larger credit unions to better serve their members' needs in today's financial marketplace.

It is important to recognize that each of the various types of financial institutions performs a specific function in order to meet particular credit needs within the financial marketplace. Although some activities do overlap, the primary functions of each remain different. The recently expanded powers of credit unions relate almost exclusively to the types of services which may enhance the capacity of credit unions to meet those needs.

NAFCU'S SUPPORT OF THE "CLASS D DIRECTORS ACT OF 1983"

The "Class D Directors Act of 1983" would, if enacted into law, expand from nine to twelve the number of individuals who serve on the boards of directors of the twelve Federal Reserve District Banks. Under existing law, the District Bank directors are divided into three classes of three persons each. Class A directors are representatives of the member commercial banks in the district and usually are bankers. Class B directors and Class C directors are responsible for reflecting the interests of agriculture, commerce, industry, services, labor and consumers. Class A and Class B directors are elected by member banks in the district; Class C directors are appointed by the Board of Governors. The majority of District Bank branch directors are appointed by the District Bank's head office directors; the remainder are appointed by the Board of Governors.

The proposal under consideration this morning would establish a new "class" of three directors, Class D directors, to be appointed by the Board of Governors. One Class D director would represent the interests of Federally insured credit unions, one would represent the interests of mutual savings banks, and one would represent the interests of savings and loan assocations.

Historically, the District Banks have provided many services to both the financial community as well as the general public. In fact, to a large extent they exercise many of the supervisory responsibilities of the Federal Reserve System while helping to frame monetary policy, in part, by reporting on economic activity in their regions.

Enactment of the "Monetary Control Act of 1980" (Title I, Public Law 96-221) on March 31, 1980 has led to an even greater linkage between the Federal credit union community and the Federal Reserve System than existed previously. This law has, in effect, resulted in an enhancement of the Federal Reserve Board's relationship with the credit union community. For the first time, individual Federal credit unions are required to post sterile reserves with the Federal Reserve System. In return, credit unions are entitled to discount and borrowing privileges from the Federal Reserve discount window as are member banks. However, there has to date been no role for Federal credit unions in formulating Federal Reserve policies, therefore, not a single credit union representative serves as a member of any Federal Reserve District Bank Board.

Chairman Fauntroy, I am pleased to express NAFCU's support for the principles upon which the "Class D Directors Act of 1983" is based. In fact, we have repeatedly advocated such action since passage of the "Monetary Control Act of 1980."

Members of this Subcommittee may recall that on April 1, 1980, the day after President Carter signed the Monetary Control Act into law, the then Chairman of the House Committee on Banking, Finance and Urban Affairs, Representative Henry Reuss (D-WI), was joined by Representatives Parren Mitchell (D-MD) and John Cavanaugh (D-NB) in introducing the "Federal Reserve Modernization Act" (H.R. 7001). Without addressing the merits of H.R. 7001 at this time, I would bring to the attention of the Subcommittee members the fact that the "Federal Reserve Modernization Act," introduced in the 96th Congress, was intended to complement the reforms brought about by enactment of the Monetary Control Act. At that time in my capacity as the President of the National Association of Federal Credit Unions I wrote to Chairman Reuss:

> "... we believe it is imperative that a director on each of the Boards represent the interests of Federal credit unions. Accordingly, the National Association of Federal Credit Unions urges you and your Committee to amend H.R. 7001 to stipulate that Federal credit unions will be represented on the Boards of each of the twelve Federal Reserve Banks. Only in this way may we guarantee that the interests and concerns of ... individual credit union members ... will be considered and represented by a voting delegate when matters affecting domestic monetary policy are considered by these bodies ..."

Mr. Chairman, as you and your staff know, NAFCU's views on this subject have not waivered. We continue to advocate legislation such as the "Class D Directors Act of 1983." In fact, NAFCU called for adoption of such a measure in testimony before the Senate Banking Committee on May 4, 1983.

We believe that Federal credit union representation on the District Banks' boards of directors is both necessary and appropriate. A Federal credit union representative on the board of each District Bank would, I believe, contribute to a better understanding of the unique nature of credit unions and credit union opera-

tions at the level of the twelve District Banks and also throughout the Federal Reserve System in general. On more than one occasion in recent years, problems have arisen because the Federal Reserve System has attempted to treat Federal credit unions as they treat banks -- overlooking the reality that the credit union structure, operations and mission are vastly different from those of commercial banks. Accordingly, I am of the strong opinion that adoption of a proposal such as the "Class D Directors Act of 1983" would greatly assist in enhancing the course of thinking which influences monetary policy, by assuring that the District Banks receive sufficient input from credit unions.

RECOMMENDATIONS FOR AMENDMENTS TO THE "CLASS D DIRECTORS ACT OF 1983"

I do, however, have four specific recommendations which I would like to offer to the Subcommittee. I believe adoption of these recommendations would help assure the prompt realization of the objectives of this bill.

First, as drafted, the "Class D Directors Act of 1983" specifies that Class D directors shall be appointed by the Board from recommendations made by the members. This procedure closely resembles that which is presently followed in the appointment of Class C directors. I believe the stated goal of the legislation "to provide broadened representation on the District Banks for individuals who have a unique understanding" of the institutions they represent may be better realized if Class D directors were elected by electors from the class of institution they represent in each of the twelve districts. Class A and Class B directors are elected by member banks in the district. A procedure similar to that presently used for the election of Class A and Class B directors, if adopted, would result in more equitable representation.

Second, if our proposal that Class D directors be elected by electors from the class of institution they represent is not adopted, I would urge that the criteria for appointment as a Class D director be modified. As drafted, the "Class D Directors Act of 1983" specifies that Class D directors shall be appointed by the Board from recommendations made by the members. The term "members" appears to be somewhat ambiguous. Since the purpose of establishing Class D director seats on the twelve District Bank boards is to provide broadened representation by individuals who have a unique understanding of the institutions they represent, it would seem counterproductive to have candidates for those Class D director seats nominated by member banks rather than by the institutions whose interests they are nominated to represent. We would prefer to see Class D directors elected by electors from the class of institution they represent. However, a logical alternative would be to have the Board of Governors make their appointment of Class D directors based upon nominations submitted by the class of institution to be represented, rather than nominations submitted by member banks. Member banks at present elect the three Class A and three Class B directors in each district. Member banks also nominate the candidates for appointment to the three Class C director seats in each district. I believe it would be highly desirable for those institutions whose interests are to be represented by the Class D directors in each district to have some role in the selection of qualified individuals from among their number to fill those positions. This should generally assure the election of individuals who do, in fact, understand the unique aspects of the institutions they represent. Accordingly, the Subcommittee may wish to clarify, either through amendment or through report language, precisely who should nominate candidates for appointment as Class D directors.

Third, I am concerned that language contained in the "Class D Directors Act of 1983" which would prohibit "... an officer, director, employee or stockholder of

any other depository institution except of that type" which the director shall represent from service as a Class D director. While I fully agree that we need to maintain the highest of standards for individuals who serve as Class D directors, I question the need for such a blanket prohibition. Perhaps this section of the bill could be reviewed with an eye toward permitting nominal investments by Class D directors in types of institutions other than those they represent.

Fourth, our final concern is related to that which I just addressed: the prohibition against Class D directors serving as "an officer, director, employee or stockholder" of any other depository institution. As I mentioned to you earlier, Federal credit unions do not serve the general public but rather limited groups having a common bond of occupation or association, or groups within a well-defined neighborhood, community or rural district. The fact of the matter is that certain credit unions exist whose common bond explicitly includes officers, directors, employees and stockholders of other depository institutions. To impose a blanket ban on members of such credit unions from serving as Class D directors, may in fact, deprive the District Banks of guidance from individuals who possess a truly "... unique understanding of ... economic growth and development." This is an issue that we believe merits further review.

THE IMPORTANCE OF "TESTED FEDERAL CREDIT UNION EXPERIENCE"

I would like to add at this point, Chairman Fauntroy, NAFCU's strong support of language contained in the "Class D Directors Act" which stipulates in a very clear and unambiguous way that:

> "... all Class D directors ... shall possess tested financial experience of the type appropriate to their class of depository institution."

During discussions of the enactment of Public Law 95-630 in 1978, we expressed a preference for people of "tested Federal credit union experience." Although that act, which created the National Credit Union Administration Board, did not contain that requirement, NAFCU still holds that belief. The inclusion in this act of a requirement that those chosen to serve should have previous experience in the institution they represent is consistent with our stated position.

CONCLUSION

Before closing, Mr. Chairman, I would like to point out that Federal Reserve Board Chairman Paul A. Volcker, in testimony before this Subcommittee on May 15, 1980 suggested that legislation such as that before you today may merit consideration. In his testimony, Chairman Volcker stated:

> "... we do believe that consideration also needs to be given to the participation of nonbank financial institutions on the boards of the Federal Reserve Banks; whether they should participate in the election of directors, and if so, how this should be accomplished ... attention should be given to the participation in the operations of the Federal Reserve Banks by nonbank financial institutions that will maintain reserves with the Federal Reserve, as well as their representation on the boards of directors of those banks ... we continue to feel that those boards should be expanded in size in order to accommodate a broader representative segment of the public as a whole."

NAFCU concurs with that recommendation, Mr. Chairman. We believe that the "Class D Directors Act of 1983," with the modifications we have suggested today, would achieve that goal. Accordingly, I pledge the continued cooperation of the National Association of Federal Credit Unions as you consider this measure.

Chairman Fauntroy, although it is not germain to this bill, I would like to thank you and the other members of this Subcommittee for your cosponsorship and

support of House Joint Resolution (H.J. Res.) 139 which the President signed into law (P.L. 98-71) on August 11. This Public Law designates the week of June 24, 1984 as "Federal Credit Union Week" and is also appropriate as we approach the 50th anniversary of the signing of the Federal Credit Union Act.

Thank you for the opportunity to appear before you this morning to present the view of the National Association of Federal Credit Unions. I would be happy to respond to any questions.

###

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BANKERS
ASSOCIATION

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EXECUTIVE DIRECTOR
GOVERNMENT RELATIONS

Gerald M. Lowrie
202/467-4097

September 21, 1983

The Honorable Walter E. Fauntroy
Chairman, Subcommittee on Domestic
Monetary Policy
U.S. House of Representatives
H2-109, Annex No. 2
Washington, DC 20515

Dear Mr. Chairman:

I am writing to convey to you our Association's views on your proposal to create an additional class of Federal Reserve bank directors as indicated to me in your letter of August 31, 1983.

This proposal was considered by our Government Relations Council on September 14, 1983. The Council believes it should not be enacted into law.

Class C directors are currently elected by the Board of Governors "to represent to public ..... with due but not exclusive consideration to the interests of agriculture, commerce, industry, services, labor, and consumers" (12 U.S.C. 302). This language is broad enough so as to include non-member financial institutions. There is no reason to single out specific types of institutions under this mandate. Rather, the qualifications of such a director should be to serve the broad public interest.

Since the passage of the Monetary Control Act of 1980, many non-member institutions have begun to use the Federal Reserve's services. It is our understanding that the Federal Reserve Banks have set up advisory committees with representation among non-member institutions to enhance this process. We see no reason to elevate this representation to the status of Federal Reserve Director with its inherently broader, public interest oriented concerns.

We are particularly concerned that your proposal would give specific representation to thrift institutions but not to non-member banks. If the Congress does decide to create a separate class of directors for non-member institutions, there is no need to appoint more than one director for each Federal Reserve Bank. Among the directors appointed to the twelve district banks, the Board should assure that there is equal representation among non-member banks, savings and loans, mutual savings banks, and credit unions.

I hope these comments are helpful.

Sincerely,

Gerald M. Lowrie

Independent BANKERS ASSOCIATION OF AMERICA

WASHINGTON OFFICE

1625 MASSACHUSETTS AVENUE N.W. - SUITE 202, WASHINGTON, D.C. 20036 202/332-8980

September 21, 1983

Honorable Walter E. Fauntroy, Chairman
Subcommittee on Domestic Monetary Policy
H2-109, Annex No. 2
Washington, D.C. 20515

Dear Chairman Fauntroy:

The Independent Bankers Association of America (IBAA) is pleased to respond to your request for our views on H.R. 3868, the "Class D Directors Act of 1983." This legislation, which you introduced on September 13th, would establish a new three-member class of Federal Reserve District Bank Directors, to be designated by the Board of Governors, and respectively representing insured credit unions, savings banks, and savings and loan institutions.

It is our view that the majority of commercial banks--that is, state-chartered, non-Federal Reserve member banks--are not adequately represented on District Bank Boards of Directors. Further, H.R. 3868 does not seem justifiable absent a fundamental policy change in the purpose and criteria for District Bank Directorships. Unless the Congress is prepared to make such a change, the bill would be detrimental to the interests of community bankers. Therefore, the IBAA must express its objection to this proposal.

It is ironic to see our depository brethren attempting to expand their role in the Federal Reserve System while simultaneously objecting to the imposition of any Fed-like regulation, on equivalent terms, such as is proposed in the Treasury bill for depository product deregulation. This seems to be part and parcel of a growing trend among those financial entities outside the commercial banking sphere who seek to appropriate our rights and authorities while shirking our responsibilities and constraints. Until Congress is ready to deal with the proliferation of "nonbanks", the need for deregulation of bank's asset side, and the question of at what point the bank/thrift delineation becomes meaningless, the IBAA must oppose further incursions into banking's sphere--particularly one such as H.R. 3868 which would put the majority of commercial banks at greater disadvantage.

The IBAA is the national trade association for community banks. Its current membership of approximately 7,000 members consists of about 4,650 (66%) state-chartered, non-Fed member banks. Within the commercial banking sphere as a whole, approximately 8,850 of the Nation's 14,450 commercial banks (61% of the total) fall within this category.

As you are aware, these banks have no present say in selecting the Boards of the District Banks. The three Class A Directors "shall be chosen by and be representative of the stockholding banks" (12 USC 302). The three Class B Directors are also elected by stockholding banks to represent the interests of agriculture, commerce, industry, services, labor, and consumers. The three Class C Directors are designated by the Fed's Board of Governors to represent the same interests as are listed for Class B. By statute (12 USC 303), no Class B or C Director may be an officer, director, employee, or stockholder of any bank.

Proponents testifying in favor of H.R. 3868 incorrectly sought to portray it as redressing an inequity of District Bank representation between commercial banks and other insured depositories. However, as the preceding review of the three Director classes indicates, the present distinction does not lie there, but between stockholding, Fed-member commercial banks and all other insured depositories; including the majority of commercial banks who are ineligible to select or serve as District Bank Directors.

The introduction of H.R. 3868 places two related issues directly before the Subcommittee. First, is it advisable to increase the number of Directors of the District Banks, thereby diluting further the voting power and proportionate influence of Fed-member, stockholding banks? Second, if the Subcommittee decides the preceding question in the affirmative, what nexus between a business entity and the Federal Reserve System is of sufficient substantiality to justify entitlement to Director seats?

In regard to this second question, IBAA believes that none of the justifications raised by proponents of H.R. 3868 in their testimony is sufficient unto itself to justify a new Class D; particularly if the 8,850 commercial banks now lacking adequate representation are to continue in that subordinate role. To wit--

-Reserve requirements would not appear to be sufficient justification. Presently unrepresented commercial banks maintain substantial Fed reserves, and still comprise the heart of the payments system. Yet as witnesses for the depositories who would benefit from H.R. 3868 admitted in testimony, most of their members have yet to post any, much less substantial reserves, due to the operation of the phase-in of these

requirements and interrelated statutory exemptions. Further, much of their testimony seems to presuppose that Congress is about to enact legislation which will permit their members to solicit the entire universe of business entities to establish interest-bearing commercial checking account. That legislation has yet to be the subject of Congressional hearings and could result in major income losses, undermined safety and soundness, and competitive inequities for the commercial banking sector.

Therefore, to justify this new Directors' class on insubstantial reserves and unreviewed legislative proposals is, at best, premature.

-Access to the discount window is, for most of these institutions, a secondary source of emergency liquidity. Savings and loan institutions have access to the Federal Home Loan Bank, and credit unions to the NCUA Central Liquidity Facility; neither of these liquidity sources is available to commercial banks. If access to the window is sufficient justification for a Directors' class, then the 8,850 state-chartered banks who rely on it as their primary liquidity source surely have first claim.

-The availability of Federal reserve services is a benefit which has accrued to these institutions as a result of 1980 legislation. It offers them an alternative to traditional correspondent relationships. If they are dissatisfied with the quality and pricing of these services, and the Fed does not respond to their input, then they are free to seek the same redress as any other consumer of a service in a competitive economy--to take their business elsewhere.

-Bearing the impact of Fed monetary policy actions is a condition common to all depository institutions, as well as the whole of American business (although certain industries--such as homebuilding, autos, and agriculture--are particularly vulnerable). It would appear that the Class B and C Director classes are already constituted to reflect this common concern of the business community. However, if depositories are deemed to have a particular unmet need for representation in this regard, the possibility of authorizing all insured depositories for eligibility to serve in these classes could be explored by the Subcommittee. (Apparently, the Fed will propose that thrifts and credit unions be designated as eligible to serve as Class C directors. Any such opening of eligibility would have to be accompanied, in our view, by repeal of the present prohibition on commercial bankers' service in this capacity.)

-The need for greater input by nonmember depositories into District Bank operational and monetary policy functions, if substantiated, could be met by means short of a new Director class. We note that seven of the twelve District banks now maintain thrift advisory committees, and that several of the

witnesses last week had served on them. Such committees could be opened to all insured depositories which are not Fed members, and made a statutory requirement for each of the District banks. Or the Congress could authorize a study of how well the District banks are presently meeting the needs, and heeding the input, of nonmembers, and thereafter take appropriate legislative action to cure any deficiencies.

In closing, we feel compelled to respond to observations made during your hearings on H.R. 3868 to the effect that state-chartered commercial banks have a choice of electing Fed membership. As you know, the purchase of District Bank stock does require a diversion of funds for which an institution receives less than a market rate of interest. If the Subcommittee's desire is to make this costly option available to thrifts, that is a decision which would at least preserve the semblance of equity. However, to propose that thrifts and credit unions achieve District Bank Directorships without the stockholding requirement, while maintaining it for commercial banks, would be exceedingly unfair. Of course, the Subcommittee must recognize that opening up an electoral and Directorship role for nonmember depositories must result in member banks questioning their own shareholder requirement.

While we cannot be supportive of this legislation, we do wish to leave open the possibility of a continuing dialogue as to how nonmember depositories may exercise a greater voice in Federal Reserve operations.

Sincerely,

James D. Herrington

James D. Herrington,
President

cc: All members of the Subcommittee;

Rep. St Germain, Rep. Wylie;

William Wiles, Secretary
Board of Governors, Federal Reserve

OPENING STATEMENT OF THE HONORABLE WALTER E. FAUNTROY
CHAIRMAN, SUBCOMMITTEE ON DOMESTIC MONETARY POLICY
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

at Hearings on

ESTABLISHING A NEW CLASS OF DIRECTORS
FOR FEDERAL RESERVE DISTRICT BANKS

Thursday, September 15, 1983 -- 10:00 A.M.
2220 Rayburn House Office Building, Washington, D.C.

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The Subcommittee will come to order.

Today, we hold hearings on an issue of importance to the operations of the Federal Reserve System. As the Members know, the Federal Reserve System is composed of 12 Federal Reserve District Banks in addition to the Board of Governors here in Washington. These District Banks and their Branch Banks handle the day-to-day responsibilities of the Federal Reserve System such as check-clearing, providing currency to financial institutions, acting as the Treasury Department's fiscal agency, regulating financial institutions, and other services to financial institutions and to the public. In addition, the Presidents of the District Banks participate in meetings of the Federal Open Market Committee, bringing the Districts' economic conditions and needs before that body's deliberations on monetary policy. Thus, the District Banks play a unique role as intermediaries between national policy decisions and the people and financial institutions of the different regions of the country.

The Boards of Directors for these District Banks reflect this unique role. At present, there are three classes of Directors at the District Banks. Three Class A Directors are elected by and represent the commercial banks of the District who hold stock in the Federal Reserve System. Three Class B directors are also elected by the stockholding member banks to represent the general public, and specifically the interests of agriculture, commerce, industry, services, labor, and consumers. Finally, three Class C directors are appointed by the Board of Governors to represent the public. The Chairman and Deputy Chairman are selected from the Class C Directors.

This system has worked well. The Monetary Control Act of 1980, however, created an anomaly. Under that Act, savings and loan associations, mutual savings banks, and credit unions were brought within the purview of the Federal Reserve System through the adoption of universal reserve requirements. These financial institutions were also granted direct access to Federal Reserve services such as check clearing, wire-transfers, and provision of currency and coin. Yet, no specific representation was provided for them on the Board of Directors of the District Banks.

I believe that this situation should be rectified, and that the best way to do this is to establish a new class of Directors to represent the savings institutions and credit unions who can now participate in the Federal Reserve System. These new Class D Directors would be composed of three representatives -- one each from the mutual savings banks, the credit unions, and the savings and loan associations -- serving staggered three-year terms. They would be appointed by the Board of Governors from recommendations made from each class of depository institutions.

The hearing today will explore whether the resulting representation of thrift institutions on District Banks would facilitate their access to the policies and facilities of the Federal Reserve System, and whether the proposed solution of Class D Directors is necessary and appropriate along with the implications of such a proposal upon the thinking that affects the conduct of monetary policy. Our witnesses include: Roy G. Green, Executive Vice President of the U.S. League of Savings Associations; H. Lee Boatwright, III, President of CentraBank in Baltimore, Maryland, testifying on behalf of the National Association of Mutual Savings Banks; Rick Wieczorek, President of the D.C. Credit Union League, testifying on behalf of the Credit Union National Association; and John H. Hutchinson, Manager of the Hamilton Standard Federal Credit Union and President of the National Association of Federal Credit Unions. The American Bankers Association and Independent Bankers Association of America will be submitting written statements later for inclusion in the record.

STATEMENT OF ROY G. GREEN

BEFORE THE SUBCOMMITTEE ON DOMESTIC MONETARY POLICY

HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

September 15, 1983

MR. CHAIRMAN:

My name is Roy G. Green of Washington, D.C. I am Executive Vice President of the United States League of Savings Institutions*.

The U.S. League is pleased to present this testimony in support of the concept embodied in the "Class D Directors Act".

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*The U.S. League of Savings Institutions, formerly the U.S. League of Savings Associations, has a membership of 3,500 companies representing over 99% of the assets of the $730 billion savings and loan business. League membership includes all types of associations -- Federal and state-chartered, stock and mutual. Recently, many prominent savings banks have joined the League as members. The principal officers are: Leonard Shane, Chairman, Huntington Beach, California; Paul Prior, Vice Chairman, New Castle, Indiana; William O'Connell, President, Chicago, Illinois; Stuart Davis, Legislative Chairman, Beverly Hills, California; and Roy Green, Executive Vice President, Phil Gasteyer, Legislative Counsel, Jim Freeman, Senior Legislative Representative, Washington, D.C. League headquarters are at 111 East Wacker Dr., Chicago, Illinois 60601. The Washington Office is located at 1709 New York Avenue, N.W., Washington, D.C. 20006. Telephone: (202) 637-8900.

As you may know, Mr. Chairman, I only recently assumed my current post as Executive Vice President of the League with overall responsibility for the direction of its Washington operations. Prior to that I served for more than twenty-five years as managing officer of three separate savings and loan associations in different parts of the nation -- most recently, First Federal Savings of Jacksonville, Florida. While managing that institution, and of some relevance to the subject-matter of today's hearing, I also was appointed as an Advisory Director the Jacksonville Branch of the Federal Reserve Bank of Atlanta (District 6). Thus, I have some personal experience with the director's role in the Federal Reserve System, though in an "advisory director" capacity.

A quick survey of the twelve Federal Reserve Banks shows that ten other savings and loan or savings bank executives are participating in directorships within the System. However, as nearly as we can determine, each of these appointments is with a branch operation of a District Bank, rather than in the existing categories: Class A (stockholding members), Class B (elected public representatives), or Class C (public representatives, including the chairman, designated by the Board here in Washington).

As the proposed legislation recognizes, since the passage of the Monetary Control Act in 1980, thrift institutions have had an increasing stake in the policy direction of the Federal

Reserve System. With the authorization of NOW accounts nationwide, the limited opportunities for commercial demand accounts provided by last year's Garn-St Germain Act, and such subsequent deregulation steps as creation of unlimited transaction (and reservable) "Super NOW" accounts, involvement by thrifts with the System and its services is expanding. While it is certainly true that most thrifts do not yet have reservable liabilities above the threshold established by Section 411 of the 1982 law, it is reasonable to expect that increasing numbers of savings institutions and credit unions will become exposed to reserve requirements as they broaden their transaction account services for the public. (Let me again compliment you, and this Subcommittee, Mr. Chairman, for your initiative in developing Section 411.)

In my judgment, the posting of reserves by thrifts will become even more likely if your full Committee and the Congress enact H.R. 3535 -- "The Checking Account Deregulation Act" introduced by the distinguuished Chairman of your full Committee, Representative St Germain. Approval of that bill would, at long last, complete the deposit deregulation process by clearing away the remaining monopolies commercial banks enjoy for attracting commercial demand accounts. The U.S. League strongly supports H.R. 3535 and looks forward to an opportunity to testify on that matter in the next few weeks.

The Monetary Control Act and its "universal" coverage for non-member thrift depositories opened the facilities of the Fed System for many purposes other than reserve requirements, of

course. A growing number of savings institutions have found the System's check collection and processing facilities superior to those available from other correspondent sources. Savings institutions and credit unions also use the Fed System routinely for coin and currency transaction services, wire transfer, safekeeping for securities, and Treasury tax and loan account processing. Thus, thrifts have a vital interest in the policies adopted by the District Banks regarding the maintenance and development of these services for all depositories. And, under the 1980 legislation, savings institutions have statutory access to the discount windows of the Fed System Banks -- though, to date, this use has been discouraged in practice.

With savings institutions and credit unions so involved today and in the future with the System, it is most appropriate in our view that the Federal Reserve Act be modernized to assure some policy-making participation. The proposal to enlarge the Boards of the District Banks from nine to twelve directors through creation of a "Class D" category would accomplish this goal.

We do, however, have a few suggestions about the details of the legislative draft as made available to us at the time this testimony was being written:

1. Unlike savings and loan associations and credit unions, traditional State-chartered mutual savings banks with FDIC insurance are generally concentrated in the Northeast and not found in all States or Federal Reserve Bank Districts.

There would be no one qualifying for appointment for the savings bank "slot" in approximately half the Districts and, in one or two others, the number of such institutions is so small that directorships could circulate among a handful of individuals. Conversely, savings banks constitute the dominant type of depository in certain Northeastern States and the rigid savings bank, savings and loan, and credit union division may, in effect, "under-represent" savings banks in those Districts. Therefore, the U.S. League would suggest that the statutory language be revised so that the Class D selections may be made from the three institutional types collectively, rather than rigidly specifying one director from each type.

2. The definition chosen for a savings and loan institution director references "section 401 of the National Housing Act." In most cases, this would be adequate; however, under last year's Garn-St Germain Act it is now possible for a savings bank receiving a federal charter from the Federal Home Loan Bank Board to choose whether it will retain FDIC insurance or switch to the FSLIC insurance-of-accounts (found in Section 401). It is not totally clear to us that the dozen or so federal savings banks falling into this unusual grouping of FHLBB-chartered, but FDIC-insured, institutions would "fit" any of the definitions spelled out in the proposal for Class D Directors. However, if the drafters chose another definition in the National Housing Act -- that appearing in Section 408(a)(1) [12 U.S.C. 1730a(a)(1)] -- any doubt would be

removed and the potential for a director's slot would be assured for these few institutions.

3. The authorizing language for Class D Directorship specifies that: "No Class D director shall be an officer, director, employee, or stockholder of any other depository institution except of that type of depository institution which the director shall represent." While we would agree that employee and director interlocks should be discouraged among the different classes of Federal Reserve Bank directorships, the prohibition against any stockholding seems unduly rigid. Many commercial bank and bank holding company stocks are publicly traded with thousands of stockholders -- some of whom, no doubt, are thrift executives who could make a valuable contribution to the boards of district Fed banks. Some flexibility ought to be provided so that de minimus stockholdings in other types of depositories do not automatically disqualify a savings institution or credit union executive from selection as a Class D Director.

4. Finally, a few minor technical adjustments may be needed in other portions of existing law such as substituting "twelve" for "nine" in the introductory sentence of 12 U.S.C. 301.

Mr. Chairman, I hope these suggestions will be helpful in improving this worthwhile legislation.

In conclusion, the U.S. League welcomes your interest in broadening the the Boards of the District Banks of the Federal

Reserve System to include participation by thrift industry executives. We are confident that they can make a meaningful contribution to the policy-making decisions of the Fed Banks and the overall functioning of our nation's central banking system.

We support this legislative initiative and hope that your Subcommittee and the Congress will move this bill forward in the months ahead.

I appreciate this opportunity to present the views of the U.S. League and look forward to your questions.

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Statement of

MR. H. LEE BOATWRIGHT, III

on behalf of

the NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS

and

the NATIONAL SAVINGS AND LOAN LEAGUE

before the

SUBCOMMITTEE ON DOMESTIC MONETARY POLICY

U.S. House of Representatives

September 14, 1983

Mr. Chairman, my name is Lee Boatwright and I am the President of CentraBank if Baltimore, Maryland. I am appearing here today on behalf of the National Association of Mutual Savings Banks and the National Savings and Loan League. As you may have heard, our two associations are in the process of consolidating into one new trade association which will represent both savings banks and savings and loans. The consolidation process began early in 1983 and will culminate in the launching of the National Council of Savings Institutions on November 1, 1983.

I am pleased to have this opportunity to testify in favor of Chairman Fauntroy's bill which would create a new class of thrift directors at the twelve Federal Reserve Banks. We very much appreciate your efforts in this area, Mr. Chairman, and the prompt beginning of this hearing process.

We welcomed the invitation to testify on this subject because we believe that it is of critical importance to the long term efficiency of our depository services system and because we think that the time has come for the Federal Reserve System to treat thrift institutions as equal partners in the financial services process. I hope that my appearance here today can be of help to the subcommittee in that I have had some experience within the Federal Reserve System.

I was from 1969 to 1974 the Senior Vice President in charge of the Baltimore branch of the Federal Reserve Bank of Richmond.

We believe that it is important and appropriate that thrift institutions be represented in a formal way in the Fed system for three basic reasons. First of all, the Monetary Control Act places us under the Fed's umbrella of authority for reserve purposes. At the time of the 1980 Act, transaction balances were a small or non-existent part of our deposit base. That situation has changed and there is every reason to believe that consumers will increasingly look to thrift institutions for transaction accounts as well as savings accounts. As thrifts build up their role in this activity, and as the eight year phase-in provided in the Monetary Control Act winds down, thrifts will be increasingly posting sterile reserves with the Federal Reserve Bank, and will also become a more important part of the nation's payments system. As these trends continue, equity demands full and equal participation of thrifts in the Fed system.

Prior to the 1980 Act the Fed system was a commercial banker's system. Only Fed member banks posted reserves with the Fed banks Under that system it was not inappropriate that member banks were guaranteed representation on the boards of the twelve Federal Reserve Banks. Since the reserve obligation will fall on savings banks, savings and loan, and credit unions all the more, it is, to say the least, appropriate that these institutions be represented on these Boards along with commercial bankers.

The second reason for supporting the bill is that as thrift institutions increase their share of the transaction balances and their importance to the payments system, they will need greater access to the services of the District Banks and the banks will need a better understanding of their new clientele. The legislation before us today serves these purposes very well in our opinion.

The third reason for supporting this legislation is that many of our member institutions, specifically state chartered savings banks, are not members of the Federal Home Loan Bank system and presently rely on the Federal Reserve Banks for borrowings the rates on which are set by the Boards of Directors. These savings banks also, in many cases, rely on the Federal Reserve Banks for services.

While we are here today to endorse the legislation introduced by Chairman Fauntroy we do have a few suggestions which we hope the subcommittee will find constructive.

The legislation provides for three "Class D" directors to be appointed (one each) from the credit unions, savings and loans, and savings banks. The definition of savings bank in the bill is, however, too limited to accomplish the bill's purpose. As presently written, the definition would exclude those savings banks which convert from state to federal charter, those savings and loans which convert to Federal savings bank charter, and newly chartered Federal savings banks.

Under authority granted by the Garn-St Germain Act, the Federal Home Loan Bank Board has recently granted the first de novo charter for a Federal Mutual Savings Bank. The Board has also approved many more changes of federal savings and loans to federal savings banks (an authority which is less than a year old) and of course many of our savings banks have changed from state to federal charters, which Congress authorized in 1978. This trend will not only continue but very likely increase in the months ahead. We would therefore respectfully urge the subcommittee to adopt definitions which will accomodate the changes that are taking place and we would be pleased to provide draft language to your staff.

A second problem area has to do with the limitation of terms of office for the Class D directors. As drafted, the bill would limit the thrift directors to one full term of three years. It is our understanding that there is no similar statutory limit on the other three classes of directors, but rather there does exist a policy statement of the Board of Governors stating a preference that Class C directors be limited to two full terms. It is our understanding that some of the banks have a self-imposed limit on Class A directors. We suggest, therefore, that the issue of limitations on terms be left to the Board of Governors or set at two terms for everyone.

The third problem area has to do with eligibility to serve as a Class D director. The bill provides that a direcotr must not be "an officer, director, employee or stockholder" of any depository institutions of a type other than that which the director represents.

This provision appears to have been taken from the existing statutory standard for Class C direcotrs. Class C directors are, by law, appointed as the public interest representatives on the boards. It is from this class that the chairmen and vice chairmen of the boards are selected by the Board of Governors. The Class D directors, as we read the bill, are not of this type at all but rather are to be representatives of the thrift industry. We do not believe that the same prohibitions should be applied to them as to Class C.

We assume that the reason for this provision is to eliminate any potential conflict of interest on the part of directors. However, we are not aware of any similar restriction on the Class A directors, i.e., a commercial banker can own stock in a thrift and not be banned from this position. We suggest, therefore, that the word stockholder be dropped from the bill. We believe that the remaining restriction will be sufficient to prevent conflicts of representation.

Mr. Chairman, I would like to take this opportunity to raise a related issue not included in the legislation. As you know, the Federal Reserve Board of Governors has a number of advisory committees which meet periodically and make recommendations to the Board. Several of our members have served on the Thrift Advisory Committee and have found the experience both rewarding and worthwhile. The point I want to raise here today is that while some advisory committees are established in law, the thrift advisory committee is not. While we have no reason to think that Chairman Volker will not continue the committee, we do feel that the track record of the committee justifies giving it a statutory permanence. We respectfully urge

this subcommittee to consider including language in its legislation to accomplish this purpose.

Conclusion

In conclusion, Mr. Chairman, the National Association of Mutual Savings Banks and the National Savings and Loan League support the legislation you have introduced to provide for thrift participation in the operation of the Federal Reserve Banks. I do want to make clear that our support is based upon considerations of the role of thrift institutions in the nation's financial system and should not be interpreted to mean that we are acquiescing to the role of the Fed as a principal regulator of depository institutions. That is an issue which we and the Congress will have to grapple with when the Congress receives the report of the Bush task force on agency restructuring.

Thank you, Mr. Chairman, for the opportunity to appear here today. I look forward to your questions.

STATEMENT OF

RICK WIECZOREK, PRESIDENT

D.C. CREDIT UNION LEAGUE

ON BEHALF OF

THE CREDIT UNION NATIONAL ASSOCIATION, INC.

BEFORE THE

SUBCOMMITTEE ON DOMESTIC MONETARY POLICY

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

SEPTEMBER 15, 1983

Statement of

Rick Wieczoreck, President

D.C. Credit Union League

Before the

Subcommittee on Domestic Monetary Policy

September 15, 1983

Good Morning, Mr. Chairman and Committee Members. My name is Rick Wieczorek, President of the D.C. Credit Union League. I am appearing here today on behalf of the Credit Union National Association, INC. (CUNA). CUNA represents more than 19,000 state and federally chartered credit unions through 52 member credit union leagues. Collectively, these credit unions serve more than 48 million Americans.

I am happy to have this chance to testify in support of Chairman Fauntroy's bill to create a new class of credit union and thrift directors at the 12 Federal Reserve Banks. CUNA has called for broader representation for nearly a decade. Your legislative proposal reaffirms its importance, and we welcome your efforts to enact this recommendation into law.

We believe, Mr. Chairman that the time has come for credit unions to be represented in a formal way in the Federal Reserve System on the grounds of both equity and efficiency.

Before the Monetary Control Act was passed in 1980, the Federal Reserve System belonged largely to commercial banks. Credit unions were required to use commerical banks to gain access to the Federal Reserve's clearing and settlement facilities. Now they have direct access to these facilities under the same terms as any other financial depository, no matter how large or small. By the same token before 1980, only Federal Reserve member banks were required to post reserves with the Fed banks. This too has changed. Now credit unions must maintain reserves against certain savings accounts and transaction accounts. Since credit unions have, in effect, become paying members of the Federal Reserve System it's clearly appropriate that they be extended the privilege of representation along-side commercial bankers on the boards of the reserve banks.

In addition to acknowledging that they are equal partners in the Federal Reserve System, placing credit union members on the boards of Reserve banks would improve the overall

efficiency of the nation's payment system. Credit unions are unique financial institutions. Individually, they tend to be small depositories but collectively they hold more than $80 billion in assets for their members. Individually, they tend to operate simply, but as a cooperative collective, they are becoming part of a sophisticated electronic network that provides integrated national financial and information services.

Already credit unions are benefiting from direct access to Fed services. Over time, the credit union movement's ties to the Federal Reserve System will grow, and as this relationship develops, the district banks will need to know more about the special ways in which credit unions operate. Having such information will not only help the bank tailor its services to the particular operational needs of credit unions, it will also help credit unions learn how better to make use of those services.

Take borrowing, for example. While credit unions have taken advantage of the Fed's check clearing and currency services they have yet to make much use of their ability to borrow from the Fed's discount window. There are many explanations for this, but among them are the restrictions that the Reserve banks now impose on the type and terms of credit. We

believe that these restrictions are based in some measure on the Fed's lack of understanding of the needs of their new credit union clientele. Direct credit union representation would help bridge this information gap and increase the amount of credit union activity in this area.

In addition to helping the Federal Reserve refine its borrowing and payment services, credit unions can help the central bank fulfill another key responsibility -- its conduct of monetary policy. Because of their close affiliation with corporations and other major sponsors, credit unions are uniquely positioned to serve as early warning devices. It is not uncommon for a credit union to have advance news of a strike, for example, or a plant closing or other events that could disrupt the economy of an area served by a reserve bank. Having a credit union member on their boards would give the Fed banks early access to information that is vital to their policy-making deliberations.

CUNA is absolutely confident that the Board will not have any difficulty finding credit union people to serve in each district. Already credit union representatives sit on informal advisory boards created by seven reserve banks. For the past 3 years, for instance, I have been fortunate to

serve on the Operations Advisory Committee of the bank in Richmond. However, not all of the reserve banks have seen fit to create such advisory panels. Your bill, Mr. Chairman, would remedy this situation to the benefit of the Federal Reserve System, credit unions and the nation as a whole.

In closing I have two suggestions that I hope this Sub-committee will consider. One is simply that you expand your proposal requiring broader representation on the boards of the 12 Federal Reserve Banks to include the boards of the Federal Reserve's 25 branches as well. This would enlarge the opportunities for a mutually rewarding exchange and underscore the increasingly important role that credit unions and thrifts play in the nation's financial community.

Our second suggestion, Mr. Chairman is both precautionary and substantive. As your bill is presently drafted, it provides for three "Class D" directors to be selected -- one each -- from the credit unions, savings and loans and savings banks. We believe that the requirement that all of the various sectors of the thrift industry be represented is important to the basis thrust of your proposal. However, there may not be mutual savings banks in some Federal Reserve districts and thus no eligible candidate for one of the new director positions. We expect that the Federal Reserve will, as a

result, recommend that it be be given greater flexibility in selecting new directors from among eligible thrift representatives. To make certain that such flexibility is not abused and that all sectors of the industry are fairly represented before the Federal Reserve System, we urge you to require by statute that in every Federal Reserve district at least one of the new directors be selected from the credit union industry.

Thank you for the opportunity to testify. CUNA looks forward to working with you to help enact this legislation.

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National Association of
Federal Credit Unions

P.O. Box 3769
Washington, DC 20007

703/522-4770

STATEMENT OF JOHN J. HUTCHINSON

PRESIDENT OF

THE NATIONAL ASSOCIATION OF FEDERAL CREDIT UNIONS

BEFORE

THE SUBCOMMITTEE ON DOMESTIC MONETARY POLICY

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

REGARDING

THE CLASS D DIRECTORS ACT OF 1983

SEPTEMBER 15, 1983

Mr. Chairman and members of the Subcommittee on Domestic Monetary Policy, it is a pleasure for me to be here this morning. I am John J. Hutchinson, President of the National Association of Federal Credit Unions (NAFCU) and manager of Hamilton Standard Federal Credit Union in Windsor Locks, Connecticut. The National Association of Federal Credit Unions (NAFCU) is the only national organization exclusively representing the interests of our nation's Federal credit unions. There are approximately 11,400 Federal credit unions throughout the nation serving the borrowing and saving needs of more than 26 million members.

OPENING REMARKS

NAFCU appreciates the opportunity to appear before you and to testify in support of the "Class D Directors Act of 1983." This Association and the Federal credit unions we represent have a vital interest in the legislation under consideration by the Subcommittee today. It would amend the Federal Reserve Act to provide for an additional class of directors composed of persons who would represent credit unions, savings banks, and savings and loan associations for each of the twelve Federal Reserve District Banks. By expanding the boards of the District Banks, this legislation would assure broadened representation by individuals who have a unique understanding of the important role various specialized components of the financial services industry play in determining our nation's economic growth and development.

PURPOSE OF FEDERAL CREDIT UNIONS

As the members of this Subcommittee know, Federal credit unions are chartered "... to make more available to people of small means credit for provident purposes through a national system of cooperative credit, thereby helping to stabilize the

credit structure of the United States" (12 U.S.C. 1751). The Federal Credit Union Act stipulates that membership in a Federal credit union shall be limited to groups having a common bond of occupation or association, or to groups within a well-defined neighborhood, community or rural district. Accordingly, every Federal credit union is a cooperative, member-owned association, serving a limited field of membership. In addition, every Federal credit union has a dual statutory mandate to promote thrift among its members while also creating a source of credit for provident or productive purposes (12 U.S.C. 1752).

FEDERAL CREDIT UNIONS MARK 50 YEARS OF SERVICE

At their time of origin, each of our nation's traditional financial institutions was designed to perform a specific function. While a necessary and generally healthy interrelationship between credit unions, banks and savings and loan associations has emerged over the years, it is helpful for us to occasionally pause and reflect upon our history. Today, as we prepare to celebrate the 50th anniversary of the signing of the Federal Credit Union Act, the members of all Federal credit unions are justifiably proud of the fact that Federal credit unions continue to retain their unique identity in the financial marketplace, despite 50 years of growth and evolution.

In recent years credit unions have been authorized by Congress to offer their members a number of additional services. Even though credit unions are now able to provide many of the same kinds of services as other institutions, such as residential mortgages, lines of credit, and credit cards, they were authorized to do so only because their members had needs that other financial institutions were not fulfilling. However, because of the credit union's limited field of membership, credit unions do not compete in the open marketplace for potential customers. Moreover, the small

size of most credit unions has prevented the majority of them from implementing their full range of powers, since more than 87% of all credit unions have assets of less than $5 million. Expanded powers make it possible for these smaller credit unions to grow and bring to a larger percent of consumers greater opportunities to save. These increased powers have certainly helped the larger credit unions to better serve their members' needs in today's financial marketplace.

It is important to recognize that each of the various types of financial institutions performs a specific function in order to meet particular credit needs within the financial marketplace. Although some activities do overlap, the primary functions of each remain different. The recently expanded powers of credit unions relate almost exclusively to the types of services which may enhance the capacity of credit unions to meet those needs.

NAFCU'S SUPPORT OF THE "CLASS D DIRECTORS ACT OF 1983"

The "Class D Directors Act of 1983" would, if enacted into law, expand from nine to twelve the number of individuals who serve on the boards of directors of the twelve Federal Reserve District Banks. Under existing law, the District Bank directors are divided into three classes of three persons each. Class A directors are representatives of the member commercial banks in the district and usually are bankers. Class B directors and Class C directors are responsible for reflecting the interests of agriculture, commerce, industry, services, labor and consumers. Class A and Class B directors are elected by member banks in the district; Class C directors are appointed by the Board of Governors. The majority of District Bank branch directors are appointed by the District Bank's head office directors; the remainder are appointed by the Board of Governors.

The proposal under consideration this morning would establish a new "class" of three directors, Class D directors, to be appointed by the Board of Governors. One Class D director would represent the interests of Federally insured credit unions, one would represent the interests of mutual savings banks, and one would represent the interests of savings and loan assocations.

Historically, the District Banks have provided many services to both the financial community as well as the general public. In fact, to a large extent they exercise many of the supervisory responsibilities of the Federal Reserve System while helping to frame monetary policy, in part, by reporting on economic activity in their regions.

Enactment of the "Monetary Control Act of 1980" (Title I, Public Law 96-221) on March 31, 1980 has led to an even greater linkage between the Federal credit union community and the Federal Reserve System than existed previously. This law has, in effect, resulted in an enhancement of the Federal Reserve Board's relationship with the credit union community. For the first time, individual Federal credit unions are required to post sterile reserves with the Federal Reserve System. In return, credit unions are entitled to discount and borrowing privileges from the Federal Reserve discount window as are member banks. However, there has to date been no role for Federal credit unions in formulating Federal Reserve policies, therefore, not a single credit union representative serves as a member of any Federal Reserve District Bank Board.

Chairman Fauntroy, I am pleased to express NAFCU's support for the principles upon which the "Class D Directors Act of 1983" is based. In fact, we have repeatedly advocated such action since passage of the "Monetary Control Act of 1980."

Members of this Subcommittee may recall that on April 1, 1980, the day after President Carter signed the Monetary Control Act into law, the then Chairman of the House Committee on Banking, Finance and Urban Affairs, Representative Henry Reuss (D-WI), was joined by Representatives Parren Mitchell (D-MD) and John Cavanaugh (D-NB) in introducing the "Federal Reserve Modernization Act" (H.R. 7001). Without addressing the merits of H.R. 7001 at this time, I would bring to the attention of the Subcommittee members the fact that the "Federal Reserve Modernization Act," introduced in the 96th Congress, was intended to complement the reforms brought about by enactment of the Monetary Control Act. At that time in my capacity as the President of the National Association of Federal Credit Unions I wrote to Chairman Reuss:

> "... we believe it is imperative that a director on each of the Boards represent the interests of Federal credit unions. Accordingly, the National Association of Federal Credit Unions urges you and your Committee to amend H.R. 7001 to stipulate that Federal credit unions will be represented on the Boards of each of the twelve Federal Reserve Banks. Only in this way may we guarantee that the interests and concerns of ... individual credit union members ... will be considered and represented by a voting delegate when matters affecting domestic monetary policy are considered by these bodies ..."

Mr. Chairman, as you and your staff know, NAFCU's views on this subject have not waivered. We continue to advocate legislation such as the "Class D Directors Act of 1983." In fact, NAFCU called for adoption of such a measure in testimony before the Senate Banking Committee on May 4, 1983.

We believe that Federal credit union representation on the District Banks' boards of directors is both necessary and appropriate. A Federal credit union representative on the board of each District Bank would, I believe, contribute to a better understanding of the unique nature of credit unions and credit union opera-

tions at the level of the twelve District Banks and also throughout the Federal Reserve System in general. On more than one occasion in recent years, problems have arisen because the Federal Reserve System has attempted to treat Federal credit unions as they treat banks -- overlooking the reality that the credit union structure, operations and mission are vastly different from those of commercial banks. Accordingly, I am of the strong opinion that adoption of a proposal such as the "Class D Directors Act of 1983" would greatly assist in enhancing the course of thinking which influences monetary policy, by assuring that the District Banks receive sufficient input from credit unions.

RECOMMENDATIONS FOR AMENDMENTS TO THE "CLASS D DIRECTORS ACT OF 1983"

I do, however, have four specific recommendations which I would like to offer to the Subcommittee. I believe adoption of these recommendations would help assure the prompt realization of the objectives of this bill.

First, as drafted, the "Class D Directors Act of 1983" specifies that Class D directors shall be appointed by the Board from recommendations made by the members. This procedure closely resembles that which is presently followed in the appointment of Class C directors. I believe the stated goal of the legislation "to provide broadened representation on the District Banks for individuals who have a unique understanding" of the institutions they represent may be better realized if Class D directors were elected by electors from the class of institution they represent in each of the twelve districts. Class A and Class B directors are elected by member banks in the district. A procedure similar to that presently used for the election of Class A and Class B directors, if adopted, would result in more equitable representation.

Second, if our proposal that Class D directors be elected by electors from the class of institution they represent is not adopted, I would urge that the criteria for appointment as a Class D director be modified. As drafted, the "Class D Directors Act of 1983" specifies that Class D directors shall be appointed by the Board from recommendations made by the members. The term "members" appears to be somewhat ambiguous. Since the purpose of establishing Class D director seats on the twelve District Bank boards is to provide broadened representation by individuals who have a unique understanding of the institutions they represent, it would seem counterproductive to have candidates for those Class D director seats nominated by member banks rather than by the institutions whose interests they are nominated to represent. We would prefer to see Class D directors elected by electors from the class of institution they represent. However, a logical alternative would be to have the Board of Governors make their appointment of Class D directors based upon nominations submitted by the class of institution to be represented, rather than nominations submitted by member banks. Member banks at present elect the three Class A and three Class B directors in each district. Member banks also nominate the candidates for appointment to the three Class C director seats in each district. I believe it would be highly desirable for those institutions whose interests are to be represented by the Class D directors in each district to have some role in the selection of qualified individuals from among their number to fill those positions. This should generally assure the election of individuals who do, in fact, understand the unique aspects of the institutions they represent. Accordingly, the Subcommittee may wish to clarify, either through amendment or through report language, precisely who should nominate candidates for appointment as Class D directors.

Third, I am concerned that language contained in the "Class D Directors Act of 1983" which would prohibit "... an officer, director, employee or stockholder of

any other depository institution except of that type" which the director shall represent from service as a Class D director. While I fully agree that we need to maintain the highest of standards for individuals who serve as Class D directors, I question the need for such a blanket prohibition. Perhaps this section of the bill could be reviewed with an eye toward permitting nominal investments by Class D directors in types of institutions other than those they represent.

Fourth, our final concern is related to that which I just addressed: the prohibition against Class D directors serving as "an officer, director, employee or stockholder" of any other depository institution. As I mentioned to you earlier, Federal credit unions do not serve the general public but rather limited groups having a common bond of occupation or association, or groups within a well-defined neighborhood, community or rural district. The fact of the matter is that certain credit unions exist whose common bond explicitly includes officers, directors, employees and stockholders of other depository institutions. To impose a blanket ban on members of such credit unions from serving as Class D directors, may in fact, deprive the District Banks of guidance from individuals who possess a truly "... unique understanding of ... economic growth and development." This is an issue that we believe merits further review.

THE IMPORTANCE OF "TESTED FEDERAL CREDIT UNION EXPERIENCE"

I would like to add at this point, Chairman Fauntroy, NAFCU's strong support of language contained in the "Class D Directors Act" which stipulates in a very clear and unambiguous way that:

> "... all Class D directors ... shall possess tested financial experience of the type appropriate to their class of depository institution."

During discussions of the enactment of Public Law 95-630 in 1978, we expressed a preference for people of "tested Federal credit union experience." Although that act, which created the National Credit Union Administration Board, did not contain that requirement, NAFCU still holds that belief. The inclusion in this act of a requirement that those chosen to serve should have previous experience in the institution they represent is consistent with our stated position.

CONCLUSION

Before closing, Mr. Chairman, I would like to point out that Federal Reserve Board Chairman Paul A. Volcker, in testimony before this Subcommittee on May 15, 1980 suggested that legislation such as that before you today may merit consideration. In his testimony, Chairman Volcker stated:

> "... we do believe that consideration also needs to be given to the participation of nonbank financial institutions on the boards of the Federal Reserve Banks; whether they should participate in the election of directors, and if so, how this should be accomplished ... attention should be given to the participation in the operations of the Federal Reserve Banks by nonbank financial institutions that will maintain reserves with the Federal Reserve, as well as their representation on the boards of directors of those banks ... we continue to feel that those boards should be expanded in size in order to accommodate a broader representative segment of the public as a whole."

NAFCU concurs with that recommendation, Mr. Chairman. We believe that the "Class D Directors Act of 1983," with the modifications we have suggested today, would achieve that goal. Accordingly, I pledge the continued cooperation of the National Association of Federal Credit Unions as you consider this measure.

Chairman Fauntroy, although it is not germain to this bill, I would like to thank you and the other members of this Subcommittee for your cosponsorship and

support of House Joint Resolution (H.J. Res.) 139 which the President signed into law (P.L. 98-71) on August 11. This Public Law designates the week of June 24, 1984 as "Federal Credit Union Week" and is also appropriate as we approach the 50th anniversary of the signing of the Federal Credit Union Act.

Thank you for the opportunity to appear before you this morning to present the view of the National Association of Federal Credit Unions. I would be happy to respond to any questions.

###

AMERICAN
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ASSOCIATION

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EXECUTIVE DIRECTOR
GOVERNMENT RELATIONS

Gerald M. Lowrie
202/467-4097

September 21, 1983

The Honorable Walter E. Fauntroy
Chairman, Subcommittee on Domestic
Monetary Policy
U.S. House of Representatives
H2-109, Annex No. 2
Washington, DC 20515

Dear Mr. Chairman:

I am writing to convey to you our Association's views on your proposal to create an additional class of Federal Reserve bank directors as indicated to me in your letter of August 31, 1983.

This proposal was considered by our Government Relations Council on September 14, 1983. The Council believes it should not be enacted into law.

Class C directors are currently elected by the Board of Governors "to represent to public ..... with due but not exclusive consideration to the interests of agriculture, commerce, industry, services, labor, and consumers" (12 U.S.C. 302). This language is broad enough so as to include non-member financial institutions. There is no reason to single out specific types of institutions under this mandate. Rather, the qualifications of such a director should be to serve the broad public interest.

Since the passage of the Monetary Control Act of 1980, many non-member institutions have begun to use the Federal Reserve's services. It is our understanding that the Federal Reserve Banks have set up advisory committees with representation among non-member institutions to enhance this process. We see no reason to elevate this representation to the status of Federal Reserve Director with its inherently broader, public interest oriented concerns.

We are particularly concerned that your proposal would give specific representation to thrift institutions but not to non-member banks. If the Congress does decide to create a separate class of directors for non-member institutions, there is no need to appoint more than one director for each Federal Reserve Bank. Among the directors appointed to the twelve district banks, the Board should assure that there is equal representation among non-member banks, savings and loans, mutual savings banks, and credit unions.

I hope these comments are helpful.

Sincerely,

Gerald M. Lowrie

Independent
BANKERS ASSOCIATION OF AMERICA

WASHINGTON
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September 21, 1983

Honorable Walter E. Fauntroy, Chairman
Subcommittee on Domestic Monetary Policy
H2-109, Annex No. 2
Washington, D.C. 20515

Dear Chairman Fauntroy:

The Independent Bankers Association of America (IBAA) is pleased to respond to your request for our views on H.R. 3868, the "Class D Directors Act of 1983." This legislation, which you introduced on September 13th, would establish a new three-member class of Federal Reserve District Bank Directors, to be designated by the Board of Governors, and respectively representing insured credit unions, savings banks, and savings and loan institutions.

It is our view that the majority of commercial banks--that is, state-chartered, non-Federal Reserve member banks--are not adequately represented on District Bank Boards of Directors. Further, H.R. 3868 does not seem justifiable absent a fundamental policy change in the purpose and criteria for District Bank Directorships. Unless the Congress is prepared to make such a change, the bill would be detrimental to the interests of community bankers. Therefore, the IBAA must express its objection to this proposal.

It is ironic to see our depository brethren attempting to expand their role in the Federal Reserve System while simultaneously objecting to the imposition of any Fed-like regulation, on equivalent terms, such as is proposed in the Treasury bill for depository product deregulation. This seems to be part and parcel of a growing trend among those financial entities outside the commercial banking sphere who seek to appropriate our rights and authorities while shirking our responsibilities and constraints. Until Congress is ready to deal with the proliferation of "nonbanks", the need for deregulation of bank's asset side, and the question of at what point the bank/thrift delineation becomes meaningless, the IBAA must oppose further incursions into banking's sphere--particularly one such as H.R. 3868 which would put the majority of commercial banks at greater disadvantage.

The IBAA is the national trade association for community banks. Its current membership of approximately 7,000 members consists of about 4,650 (66%) state-chartered, non-Fed member banks. Within the commercial banking sphere as a whole, approximately 8,850 of the Nation's 14,450 commercial banks (61% of the total) fall within this category.

As you are aware, these banks have no present say in selecting the Boards of the District Banks. The three Class A Directors "shall be chosen by and be representative of the stockholding banks" (12 USC 302). The three Class B Directors are also elected by stockholding banks to represent the interests of agriculture, commerce, industry, services, labor, and consumers. The three Class C Directors are designated by the Fed's Board of Governors to represent the same interests as are listed for Class B. By statute (12 USC 303), no Class B or C Director may be an officer, director, employee, or stockholder of any bank.

Proponents testifying in favor of H.R. 3868 incorrectly sought to portray it as redressing an inequity of District Bank representation between commercial banks and other insured depositories. However, as the preceding review of the three Director classes indicates, the present distinction does not lie there, but between stockholding, Fed-member commercial banks and all other insured depositories; including the majority of commercial banks who are ineligible to select or serve as District Bank Directors.

The introduction of H.R. 3868 places two related issues directly before the Subcommittee. First, is it advisable to increase the number of Directors of the District Banks, thereby diluting further the voting power and proportionate influence of Fed-member, stockholding banks? Second, if the Subcommittee decides the preceding question in the affirmative, what nexus between a business entity and the Federal Reserve System is of sufficient substantiality to justify entitlement to Director seats?

In regard to this second question, IBAA believes that none of the justifications raised by proponents of H.R. 3868 in their testimony is sufficient unto itself to justify a new Class D; particularly if the 8,850 commercial banks now lacking adequate representation are to continue in that subordinate role. To wit--

-Reserve requirements would not appear to be sufficient justification. Presently unrepresented commercial banks maintain substantial Fed reserves, and still comprise the heart of the payments system. Yet as witnesses for the depositories who would benefit from H.R. 3868 admitted in testimony, most of their members have yet to post any, much less substantial reserves, due to the operation of the phase-in of these

requirements and interrelated statutory exemptions. Further, much of their testimony seems to presuppose that Congress is about to enact legislation which will permit their members to solicit the entire universe of business entities to establish interest-bearing commercial checking account. That legislation has yet to be the subject of Congressional hearings and could result in major income losses, undermined safety and soundness, and competitive inequities for the commercial banking sector.

Therefore, to justify this new Directors' class on insubstantial reserves and unreviewed legislative proposals is, at best, premature.

-Access to the discount window is, for most of these institutions, a secondary source of emergency liquidity. Savings and loan institutions have access to the Federal Home Loan Bank, and credit unions to the NCUA Central Liquidity Facility; neither of these liquidity sources is available to commercial banks. If access to the window is sufficient justification for a Directors' class, then the 8,850 state-chartered banks who rely on it as their primary liquidity source surely have first claim.

-The availability of Federal reserve services is a benefit which has accrued to these institutions as a result of 1980 legislation. It offers them an alternative to traditional correspondent relationships. If they are dissatisfied with the quality and pricing of these services, and the Fed does not respond to their input, then they are free to seek the same redress as any other consumer of a service in a competitive economy--to take their business elsewhere.

-Bearing the impact of Fed monetary policy actions is a condition common to all depository institutions, as well as the whole of American business (although certain industries--such as homebuilding, autos, and agriculture--are particularly vulnerable). It would appear that the Class B and C Director classes are already constituted to reflect this common concern of the business community. However, if depositories are deemed to have a particular unmet need for representation in this regard, the possibility of authorizing all insured depositories for eligibility to serve in these classes could be explored by the Subcommittee. (Apparently, the Fed will propose that thrifts and credit unions be designated as eligible to serve as Class C directors. Any such opening of eligibility would have to be accompanied, in our view, by repeal of the present prohibition on commercial bankers' service in this capacity.)

-The need for greater input by nonmember depositories into District Bank operational and monetary policy functions, if substantiated, could be met by means short of a new Director class. We note that seven of the twelve District banks now maintain thrift advisory committees, and that several of the

witnesses last week had served on them. Such committees could be opened to all insured depositories which are not Fed members, and made a statutory requirement for each of the District banks. Or the Congress could authorize a study of how well the District banks are presently meeting the needs, and heeding the input, of nonmembers, and thereafter take appropriate legislative action to cure any deficiencies.

In closing, we feel compelled to respond to observations made during your hearings on H.R. 3868 to the effect that state-chartered commercial banks have a choice of electing Fed membership. As you know, the purchase of District Bank stock does require a diversion of funds for which an institution receives less than a market rate of interest. If the Subcommittee's desire is to make this costly option available to thrifts, that is a decision which would at least preserve the semblance of equity. However, to propose that thrifts and credit unions achieve District Bank Directorships without the stockholding requirement, while maintaining it for commercial banks, would be exceedingly unfair. Of course, the Subcommittee must recognize that opening up an electoral and Directorship role for nonmember depositories must result in member banks questioning their own shareholder requirement.

While we cannot be supportive of this legislation, we do wish to leave open the possibility of a continuing dialogue as to how nonmember depositories may exercise a greater voice in Federal Reserve operations.

Sincerely,

James D. Herrington

James D. Herrington,
President

cc: All members of the Subcommittee;

Rep. St Germain, Rep. Wylie;

William Wiles, Secretary
Board of Governors, Federal Reserve

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

PAUL A. VOLCKER
CHAIRMAN

October 3, 1983

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

Dear Chairman St Germain:

Thank you for your letter of September 6, 1983, requesting the Federal Reserve's views concerning what regulatory and/or statutory action is needed to deal with the activities of "money brokers". You point out that substantial amounts of brokered deposits have been placed in banks that have failed and that in the wake of the failure of the Penn Square bank, money brokers have facilitated the placement of fully-insured deposits, thereby undercutting the market discipline that these investors might otherwise have imposed.

The Federal Reserve shares your concern about the effect of the practices of some money brokers on market discipline and the operation of the financial system. We would point out, however, that in a banking system where individual institutions are subject to geographic limitations -- in some cases they are limited to a single office --it is quite natural and, under appropriate circumstances, economically desirable that mechanisms develop to facilitate the transmission of funds from areas of excess savings or liquidity to those areas in need of funds for the legitimate banking and credit needs of consumers and businesses. Brokers have long played and continue to play an important role in this function, and, in so doing, have contributed to a more efficient use of our economy's liquid savings. Brokers have also provided prudent managers of sound banks greater flexibility in the management of bank funding. In considering the activities of money brokers, therefore, the critical issue is to devise a regulatory response that will address the practices considered harmful without substantially impeding the legitimate role of the brokers.

It may be useful in this regard to distinguish between the brokering of funds in very large denominations for sophisticated investors in the nation's largest depositories with the placement of smaller retail type deposits and the more recent practice of splitting brokered funds up into $100,000 fully insured denominations. With respect to the brokering of the larger wholesale deposits, we see no compelling need for regulatory or statutory action since the investors involved

should be capable of protecting their own interests and there is little evidence to suggest that this activity is causing problems of the type cited in your letter. Since, by definition, the denominations of these wholesale funds are quite large, market incentives pertaining to individual transactions are not eroded, and wholesale brokers tend to deal with the larger banking organizations. These institutions continue to be subject to market scrutiny and discipline due to the fact that they continually raise large volumes of funds in the money and capital markets.

On the other hand, the brokering of fully insured deposits does tend to undercut market discipline and raises safety and soundness issues, particularly when the depository institution pays above market rates for the brokered funds and substantial commissions for the brokerage service. Investors seeking maximum rates of return, often through money brokers, are attracted to the higher rate being offered by these institutions. If the investor or broker limits the deposit to the fully insured $100,000, the investor can obtain both the maximization of return and the minimization of risk. Under such circumstances, brokers of smaller retail type deposits can enable some banks with financial weaknesses to obtain funding that they might otherwise be denied by the discipline of the marketplace.

In light of this discussion, there appear to be two possible approaches to addressing the concerns raised by the activities of money brokers. First, consideration could be given to modifying the deposit insurance system in such a way as to distinguish between brokered and nonbrokered funds and to reintroduce some element of risk to those depositors who place their funds through brokers. Second, banking organizations could be required to make periodic disclosure of the use of brokered funds, distinguishing between amounts obtained through brokered deposits of more or less than $100,000. This would alert the market to heavy users of brokered funds and provide more timely information for possible follow-up to bank supervisors.

We believe that as long as the investor is fully insured, he or she will have little incentive to discriminate among depository institutions on the basis of financial condition and their choice would likely be driven only by rate of return. For this reason, we believe that, absent some regulatory or statutory actions pertaining to insurance coverage, little would be gained by, as some have suggested, requiring that investors be supplied with disclosure material concerning the condition of the financial institutions selected for deposit by the money brokers. We understand that the FDIC and the FSLIC will address issues pertaining to deposit insurance for Federally-insured commercial banks and savings and loan associations. One possibility, for example, would be to reduce or eliminate insurance coverage on brokered retail deposits, thereby reintroducing an element of risk to the depositor. While this may hold some promise for bringing market discipline to bear on the activities of money brokers, we believe that any proposals for modifying the insurance system would have to be carefully considered and structured to avoid the possibility of eroding the strength or undermining the essential coverage of our nation's deposit insurance system.

In our view, a more immediate and fruitful way of addressing this problem is to require greater and more timely disclosure of the use of funds obtained through money brokers. Indeed, the Federal banking agencies have

already begun to implement this approach in their revisions to the bank call report. Beginning with the September 30, 1983 call report, commercial banks will be required to report the total amount of funds obtained through money brokers. Further revisions to the call report proposed for March 1984 will obtain both total brokered funds and brokered retail deposits. This information will be reported on a quarterly basis and will be available to the public as well as the supervisory agencies.

We believe this approach has a number of benefits. First, it distinguishes between wholesale and retail brokering and enables supervisory authorities to identify those institutions making heavy use -- or experiencing sharp changes in the use -- of brokered retail funds. Second, the approach avoids restrictions on the legitimate role played by some brokers and avoids the imposition of potentially costly or burdensome regulations. Third, disclosure of brokered deposits may help reinforce market discipline vis-a-vis any remaining large uninsured depositors or nondeposit suppliers of funds. For example, when used in conjunction with disclosure of nonperforming loans, investors, providers of Fed funds, other uninsured creditors and money market participants generally will be better able to identify those institutions whose rapid growth, possibly in combination with asset weaknesses, has forced them to rely heavily on brokered funds. Fourth, this approach is consistent with the general desire expressed by some members of Congress for greater financial disclosure by commercial banks. Finally, and perhaps most importantly, greater disclosure will enable bank supervisory agencies to monitor more effectively those institutions with a large or growing reliance on brokered retail funds and use this information to trigger on-site examinations and, if necessary, formal enforcement action. Information on the volume and growth of brokered deposits, both alone and in relation to total asset growth and other indices of bank soundness, can be factored into our early warning and surveillance systems and into our ongoing procedures for planning and conducting on-site examinations.

Still another approach that has been suggested is a system of registration in connection with which the money brokers would be called upon to meet minimum standards of financial and ethical conduct. We believe that this is a desirable development, and that brokers should be encouraged to develop such standards. However, we do not believe that the present situation requires statutory action. Adoption of the self-policing steps being discussed by brokers and the users of their services would certainly be a step in the right direction.

We hope that this information will be useful to your Committee. Please let me know if I can be of further assistance.

Sincerely,

Paul A. Volcker

RS (V-184)
bcc: Mr. Spillenkothen
Mr. Ryan
Mr. Kohn
Gov. Partee
Mrs. Mallardi (2)

Action assigned Mr. Bradfield

8396

United States Senate

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

#192

September 19, 1983

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

Dear Chairman Volcker:

I again want to thank you for testifying on September 13, 1983 before the Senate Banking, Housing and Urban Affairs Committee on S.1532, S.1609 and S.1682, dealing with moratoriums on acquisitions and financial institution deregulation.

For the record of this hearing, I would appreciate responses to the enclosed questions concerning this legislation.

I would appreciate receiving your responses by October 11, 1983, so that we could insert them into the hearing record before it closes.

Sincerely

Jake Garn

Jake Garn
Chairman

Enclosures

JG:dbk

Do our Banking Laws still make sense?

Some have argued that our major structural banking laws --
Glass-Steagall and the Bank Holding Company Act-- no longer
make any sense in today's market-place. There has been too
much erosion because of loop-holes and that we have reached
the point where it will be impossible to resurect these laws.
The conclusion is that we either ought to repeal these laws
or let the forces of the market-place develop unchecked for
another year or two and then ratify what has ocurred. What
do you think about this scenario?

Mr. Volcker, on pages 12 and 13 of your testimony, you suggest that present law should be changed so that the Federal Reserve is not required to review competition factors when approving new activities for bank holding companies. You suggest that this activity can be handled by the Justice Department.

Do you believe the Antitrust Division at Justice should review new activities for bank holding companies before they are approved - or be limited to bringing a subsequent antitrust suit after competition problems arise?

Questions for Volcker *Newsfor Trible*

1. You have stated that you think the moratorium should be temporary, to allow Congress to make "permanent", well-considered changes.

If, at the end of the moratorium period, Congress had <u>not</u> acted, would you refuse to support an extension of the moratorium?

2. Why does the moratorium bill propose to block future acquisitions of banks and thrifts by nonbanking companies? Do you feel that these developments have been, are. or will be, <u>dangerous</u> to the banking system-

Would you recommend that these acquisitions continue to be blocked beyond the moratorium period, as a matter of public policy?

3. The moratorium bill prohibits acquistions of "insured banks" by certain nonbanking firms, and also expands the definition of insured banks and "banks".

Insured banks are those which are FDIC insured <u>and</u> those eligible for insurance.

Also, the bill says that a bank is one which makes commercial loans <u>and</u> accepts deposits which may be transferred by check.

a. As a result of these definitions, how many more institutions may <u>not</u> be acquired? What <u>kinds</u> of institutions?

b. Do you intend that these provisions should continue as permanent law?

4. The Fed recently proposed a revised Regulation Y. That proposal would greatly expand the definition of "commercial loan", and thus, the definition of "bank", under the Bank Holding Company Act. As a result, more institutions would come under Fed jurisdiction, and be blocked from combining with nonbanking firms.

Since Congress is now considering the "definition of bank" issue, do you intend to drop that part of the Reg Y revision? If not, why not?

5. Section 2 of the moratorium bill states "no company shall acquire control of insured banks in more than one state" without prior approval under the Bank Holding Company Act.

If this provision were enacted, under what circumstances would the Fed allow acquisitions, and when would it deny acquisitions?

Would you want this recommendation to be a permanent change, beyond the moratorium period?

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

PAUL A. VOLCKER
CHAIRMAN

October 5, 1983

The Honorable William H. Gray, III
House of Representatives
Washington, D. C. 20515

Dear Mr. Gray:

Thank you for your letter concerning minority representation at the Federal Reserve. While we recognize, as you have, that there are relatively few minorities represented in top economic policy positions, such as on the staff of the Federal Open Market Committee, we are encouraged by the results of our programs and strategies to increase the representation of minorities in mid- and upper-management positions in the System. As part of this process, the representation of minorities at all levels of employment in the System is monitored and analyzed on a regular basis.

In this regard, during the two-year period ending December 1982, minority professional representation at the Board in the targeted FR-13 to FR-15 grades increased by eleven employees or 32.3 percent of the increase in this grade range. Moreover, although in terms of total percentages increases for minority group employees at the senior level (grades 14-16) at the Reserve Banks have been comparatively small, minority representation in this group has more than doubled in the past five years.

As a means of implementing our policy of providing equal employment opportunity, the Board's affirmative action plan identifies areas needing special attention and specifies activities and programs designed to overcome barriers to equal employment opportunity. Similar plans have been developed and implemented at each of the twelve Reserve Banks. Of course, minority recruitment is made more difficult by the scarcity of black, Hispanic, and other minority group economists nationwide, salary offerings in private industry that the Board and the Reserve Banks are unable to match, and the desire of many potential applicants to remain in academia. We are, however, actively working to overcome these obstacles.

In this regard, in 1979, in an attempt to increase the number of ethnic minorities in the finance and economics professions in general and at the Federal Reserve System in particular, the Board established a Minority Doctoral Fellowship Program. To date, eight minority students, including five blacks, have received support--totaling about $146,000. As of June 1983, five of these students have completed their Ph.D. requirements and are employed within the System, two at the

Board and three at the Federal Reserve Bank of New York. Two of the remaining awardees are expected to complete their degree requirements during the 1983-84 school year. (A copy of our last program announcement is enclosed for your information.) Moreover, the Federal Reserve System actively participates in the American Economic Association Summer Intensive Program for Minority Students through direct financial assistance and other support. This program is a source of promising minority undergraduate students with the potential to complete Ph.D. programs and several graduates of this program have received fellowship offers under the Board's Fellowship Program.

In closing, I believe that there has been a very favorable increase in the representation of minorities in important positions in the Federal Reserve System. And, as the enclosed materials show, minorities occupy official and managerial positions at the Board and throughout the System. Although progress has been made, I can assure you that we remain committed to equal employment opportunity and will continue our efforts to identify and develop minorities in the economic policy area.

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

Sincerely,

S/Paul A. Volcker

Enclosure

PWT:JWD:AFC:pjt (V-132)
bcc: Portia Thompson
Joe Daniels
Mrs. Mallardi (2)

ENCLOSURE I

FEDERAL RESERVE BOARD'S 1982-86 EQUAL EMPLOYMENT OPPORTUNITY AFFIRMATIVE ACTION PROGRAM.

ENCLOSURE II

MINORITY AND FEMALE REPRESENTATION IN THOSE TARGETED PROFESSIONAL JOB SERIES FOR WHICH GOALS ARE ESTABLISHED IN THE BOARD'S AFFIRMATIVE ACTION PROGRAM (updates to pages 14, 21, 22, and 23 of the Program).

ENCLOSURE III

DATA ON WORKFORCE REPRESENTATION THAT WAS INCLUDED IN APPENDIX C OF THE PROGRAM.

ENCLOSURE IV

SUMMARY OF MINORITY AND FEMALE REPRESENTATION ON OFFICIAL STAFF AND THE GOALS THAT WERE SET BY THE FEDERAL RESERVE BOARD IN JULY 1981.

ENCLOSURE V

STATUS OF EQUAL EMPLOYMENT OPPORTUNITY AT THE FEDERAL RESERVE BANKS

1982 ANNUAL REPORT

ENCLOSURE VI

1984-85 ANNOUNCEMENT OF THE MINORITY DOCTORAL FELLOWSHIP PROGRAM,
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Action assigned to Mr. Frost.

COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON TRANSPORTATION
SUBCOMMITTEE ON FOREIGN OPERATIONS

DISTRICT OF COLUMBIA COMMITTEE
CHAIRMAN:
SUBCOMMITTEE ON GOVERNMENT OPERATIONS AND METROPOLITAN AFFAIRS

VICE CHAIRMAN:
CONGRESSIONAL BLACK CAUCUS

WILLIAM H. GRAY III
2ND DISTRICT, PENNSYLVANIA

WASHINGTON OFFICE:
429 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-4001

DISTRICT OFFICES:
6753 GERMANTOWN AVENUE
PHILADELPHIA, PA. 19119
(215) 951-5388

2318 W. COLUMBIA AVENUE
PHILADELPHIA, PA. 19121
(215) 232-2770

151 N. 52ND STREET
PHILADELPHIA, PA. 19131
(215) 476-8725

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

#132

July 13, 1983

Mr. Paul A. Volcker
Chairman
Federal Reserve Bank
20th & Constitution Avenue, N.W.
Washington, D.C. 20551

Dear Mr. Chairman:

I am writing to express my concern regarding the Federal Reserve System's past performance with regard to affirmative action and equal employment opportunity.

The Federal Reserve System exercises considerable influence over the lives of every citizen in this country through direct control of the domestic monetary supply. While I realize that the Reserves' actions are in the best interest of the country on a whole, I am concerned, about the lack of minority representation in key decision-making positions at the Federal Reserve.

It is my understanding, that out of the 18 member staff at the Federal Reserve's Open Market Committee, there are no minority group members represented. Given the fact that a similar pattern of employment exists at each of the twelve Federal Reserve Banks, it appears that minorities apparently are being closed out of numerous opportunities at the Bank.

We can agree, I am sure, that these positions must be held by those who have the expertise and qualifications for the job. Consequently, I would like to know the employment process used at the Bank, particularly the criteria used in making selections in mid and upper-management positions.

Additionally, I respectfully request that you forward to my office a complete statistical profile of the minority representation in all levels of the Bank's operation.

Thank you for your cooperation and consideration.

Sincerely,

William H. Gray, III
Member of Congress

WHG: jmh

HOUSE OF REPRESENTATIVES
WASHINGTON, D. C. 20515

TRENT LOTT
REPUBLICAN WHIP

October 4, 1983

Dear Mr. Chairman:

I enjoyed our telephone conversation yesterday and appreciate your taking the time to talk with me. I am most hopeful that you will be able to give my invitation to speak at the economic symposium sponsored by the Merchants and Marine Bank every possible consideration. I would consider it a personal favor if you could travel to Pascagoula for this event to be held next year.

Tom Leatherbury, President of the bank, will be getting in touch with you in the near future; however, should you have any additional questions, please feel free to contact me.

With warmest personal regards, I am

Sincerely yours,

Trent Lott

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

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

October 4, 1983

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

Dear Senator Bentsen:

Thank you for your letters requesting information on behalf of your constituent, Mr. William Porter, who is considering establishing a business of "foreign currency exchange and check cashing."

There are no federal regulations or licensing requirements involved in check cashing or the buying and selling of foreign exchange per se. However, the issue of licensing or federal supervision would arise if Mr. Porter actually intends to go into the business of banking. The banking business is regulated by both state and federal law. A state bank must be chartered under the relevant state law. If the charter is approved, the bank is subject to state bank regulations. The newly chartered state bank may then wish to be federally insured and, consequently, regulated by the Federal Deposit Insurance Corporation (FDIC). State banks may also join the Federal Reserve System, although membership is not mandatory. If a state bank becomes a member of the Federal Reserve System, its primary federal regulator would be the Federal Reserve Board.

Because the United States has a dual banking system, banks may choose to be federally chartered. The Comptroller of the Currency charters national banks and regulates their activities. All national banks are federally insured and also must belong to the Federal Reserve System.

Bank holding companies are subject to federal regulation under the Bank Holding Company Act of 1956, 12 U.S.C.A. §§ 1841-1850. A company is subject to the Act if it acquires a controlling interest in a bank or banks. In order to acquire a bank, a bank holding company must meet the requirements of 12 U.S.C.A. § 1842 and obtain approval from the Federal Reserve Board. The Bank Holding Company Act defines a "bank" as "any institution organized under the laws of the United States . . . which (1) accepts deposits that the depositor has a legal right to withdraw on demand, and (2) engages in the business of making commercial loans" (12 U.S.C.A. § 1841(c)).

While no federal licensing or supervision applies to a foreign currency exchange and check cashing business, questions

may arise under state law. In any event, I would suggest that Mr. Porter may wish to consult a local attorney who will be able to advise him on the requirements of law applicable to his new business.

I regret the delay in responding to your inquiry and hope this information is useful to you. Please let me know if I can be of further assistance.

Sincerely,

Donald J. Winn

Donald J. Winn
Assistant to the Board

NJ: CO: Pjt (# V-186, 8328)
(also all # 298)
bcc: Ms. Jackelin
M. Bradfield
Legal Reads (2)
Mrs. Mallardi ✓

LLOYD BENTSEN
TEXAS

Nancy Jacklin expects to have the response ready this week

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

United States Senate

WASHINGTON, D.C. 20510

See #298

#186
8328

September 16, 1983

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

Dear Mr. Chairman:

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

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

Sincerely,

Lloyd Bentsen

Lloyd Bentsen

Enclosure

PLEASE REPLY TO:

912 Federal Building
Austin, Texas 78701
ATTN: Jill Kolbe

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

August 3, 1983

Dear Senator Bentsen:

This is in further reference to your letter of July 25 on behalf of Mr. William Porter regarding his interest in starting a new foreign currency exchange and check cashing business.

It has been determined by the appropriate Treasury officials that your inquiry falls within the jurisdiction of the Federal Reserve System, therefore, I have taken the liberty of forwarding your correspondence to that agency for attention and further response.

I have also attached a copy of the same inquiry which was transferred to this Department by the Department of Commerce.

Sincerely,

W. Dennis Thomas
Assistant Secretary
(Legislative Affairs)

The Honorable
Lloyd Bentsen
912 Federal Building
Austin, Texas 78701

cc: Federal Reserve System

Economy — good news, Threats
Time of Testing
~~International~~
Credit problems
Domestic
International
Infectious
Political resentments

1. Powers bill
2. Implied regulatory change
Difficult politically

PAUL TRIBLE
VIRGINIA

United States Senate

WASHINGTON, D.C. 20510

September 26, 1983

Ecw

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

Dear Paul:

Thank you for agreeing to speak to a distinguished group of Virginia bankers and bank board members on Friday, October 21, 1983 from 9:30 a.m. to 10:30 a.m. in the Dirksen Senate Office Building, Room 562. This will be the first meeting of this group which is composed of 50 of the top banking leaders in the Commonwealth who are also leaders in their respective communities.

The group will meet from 9:00 a.m. to 3:00 p.m. on October 21st and will discuss the major banking issues before the Congress. I would appreciate your directing your comments to prospects for the economy and current banking legislation including the moratorium proposal. We have scheduled you to speak from 9:30 a.m. to 10:10 a.m. with a question and answer period to follow.

A few days before the October 21st meeting, I will send you an agenda as well as a list of attendees. In the meantime, I would appreciate your sending me a photograph of yourself and a biographical sketch for use in our briefing materials.

Once again, thank you for taking time from your busy schedule to meet with this distinguished group. If you need any additional information, please contact me or Martin Baxter, my Special Assistant, at 224-4024.

I look forward to seeing you on October 21st.

Sincerely,

Paul Trible

PT:gr

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

PAUL A. VOLCKER
CHAIRMAN

September 23, 1983

The Honorable Russell Long
United States Senate
Washington, D. C. 20510

Dear Senator Long:

Thank you for your letter endorsing the invitation of Baton Rouge Business Reports to participate in its First Annual Business Awards program.

Unfortunately, because of the extremely busy schedule that I have in February, I have been forced to send regrets to Mr. McCollister.

As you are aware, February is an extremely busy month for us at the Federal Reserve since we must prepare for our semi-annual report to the Banking Committees on the course of monetary policy. This means that our Federal Open Market Committee must meet early in the month--February 6-7 this year--to be followed by preparation of the actual report and my testimony. Since I am intimately involved in the preparation of these documents I hesitate to accept any speaking commitments during this period.

I can assure you that I considered the invitation very carefully but could find no way to accommodate my schedule to the Business Awards program.

With best personal regards.

Sincerely,

PAUL

bcc: Mrs. Mallardi
#

JRC:tjf

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)

12 SEP 1982

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date 9-8-83

To: Chairman Volcker

From: DON WINN (452-3457)

Per Dave Shannon, this is the most current status and the result of the interview process will be communicated to you per your original request re status.

( ) Over

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

Date:
8.30.83

To: Don Winn
From: David L. Shannon

Per our discussion.

I will submit your

plan call.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date August 24, 1983

To Chairman Volcker

Subject: Application for employment of Mr. Jack R. Marchbanks

From David L. Shannon DLS

Initial screening by Personnel staff recruiter indicates Mr. Marchbanks is bright, articulate, and knowledgeable about the banking industry in general.

He was mainly interested in the Division of Bank Operations where his resume was reviewed and no interest shown because no appropriate vacancy available.

His resume is presently being circulated to the Division of Banking Supervision and Regulation for their review.

Don Winn is on vacation this week, but when he returns I will discuss the possibility of interviewing Mr. Marchbanks regarding the Congressional Liaison vacancy.

Attached is a copy of his application.

Attachment

25 AUG RECD

Removal Notice

Citation Information

Document Type: Employment application **Number of Pages Removed:** 8

Citations: Application for employment and resume, Jack R. Marchbanks, 1983.

RALPH REGULA
16TH DISTRICT, OHIO

COMMITTEES:
APPROPRIATIONS
SUBCOMMITTEES:
INTERIOR
MILITARY CONSTRUCTION
BUDGET
SELECT COMMITTEE ON AGING

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

August 24, 1983

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

Dear Mr. Chairman:

SUBJECT: Speaking Engagement, September 20, 1983

The "Day in Washington" program for the Canton, Ohio Chamber of Commerce members will be held in EF-100 in the Capitol. We are looking forward to your presentation to the group of approximately 40 people at 10 a.m. to 10:30 a.m. on September 20.

We would appreciate very much receiving a copy of your biographical sketch to be included in information packets.

I appreciate your willingness to speak to this group.

Sincerely,

Ralph

Ralph Regula, M.C.

RR:sls

Please send the bio to the attention of Sylvia Snyder.

sent 8/26/83 cm

RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-3876

4150 BELDEN VILLAGE STREET N.W.
CANTON, OHIO 44718
(216) 489-4414

201 EAST LIBERTY STREET
WOOSTER, OHIO 44691
(216) 264-3585

cc Mr. Coyne

RALPH REGULA
16TH DISTRICT, OHIO

COMMITTEES:
APPROPRIATIONS
SUBCOMMITTEES:
INTERIOR
MILITARY CONSTRUCTION
BUDGET
SELECT COMMITTEE ON AGING

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

July 29, 1983

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

Dear Mr. Chairman:

Thank you very much for agreeing to speak to the members from the Chamber of Commerce in the 16th District.

They are very pleased that you will be the kick-off speaker for the "Day in Washington."

You are highly regarded in the 16th District as well as the entire nation as you will note from the enclosed poll results conducted by the NFIB.

Your winning margin in the 16th District is substantially better than mine.

I will plan on your being with the group from 10 a.m. to 10:30 a.m. on Tuesday, September 20.

Tentatively, we will be meeting in EF-100 in the Capitol, however, I will confirm this prior to the 20th.

I am grateful for your acceptance.

Sincerely,

Ralph Regula, M.C.

RR:sls

Enclosure

The Treasury owes you one on my vote for IMF

RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-3876

4150 BELDEN VILLAGE STREET N.W.
CANTON, OHIO 44718
(216) 489-4414

201 EAST LIBERTY STREET
WOOSTER, OHIO 44691
(216) 264-3585

NFIB® National Federation of Independent Business

DEAR CONGRESSMAN REGULA:

THE FOLLOWING IS A REPORT ON THE RESULTS OF MANDATE BALLOT #449. NFIB MEMBERS WERE POLLED ON THE QUESTIONS ANSWERED BELOW DURING JUNE, 1983.

QUESTIONS : DO YOU :		RESULTS IN PERCENT : YOUR DISTRICT (16)	YOUR STATE (OH)	THE NATION
1. FAVOR OR OPPOSE THE RE-APPOINTMENT OF PAUL VOLCKER AS CHAIRMAN OF THE FEDERAL RESERVE BOARD	FAVOR :	79	78	77
	OPPOSE :	16	15	15
	UNDECIDED:	5	7	8
2. FAVOR OR OPPOSE STANDBY TAXES ON INCOME AND OIL IN 1986 IF THE DEFICIT IS OVER 2.5 PERCENT OF GNP	FAVOR :	13	14	17
	OPPOSE :	81	82	80
	UNDECIDED:	6	4	3
3. FAVOR OR OPPOSE RETAINING THE PRESENT SMALL-BUSINESS EXEMPTION FROM RCRA	FAVOR :	43	46	44
	OPPOSE :	49	47	48
	UNDECIDED:	8	7	8
4. FAVOR OR OPPOSE ALLOWING RAILROAD WORKERS TO BE COVERED BY THE FEDERAL UNEMPLOYMENT TAX ACT	FAVOR :	56	53	54
	OPPOSE :	30	33	33
	UNDECIDED:	14	14	13
5. FAVOR OR OPPOSE THE USE OF SBA-GUARANTEED LOANS ONLY FOR LONG-TERM CREDIT NEEDS	FAVOR :	29	33	34
	OPPOSE :	56	56	57
	UNDECIDED:	15	11	9

THE PRO AND CON ARGUMENTS APPEAR IN THE ENCLOSED COPY OF MANDATE #449. IN THE PAST WE HAVE FORWARDED TO YOU ALL VOTED BALLOTS. NOW, TO FACILITATE YOUR INSPECTION OF OUR REPORT, WE ARE SUBSTITUTING A COMPUTER PRINT-OUT OF MEMBERS WHOSE BALLOTS DO NOT CONTAIN PERSONAL COMMENTS, TOGETHER WITH THE BALLOTS RECEIVED FROM MEMBERS WHO COMMENT.

WILSON S. JOHNSON
PRESIDENT

JUL 25 1983

Home Office: 150 West 20th Avenue, San Mateo, California 94403. Telephone (415) 341-7441 / Legislative Office: Washington, D.C.

WASHINGTON OFFICE:
327 CANNON BUILDING
WASHINGTON, D.C. 20515
(202) 225-3065

COMMITTEES:
ARMED SERVICES
INVESTIGATIONS SUBCOMMITTEE
SEAPOWER AND STRATEGIC AND CRITICAL MATERIALS SUBCOMMITTEE
SMALL BUSINESS
GENERAL OVERSIGHT AND THE ECONOMY SUBCOMMITTEE
TAX, ACCESS TO EQUITY CAPITAL AND BUSINESS OPPORTUNITIES SUBCOMMITTEE

Congress of the United States
House of Representatives

ROBIN BRITT
SIXTH DISTRICT OF NORTH CAROLINA

ALAMANCE COUNTY OFFICE:
P.O. BOX 814, GRAHAM, N.C. 27253
(919) 229-0159

DAVIDSON COUNTY OFFICE:
P.O. BOX 864, LEXINGTON, N.C. 27292
LEXINGTON: (704) 249-7556
THOMASVILLE: (919) 476-1131, EXT. 399
DENTON: (704) 869-2194, EXT. 399
N. DAVIDSON: (919) 724-3803, EXT. 399

GUILFORD COUNTY OFFICES:
P.O. BOX 299, GREENSBORO, N.C. 27402
(919) 378-5005

510 FERNDALE BLVD., HIGH POINT, N.C. 27260
(919) 886-5106

August 5, 1983

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

Dear Mr. Chairman:

This will confirm our telephone conversation regarding your speaking at the Freshmen Democrats Budget meeting on Tuesday, September 20th. The group is looking forward to meeting with you and hearing what you have to say.

We start at 7:30 a.m. with coffee and donuts, and the meeting goes from 8:00 a.m. to 9:00 a.m. We would like to have you come as early as 7:30 a.m. for coffee if you could. I'll let you know where the meeting will be held as soon as a room is confirmed.

Thanks again for agreeing to speak at our meeting.

Sincerely,

Robin

ROBIN BRITT
Member of Congress

RB/cg

cc: Congressman Buddy MacKay

Rayburn
2247

MATTHEW F. McHUGH
28TH DISTRICT, NEW YORK

COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEES:
AGRICULTURE, RURAL DEVELOPMENT AND RELATED AGENCIES
FOREIGN OPERATIONS

SELECT COMMITTEE ON CHILDREN, YOUTH AND FAMILIES

WASHINGTON OFFICE:
2335 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-6335

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

BINGHAMTON OFFICE:
201 FEDERAL BUILDING
BINGHAMTON, NEW YORK 13902
(607) 773-2768

ITHACA OFFICE:
TERRACE HILL-BABCOCK HALL
ITHACA, NEW YORK 14850
(607) 273-1388

KINGSTON OFFICE:
292 FAIR STREET
KINGSTON, NEW YORK 12401
(914) 331-4466

A 265

August 4, 1983

Copy sept 20

Mr. Paul Volker
Chairman
Federal Reserve Board
20th and C Streets, N.W.
Washington, D.C.

Dear Mr. Volker:

On Tuesday, September 20th I will be holding a seminar here in Washington for a select group of businessmen from my Congressional District. I would be very pleased if you could participate in this program. The best time for us would be 2:15 p.m. in the Rayburn House Office Building. However, if you are not able to participate at that time but were able to at another time, we could probably work this out.

I expect about 60-75 of the top businesspeople from my area will attend. As you may know, I have the pleasure of representing the area where IBM started its business and continues to maintain a large facility. Other major employers include Singer Link, General Electric and Cornell University.

I would appreciate your giving this invitation your consideration. If you should require more information, please contact me or my Administrative Assistant, Tom Parkhurst.

Best regards,

Sincerely,

Matthew F. McHugh

MFM:cs

Rayburn
2105R

B 369 (Rayburn)
9-9:15