

FEDERAL HOME LOAN BANK BOARD:
1979-82

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BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

Date: 7/8/82

To: *Mr. Aphrod*
From: Sandy Wolfe

Chairman Volcker would appreciate a
reply to the attached for his signature
as soon as possible.

#2319

Neal —
Mr. Aphrod thinks
that this was handled
by either PAU or you.
Can this be logged
off?
No reply needed
MS 7/27.

Federal Home Loan Bank Board



1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

*Orig. Mr. Afilrod
cc Gov. Martin
Messrs. Schwartz
Mr. Keeler
Mr. Moran
Mrs. Glassman*

RICHARD T. PRATT
CHAIRMAN

July 7, 1982

2319

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1982 JUL - 8 AM 10:34
RECEIVED
OFFICE OF THE CHAIRMAN

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

Dear Paul:

This is to request that the members of the Depository Institutions Deregulation Committee (DIDC) only publish for comment the enclosed account which was largely drawn from Chairman Isaac's draft. The account incorporates two key elements, which in my opinion, should be included to satisfy the full intent of Congress in enacting the Depository Institutions Deregulation and Monetary Control Act of 1980 and to avoid greater competitive inequalities from developing.

First, I believe the account should be linked to the enactment of comprehensive restructuring legislation, such as is represented by S.1703 and S.1720. This connection is in recognition of the restructuring that is necessary to achieve the competitive equality Congress sought among depository institutions. Second, the account's rate should be based on the 91-day Treasury Bill rate, with a 25 basis point preference for thrifts, which would drop to 1/8 of 1 percent six months after the effective date of thrift restructuring legislation and be eliminated twelve months after that date.

This account would recognize the legal and economic environment in which financial institutions are currently competing, and virtually deregulate the liability side of depository balance sheets long before 1986. I would hope that members of the DIDC will agree to publish only this account for comment.

Sincerely,

Dick

Richard T. Pratt

Enclosure

Comment:

The current level of earnings and savings flows of the savings and loan industry warrants including a thrift differential on this account. However, enactment of thrift restructuring legislation would justify rapid elimination of the differential.

In the absence of such legislation, the differential will continue to be needed; however, the account does recognize the need to remove interest rate ceilings and differential by 1986.

Withdrawals:

No limit on telephone transfers, in-person withdrawals, mail transfers, etc. Transaction features should be optional with each institution as follows:

- (1) No sweeps or third-party drafts, or
- (2) Three third-party drafts per month (mandatory \$25 charge per item for each draft beyond three), or
- (3) Unlimited sweeps and third-party drafts with a \$500 minimum per transaction

Withdrawal Penalty: None

Reserve Requirement: Transaction account reserve requirements may be imposed by Federal Reserve depending on transaction features offered by institution

Additional Deposits: No limit

Eligibility: All depositors

Other: No loans to meet initial or maintenance balance.

7/7/82

FHLBB MONEY MARKET ACCOUNT

Effective Date: 60 days after the effective date of comprehensive thrift restructuring legislation such as is contained in Senate Bill 1720.

Minimum Balance: \$20,000 -- The minimum balance may be reduced at the option of the institution as follows:

\$15,000 90 days after the account's effective date
\$10,000 90 days later
\$ 5,000 90 days later
0 6 months later

or

In the absence of enactment of comprehensive thrift institutions restructuring:

\$20,000 effective 6/1/83
\$15,000 effective 1/1/84
\$10,000 effective 6/1/84
\$ 5,000 effective 1/1/85
\$ 0 effective 6/1/85

Comment:

This alternative schedule represents a logical linkage of asset and liability deregulation that is necessary to satisfy the full intent of Congress in enacting the DIDMCA of 1980.

Maturity: None - (14 day reservation notice as with present passbook accounts).

Interest Rate: The account's rate should be based on the 91-day Treasury Bill rate, with a 25 basis point preference for thrift institutions. The differential should be reduced to 1/8 of one percent 6 months after the effective date of comprehensive, thrift restructuring legislation. The differential and any ceiling would be eliminated 12 months after such date.

If comprehensive thrift restructuring is not enacted, the differential should remain at 25 basis points until 12/31/84, except when interest rates are below 9 percent. On 1/1/85 the differential should be reduced to 1/8 of one percent and remain at that until 3/31/86 when it will be eliminated completely.

*cc Messrs Winn
Losa*

Federal Home Loan Bank Board



1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

RICHARD T. PRATT
CHAIRMAN

June 18, 1982

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1982 JUN 21 AM 9:19
RECEIVED
OFFICE OF THE CHAIRMAN

2174

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

Dear Paul:

Enclosed for your information is a copy of a letter that Board Members DiPrete, Jackson and I sent to Jake Garn recommending that the Senate Banking Committee link legislation restructuring the thrift industry to S. 2531 and S. 2532. Additionally, identical letters were sent to each member of the Senate Banking Committee.

I hope you will find this information helpful.

Sincerely,

Dick

Richard T. Pratt

Enclosure

Federal Home Loan Bank Board



1700 G Street, N.W.
Washington, D.C. 20552

Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

JUN 16 1982

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

Dear Mr. Chairman:

We are writing this letter to strongly recommend that the Senate Banking Committee link legislation restructuring the thrift industry to S. 2531 and S. 2532. Although S. 2531 and S. 2532 are important measures for the regulators and the thrift industry, we firmly believe that fundamental restructuring and additional flexibility for thrifts must be combined with these measures if the thrifts' problems are to be addressed adequately. Specifically, we again recommend the compromise version of S. 1703 and S. 1720 discussed at the May 26 hearings.

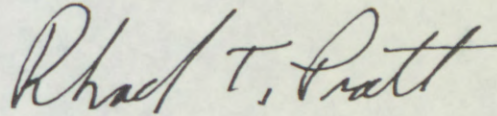
The desirability of restructuring legislation is immediate and striking in that defective structuring is a primary cause of the present economic vulnerability of the thrift industry. The financial environment has changed, and will continue to change, to such a substantial degree that even a significant decrease in interest rates may not ensure thrifts' long-term viability. In this context, it may not be appropriate to provide public funds to buy time in the short run while failing to provide those same organizations with the tools for long-run survival.

We are convinced that a compromise bill, affording deregulatory benefits in a balanced fashion, is vital to the long-term public interest, and desperately needed if the thrift industry is to ultimately survive.

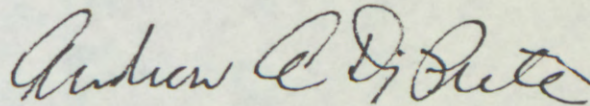
We have attached for your information a resolution adopted by the Bank Board on June 10, which reaffirms the Board's strong

commitment to statutory restructuring as the only lasting cure to the thrifts' current problems.

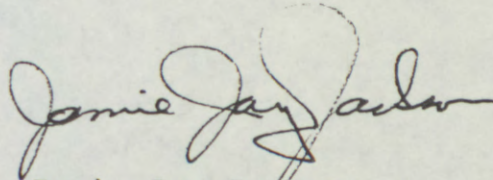
Sincerely,



Richard T. Pratt
Chairman



Andrew A. DiPrete
Board Member



Jamie Jay Jackson
Board Member

Attachment

FEDERAL HOME LOAN BANK BOARD

No. 82-395

Date: June 10, 1982

WHEREAS the Study of the President's Committee on Financial Institutions (1963), the Study of the Savings and Loan Industry by Professor Irwin Friend (1969), the Report of the Hunt Commission (1971), the Brookings Institution Study (1982), and the Report of the President's Commission on Housing (1982) have identified the need for structural changes in the thrift industry, and broadened powers;

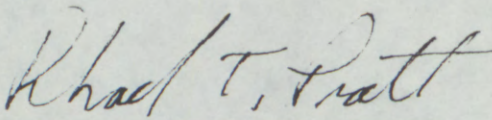
WHEREAS the extreme volatility of interest rates and the current earnings problems of thrifts have again demonstrated the need for restructuring in the thrift industry;

WHEREAS the asymmetrical approach to deregulation represented by deregulating thrifts' liability side without providing them with additional asset flexibility is unworkable;

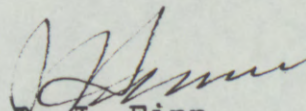
The Bank Board reaffirms its belief that restructuring of the thrift industry has been necessary for the long-term viability of thrifts for a number of years, and is still needed today. The Bank Board therefore encourages the Congress to enact without delay the restructuring proposals incorporated in the Thrift Institutions Restructuring Act (S. 1703, H.R. 4724) and the Financial Institutions Restructuring and Services Act of 1981 (S. 1720).

In view of these conclusions, the Bank Board hereby affirms its unqualified support for the immediate enactment of the TIRA.

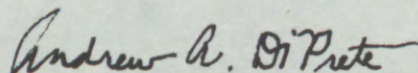
Federal Home Loan Bank Board



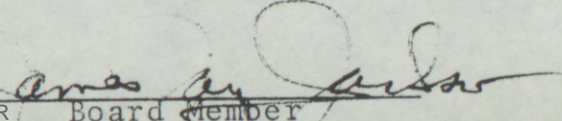
Chairman



J. J. Finn
Secretary



Andrew A. DiPrete
Board Member



James J. [unclear]
Board Member

Wolfe

April 30, 1982

The Honorable Richard T. Pratt
Chairman
Federal Home Loan Bank Board
Washington, D.C. 20552

Dear Chairman Pratt:

This letter responds to the FHLBB's request for comment on a proposal to permit savings and loan service corporations to engage in a wide range of new functions. The proposed activities include commercial lending, securities brokerage and other securities activities, operation of money market mutual funds, insurance underwriting, real estate brokerage, farm management, and manufacturing mobile homes. We understand that although S&Ls may invest no more than 3 per cent of their assets in service corporations, the service corporation can increase the effective size of the investment by borrowing from third parties.

The expansion of service corporation powers contained in the proposed regulation raises broad questions regarding the future structure of the financial services industry as a whole, including the role of specialized lending institutions and appropriate lines to be drawn in separating banking from commerce. It would not be an exaggeration to characterize the proposal as having the effect of encouraging the development of an additional set of commercial banking institutions operating under significantly different rules, including a different regulatory structure, different branching powers, different access to government sponsored credit, different tax structures, and (for a transitional period) different interest rate ceilings.

In addition to the fundamental issues surfaced by this proposal, it also raises important legal questions that reflect on its consistency with existing law. In particular, the exercise of full commercial lending powers by S&L service corporations could result in the designation of S&Ls operating such subsidiaries as "banks" for purposes of the Bank Holding Company Act, under which many of the activities contained in the proposed regulation would not be permissible.

In this context, involving basic changes in depository institution powers based on an expansive interpretation of existing law, proceeding by regulatory action seems particularly inappropriate. Rather, the very fact that significant policy-legal issues are raised by the proposal only serves to stress the requirement that they be addressed and resolved by the Congress.

FOR FILES
S. Wolfe

The Honorable Richard T. Pratt

-2-

As you know, Congress has before it numerous proposals dealing with depository institution powers, including the "Garn" bill and the "Regulators" bill. The position of the Federal Reserve Board regarding this legislation is described in detail in my testimony of last fall. I look forward to the prompt enactment of legislation that will address the issues covered in my testimony, including action to deal with the serious problems faced by thrift institutions.

Sincerely,

PAUL

MB:CVH:man
4/30/82

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1982 MAR 15 PM 2:28

RECEIVED
OFFICE OF THE CHAIRMAN



1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

Federal Home Loan Bank Board

RICHARD T. PRATT
CHAIRMAN

March 12, 1982

1075

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

Dear Paul:

I thought you might be interested in the enclosed paper which contains some preliminary thinking about the issues currently facing the savings and loan industry.

I look forward to working with you on these issues.

Sincerely,

Dick

Richard T. Pratt

Enclosure

SUGGESTED PROGRAM FOR DEALING WITH THE
PROBLEMS OF THE SAVINGS AND LOAN INDUSTRY

The present problems besetting the savings and loan industry are extensive and now well known. Over 90 percent of the associations in the country are losing money. Numerous proposals have been proposed to deal with the situation, ranging from continuation of the status quo to assistance programs costing more than \$10 billion per year. Several factors favor some legislative consideration:

(1) the need to preserve orderly financial markets and public confidence in the regulated financial system;

(2) the belief that a properly planned and orderly implemented program could address public needs while not causing an inordinate shock to the budget; and

(3) the fact that the savings and loan business is an important, competitive sector of the American financial system that deserves the right to demonstrate that it can be competitive once again after restructuring and an appropriate transition period.

The principal arguments against government-sponsored assistance programs would seem to be as follows:

(1) the cost of most of the programs proposed is substantial, ranging approximately from \$7-15 billion per year; and

(2) the precedent set by industry assistance may be viewed as inappropriate.

If Congress wishes to address the present difficulties facing the thrift industry, and if it chooses to consider the adoption of a program that includes financial assistance, I suggest that it also consider solutions that will reverse the crisis in confidence and minimize the impact on the budget. Such a program should include the following:

(1) placing the full faith and credit of the U.S. Government behind the obligations of the Federal Deposit Insurance Corporation ("FDIC") and the Federal Savings and Loan Insurance Corporation ("FSLIC);

(2) immediate development and approval by the Depository Institutions Deregulation Committee ("DIDC") of competitive market instruments that will (a) provide consumers with new, competitive ways of saving, (b) offset the unfair competitive position of money market funds, and (c) return a fair share of the savings flows to thrift institutions;

(3) statutory authorization granting thrift institutions flexible investment and lending authority (i.e., passage of the Thrift Institutions Restructuring Act); and

(4) a short-term assistance program which will maintain public confidence in the system, allow thrifts an appropriate time to restructure and minimize impact on the budget.

Full Faith and Credit

Without question, the obligations of the FDIC and the FSLIC to protect insured depositors must be met in any and all circumstances. Given this fact, a legislative change that acknowledges these obligations as those of the United States

Government will impose no additional cost on the Treasury either now or in the future.

The documented loss of savings market share which thrift institutions are experiencing has already benefited other depositories that have been the recipients of many of these disintermediated funds. Such deposit shifts can only be attributed to a lack of confidence in savings and loan associations and mutual savings banks. Legislated government acknowledgment of the Insurance Corporations' obligations as its own would provide a major part of the solution to the problem. In addition, full faith and credit backing of the Insurance Corporations would also facilitate short-term, note-for-note-type assistance that would have a minimal impact on the budget.

Attraction of New Funds into Thrift Institutions

If thrift institutions are to restructure themselves and regain full public confidence, they will need to be able to attract new deposits. This will be more attainable if the full faith and credit of the U.S. Government is provided for the obligations of the FDIC and FSLIC. However, the problem of attracting new funds could also be dealt with effectively by the DIDC. Therefore, the DIDC should develop an account or program of accounts which would provide commercial banks and savings and loan associations with competitive instruments to attract new funds.

Additional Powers and Flexibility for Thrift Institutions

The regulators and the Administration must continue to urge the passage of legislation authorizing expanded powers for thrift institutions. Given fluctuating interest rates, thrift institutions are statutorily misstructured and have only a questionable chance of long-term survival without additional operating flexibility. For example, in the present competitive climate, commercial lending authority, checking account authorization and expanded consumer lending authority, as provided in S.1720, S.1703 and H.R.4724, are necessary to ensure the survival of the industry and to minimize the need for ultimate Government assistance and intervention.

Short-Term Assistance

Given the actual operating condition of thrift institution and the psychology of the American saver, short-term assistance should be seriously considered. However, I would suggest that the following objectives should be achieved by any short-term assistance plan:

- (1) the assistance should not jeopardize the President's budget;
- (2) it should be structured to allow and encourage the strongest and best managed institutions to survive;
- (3) it should not place an unmanageable administrative burden on the regulatory agencies; and

(4) it should be structured to give management a continuing incentive to minimize costs, operate efficiently and solve existing operating problems.

Such a short-term assistance program could be structured as follows:

(1) Eligible thrift institutions would sell to the FSLIC Income Capital Certificates ("ICC"), instruments that have been designed by the Federal Home Loan Bank Board to facilitate the infusion of capital into institutions with a minimal, direct cash outlay. The FSLIC would purchase these capital instruments with promissory notes bearing interest approximately at the current rate paid by the U.S. Treasury for notes of a similar term. Upon rehabilitation of the institution, the ICC's would be redeemed.

(2) Assistance would be provided pursuant to a formula based on an acceptable index, such as the level of capital or the level of losses being experienced by a peer group of institutions.

(3) Assistance would not be designed to cover 100 percent of the losses of participating institutions. The program would mitigate losses and give viable associations time to make appropriate operating adjustments, but it would also allow the disappearance of institutions which are simply not viable.

A more specific program of this type could incorporate the following conditions:

All savings and loan associations with net worth that is 34 percent or less of total assets would be eligible to participate in the program.

Institutions having not more than 3 percent nor less than 2 percent net worth would receive FSLIC notes equal to 30 percent of the operating losses of the average association in the 2-3 percent net worth peer group. Those having 1 to 2 percent net worth would receive FSLIC notes equal to 40 percent of the average losses for institutions of this category, and those with 0 to 1 percent net worth would receive FSLIC notes equal to 50 percent of the average operating losses of institutions in their peer groups.

While only an example, this type of program would provide for the following benefits:

- (1) as a note-for-note program, the principal amount of the notes would not impact the budget when the notes were issued;
- (2) because infusion would be based on industry averages, inordinate amounts of regulation to assure that expenses were not being "padded" or losses being falsified, would not be required; and
- (3) because the infusion would be designed to cover less than the total losses of the institutions involved, the weakest institutions would not be able to survive as independent entities indefinitely, and all of the incentives for efficient management and operation would be maintained.

Cost estimates for the program are as follows:

Institutions having less than 3 percent net worth lost approximately \$2.7 billion in 1981. Applying the formula stated above, the anticipated financial assistance required

--

in 1981 would have been \$1 billion. For institutions currently having 3 percent net worth, this program would extend the period of time until their capital is exhausted by approximately 50-75 percent, giving them a substantial additional period for adjustment and transition to the rigors of a less regulated market. The amount of notes outstanding at the end of 1981 would have been \$1 billion, while the interest costs associated with these paid in cash would have been approximately \$80 million in 1981.

I believe that the above four-point program offers effective, short-term solutions to the thrift industry and will be less costly and more efficient than other alternatives already proposed. It gives legitimate time for adjustment and restructuring while not impacting the budget or setting precedents which are highly destructive to the fundamentals of the free market.

DRAFT

No.

Date

FEDERAL HOME LOAN BANK BOARD

12 CFR PART 545

Service Corporation Activities

AGENCY: Federal Home Loan Bank Board

ACTION: Proposed regulation

SUMMARY: The Board is seeking public comment concerning the range of activities in which service corporations of federal savings and loan associations may engage without prior Board approval. Service corporation activities proposed for comment include: real estate brokerage for property owned by third parties; manufacture of mobile homes; commercial lending without restriction; leasing of consumer and business goods; insurance underwriting; debt collection services; expanded loan servicing; coin and currency services; preparation of tax returns for businesses; engaging in certain securities activities such as acting as a broker and organizing and selling shares in mutual funds, and money market funds; investing in certified development corporations; trading GNMA options; acting as a futures commission merchant; and issuing letters of credit. The Board is also proposing the elimination of current customer limitations on certain preapproved activities, including: credit analysis and appraisal; development and administration of personnel benefit programs; advertising and procurement of savings accounts and loans; serving as escrow agent or trustee; providing liquidity management and financial consulting services; and establishing and operating remote service units. The proposal also includes several technical amendments.

COMMENT MUST BE RECEIVED BY: [60 days from date of publication]

ADDRESS: Send comments to Information Services, Office of General Counsel, Federal Home Loan Bank Board, 1700 G Street, N.W., Washington, D.C. 20552. Comments will be available at this address for public inspection.

FOR FURTHER INFORMATION, PLEASE CONTACT: Wendy B. Samuel, Office of General Counsel, (202) 377-6465, Federal Home Loan Bank Board, 1700 G Street, N.W., Washington, D.C. 20552.

SUPPLEMENTARY INFORMATION: On April 30, 1981, by Resolution No. 81-208, the Board adopted amendments that expanded federal associations' service corporation investment authorization and preapproved activities. See, 46 FR 24148 (April 30, 1981). This expansion was a result of a broadening of the statutorily permissible activities for federal associations by the Depository Institutions Deregulation and Monetary Control Act of 1980, Pub. L. 96-221, and the need for increased experimentation and innovation in providing financial services through service corporations. The months since that amendment have been characterized both by increased need for profitable investments and by an expanded view by the Board of the powers of federal associations generally.

The competitive developments that continue to evolve because of the innovative market-oriented approach of many depository and non-depository firms are clear evidence that the traditional business of financial intermediation has changed. In this increasingly competitive financial services market, the Board recognizes the need to consider allowing federal associations to have new and competitive opportunities to engage in activities not directly permissible, and to realize profits in new areas to bolster a reduced return on traditional investments. Moreover, in view of various congressional inquiries and hearings seeking to study and evaluate the changes occurring in the financial services industry, the Board believes that it is similarly appropriate first to seek public comment that will assist its own inquiries and evaluation of appropriate industry powers and the possible expansion of service corporation powers.

Service corporation activities authorized by 12 U.S.C. § 1464(c)(4)(B) have been limited by Board policy to those that are reasonably related to the activities of the parent institution. This has generally included making investments and engaging in activities permissible to the parent, additional services related to lending, such as real estate appraisal and title abstracting, and other financial services that either were reasonably related to the activities of federal associations or were limited to customers of the parent association. As indicated above, it is the Board's view that in the current economic and competitive climate, it is appropriate to reconsider what activities are reasonably related to activities of federal associations and perhaps even whether the requirement that an activity be "reasonably related" still provides a relevant and workable standard. As a result, the Board now seeks comment on an additional expansion in authorized activities for the service corporations of Federal associations. Moreover, the Board is particularly interested in comments addressing the specific ways the proposed activities can be used beneficially by association and can be considered reasonably related to the activities of federal associations.

Proposed New Service Corporation ActivitiesManufacture of mobile homes

Current regulations permit the retail sale and the set-up of manufactured homes as reasonably incident to the activities of federal associations, whose authority includes financing the purchase of manufactured homes. It is now proposed that this authority be expanded to include the manufacture of such homes. This activity may be reasonably related to the residential lending activities of the parent because of the latter's authority to finance the purchase of these types of homes, and because such activity is the functional equivalent of real estate development and construction which are within service corporations' current authority. In addition, this activity involves no more risk to the parent than other types of real estate development activities of service corporations. While risk is not germane to the Board's determination of whether an activity is reasonably related, it is relevant to the practical decision whether to permit the activity as preapproved rather than to retain greater control by requiring prior approval.

Insurance underwriting

Under current regulations, service corporations are permitted to act as agents for the sale of liability, casualty, automobile, life, health, accident and title insurance. The Board seeks comment concerning the extension of the preapproved powers of service corporations to include insurance underwriting. Given recent developments in the financial services marketplace, provision of insurance may be reasonably related to both the deposit and lending functions of federal associations, and the underwriting of insurance may be functionally indistinguishable from selling. While the Board believes that the financial risks of acting as an underwriter may be significantly greater than those of acting as a sales agent, prudent management, Bank Board regulations, and state restrictions on insurance underwriters should be sufficient to control this risk. Moreover, the possible detriments that are inherent in the insurance function may not outweigh the benefits to the public, the association and the service corporation from its offering of these services. The Board's experience in previously reviewing and approving some underwriting services on a case-by-case basis indicates that this may be an area appropriate for pre-approval authorization.

This proposal also includes private mortgage insurance sales and underwriting services as preapproved activities for service corporations. Currently, service corporations of federal associations are not permitted to act as sales agents or underwriters for private mortgage insurance, and

all insured institutions the accounts of which are insured by the FSLIC are limited by Section 563.44 of the Insurance Regulations (12 C.F.R. § 563.44) with respect to the sale of this type of insurance to their customers by their service corporations. This position has been based on the Board's view that the purpose of requiring private mortgage insurance is to protect the lender from loss upon default where the value realized from the security property is less than the outstanding balance of the loan. Where the insurer is an entity in which the lender has a financial interest, the lender continues to be at risk up to the amount of its investment in the insurer. The Board now believes, however, that since this possibility of loss can be minimized by careful adherence to prudent lending and underwriting standards it is insufficient to justify denying service corporations access to this source of revenue. However, the Board notes that the proposed inclusion of private mortgage insurance services as a preapproved activity would have little effect absent amendment of Section 563.44, which is currently being considered in conjunction with a review of all the Board's conflict-of-interest regulations.

Debt collection

The Board proposes to permit service corporations to perform debt collection services. This would include such activities as contacting delinquent debtors by letter or telephone, attaching or garnishing wages or other assets, and foreclosing against security property. Obtaining repayment is an integral part of lending activity, and therefore is reasonably related to the activities of both the parent and the service corporation. Since as maker and processor of loans the service corporation and parent association are already involved in debt collection activities in connection with their own loans, permitting service corporations to offer this service to third parties may be reasonably related to association activities.

Letters of credit

The Board also seeks comment on whether to permit service corporations to issue letters of credit. These are instruments through which the issuing institution pays the beneficiary and is reimbursed by the account party, who arranges for the credit. Since a letter of credit is not substantially distinguishable for many purposes from a commercial loan, the Board proposes to permit service corporations to issue letters of credit as part of their commercial lending. Standby letters of credit would be subject to any limitations applicable to lending.

Coin and currency

The Board proposes to permit service corporations to operate coin and currency services. This activity includes contracting with Federal Reserve Banks or commercial banks to make coins and currency available to fund normal operations of the parent association or other customer institutions, and could include delivery and security arrangements. Since the use of coin and currency is directly related to most of the normal activities of the depository institution parent, these services may be offered without restriction as to customer.

Engaging in securities activities

A proposal that has been brought to the Board's attention by several recent applications involves the authority of service corporations to act as brokers (e.g. effecting transactions in securities for the accounts of others) and to organize, sponsor, operate, control, render investment advice to an investment company and underwrite, distribute or sell securities of an investment company. For example, a service corporation might act as a broker and purchase and sell securities pursuant to customers' instructions, and establish a money market mutual fund, and sell the shares of such fund to the public. These services may be reasonably related to the parent's authority to purchase specific types of securities and to act as a fiduciary. Both of these proposals raise the issue of the application of the Glass-Steagall Act, 12 U.S.C. §§ 377 and 378, which generally prohibits depository institutions and certain of their affiliates from engaging in the business of issuing, selling or underwriting securities. Without addressing the applicability of this Act to savings and loan associations, the Board has determined that service corporations, because of their separate corporate existence from the depository institution parent, are not subject to the restrictions of the Act. Service corporations are required pursuant to Section 563.37 (12 C.F.R. § 563.37) to maintain a separate corporate existence from the parent associations, and Section 570.10 (12 C.F.R. § 570.10) sets general standards for ensuring such separation. Therefore, even assuming application of the Glass-Steagall Act to the parent association(s), where a separate corporate existence is maintained service corporations clearly may engage in securities activities without violating the prohibitions contained in the Glass-Steagall Act. Furthermore, the securities activities of service corporations would be subject to the rules and regulations of the Securities and Exchange Commission. Subject to these limitations, the Board believes that securities services may be reasonably related to the permissible activities of the parent.

Leasing

The Board further proposes to permit service corporations to engage in the leasing of consumer and business goods without limit as to the nature of the lessee. Service corporation leasing is currently limited to office furniture, equipment and remote service units primarily for financial institutions. As the Board established by opinion of the Office of General Counsel issued September 29, 1981, and as set forth in recent judicial decisions, e.g., M & M Leasing Corp. v. Seattle First National Bank, 563 F.2d 1377 (9th Cir. 1977) cert. denied, 436 U.S. 956 (1978), leasing under certain circumstances may be considered the functional equivalent of lending. Consequently, service corporations should be permitted to lease goods and equipment the purchase of which they or the parent would be permitted to finance.

Options trading

The Board has proposed permitting insured institutions to engage in trading contracts on GNMA and certain other contracts when approved for trading on an organized exchange, and adding a new Section 563.17-5 to this effect. See Board Res. No. 82- _____ (_____, 1982). Consequently, the Board believes that service corporations should also be permitted to enter this activity, and therefore proposes to include this authority in the revised regulation.

Acting as a futures commission merchant

Under current regulations, service corporations are permitted to engage in interest rate futures transactions subject to certain limitations contained at 12 C.F.R. § 563.17-4. The Board believes that expansion of this authority to include acting as a futures commission merchant would also be a reasonably related activity. As an FCM, the service corporation would furnish advice and place orders for financial institution customers for trading interest rate futures contracts. Service corporations engaged in this activity would be subject to rules and regulations of the Commodities Futures Trading Commission.

Extension of Currently Preapproved ActivitiesReal estate brokerage

The Board seeks comment on whether service corporations of federal associations should be permitted to offer real estate brokerage services for property owned by third parties. The Board has previously declined to designate such real estate brokerage as a preapproved activity, but applications have been made for authorization on a case-by-case basis. Real estate

brokerage is an essential part of the process of marketing and financing homes and, for that reason, may be reasonably related to the activities of federal associations whether or not the property is owned by a third party. For that reason, allowing federal associations to provide real estate brokerage services on a wider scale may foster significant economic and competitive benefits for both the public and the savings and loan industry.

The Board recognizes, however, that a potential conflict of interest may exist, in that the decision of the parent to offer financing in a particular transaction could be affected by anticipation of the fee to a service corporation that would be generated by such a sale. However, after reviewing several applications for approval of this activity, the Board considers this potential conflict sufficiently remote so as not to offset the advantages of increased services to the public and profit opportunities of federal associations. Any actual conflicts of interest can be identified and monitored in the supervisory process.

Farm management

Current regulations permit service corporations to engage in the maintenance and management of real property. The Board believes that this section should be amended to include specific reference to real property used for farming. Since the authority of federal associations includes authority for lending secured by agricultural property, a reasonably related activity for service corporations would be the maintenance and management of such property.

Commercial lending

The Board also seeks comment on whether to permit service corporations to engage in commercial lending without the current restriction to U.S. agency guaranteed business loans secured by real estate and inventory loans to dealers to finance the purchase of goods to be sold for personal, family, or household purposes. The current lending authority of service corporations is slightly different from the lending powers of the parent association. In seeking comment on the possible extension of the ability of service corporations to experiment and to engage in a wider range of profitable activities, the Board is endeavoring to determine whether the activities of a service corporation which can already engage in real-estate-related commercial lending activities coincidental to the parent's may also engage in the forms of commercial financing activities that expand its current business horizons but that may be considered logical extensions of the authorities already possessed by federal associations.

Loan servicing

Since servicing of loans, including record keeping, acceptance of payment, and billing, is reasonably related to the authorized activities of associations, the Board seeks comment concerning the authority of service corporations to service loans without restriction to the types of loans in which the service corporation may invest.

Tax return preparation

The Board also proposes to permit service corporations to prepare tax returns. While a service corporation may not serve as an expert tax consultant, the preparation of tax returns has been an adjunct to service corporations' offering of financial counseling services. At present, tax return preparation services may be offered, but not to businesses operated for profit. The restriction to non-profit entities may no longer be justified, and therefore the Board seeks comment on the appropriateness of its deletion.

Investment in Certified Development Corporations

Under current regulations, service corporations are authorized to invest in small business investment companies or minority enterprises licensed pursuant to Section 301(d) of the Small Business Investment Act of 1958, 15 U.S.C. § 681(d). This Act was amended in 1980 to add Section 503, 15 U.S.C. § 697, which provides that the Small Business Administration (SBA) may guarantee payment of debentures issued by a state or local development company, defined as an entity incorporated under state law "to promote and assist the growth and development of small-business concerns". 15 U.S.C. § 662(6). It is the Board's view that investment in such companies should be a permissible type of business lending, and that the SBA payment guarantee makes this type of enterprise a prudent investment. Furthermore, this proposed expansion would enhance associations' ability to utilize the full investment authority earmarked for community development activities.

Elimination of customer restrictions

Certain activities currently are preapproved for service corporations because they are performed for customers of the parent. However, under the expanding view of the appropriate role of an association, the Board seeks comment on including among preapproved activities, without limitation to association customers, the following: credit analysis and other services connected with origination of construction loans; developing and administering personnel benefit plans, including IRA and Keogh plans; activities to procure and retain savings

accounts and loans; serving as trustee; providing liquidity management and various financial consulting services; and establishing, owning and operating remote service units.

Technical Amendments

Since the April 1981 amendment of Section 545.9-1, the need for several technical changes has come to the Board's attention. First, some confusion resulted from the inclusion in subparagraphs (c)(11) and (c)(12) of references to acquisition and development of real property. The Board therefore is proposing to amend the authorities relating to the acquisition and development of real estate to clarify that the limitations on holding periods apply to both types of activity. The other technical amendment concerns subparagraph (d)(3), which refers to service corporations that qualify under "paragraph (b) of this section." The Board proposes to amend this section to clarify its intent that the reference be limited to service corporations qualifying under subparagraph (b)(1) of this section. Finally, the proposal arranges the authorities under new subheadings for easier reference.

Accordingly, the Federal Home Loan Bank Board hereby proposes to amend Part 545, Subchapter C, Chapter V of Title 12, Code of Federal Regulations, as set forth below.

SUBCHAPTER C - FEDERAL SAVINGS AND LOAN SYSTEM

PART 545 - OPERATIONS

Amend § 545.9-1 by changing the subparagraph (d)(3) reference to "paragraph (b)" to "subparagraph (b)(1)", and revising paragraph (c) to read as follows:

§ 545.9-1 Service corporations.

* * *

(c) Permitted activities. A service corporation in which a Federal association may invest is permitted to engage in the following activities:

- (1) Loans. Originating, investing in, selling, purchasing, servicing, or otherwise dealing in (including brokerage or warehousing), any of the following:

- (i) loans, and participations in loans, on a prudent basis and secured by real estate or liens on manufactured homes;

- (ii) loans, with or without security, for altering, repairing, improving, equipping, or furnishing real estate;
 - (iii) commercial loans;
 - (iv) educational loans;
 - (v) consumer loans;
- (2) Services primarily for financial institutions. Performing any of the following services, primarily for financial institutions.
- (i) research, studies, and surveys;
 - (ii) purchasing of office supplies, furniture, and equipment;
 - (iii) developing and operating storage facilities for microfilm or other duplicate records;
 - (iv) providing clerical, accounting, data processing and internal auditing services;
 - (v) acting as a futures commission merchant for interest rate futures;
- (3) Real estate services.
- (i) maintaining and managing real estate, including real estate used for agricultural purposes;
 - (ii) managing owners' associations for condominium, cooperative, Planned Unit Development or other rental real estate projects;
 - (iii) providing homeownership and financial counseling;
 - (iv) providing relocation services;
 - (v) providing real estate brokerage services;
 - (vi) acquiring unimproved real estate for prompt development or subdivision, for construction of improvements, for resale or leasing to others for such construction, or for use as manufactured home sites; or developing, subdividing, and constructing improvements for sale or rental on real estate: provided, that any development, subdivision, and construction of improvements is to be completed within three years after commencement of development of the real estate and within five years after acquisition of the real estate, unless such period is extended by the Principal Supervisory Agent (as defined in § 545.14(a)(3) of this Part) upon written application by the service corporation, which application shall be supported by information evidencing that the service corporation will proceed or has proceeded in accordance with a prudent development plan and has not caused undue delay in the completion of construction;

and provided further, that acquisition of an option to purchase is not an acquisition for the purpose of determining the periods provided for in this subparagraph;

(vii) acquiring improved real estate or manufactured homes to be held for rental or resale, or for remodeling, renovating, or demolishing and rebuilding for sale or rental;

(viii) manufacture and set-up of manufactured homes;

(ix) acquiring, maintaining and managing real estate (improved or unimproved) to be used for offices and related facilities of a stockholder of the service corporation, or for such offices and related facilities and for rental or sale, if such acquisition, maintenance and management is performed under a prudent program of property acquisition to meet either the stockholder's present needs or reasonable future needs for office and related facilities: provided, that without prior approval of the Board, no service corporation shall acquire such real estate if, as a result of the acquisition, the outstanding aggregate book value of all such real estate owned by the stockholder and its service corporations would exceed their consolidated net worth;

(4) Other investments.

(i) making investments specified in §§ 545.9 and 545.9-3 of this Part;

(ii) investing in savings accounts in an insured institution that is a stockholder of the service corporation: provided, that the service corporation receives no consideration, other than interest at the current market rate, for opening or maintaining any such account;

(iii) investing in tax-exempt bonds of state governments or political subdivisions thereof used to finance residential real property for family units and issued pursuant to section 103 of the Internal Revenue Code, and tax-exempt obligations of public housing agencies used to finance housing projects with rental assistance subsidies and issued pursuant to section 11(b) of the United States Housing Act of 1937, as amended;

(iv) investing in the capital of a small business investment company or minority enterprise small business investment company licensed pursuant to § 301(d) or the debentures of a certified development company guaranteed pursuant to § 503

of the Small Business Investment Act of 1958 by the U.S. Small Business Administration, where such small business or certified development company is engaged exclusively in the activities listed in subparagraphs (c)(1)-(5) of this section;

(5) Other services.

- (i) preparing state and Federal tax returns;
- (ii) insurance brokerage, agency or underwriting for liability, casualty, automobile, life, health, accident, title, or private mortgage insurance;
- (iii) providing fiduciary services upon application to the Board pursuant to § 550.2, and subject to the conditions provided in §§ 550.1-550.16, of this Subchapter;
- (iv) issuing credit cards, extending credit in connection therewith, and otherwise engaging in or participating in credit card operations;
- (v) credit analysis, appraising, construction loan inspection, and abstracting;
- (vi) developing and administering personnel benefit programs, including life insurance, health insurance and pension or retirement plans including IRA and Keogh Plans;
- (vii) establishing, owning, leasing, operating or maintaining remote service units;
- (viii) advertising, brokerage and other services to procure and retain both savings accounts and loans, but not pooling savings accounts or soliciting or promoting pooled savings accounts;
- (ix) serving as escrow agent or as trustee under deeds of trust, including executing and delivering conveyances, reconveyances, and transfers of title;
- (x) providing liquidity management, investment, advisory and consulting services;
- (xi) providing coin and currency services;
- (xii) providing debt collection service;
- (xiii) leasing of equipment and business and consumer goods;
- (xiv) servicing loans;
- (xv) engaging in interest-rate futures transactions subject to the provisions of § 573.17-4 of this Chapter, but not subject to any notification requirements thereof;
- (xvi) engaging in options trading subject to the provisions of § 563.17-5 of this Chapter;
- (xvii) issuing notes, bonds, debentures, or other obligations or securities;
- (xviii) acting as a broker, and thereby engaging in effecting transactions in securities for the accounts of others, provided, that (a) the service

corporation obtains and has on file an opinion of legal counsel certifying that it meets the requirements of § 563.37 of this Chapter regarding the maintenance of a separate corporate existence, and (b) that all applicable rules, regulations and statutes pertaining to engaging in such activities are complied with;

(xix) organizing, sponsoring, operating, controlling, rendering investment advice to an investment company and underwriting, distributing or selling securities in an investment company provided, that (a) the service corporation obtains and has on file an opinion of legal counsel certifying that it meets the requirements of § 563.37 of this Chapter regarding the maintenance of a separate corporate existence, and (b) that all applicable rules, regulations and statutes pertaining to engaging in such activities are complied with;

(xx) issuing letters of credit;

- (6) Activities reasonably incident to those listed in subparagraphs (c)(1)-(5) of this section; and
- (7) Such other activities reasonably related to the activities of Federal associations as the Board may approve.

2. Change the reference in subparagraph (d)(3) of § 545.9-1 from "paragraph (b)" to "subparagraph (b)(1)".

(Sec. 5, 48 Stat. 132, as amended (12 U.S.C. § 1464); sec. 408, 48 Stat. 1261, as added by 73 Stat. 691, as amended (12 U.S.C. § 1730a); Reorg. Plan No. 3 of 1947, 12 F.R. 4891, 3 CFR 1943-48 Comp., p. 1071)

By the Federal Home Loan Bank Board

J. J. Finn
Secretary

Dick Pratt
Logan



Paul A. Volcker

April 16, 1982

Dear Dick:

My calculation indicates that American Federal is paying \$156.25 for every \$7,500 it took in on April 1 in addition to whatever it pays on the certificate for the three months after May 1. This really does seem like either excessive competitive zeal or an association severely pressed for liquidity.

April 16, 1982

Mr. William Logan
President
State Central Savings Bank
601 Main Street
Keokuk, Iowa 52632

Dear Mr. Logan:

Thank you for your letter and its enclosure, and I can understand your concern. I do not have any information about the depository institution in question, but I am forwarding this correspondence to Chairman Richard Pratt of the Federal Home Loan Bank Board, which has supervisory responsibility for federally chartered savings and loan associations.

Sincerely,

Paul A. Volcker

cc: Mr. Pratt
Mr. Bernard

NB/NMS:slw



William Logan
President

April 1, 1982

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1982 APR - 5 AM 11: 11
RECEIVED
OFFICE OF THE CHAIRMAN

The Honorable Paul Volcker
Chairman Board of Governors, Federal Reserve System
DIDC Committee Member
21st & Constitution Avenue N. W.
Washington, D. C. 20551

Dear Sir:

If the Savings and Loans are in so much trouble,
how can they afford to pay 25%???

We had our best year as a bank in 1981, and we
cannot afford it. Don't you think management has
something to do with how an institution is operated,
and since when does the United States Government
bail out bad management?

Yours very truly,

A handwritten signature in dark ink, appearing to read 'William Logan', is written over a printed name and title.

William Logan
President

wl: fgh
enc.

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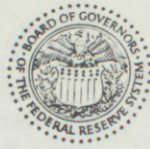
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Richard Pratt
FHCPB

January 15, 1982

Paul A. Volcker

Dick:

Enclosed is the outline of a draft bill that I mentioned to you on the phone earlier today. The section numbers in this outline are for convenient reference and do not refer back to the Garn bill or your own proposal, which, of course, we drew upon extensively.

AN OUTLINE OF A PROPOSED BILL
CONSISTING OF THE THREE TITLES:

- I. Expanded Powers for Thrift Institutions
- II. Modifications in Banking Laws
- III. Federal Preemption of State Due-on-Sale and Usury Laws

TITLE I

EXPANDED POWERS FOR FEDERAL THRIFT INSTITUTIONS

1. Expanded Asset Powers

- A. Real Property Loans: Section 1 removes restrictions in the form of loan-to-value ratios that now apply to loans secured by residential real property that are made by Federal S&Ls and savings banks, although the FHLBB would be authorized to set appropriate ratios in its discretion. The limitation on nonresidential real estate lending would be increased to 30 per cent from its present level of 20 per cent of assets.
- B. Commercial or Other Loans: Section 2 permits Federal S&Ls and savings banks to invest up to 10 per cent of assets in secured and unsecured loans for commercial or agricultural purposes (including small business investment companies) as well as equipment leasing and would apply a limit on such loans to one borrower of \$250,000 or 10 per cent of capital, whichever is higher. In exercising this lending authority thrifts would be expected to give priority in their lending policies to the credit needs of farmers and local business.

Currently, Federal S&Ls cannot make commercial loans; Federal savings banks currently can make commercial loans up to 5 per cent of the assets and only within the state in which the institution is located or within 75 miles of its home office.

In addition, the proposed bill would remove the present limitation of 20 per cent of assets on investments in commercial paper and corporate debt securities, provided such investments were made in prime, highly liquid instruments, and provided that investments in the paper of any single institution did not exceed 10 per cent of capital, or \$250,000, whichever is higher. The requirement that Federal S&Ls may invest in mutual funds having portfolios consisting entirely of assets in which S&Ls could invest directly would not be changed.

- C. Consumer Loans: Section 3 permits Federal S&Ls and savings banks to make consumer loans without limitation. Currently, such loans are limited to 20 per cent of assets.
- D. State and local Securities: Section 4 permits Federal S&Ls and savings banks to invest up to 100 per cent of assets in state and local obligations. Investments in the obligations of one issuer would be subject to a per-customer limitation of 10 per cent of capital, or \$250,000, whichever is higher. Currently, such investments are limited to general obligations and certain housing-related obligations.
- E. Time Deposits in S&Ls: Section 5 permits Federal S&Ls and savings banks to invest in time and savings deposits

of other insured S&Ls and savings banks. Such deposits (net of reciprocal balances) would also be treated as liquid assets. Currently, Federal S&Ls generally can make deposits only in FDIC-insured commercial banks and only deposits of commercial banks and Federal Home Loan Banks qualify as liquid assets.

F. Additional Investments: Section 6 permits Federal S&Ls and savings banks to engage in educational loans without limitation. Currently, such loans are limited to 5 per cent of assets.

G. Investments - Overdrafts: Section 7 authorizes Federal S&Ls and savings banks to make loans in the form of overdrafts in transaction accounts. Currently, only overdrafts in NOW accounts are permitted.

2. Acceptance of Demand Deposits

Section 8 permits Federal thrifts to accept demand deposits from individuals without limitation and from businesses in connection with a commercial, corporate or business loan relationship. This authority is identical to the authority that Federal savings banks presently possess. This section applies the prohibition against the payment of interest on demand deposits to thrift institutions and authorizes the Federal Home Loan Bank Board to adopt rules concerning when a deposit is to be regarded as related to a business loan. In addition, Federal thrifts would be authorized to establish demand deposit accounts with commercial entities for the exclusive purpose of effectuating payments to these entities by their nonbusiness customers.

3. S&L Holding Company Activities

Section 9 provides that the activities of all S&L holding companies (both unitary and multiple) would be limited to those permitted to multiple S&L holding companies. Existing S&L holding companies would be grandfathered and could continue to engage in the activities they engaged in on the date of enactment. Currently, unitary S&L holding companies are not subject to limitations on permissible activities.

4. Application of Bank Holding Company Act

Section 10 exempts S&Ls from the Bank Holding Company Act definition of "bank" so long as their commercial lending activities do not exceed 10 per cent of assets, and demand deposit-taking powers are within the scope provided for in section 8.

5. Branching

Section 11 prohibits interstate branching by Federal S&Ls and savings banks exercising new commercial lending powers contained in section 2. Existing interstate branches would be permanently grandfathered. The Federal Home Loan Bank Board would be permitted to grant exceptions to this prohibition on a case-by-case basis where such action facilitates the merger of a distressed thrift with a thrift in another state.

6. Miscellaneous Provisions

A. Chartering and Purpose: Section 12 provides that Federal S&Ls and savings banks may be chartered by the FHLBB for the purpose of deposit or investment of funds and for the purpose of primarily extending credit for individuals, homes, farmers and small business. Currently, the statute focuses upon chartering thrifts for the provision of home financing.

- B. Notice on Savings Deposits and Capital Stock: Section 13 lowers the minimum notice period for savings accounts to 14 days from the present 30, and would explicitly allow Federal S&Ls and savings banks to issue stock.
- C. Conversions to Federal Charters: Section 14 permits Federal conversion of thrifts into mutual or stock Federal S&Ls or savings banks and facilitates conversion of such stock institutions into national banks if such conversion is desired by the institution involved.
- D. Conversion from State Mutual to State Stock: Section 15 eliminates the prohibition against creation of Federal stock institutions in states where stock associations do not exist. The FSLIC would retain jurisdiction over conversion from mutual to stock form.
- E. Incidental Activities: Section 17 permits Federal S&Ls and savings banks to engage in activities incidental to their deposit-taking and lending authority. Currently, no such explicit authority exists.

TITLE II

MODIFICATIONS IN BANKING LAWS

A. Amendment of Section 23A of the Federal Reserve Act

Section 1 amends Section 23A of the Federal Reserve Act to simplify and reduce regulatory burdens. The revisions will increase the overall effectiveness of Section 23A by closing some potentially dangerous loopholes, while freeing banks within a bank holding company system from unnecessary restrictions. The bill would apply the same restrictions to transactions between thrift institutions and their affiliates.

B. Bankers' Acceptances

Section 2 amends the Federal Reserve Act to increase the aggregate limit on the amount of eligible bankers' acceptances that may be issued by a member bank from 50 per cent to 150 per cent of capital and surplus, and to 200 per cent with the permission of the Board. To assure that all institutions are subject to the same rules, the same limitations would apply to nonmember banks and the U.S. branches and agencies of foreign banks.

C. FIRA Amendments

Section 3 amends the Financial Institutions Regulatory and Interest Rate Control Act of 1978 ("FIRA") aimed at lessening unnecessary restrictions and burdensome reporting requirements. These amendments clarify existing laws and reduce some of the restrictions and reporting burdens with respect to loans to executive officers, directors and principal shareholders of insured banks. The amendment represents a combination of the legislative proposals submitted to the Congress by the Federal

Financial Institutions Examination Council during 1980 and 1981. In the Council's judgment, they represent an important and necessary step in clarifying existing law and lessening the regulatory burden imposed on insured banks.

D. Municipal Revenue Bonds

Section 4 permits banks to underwrite and deal in municipal revenue bonds. This section contains provisions to protect against conflicts of interest or unsound banking practices and applies substantially all of these provisions not only to the new authority on municipal revenue bonds but also to existing authority to deal in municipal general obligation bonds. Bank underwriting of municipal revenue bonds would enhance competition in the revenue bond market, and should reduce costs to tax-exempt borrowers.

E. Investment Company Activities

Section 5 permits banks to sponsor and sell stock, bond and diversified mutual funds through a commingled agency account. No sales commissions may be charged and restrictions could be established by the Federal Reserve Board to avoid conflicts of interest and self-dealing. Federal S&Ls and savings banks are given similar authority. This section would not permit banks or thrifts to sponsor, operate or sell money market mutual funds.

F. Redefinition of Bank Under the Bank Holding Company Act

Section 6 amends section 2(c) of the Bank Holding Company Act to redefine the term "bank" for the purposes of that Act to include (1) an insured bank as defined in section 3 of the Federal Deposit Insurance Act, or (2) an institution eligible to make application to become an insured bank under section 5 of the Federal Deposit Insurance Act which

makes commercial loans or takes demand deposits, or (3) an institution determined by the Federal Reserve Board to be engaged in commercial banking by making commercial loans and taking demand deposits. An institution described in this section would not be regarded as a bank if the Board determines that the institution does not function as a commercial bank. In addition, S&Ls shall not be considered to be banks if they do not have authority to make commercial loans not secured by real estate in excess of 10 per cent of assets and do not have authority to accept demand deposits from business customers except in connection with a commercial loan relationship.

TITLE III

FEDERAL PREEMPTION OF STATE DUE-ON-SALE AND USURY LAWS

A. Preemption of Due-on-Sale Prohibitions

Section 1 preempts state law by permitting depository institutions to enforce due-on-sale provisions contained in mortgage instruments, although the states could override this preemption by enacting new legislation within three years. The bill exempts from preemption, assumptions of mortgages after the rendering of Court decisions or the effective date of state laws prohibiting enforcement of due-on-sale clauses, by permitting enforcement of due-on-sale provisions only for sales occurring after the date of enactment.

B. Usury Provisions

Section 2 broadens the coverage of preemptive actions taken with respect to state usury laws in the Depository Institutions Deregulation and Monetary Control Act of 1980. This section removes state usury ceilings on business, agricultural, and consumer loans, while permitting states to establish their own ceilings by enacting overriding legislation within three years. The bill provides that any new ceilings adopted could not be tied to the Federal Reserve discount rate since this rate is an instrument of monetary policy and not appropriately a benchmark for usury rates in the market. In addition, the bill recognizes the binding character of state override actions taken since adoption of the DIDMCA, but before the effective date of this section.

The DIDMCA presently sets a ceiling of 5 per cent above the Federal Reserve discount rate on 90-day commercial paper and affects only loans above \$1,000. Business and agricultural loans below that amount are subject to state usury provisions. Consumer loans are subject to a ceiling of 1 per cent over the discount rate.

Chmn. Volcher

September 28, 1981

Mr. Richard T. Pratt
Chairman
Federal Home Loan Bank Board
1700 G Street, N.W.
Washington, D.C. 20552

Dear Dick:

Thanks for your letter of September 16 concerning the ability of investment companies owned exclusively by savings and loan associations to sell funds to depository institutions on a reserve free basis. The Board has received two requests on behalf of such companies to apply the interbank exemption of Regulations D and G to such companies so that they can sell federal funds on an overnight basis exempt from reserve requirements. The staff is currently analyzing these requests and it is anticipated that the Board will consider the issue shortly. I appreciate having your comments and can assure you that they will be given every consideration.

Sincerely,

PAUL

GTSEPSP:bbo
9/28/81
Chmn. Log No. 3389

Federal Home Loan Bank Board

RICHARD T. PRATT
CHAIRMAN



BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation
OFFICE OF THE CHAIRMAN

SEP 16 1981

#3389

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

Dear Paul:

As you know, the Depository Institutions Deregulation and Monetary Control Act of 1980 expanded the investment powers of savings and loan associations to allow them to invest in, redeem, or hold shares or certificates of certain open-end management investment companies registered with the Securities and Exchange Commission under the Investment Company Act of 1940. The Deregulation Act and the implementing regulation (12 CFR § 523.10 (g)(7) and (h)(6)) allow associations to invest in such companies only if the company's investments are limited to those that qualify as eligible liquid assets for members of the Federal Home Loan Bank System and if the the company's investment policy is changeable only by a vote of the shareholders.

Since the passage of the Act, at least three such open-end management investment companies are in various stages of development. The Federal Home Loan Bank Board has been informed of a potential problem concerning the interpretation of Regulation D and the operation of such investment companies. The potential problem brought to my attention has been the possibility that federal funds sold by such investment companies, the entire beneficial interest of which is owned by depository institutions, may not qualify for the interbank exemption from reserve requirements. Without an interpretation of Regulation D stating that such transactions are exempt from reserve requirements, banks might be unwilling to purchase federal funds from such investment companies.

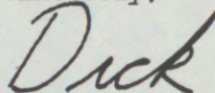
There are at least three reasons why such investment companies should be allowed to invest in federal funds. The first, and strongest, reason is that the investment companies are merely conduits. All investors in these investment companies can sell federal funds so the investment company acting as their agent ought to be able to do so. Second, federal funds offer more flexibility to the beneficial owners of the investment companies because federal funds are not subject to the fourteen day minimum maturity on nonpersonal time deposits. Third, although overnight repurchase agreements would offer the beneficial owners of the investment companies the same maturity flexibility as federal funds, over the recent past federal

Page Two

funds have been at a considerable yield advantage over overnight repurchase agreements. For example, the yield spread was 280 basis points on July 23 and 184 basis points on July 30. Since the beneficial owners of the investment company can directly sell federal funds in order to take advantage of such yields, the investment company acting as a conduit should be able to do likewise.

The Federal Home Loan Bank Board's regulations permit member associations to sell federal funds and to invest in investment companies of the type I have described. I do feel that associations should be able to benefit fully from the liquidity, flexibility, and yield advantages such investment companies offer. I further believe that this can happen only if the Board of Governors confirms that federal funds purchased from such investment companies, the entire beneficial interest of which is owned by depository institutions, are subject to the interbank exemption of Regulation D.

Sincerely,

A handwritten signature in cursive script that reads "Dick".

Richard T. Pratt
Chairman

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

Date: 10/20/81

To: Chairman Volcker

From: **STEPHEN H. AXILROD**

You may be interested in the attached communication to Home Loan Bank Presidents with regard to access to the discount window for thrifts with severe supervisory problems. Our effort to convince the ^{HLBB} staff here that they should not put the blame on the Federal Reserve seems to have been successful.

Attachment

Federal Home Loan Bank Board

October 19, 1981



1700 G Street, N.W.
Washington, D.C. 20552

Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

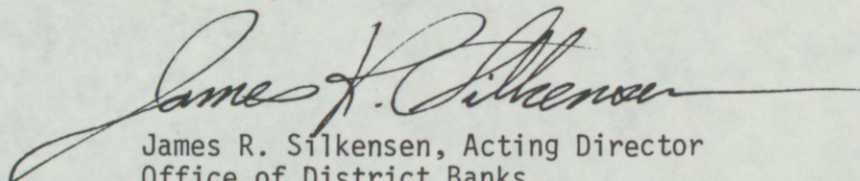
Mr. Stephen H. Axilrod
Staff Director, Monetary &
Financial Policy
Federal Reserve Board
Washington, D. C. 20551

Dear Mr. Axilrod:

Enclosed for your information is a corrected letter that has been sent to the Presidents of the Federal Home Loan Banks regarding Federal Reserve extended credit. I apologize for the sentence in the earlier letter that seemed to imply that the Board of Governors had formally and unilaterally taken a position on the definition of severe supervisory problems. That was not the message I meant to convey to our Bank Presidents.

I have also enclosed a copy of a letter to the Federal Home Loan Bank Presidents regarding release of FHLBB examination reports to Federal Reserve Banks.

Sincerely,



James R. Silkensen, Acting Director
Office of District Banks

Enclosures

cc: Peter M. Keir, Assistant to the Board
Federal Reserve Board
John Spitzer, Senior Economist
Federal Reserve Board
D. James Croft

Federal Home Loan Bank Board

October 19, 1981



1700 G Street, N.W.
Washington, D.C. 20552

Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

To the Federal Home Loan Bank Presidents

Chairman Pratt and Chairman Volcker have agreed that Federal Reserve extended credit will not be made available to associations on the verge of supervisory or assisted mergers. As noted in Chairman Pratt's letter to Chairman Volcker of August 19, 1981, the Federal Home Loan Banks are expected to meet the needs of the institutions with severe supervisory problems. The two agencies have had discussions on the definition of "institutions with severe supervisory problems" and in this context, a severe supervisory problem is being defined as an institution with twelve months or less remaining net worth.

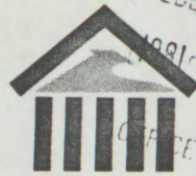
In conveying information to your members regarding the availability of Federal Reserve credit, it should be noted that the decision not to make extended credit available to institutions with severe supervisory problems was jointly agreed to by the two agencies. In cases where Federal Reserve credit will not be extended, FHLBank lending officers should do their best not to lay the blame on the Federal Reserve System. Likewise, the Federal Reserve Board will ask Federal Reserve Bank discount window officers to do their best not to lay the blame on the FHLBank System.

Sincerely,

James R. Silkensen
Acting Director
Office of District Banks

cc: John S. Buchanan
D. James Croft
H. Brent Beesley
FHLBank Lending Officers

Federal Home Loan Bank Board



BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

U 14V

Orig. to
Mr. Bradford

RICHARD T. PRATT
CHAIRMAN

SEP 16 1981

#3389

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

Dear Paul:

As you know, the Depository Institutions Deregulation and Monetary Control Act of 1980 expanded the investment powers of savings and loan associations to allow them to invest in, redeem, or hold shares or certificates of certain open-end management investment companies registered with the Securities and Exchange Commission under the Investment Company Act of 1940. The Deregulation Act and the implementing regulation (12 CFR § 523.10 (g)(7) and (h)(6)) allow associations to invest in such companies only if the company's investments are limited to those that qualify as eligible liquid assets for members of the Federal Home Loan Bank System and if the the company's investment policy is changeable only by a vote of the shareholders.

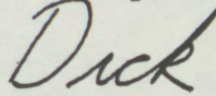
Since the passage of the Act, at least three such open-end management investment companies are in various stages of development. The Federal Home Loan Bank Board has been informed of a potential problem concerning the interpretation of Regulation D and the operation of such investment companies. The potential problem brought to my attention has been the possibility that federal funds sold by such investment companies, the entire beneficial interest of which is owned by depository institutions, may not qualify for the interbank exemption from reserve requirements. Without an interpretation of Regulation D stating that such transactions are exempt from reserve requirements, banks might be unwilling to purchase federal funds from such investment companies.

There are at least three reasons why such investment companies should be allowed to invest in federal funds. The first, and strongest, reason is that the investment companies are merely conduits. All investors in these investment companies can sell federal funds so the investment company acting as their agent ought to be able to do so. Second, federal funds offer more flexibility to the beneficial owners of the investment companies because federal funds are not subject to the fourteen day minimum maturity on nonpersonal time deposits. Third, although overnight repurchase agreements would offer the beneficial owners of the investment companies the same maturity flexibility as federal funds, over the recent past federal

funds have been at a considerable yield advantage over overnight repurchase agreements. For example, the yield spread was 280 basis points on July 23 and 184 basis points on July 30. Since the beneficial owners of the investment company can directly sell federal funds in order to take advantage of such yields, the investment company acting as a conduit should be able to do likewise.

The Federal Home Loan Bank Board's regulations permit member associations to sell federal funds and to invest in investment companies of the type I have described. I do feel that associations should be able to benefit fully from the liquidity, flexibility, and yield advantages such investment companies offer. I further believe that this can happen only if the Board of Governors confirms that federal funds purchased from such investment companies, the entire beneficial interest of which is owned by depository institutions, are subject to the interbank exemption of Regulation D.

Sincerely,

A handwritten signature in cursive script that reads "Dick".

Richard T. Pratt
Chairman

August 20, 1981

The Honorable Richard T. Pratt
Chairman
Federal Home Loan Bank Board
1700 G Street, Northwest
Washington, D. C. 20552

Dear Dick:

Thanks for your letter of August 19. I understand the position of the Federal Home Loan Bank Board as expressed there, as do other members of the Board. We are delighted that arrangements with the Federal Home Loan Bank System to facilitate a complementary lending program by the Federal Reserve to thrift institutions under sustained liquidity pressure have proceeded smoothly.

We are, and have been, prepared to provide extended credit to depository institutions should qualified institutions be unable to find reasonable alternative sources of credit. As you know, access to liquidity has not generally been a problem in the past. However, looking to the future, we fully realize thrifts may increasingly seek Federal Reserve credit. In that connection, we greatly appreciate your cooperation, and that of your staff, in developing practical approaches to our provision of extended credit to members of the Federal Home Loan Bank System.

Sincerely,

SHA:ccm'#2431

Federal Home Loan Bank Board

RICHARD T. PRATT
CHAIRMAN

August 19, 1981

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

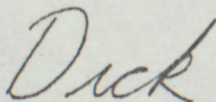
Dear Paul:

Our recent discussions about the Federal Reserve's program for extended credit to depository institutions facing sustained liquidity pressures have been helpful and productive. Your staff has been very cooperative in working out practical aspects associated with lending to the institutions supervised by the Federal Home Loan Bank Board.

As I have previously indicated, the Federal Home Loan Bank Board believes it is now desirable and prudent for the Federal Home Loan Bank System to encourage the Federal Reserve to supplement its own efforts in funding members' liquidity needs. We are prepared to cooperate with you in informing thrifts of the conditions under which they can obtain extended credit from their local Federal Reserve Banks. It is my understanding that the Federal Reserve adjustment credit program is also available to thrifts.

The Federal Home Loan Banks intend to meet the needs of institutions with severe supervisory problems, requiring that the lending be very closely coordinated with an orderly workout of the situation. In addition, the Federal Home Loan Banks may continue in selected instances to lend to their members who are engaged in expansion lending. We are also prepared to maintain the present volume of our lending to institutions borrowing from the Federal Reserve. In the case of institutions that are experiencing liquidity pressures and are eligible for Federal Reserve lending, we also anticipate that some part of their increased credit needs will be supplied by the Federal Home Loan Banks.

Sincerely,



Richard T. Pratt



1981 AUG 19

OFFICE OF THE

1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

#2431



Paul A. Volcker

August 7, 1981

Dick:

I am enclosing the drafts I mentioned over the telephone. You will see that in the part of the first letter I had not gotten to over the phone, there is indeed some allusion to "sharing," perhaps so vague that it does not connote anything in particular. The isolated sentence on the third page is simply the kind of "diplomatic" response that I think would serve our needs, and it seems to me your institution as well, in triggering our entry into the lending business for a FHLB member.

I expect to be in Colorado next week but will be in touch. I would hope that things could be settled in the next few days and a "flexible" sharing understanding seems to me by all means the simplest way of handling procedures. Let me know of any comments you have on the drafts.

PAV

Enclosure

DRAFT

Dear Paul:

I have found our recent discussions about the Federal Reserve's program for extended credit to depository institutions facing sustained liquidity pressures to be helpful. Practical coordination of your and our approaches to lending, and how they may most usefully complement each other under current circumstances, is well advanced, and I believe we are prepared should the need arise.

In that connection, as I have indicated earlier, the Federal Home Loan Bank Board believes that it would be desirable and prudent for the Home Loan Bank System to restrain to some degree the total volume of advances to its member institutions, in the light of potential overall needs and our borrowing program. We reached that judgment in the knowledge that, if loans are not freely available in all circumstances from the FHLB's, institutions qualifying for credit under Federal Reserve guidelines would be eligible to borrow from the Federal Reserve.

The Federal Home Loan Banks intend to continue to meet themselves the needs of institutions with severe supervisory problems, requiring that the lending be very closely coordinated with an orderly work-out of the situation. In addition, the Federal Home Loan Banks may continue in selected instances to lend to our members who seek and are eligible for credit to finance expansion in their lending. WE also are prepared

to maintain the present volume of our lending to institutions borrowing from the Federal Reserve. In the case of institutions experiencing liquidity pressures and eligible for Federal Reserve lending, we also anticipate that some share of their needs would continue to be satisfied by the Home Loan Banks.

In current circumstances in which our loans have been rapidly increasing, and considering our obligations to our member institutions as a whole, we are conserving availability of credit to institutions in the position of _____.

DRAFT

Dear Dick:

Thanks for your letter of _____. I understand the position of the Home Loan Bank Board as expressed there, as do other members of the Board. We are delighted that arrangements with the Home Loan Bank System to facilitate a complementary lending program by the Federal Reserve to thrift institutions under sustained liquidity pressure have proceeded smoothly.

We are, and have been, prepared to provide extended credit to depository institutions should qualified institutions be unable to find reasonable alternative sources of credit. As you know, access to liquidity has not generally been a problem in the past. However, looking to the future, we fully realize we may be called upon for assistance. In that connection, we greatly appreciate your cooperation, and that of your staff, in developing practical approaches to our provision of extended credit to members of the Federal Home Loan Bank System, as and should the need arise.

Sincerely,

*Peter Rice
4-c to PAV*



1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

Federal Home Loan Bank Board

RICHARD T. PRATT
CHAIRMAN

#1985

July 2, 1981

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

Dear Paul:

The Federal Home Loan Bank Board wishes to express our position concerning Federal Reserve lending to savings and loan associations and Federal Home Loan Banks at this time.

The Board encourages the Federal Reserve Banks to institute lending programs to S&L associations, both for adjustment credit and longer term credit, consistent with the provisions of the Depository Institutions Deregulation and Monetary Control Act of 1980. The Bank Board will be happy to cooperate and provide input concerning appropriate programs. To the extent that the Federal Reserve System may have felt that institutions should first exhaust credit availability from the Federal Home Loan Bank System, we believe that such a requirement is not consistent with the law and would be inappropriate at this time.

We would like to further recommend that the Federal Reserve Board and the Federal Home Loan Bank Board work together to reestablish provisions of Federal Reserve Bank credit to the Federal Home Loan Bank System, should such credit extension become necessary. We look forward to cooperating with you in the development of such a program.

We have received excellent cooperation in working toward the implementation of Federal Reserve credit to thrift institutions, and we are appreciative of the efforts of you and your staff in this regard.

Sincerely,

Dick

Richard T. Pratt

RECEIVED
OFFICE OF THE CHAIRMAN
1981 JUL -2 PM 5:22
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS

1981 JUL -6 PM 1:08

200 PARK AVENUE

RECEIVED NEW YORK, N. Y. 10166
OFFICE OF THE CHAIRMAN
TELEPHONE 212-973-5432

Peter Kiew
4 c to
PAS
FYI



Cable Address:
Savings, New York

A2113

SAUL B KLAMAN
PRESIDENT

June 29, 1981

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

Dear Paul:

By this time, I am sure you have received the letter of June 16 from Bob Henderson and Elliott Carr of the Savings Banks Association of Massachusetts concerning the continuing discrimination against members of the Federal Home Loan Bank System with respect to access to the Federal Reserve discount window. This letter is to assure you that the problem is not limited to Massachusetts savings banks.

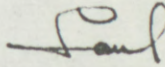
Savings banks throughout the industry that are members of the Federal Home Loan Bank System have expressed similar frustrations. I believe the time for resolution is long overdue. Whatever arrangements were made between the Federal Reserve and the Bank Board under its previous chairman need to be reviewed. I am hopeful that Dick Pratt, to whom I am also writing on this matter, will understand that informal arrangements between federal regulators cannot preempt the provisions of the Depository Institutions Deregulation and Monetary Control Act of 1980. Apart from all other considerations, this matter is of considerable importance to our industry, given the growing liquidity needs and the continuing disparity in interest rates available on borrowings from the Fed and from the Home Loan Bank System.

On the general matter of savings bank access to the window, I am pleased that a few of our banks have gained access to it. But this has been only on a very short term basis. We still feel that the Fed's regulations do not recognize the "special needs of savings (banks)... consistent with their long term asset portfolios" I know that you are aware of the acute problems in our industry, Paul, and are ready to be as helpful as possible. It would be especially helpful if our industry's access to the discount window were clarified once and for all both with respect to those who incidentally are members of the Federal Home Loan Bank System and with respect to the availability of longer term credit.

The Honorable Paul A. Volcker
Page Two
June 29, 1981

I hope that you will be in a position to resolve these critical issues at an early date. If it would be useful, we will be available at any time to discuss the matter with you and your colleagues.

Sincerely,



Saul B. Klaman
President

P.S. - Incidentally, I commend you for your statement suggesting the need for reserve requirements against money market funds. I know you have agonized about this for some time, and, given the sentiment in Washington against doing anything about money market funds, it took a lot of courage on your part to do this.



Savings Banks Association of Massachusetts
50 Congress Street
Boston, Massachusetts 02109
(617) 742-7970

Master Mr Ken
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1981 JUN 18 AM 11:45

RECEIVED
OFFICE OF THE CHAIRMAN

June 16, 1981

#1862

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

Chairman Richard T. Pratt *Pick*
Federal Home Loan Bank Board
1700 G Street, N.W.
Washington, D.C. 20552

Frank E. Morris, President *Frank*
Federal Reserve Bank of Boston
Boston, Massachusetts 02106

Raymond H. Elliott, President *Den*
Federal Home Loan Bank of Boston
P.O. Box 2196
Boston, Massachusetts 02106

Gentlemen:

This letter is addressed to all four of you because previous contacts by savings bankers, in Massachusetts and elsewhere, have resulted in somewhat conflicting information in regard to whether federal policy concerning savings bank access to the Federal Reserve window is being made by the Federal Reserve system or the Federal Home Loan Bank system and at what level.

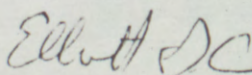
On behalf of the Massachusetts savings bank industry, we find it astounding that the federal government at this time, through any agency, deems it desirable economic policy to provide loans to commercial banks enjoying record profits at rates lower than those available to thrift institutions experiencing substantial difficulties. Yet this is the impact that results from commercial bank access to the Federal Reserve window while thrift institutions' needs must be met through the Federal Home Loan Bank system.

This discriminatory treatment by the government is particularly astounding in that since 1980, it appears to contradict the will of Congress. The language contained in the Deregulation and Monetary Control Act of that year, that "the Board and the Federal Reserve Bank shall take into consideration the special needs of savings and other depository institutions for access to discount and borrowing facilities consistent with their long-term asset portfolios and the sensitivity of such institutions to trends in the national money markets," appears to express clear Congressional intent that Federal Reserve borrowing be available to thrifts on terms at least equal to commercial banks. However, the "special needs" of savings banks in an economic environment such as that currently prevailing seem to have been totally ignored by the Federal Reserve system. None of the several Massachusetts savings banks which have approached the Federal Reserve Bank of Boston have yet to receive a totally clear response concerning under what circumstances and what terms Federal Reserve credit will be available.

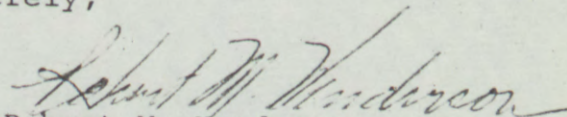
Of particular concern to Massachusetts savings banks is the seeming discriminatory treatment developing concerning savings banks which are members of the Federal Home Loan Bank of Boston compared to those which are not. The best information which has reached this office indicates that the Federal Reserve system has acceded to requests of the Federal Home Loan Bank system, originated by Federal Home Loan Bank presidents in other parts of the country, that FHLB savings bank members not be granted access to the Federal Reserve window even on the limited terms available to other savings banks. Instead, their credit needs must be fulfilled through the Federal Home Loan Bank system, at far inferior terms. This appears to be an exercise in bureaucratic fiefdom that has the net result of making membership in the Federal Home Loan Bank of Boston, which currently pays no dividends on stock held by thrift members, into an additional tax -- voluntary for savings banks and involuntary for savings and loans.

We would welcome the opportunity to discuss this matter with any of you, and hope we will receive responses from all of you which are internally consistent. We have no desire to seek confrontation. All we seek is a path through a bureaucratic maze while it would still do some good instead of becoming real grist for a post mortem autopsy being conducted by Congressional committees and others concerning the failure of thrift institutions.

Sincerely,



Elliott G. Carr
President



Robert M. Henderson
Chairman

EGC:als

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date July 27, 1981

To Chairman Volcker

Subject: _____

From David L. Shannon *DES*

Per our conversation this afternoon, the following data regarding their Office of Finance was supplied to us by the Federal Home Loan Bank Board in June of this year:

The Office has 45 employees, 7 of whom are officers. The range of pay for the Director is \$90-\$118,000 per year, the Deputy Director's salary is 75 percent of the Director's, and the salary range for 5 Division Directors is \$38-\$70,000 per year. All other employees are under a Hay Compensation System with no federal pay cap limitation.

The Office of Finance's Thrift Plan permits employees to contribute up to a maximum of 12 percent of salary with the first 6 percent being matched by the Office of Finance at the following rates:

1 to 3 years	-	50%
4 to 5 years	-	75%
Over 5 years	-	100%

The Office of Finance's pay and benefits systems are based on comparable financial organizations such as Citicorp, Student Loan Marketing Association, and Federal National Mortgage Association.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

*Please return
to Chairman's office*

Office Correspondence

Date July 9, 1981

To Mr. Richard Syron

Subject: Legislative Changes Proposed

From Frederick Furlong

By The Federal Home Loan Bank Board.

Attached are some proposed legislative changes that are currently being considered by the Federal Home Loan Bank Board (FHLBB). These were sent to me by Malcolm Draper who is the assistant to Chairman Pratt. Although the Bank Board has not made any final decisions, Mr. Draper indicated that the FHLBB would like to have these proposed changes brought to the attention of Chairman Volcker as soon as possible. Mr. Draper emphasized that the attached documents are confidential and asked that they not be discussed or distributed outside the Board.

While the changes are quite numerous and cover a wide spectrum of issues, in general they appear to be designed to help the Bank Board and the Federal Savings and Loan Insurance Corporation (FSLIC) handle the current problems in the thrift industry. Some of the major changes involve provisions to:

- (1) Facilitate conversions of thrifts from mutual to stock associations.
- (2) Expand the investment powers of thrifts.
- (3) Alter the liquidity requirement for thrifts.
- (4) Preempt state laws that inhibit the enforcement of due on sale clauses.
- (5) Allow the FHLBB to arrange interstate mergers of thrifts.
- (6) Allow the FSLIC to provide assistance to thrifts when severe financial conditions exist which threaten the stability of a significant number of institutions or institutions with significant financial resources, not just to prevent the default of an individual institution or to restore a defaulted institution to normal operation.

- (7) Allow the FSLIC more flexibility in making dividend payments to members of the FHLB System.
- (8) Allow the FSLIC to borrow from the FHLBs. ^{500,000}
- (9) Increase the insurance coverage to \$500,000 on deposits related to pension or profit sharing plans, retirement accounts, trustee employee benefit plans and state deferred compensation plans.
- (10) Allow for separate insurance on accounts assumed in a merger or consolidation for six months or, in the case of time accounts, the earliest maturity date following the six month period.

DRAFT Three: June 30, 1981

THE THRIFT INSTITUTIONS RESTRUCTURING ACT OF 1981

IN THE HOUSE OF REPRESENTATIVES

[IN THE UNITED STATES SENATE]

A BILL

To enhance the competitiveness of thrift institutions, to protect depositors and creditors of such institutions, and for other purposes.

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

TITLE I: FORM OF CHARTER; DEMAND ACCOUNTS

SECTION 101. This Act may be cited as "The Thrift Institutions Restructuring Act of 1981."

SECTION 102. Section 5(a) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(a)) is amended to read as follows:

"(a) In order to provide thrift institutions for the deposit or investment of funds and for the extension of credit for homes and other goods and services, the Board is authorized, under such rules and regulations as it may prescribe, to provide for the organization, incorporation, examination, operation, and regulation of associations to be known as "Federal Savings and Loan Associations", or "Federal Savings Banks", and to issue charters therefor, giving primary consideration to the best practices of thrift institutions in the United States."

SECTION 103. Section 5(b)(1) and (2) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(b)(1), (2)) are amended to read as follows:

"(b)(1) An association may raise capital in the form of such savings deposits, shares, or other accounts, for fixed, minimum, or indefinite periods of time (all of which are referred to in this section as savings accounts), or in the form of such demand accounts, as are authorized by its charter or by regulations of the Board, and may issue such passbooks, time certificates of deposit, or other evidence of accounts as are so authorized. All savings accounts and demand accounts shall have the same priority upon liquidation.

Holders of accounts and obligors of an association shall, to such extent as may be provided by its charter or by regulations of the Board, be members of the association, and shall have such voting rights and such other rights as are thereby provided. Except as may be otherwise authorized by the association's charter or regulation of the Board in the case of savings accounts for fixed or minimum terms of not less than fourteen days, the payment of any savings account shall be subject to the right of the association to require such advance notice, not less than fourteen days, as shall be provided for by the charter of the association or the regulations of the Board. The payment of withdrawals from accounts in the event an association does not pay all withdrawals in full (subject to the right of the association, where applicable, to require notice) shall be subject to such rules and procedures as may be prescribed by the association's charter or by regulation of the Board, but any association which, except as authorized in writing by the Board, fails to make full payment of any withdrawal when due shall be deemed to be in an unsafe or unsound condition to transact business within the meaning of subsection (d) of this section. Accounts may be subject to check or to withdrawal or transfer on negotiable or transferable or other order or authorization to the association, as the Board may by regulation provide. Associations may establish remote service units for the purpose of crediting savings or demand accounts, debiting such accounts, crediting payments on loans, and the disposition of related financial transactions, as provided in regulations prescribed by the Board.

(2) To such extent as the Board may authorize by regulation or advice in writing, an association may borrow, may give security, may be surety as defined by the Board and may issue such notes, bonds, debentures, or other obligations, or other securities, including capital stock, as the Board may so authorize."

SECTION 104. Section 5(i) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(i)) is amended to read as follows:

"(i)(1) Any institution that is, or is eligible to become, a member of a Federal Home Loan Bank may convert itself into a Federal Savings and Loan Association or Federal Savings Bank under this Act (and in so doing may change directly from the mutual form to the stock form, or the reverse), but such conversion shall be subject to such rules and regulations as the Board shall prescribe, and thereafter the converted association shall be entitled to all the benefits of this section and shall be subject to examination and regulation to the same extent as other associations incorporated pursuant to this Act.

(2) Subject to the rules and regulations of the Board, any Federal association may convert itself from the mutual form to the stock form of organization, or from the stock form to the mutual form, and any Federal association may change its designation from a Federal Savings and Loan Association to a Federal Savings Bank, or the reverse.

(3) Any Federal association may convert itself into a savings and loan or savings bank type of institution organized pursuant to the laws of the State, District, Commonwealth, or Territory (hereinafter referred to in this section as the State) in which the principal office of such Federal association is located: Provided, (i) That the State permits the conversion of any savings and loan or savings bank type of institution of such State into a Federal association; (ii) that such conversion of a Federal association into such a State institution is determined upon the vote in favor of such conversion cast in person or by proxy at a special meeting of members or stockholders called to consider such action, specified by the law of the State in which the home office of the Federal association is located, as required by such law for a State-chartered institution to convert itself into a Federal association, but in no event upon a vote of less than 51 per centum of all the votes cast at such meeting, and upon compliance with other requirements reciprocally equivalent to the requirements of such State law for the conversion of a State-chartered institution into a Federal association; (iii) that notice of the meeting to vote on conversion shall be given as herein provided and no other notice thereof shall be necessary; the notice shall expressly state that such meeting is called to vote thereon, as well as the time and place thereof, and such notice shall be mailed, postage prepaid, at least thirty and not more than sixty days prior to the date of the meeting, to each member or stockholder of record of the Federal association at his last address as shown on the books of the Federal association and to the General Counsel of the Federal Home Loan Bank Board, Washington, District of Columbia; (iv) that, in the event of dissolution of a mutual association after conversion, the members or shareholders of the association will share on a mutual basis in the assets of the association in exact proportion to their relative share or account credits; (v) that, in the event of dissolution of a stock association after conversion, the stockholders will share on an equitable basis in the assets of the association; and (vi) that such conversion shall be effective upon the date that all the provisions of this Act shall have been fully complied with and upon the issuance of a new charter by the State wherein the association is located; it being provided that its act of converting into a State-chartered institution shall constitute an agreement to be bound by all the requirements that the Federal Savings and Loan Insurance Corporation may legally impose under

section 403 of Title IV of the National Housing Act, as now or hereafter amended, and the association shall upon conversion and thereafter be authorized to issue securities in any form currently approved at the time of issue by the Federal Savings and Loan Insurance Corporation for issuance by similar insured institutions in such State: Provided, That if the insurance of accounts is terminated in connection with such conversion, the notice and other action shall be taken as provided by law and regulations for the termination of insurance of accounts.

(4) Any aggrieved person may obtain review of a final action of the Board or the Federal Savings and Loan Insurance Corporation which approves, with or without conditions, or disapproves a plan of conversion from the mutual to the stock form, only by complying with the provisions of subsection (k) of section 408 of the National Housing Act within the time limit and in the manner therein prescribed, which provisions shall apply in all respects as if such final action were an order the review of which is therein provided for, except that such time limit shall commence upon publication of notice of such final action in the Federal Register or upon the giving of such general notice of final action as is required by or approved under regulations of the Corporation, whichever is later.

(5) To the extent authorized by the Board, any Federal savings bank chartered as such prior to the enactment of this paragraph may continue to make any investment or engage in any activity not otherwise authorized under this subsection, to the degree it was permitted to do so as a Federal savings bank prior to such enactment. The authority conferred by this paragraph may be utilized by any Federal association that acquires, by merger or consolidation, a Federal savings bank enjoying grandfathered rights hereunder."

SECTION 105. Section 402(j) of the National Housing Act (12 U.S.C. §1725(j)) is amended as follows:

(a) By amending paragraph (1) to read as follows:

"(1) Other than as provided in section 5 of the Home Owners' Loan Act of 1933, as amended, no insured institution may convert from the mutual to the stock form except in accordance with the rules and regulations of the Corporation.";

(b) By striking paragraphs (2), (3), (5) and (6), and renumbering paragraph (4) as paragraph (2).

SECTION 106. Section 2(d) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1462(d)) is amended by striking the word "mutual" wherever it appears.

SECTION 107. Section 403(a) of the National Housing Act (12 U.S.C. §1726(a)) is amended by striking the word "mutual".

SECTION 108. Section 408(a)(1)(A) of the National Housing Act (12 U.S.C. §1730a(a)(1)(A)) is amended to read as follows:

"(A) "insured institution" means a Federal savings and loan association, a Federal savings bank, or a building and loan, savings and loan, or homestead association, or a cooperative bank, the accounts of which are insured by the Federal Savings and Loan Insurance Corporation;"

TITLE II: INVESTMENTS

SECTION 201. Section 5(c)(1)(A) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(c)(1)(A)) is amended to read as follows:

"(A) Account loans. -- Loans on the security of its savings accounts and loans specifically related to transactions accounts."

SECTION 202. Section 5(c)(1)(B) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(c)(1)(B)) is amended to read as follows:

"(B) Real property loans. -- Loans on the security of liens upon residential or nonresidential real property."

SECTION 203. Section 5(c)(1)(G) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(c)(1)(G)) is amended to read as follows:

"(G) Deposits. -- Investments in the time deposits, certificates, or accounts of any bank the deposits of which are insured by the Federal Deposit Insurance Corporation, or in the savings accounts, certificates or other accounts of any institution the accounts of which are insured by the Federal Savings and Loan Insurance Corporation."

SECTION 204. Section 5(c)(1)(H) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(c)(1)(H)) is amended to read as follows:

"(H) State securities. -- Investments in obligations of, or issued by, any State or political subdivision thereof (including any agency, corporation or instrumentality)."

SECTION 205. Section 5(c)(1) of the Home Owners' Loan Act (12 U.S.C. §1464(c)(1)) is amended by striking subparagraph (L) and adding a new subparagraph (L), to read as follows:

"(L) Commercial and other loans. -- Secured or unsecured loans for commercial, corporate, business or agricultural purposes."

SECTION 206. Section 5(c)(1)(O) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(c)(1)(O)) is amended to read as follows:

"(O) Housing and Land and Urban Development Insured or Guaranteed Investments. -- (i) Loans secured by mortgages as to which the association has the benefit of insurance under Title X of the National Housing Act or of a commitment or agreement for such insurance, or (ii) loans as to which the association has the benefit of any guarantee under Title IV of the Housing and Urban Development Act of 1968 or under Part B of the National Urban Policy and New Community Development Act of 1970 or under Section 802 of the Housing and Community Development Act of 1974 as now or hereafter in effect, or of a commitment or agreement therefor."

SECTION 207. Section 5(c)(1) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(c)(1)) is amended by striking subparagraph (P) and adding a new subparagraph (P), to read as follows:

"(P) Corporate securities. -- An association may invest in, sell or hold commercial paper and corporate debt securities, as defined and approved by the Board."

SECTION 208. Section 5(c)(1)(Q) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(c)(1)(Q)) is amended to read as follows:

"(Q) Investment companies. -- An association may invest in, redeem or hold shares or certificates in any open-end management investment company which is registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and the portfolio of which is restricted by such management company's investment policy, changeable only if authorized by shareholder vote, primarily to such investments (without regard to any percentage-of-assets restriction applicable to such investment under this subsection) as an association by law or regulation may invest in, sell, redeem, hold, or otherwise deal with."

SECTION 209. Section 5(c)(1) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(c)(1)) is amended by adding a new subparagraph (R), to read as follows:

"(R) Consumer loans -- An association may make secured or unsecured loans for personal, family or household purposes, and loans reasonably incident to the provision of such credit."

SECTION 210. Section 5(c) of the Home Owners' Loan Act of 1933 (12 U.S.C. 1464(c)) is amended by:

- (a) Striking paragraph (2);
- (b) Redesignating paragraph (6) as paragraph (5);
- (c) Adding new paragraph (2), to read as follows:

"(2) Investments limited to 10 per centum of assets. -- The following investments are permitted, but authority conferred in the following subparagraphs is limited to not in excess of 10 per centum of the assets of the association for each subparagraph:

(A) Investment in realty. -- An association may invest in real property, and such investment may include, without limitation, subdividing, developing, constructing improvements upon, and renovating such property. An association may own, rent, lease, manage, operate for income or sell such property.

(B) Investment in personalty. -- An association may invest in tangible personal property, including, without limitation, vehicles, mobile homes, machinery, equipment, or furniture, and may hold such property for rental or sale.

(C) Nonconforming loans and investments. -- An association may make loans and other investments not otherwise permitted under this subsection.";

(d) Amending paragraph (3) as follows:

(1) By striking subparagraph (D);

(2) By amending subparagraph (A) to read as follows:

"(A) Education loans. -- Loans made for the payment of educational expenses."; and

(3) By striking subparagraph (C); and

(e) Amending paragraph (4) as follows:

(1) By amending subparagraph (B) to read as follows:

"(B) Service corporations. -- Investments in the capital stock, obligations, or other securities of any corporation organized under the laws of the State in which the home office of the association is located, if the entire capital stock of such corporation is available for purchase only by savings and loan associations of that State and by Federal associations having their home offices therein, but no association may make any investment under this subparagraph if its aggregate outstanding investment under this subparagraph would exceed 5 per centum of the assets of the association. Provided, that an association may make an investment under this subparagraph notwithstanding that the service corporation in which investment is authorized has invested in any other corporation (i) that is not chartered by the State in which the home office of the association is located, or (ii) that has stock available for purchase by entities other than savings and loan associations of that State or by Federal associations having their home offices in such State.";

- (2) By amending subparagraph (C) to read as follows:

"(C) Foreign assistance investments. -- Investments in housing project loans having the benefit of any guaranty under section 221 of the Foreign Assistance Act of 1961 or loans having the benefit of any guarantee under section 224 of such Act, or any commitment or agreement with respect to such loans made pursuant to either of such sections and in the share capital and capital reserve of the Inter-American Savings and Loan Bank. This authority extends to the acquisition, holding and disposition of loans having the benefit of any guaranty under section 221 or 222 of such Act as hereafter amended or extended, or of any commitment or agreement for any such guaranty. Investments under this subparagraph shall not exceed, in the case of any association, one per centum of the assets of such association.";

- (3) By striking subparagraph (D);

- (4) By adding thereto the following new subparagraph:

"(D) Small business investment companies. -- An association may invest in stock, obligations, or other securities of any small business investment company formed pursuant to section 301(d) of the Small Business Investment Act of 1958, for the purpose of aiding members of the Federal Home Loan Bank System, but no association may make any investment under this subparagraph if its aggregate outstanding investment under this subparagraph would exceed 1 per centum of the assets of such association."

SECTION 211. Section 5(c) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(c)) is amended by adding a new paragraph (8), to read as follows:

"(8) An association may engage in any activity or venture the Board determines to be reasonably incident to the exercise of the authority conferred by this subsection, or by subsection (b)."

SECTION 212. Section 5A(b)(1)(B) of the Federal Home Loan Bank Act (12 U.S.C. §1425a(b)(1)(B)) is amended by striking the words "and commercial banks", and substituting therefor the following:

", institutions that are, or are eligible to become, members thereof, and commercial banks;"

TITLE III: PREEMPTION OF DUE-ON-SALE PROHIBITIONS

SECTION 301. Section 501 of Public Law 96-221 (12 U.S.C. §1735f-7 note) is amended by redesignating subsections (f) and (g) as subsections (g) and (h) respectively, and adding a new subsection (f), to read to read as follows:

"(f) The provisions of the constitution or the laws of any State limiting the ability of a depository institution to enter into contracts, or to enforce contracts, whenever executed, providing that the institution may, at its option, declare due and payable sums secured by the institution's security instrument if all or any part of the real property securing the loan is sold or transferred by the borrower without the institution's prior written consent shall not apply to contracts involving loans secured by a lien on residential real property, by a lien on stock allocated to a dwelling unit in a residential cooperative housing corporation, or by a lien on a residential manufactured home. Except as limited by the Federal Home Loan Bank Board pursuant to subsection (g) herein, exercise by the institution of such option (hereafter called a due-on-sale clause) shall be exclusively governed by the terms of the loan contract, and all rights and remedies of the institution and borrower shall be fixed and governed by the contract. In the exercise of its authority under subsection (g), the Board may require institutions to observe appropriate consumer safeguards to the extent it is authorized to require such observance by Federal savings and loan associations."

SECTION 302. Subsection (g) of Section 501 of Public Law 96-221 (12 U.S.C. §1735f-7 note) is amended to read as follows:

"(g)(1) The Federal Home Loan Bank Board is authorized to --

(A) issue rules, regulations, interpretations or approvals governing the implementation of this section; and

(B) delegate authority to duly authorized officials, employees or agents of the Board to issue interpretations or approvals governing the implementation of this section.

"(2) No provision of the constitution or laws of any State imposing any liability, penalty or forfeiture shall apply to any act done or omitted in good faith in conformity with any rule, regulation, interpretation or approval under this section by the Federal Home Loan Bank Board or in conformity with any interpretation or approval by an official, employee or agent of the Board duly authorized by the Board to issue interpretations or approvals under this section under such procedures as the Board may prescribe therefor, notwithstanding that, after such act or omission has occurred, such rule, regulation, or approval is amended, rescinded, or determined by judicial or other authority to be invalid for any reason."

SECTION 303. Subsection (h) of Section 501 of Public Law 96-221 (12 U.S.C. §1735f-7 note) is amended by striking the period and adding the words ", except for subsection (f)."

TITLE IV: EXTRAORDINARY AUTHORITY

SECTION 401. Section 408 of the National Housing Act (12 U.S.C. §1730a) is amended by adding a new subsection (m), as follows:

"(m) Notwithstanding any other provision of State or Federal law, except as provided in subsections (e)(2) and (l) hereof, the Corporation, upon its determination that severe financial conditions exist which threaten the stability of a significant number of insured institutions, or of insured institutions possessing significant financial resources, may authorize, in its discretion and where it determines such authorization would lessen the risk to the Corporation, an insured institution that is eligible for assistance pursuant to section 406(f) of this Act to merge or consolidate with, or to transfer its assets and liabilities to, any other insured institution, may authorize any other insured institution to acquire control of said insured institution, or may authorize any savings and loan holding company to acquire control of said insured institution or to acquire the assets or assume the liabilities thereof. Mergers, consolidations, transfers and acquisitions under this subsection shall be on such terms as the Corporation shall provide. In considering authorizations under this subsection, the need to minimize financial assistance required of the Corporation shall be the paramount consideration, but the Corporation shall make a reasonable effort to authorize transactions under this subsection in the following sequence: First, between institutions of the same type within the same State; second, between institutions of the same type in different States; third, between institutions of different types in the same State; and fourth, between institutions of different types in different States."

SECTION 402. Section 408(e)(2) of the National Housing Act (12 U.S.C. §1730a(e)(2)) is amended as follows:

(a) By adding in the first sentence immediately after the term "subsection" the following:

", or any transaction under subsection (m) hereof,"; and

(b) By adding in the third sentence thereof immediately after the word "acquisition," the following:

"except a transaction under subsection (m) hereof,".

SECTION 403. Section 5 of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464) is amended by adding at the end thereof the following:

"(o) Notwithstanding any other provision of this section or State law, and consistent with the purposes of this Act, the Board may authorize (or in the case of a Federal association, require) the conversion of a mutual savings and loan association or mutual savings bank into a Federal stock savings and loan association or Federal stock savings bank, or charter a Federal stock savings and loan association or Federal stock savings bank to acquire the assets of, or merge with such a mutual institution under the rules and regulations of the Board. The Board may condition its approval of the conversion or acquisition of a mutual savings bank under this subsection that was previously insured by the Federal Deposit Insurance Corporation upon the receipt from the Federal Deposit Insurance Corporation of reasonable indemnification of the Federal Savings and Loan Insurance Corporation for losses that may be incurred by the latter as a consequence of its insuring the accounts of such institution, as agreed to by the Corporations. Authorizations under this subsection may be made only to assist an institution in receivership, or if the primary Federal supervisor has determined that severe financial conditions exist which threaten the stability of an institution and that such authorization is likely to improve the financial condition of the institution, or when either of the Corporations has contracted to provide assistance to such institution under section 406 of the National Housing Act or section 13 of the Federal Deposit Insurance Act."

SECTION 404. Section 406(f) of the National Housing Act (12 U.S.C. §1729(f)) is amended to read as follows:

"(f)(1) In order to prevent the default of an insured institution, or in order to restore an insured institution in default to normal operation, or, when severe financial conditions exist which threaten the stability of a significant number of insured institutions, or of insured institutions possessing significant financial resources, in order to lessen the risk to the Corporation posed by an insured institution under such threat of instability, the Corporation is authorized, in its sole discretion and upon such terms and conditions as it may determine, to make loans to, to make deposits in, to purchase the assets or securities or to assume the liabilities of, or to make a contribution to, such an insured institution or such an insured institution so threatened.

"(2) Whenever an insured institution is in default or, in the judgment of the Corporation, is in danger of default or, whenever severe financial conditions exist which threaten the stability of a significant number of insured institutions, or of insured institutions possessing significant financial resources, and in order to lessen the risk to the Corporation posed by an insured institution under such threat of instability, the Corporation is authorized, in its sole discretion, in order to facilitate a merger or consolidation of such insured institution with another

insured institution or the sale of assets of such insured institution and the assumption of its liabilities by another insured institution, and upon such terms and conditions as the Corporation may determine, to purchase any such assets or assume any such liabilities, or make loans or contributions to, or deposits in, or purchase the securities of, such other insured institution, or guarantee such other insured institution against loss by reason of its merging or consolidating with or assuming the liabilities and purchasing the assets of such insured institution in or in danger of default, or under threat of instability. The Corporation may provide any party acquiring control of, merging with, consolidating with or acquiring the assets of an insured institution under section 408(m) of this Act with such financial assistance as it could provide an insured institution under this subsection.

"(3) No assistance shall be provided pursuant to this subsection in an amount in excess of that which the Corporation finds to be reasonably necessary to save the cost of liquidating, including paying the insured accounts of, such insured institution in or in danger of default, or under threat of instability, but if the Corporation determines that the continued operation of such institution is essential to provide adequate savings or home financing services in its community, such limitation upon the amount of assistance shall not apply."

SECTION 405. (a) Section 406(a) of the National Housing Act (12 U.S.C. §1729(a)) is amended by striking the phrase "savings and loan".

(b) Section 406(b) of the National Housing Act (12 U.S.C. §1729(b)) is amended to read as follows:

"(b) In the event that a Federal association is in default, the Corporation shall be appointed as conservator or receiver and as such (1) is authorized (i) to take over the assets of and operate such association, (ii) to take such action as may be necessary to put it in a sound and solvent condition, (iii) to merge it with another insured institution, (iv) to organize a new Federal association to take over its assets, (v) to proceed to liquidate its assets in an orderly manner, or (vi) to make such other disposition of the matter as it deems to be in the best interest of the association, its savers, and the Corporation, and (2) shall pay all valid credit obligations of the association. The Corporation shall pay insurance as provided in section 405. The surrender and transfer to the Corporation of an insured account in any such association which is in default shall subrogate the Corporation with respect to such insured account, but shall not affect any right which the insured member may have in the uninsured portion

of his account or any right which he may have to participate in the distribution of the net proceeds remaining from the disposition of the assets of such association."

(c) Section 406(c) of the National Housing Act (12 U.S.C. §1729(c)) is amended by striking the phrase "savings and loan" wherever it appears.

(d) Section 406(c)(1) of the National Housing Act (12 U.S.C. §1729(c)(1)) is amended by adding the letter "(A)" immediately after the phrase "(c)(1)", and by adding a new subparagraph (B), to read as follows:

"(B) Notwithstanding any provision of state law, or of this section, in the event the Federal Home Loan Bank Board determines that any of the grounds specified in section 5(d)(6)(A)(i), (ii) or (iii) of the Home Owners' Loan Act of 1933 exist with respect to an insured institution, other than a Federal association, the Board shall have exclusive power and jurisdiction to appoint the Corporation as sole conservator or receiver of such institution. In such cases the Corporation shall have the same powers and duties with respect to insured institutions as are conferred upon it under subsection (b) of this section with respect to Federal associations."

(e) Section 406(c)(2) of the National Housing Act (12 U.S.C. §1729(c)(2)) is amended by adding the words "conservator or" immediately after the word "sole" in the first sentence.

(f) Section 406(c)(3) of the National Housing Act (12 U.S.C. §1729(c)(3)) is amended as follows:

- (1) By adding the phrase "conservator or" immediately prior to the word "receiver" wherever it appears therein;
- (2) By striking the phrase "paragraph (2)" and substituting therefor the phrase "paragraphs (1) or (2)"; and
- (3) By striking the second sentence thereof.

(g) Section 406(d) of the National Housing Act (12 U.S.C. §1729(d)) is amended to read as follows:

"(d) In connection with the liquidation of insured institutions, the Corporation shall have power to carry on the business of and to collect all obligations to the insured institutions, to settle, compromise, or release claims in favor of or against the insured institutions, and to do all other things that may be necessary in connection therewith, subject only to the regulation of the Federal Home Loan Bank Board, or, in cases where the Corporation has been appointed conservator, receiver, or legal custodian solely by a public authority having jurisdiction over the matter other than said Board, subject only to the regulation of such public authority.

SECTION 406. Section 16 of the Federal Home Loan Bank Act (12 U.S.C. §1436) is amended by inserting "(a)" after "SEC. 16." and adding at the end thereof the following:

"(b) Notwithstanding subsection (a) or any other provision of this Act, if the Board determines that severe financial conditions exist threatening the stability of member institutions, it may suspend temporarily the requirements under subsection (a) that a portion of net earnings be set aside semi-annually by each Federal Home Loan Bank to a reserve account and permit each Federal Home Loan Bank to declare and pay dividends out of undivided profits. Thereafter, dividends shall be paid in accordance with subsection (a)."

SECTION 407. (a) Section 402(d) of the National Housing Act (12 U.S.C. §1725(d)) is amended by striking the period at the end of the first sentence and adding the following:

", except that interest on loans from the Federal Home Loan Banks shall be not less than their current marginal cost of funds, taking into account the maturities involved, and loans from the Federal Home Loan Banks shall be adequately secured, as determined by the Federal Home Loan Bank Board.

(b) Section 402(i) of the National Housing Act (12 U.S.C. §1725(i)) is amended as follows:

(1) In the first sentence, immediately after the word "source", by adding the following: ", except the Federal Home Loan Banks"; and

(2) In the first sentence, immediately after the first time the word "loan" appears subsequent to the first colon, by adding the words "from the Treasury".

(c) Section 11 of the Federal Home Loan Bank Act (12 U.S.C. §1431) is amended by adding a new subsection (k), as follows:

"(k) The Federal Home Loan Banks are authorized to make loans to the Federal Savings and Loan Insurance Corporation, as directed by the board, but subject to Section 402(d) of the National Housing Act."

SECTION 408. Section 404 of the National Housing Act (12 U.S.C. §1727) is amended by redesignating subsection (h) as subsection (i) and adding a new subsection (h), as follows:

"(h) Notwithstanding any other provision of this section, the Corporation, upon its determination that extraordinary financial conditions exist increasing the risk to the Corporation, may terminate distribution of shares of the secondary reserve and utilize said reserve on the same basis as the primary reserve. If otherwise authorized, the Corporation may resume such distribution upon its determination that said conditions no longer exist."

TITLE V: MISCELLANEOUS

SECTION 501. Section 17(a) of the Federal Home Loan Bank Act (12 U.S.C. §1437(a)) is amended by adding a new sentence immediately after the first sentence, to read as follows:

"Notwithstanding any other provision of law, the Board may from time to time make such provision as it deems appropriate authorizing the performance by any officer, employee, agent or administrative unit thereof of any function of the Board (including any function of the Federal Savings and Loan Insurance Corporation), except with regard to promulgation of rules and regulations in accordance with the Administrative Procedures Act, and adjudications subject to such Act."

SECTION 502. Section 5(d)(8)(A) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(d)(8)(A)) is amended by adding in the last sentence thereof, immediately after the word "party", the following: ", which prevails,".

SECTION 503. Section 405(d)(3) of the National Housing Act (12 U.S.C. §1728(d)(3)) is amended to read as follows:

"(3)(A) Notwithstanding any limitation in this title or in any other provision of law relating to the amount of deposit insurance available for any one account --

(i) Funds invested in an insured institution pursuant to a pension or profit-sharing plan described in section 401(d) of the Internal Revenue Code of 1954, as amended, and funds invested in an insured institution in the form of individual retirement accounts as described in section 408(a) of the Internal Revenue Code of 1954, as amended, shall be insured in the amount of \$500,000 per account;

(ii) Funds invested in an insured institution pursuant to a trustee employee benefit plan shall be insured in the amount of \$500,000 per trust estate; and

(iii) Funds invested in an insured institution in the form of an account of any State deferred compensation plan as described in section 457 of the Internal Revenue Code of 1954, as amended, shall be insured in the amount of \$500,000 per each employee's contributions to such accounts.

(B) As to any plan qualifying under section 401(d) or section 408(a) of the Internal Revenue Code of 1954, as amended, the term "per account" means the present vested and ascertainable interest of each beneficiary under the plan, excluding any remainder interest created by, or as a result of, the plan."

SECTION 504. Section 10 of the Federal Home Loan Bank Act (12 U.S.C. §1430) is amended as follows:

(a) By deleting the first two sentences of subsection (b);

(b) By amending subsection (a) to read as follows:

"Each Federal Home Loan Bank is authorized to make secured advances to its members upon such security as the Board may prescribe."; and

(c) By deleting the word "twelve" wherever it appears in subsection (c) and substituting therefor the word "twenty".

SECTION 505. Section 405(a) of the National Housing Act (12 U.S.C. §1728(a)) is amended by adding after the first sentence the following:

"Whenever the liabilities of an insured institution for accounts shall have been assumed by another insured institution or institutions, whether by way of merger, consolidation, or other statutory assumption, or pursuant to contract, all accounts so assumed shall have separate insurance which shall terminate at the end of six months from the date such assumption takes effect or, in the case of any certificate account, the earliest maturity date after the six-month period."

SECTION 506. Section 6(c)(2) of the Federal Home Loan Bank Act (12 U.S.C. §1426(c)(2)) is amended to read as follows:

"(2) Notwithstanding any other provision of this subsection, no action shall be taken by any bank with respect to any member pursuant to any of the foregoing provisions of this subsection if the effect of such action would be to cause the aggregate outstanding advances, within the meaning of the last sentence of subsection (c) of section 1430 of this Act or within the meaning of regulations of said Board defining said term for the purposes of this sentence, made by such bank to such member to exceed twenty times the amounts paid in by such member for outstanding capital stock held by such member."

SECTION 507. Section 8a of the Federal Home Loan Bank Act (12 U.S.C. §1428a)) is amended by striking the fifth sentence thereof and adding in lieu thereof the following:

"Subject to the provisions of §7 of the Federal Advisory Committee Act, all members and alternates of the Council may be compensated and shall be entitled to reimbursement from the Board for traveling expenses incurred in attendance at meetings of such Council."

SECTION 508. Section 6(i) of the Federal Home Loan Bank Act (12 U.S.C. §1426(i)) is amended by striking the period at the end of the second sentence and adding the following:

"; provided, however, that in the case of a voluntary withdrawal, such liquidation shall be deemed a prepayment of any such indebtedness, and shall be subject to any penalties applicable to such prepayment."

SECTION-BY-SECTION ANALYSIS

OF THE

"THRIFT INSTITUTIONS RESTRUCTURING ACT OF 1981"

Title I: FORM OF CHARTER; DEMAND ACCOUNTS

Section 101. Title: Section 101 states that the bill may be cited as the "Thrift Institutions Restructuring Act of 1981."

Section 102. Chartering and Purpose: This section would revise §5(a) of the Home Owners' Loan Act of 1933 ("HOLA") to specify that the Bank Board may charter Federal associations known as Federal savings and loan associations or Federal Savings Banks and that the purpose of such activity shall be to provide thrift institutions for the deposit or investment of funds, and for the extension of credit for homes, and other goods and services. Present language limiting the chartering of Federal mutual savings banks ("FMSBs") and providing them with investment and activity limitations different from those of Federal S&Ls is eliminated in order to provide a parity of entitlements between all Federal associations. Consistent with the liberalization of stock conversion options and association investment authority contained in the bill, references in §5(a) to Federal associations as mutual institutions are deleted, and the purposes of such associations are widened, as indicated previously, beyond the current exclusive focus on housing.

Section 103. Demand Accounts and Capital Stock: This section would revise §5(b)(1) and (2) of the HOLA. Under revised §5(b)(1), Federal associations would be able to offer any customer a demand account. At present, Federal S&Ls are not authorized to offer demand accounts; their only transactions account, the NOW account, is statutorily subject to a 30-day notice requirement. Because NOW accounts are not available to corporations or governments, S&Ls are thus cut off from a profitable source of transactions account business. Federal MSBs are allowed to offer demand deposits to customers with which they have a business loan relationship, and are thus handicapped to a lower degree.

In addition, §5(b)(1) would be amended to lower the statutory notice-of-withdrawal period for savings accounts (including NOW accounts) to fourteen days from the current thirty days. This would put S&Ls on a par with commercial banks with respect to this type of account.

The amendment to §5(b)(2) would delete an existing prohibition against the issuance of capital stock by Federal S&Ls and substitute an explicit grant of authority to issue such stock. The current prohibition acts to prevent the Bank Board from authorizing Federal stock S&Ls on a de novo basis, for explicit provisions elsewhere now authorize Federal stock associations on a conversion basis, notwithstanding the prohibition contained in §5(b)(2).

Section 104. Conversions to Federal Charters: This section would amend §5(i) of the HOLA to allow any institution that is a Federal Home Loan Bank member (or is eligible to become a member) to convert to a Federal S&L or a Federal Savings Bank. As part of the conversion process (or thereafter), the converting (or converted) institution could change from the mutual to the stock form (or the reverse) and would be free to elect to designate itself either as a Federal S&L or a Federal Savings Bank regardless of its previous denomination. Present law does not allow Federal stock savings banks, and does not authorize de novo charters of Federal savings banks or of Federal stock S&Ls. Moreover, current law does not permit state stock associations to obtain Federal stock charters unless they existed as stock entities before 1976, and forbids chartering of Federal stock associations in states that do not allow state stock institutions. Procedures for conversions back to state institutions would be changed slightly, making explicit provision for conversion to stock institutions, deleting an obsolete reference to the General Manager of the FSLIC and substituting the Bank Board's General Counsel, and striking obsolete provisions pertaining to Treasury or Home Owners' Loan Corporation ownership of Federal association shares. Persons aggrieved by final action of the Bank Board respecting a conversion would be provided the same right of review currently granted in such cases by §402(j)(4) of the National Housing Act. Because current law may allow Federal mutual savings banks to engage in certain activities and make certain investments not authorized under this bill, revised §5(i)(4) would permit FMSBs that converted prior to enactment of the bill to continue those activities or investments to the extent authorized by the Bank Board. These grandfathered rights would pass to the successor institution in the event of a merger or consolidation.

Section 105. Conversion from State Mutual to State Stock: This section would amend extensively §402(j) of the National Housing Act. That provision governs the nowexpired moratorium on mutual-to-stock conversions, and is substantially obsolete. Currently significant provisions that would be dropped include a burdensome annual report on conversion activity, and a prohibition against creation of Federal stock institutions in states where stock associations do not exist. As revised, §402(j) simply would retain current FSLIC jurisdiction over state mutual to state stock conversions involving insured institutions, and would preserve the existing judicial appeal procedure available to persons aggrieved by agency conversion decisions.

Section 106. Technical: This section would amend §2(d) of the HOLA to ensure that statutory references to Federal S&Ls include all Federal savings banks, not just FMSBs.

Section 107. Technical: This section would establish the duty of the FSLIC to insure the accounts of all Federal savings banks, rather than simply FMSBs, as the statute currently provides.

Section 108. Technical: This section would include Federal savings banks within the listing of entities defined as insured institutions for Savings and Loan Holding Company Act purposes.

TITLE II: INVESTMENTS

Section 201. Overdrafts: This section would amend §5(c)(1)(A) of the HOLA to provide that overdraft loans could be issued with respect to any transactions account of a Federal association, rather than only against NOW accounts, as is currently the case.

Section 202. Real Property Loans: This section would amend §5(c)(1)(B) of the HOLA to allow Federal associations to invest up to 100 percent of their assets in loans secured by loans on residential or nonresidential real property. At present, §5(b)(1)(B) allows 100 percent investment in residential real property loans, but provides an extensive list of loan-to-value ratios that must be observed, depending on the nature of the security property. These statutory restrictions would be eliminated by the amendment. Under current law, nonresidential real estate lending is limited basically to 20 percent of assets, and the loans must be secured by first liens on other improved real estate. The amendment would eliminate the percentage-of-assets and first lien restrictions, as well as dispense with the requirement that the real estate securing the loan be of any particular nature.

Section 203. Time Deposits in S&Ls: This section would amend §5(c)(1)(G) of the HOLA to allow associations to invest in each other's time and savings deposits. Currently, associations wishing to invest in time and savings deposits must utilize FDIC-insured commercial banks.

Section 204. Governmental Securities: This section would amend §5(c)(1)(H) of the HOLA to allow Federal associations to invest up to 100 percent of their assets in obligations of or issued by State or local governments. At present, investments in such securities are limited to general obligations, and to certain housing-related instruments.

Section 205. Commercial and other loans: This section would amend §5(c)(1)(L) to allow Federal associations to invest up to 100 percent of their assets in secured or unsecured loans for commercial, corporate, business or agricultural purposes. Federal S&Ls currently have no power to make loans of this kind and FMSBs can only make commercial, corporate or business loans to the extent of 5 percent of their assets, and only within 75 miles of the institution's home office. The section would replace existing paragraph (L), dealing with loans to financial institutions.

Section 206 Technical: Sections 204 and 206 would amend existing §5(c)(1)(O) and §5(c)(4)(C) of the HOLA to remove from §5(c)(4)(C) existing authority for Federal associations to invest in certain insured land development loans and place such authority in §5(c)(1)(O). This is merely intended to permit an easier reading of §5(c), as the reorganization will place the land development loans in a provision dealing with other insured loans of similar type, and will leave revised §5(c)(5)(C) to deal solely with foreign assistance investments. In addition, in §5(c)(1)(O), the amendment would change the name of the "Urban Growth and New Community Development Act of 1970" to the "National Urban Policy and New Community Development Act of 1970."

Section 207. Corporate Securities: This section would amend §5(c)(1)(P) to allow Federal associations to invest up to 100 percent of their assets in commercial paper and corporate debt securities. The limit on such investment now stands at 20 percent. This provision would replace authority regarding state housing corporation investments that is to be subsumed under section 204, supra.

Section 208. Mutual Funds: This section would amend §5(c)(1)(Q) of the HOLA to allow Federal associations to invest in a wider variety of mutual funds. Currently, associations are restricted to investing in funds having portfolios comprised entirely of assets which they could invest in directly. The amendment would permit investments in mutual funds having portfolios consisting primarily of assets in which associations could invest on a direct basis.

Section 209. Consumer loans: This section would create a new §5(c)(1)(R) of the Home Owners' Loan Act authorizing investments in consumer loans, including inventory and floor planning loans. Without the authority to make loans of the latter two types, the effectiveness of the power to extend consumer credit is substantially diminished. Present law limits Federal association consumer loan authority to 20 percent of assets.

Section 210. Additional Investment Options: This section would provide a substantial liberalization of the investment options open to Federal associations.

1. Ownership of Real Estate. Institutions would be allowed under revised §5(c)(2)(A) to invest up to 10 percent of their assets directly in real estate. Present law provides that Federal associations may take an equity position in real estate only when the property is located in a geographical area receiving concentrated development assistance under Title I of the Housing and Community Development Act of 1974, and that the amount so invested cannot exceed 2 percent of assets.

2. Equipment Leasing. Revised §5(c)(2)(B) would give Federal associations authority to invest directly in tangible personal property. This new empowerment would enable associations to engage in equipment leasing, an activity that has been profitable for the commercial banking industry.

3. Leeway Authority. Under revised §5(c)(2)(C), associations would be provided with enhanced "leeway" authority to invest up to 10 percent of their assets in investments not otherwise authorized under §5(c). Existing "nonconforming loan" authority available to Federal associations merely permits them to make loans on the security of or respecting real property or interests therein used primarily for residential or farm purposes that do not comply with §5(c) limitations.

4. Education Loans. Amended §5(c)(3)(A) would expand the scope of the current 5 percent-of-assets education loan authority to include any loan for educational purposes. At present, Federals may make such loans only for the purpose of paying for the expenses of university, college or vocational education.

5. Service Corporations. Under amended §5(c)(4)(B), Federal associations would be able to invest 5 percent of their assets in their service corporation subsidiaries, instead of the 3 percent currently authorized. Unlike current practice, there would be no explicit statutory requirement that a portion of the investment authority be used primarily for community, inner-city, and community development purposes. In addition, the bill would clarify the status of subsidiaries of service corporations -- so-called "second-tier" service corporations -- by specifically stipulating that primary service corporations would be able to invest in such entities regardless of the state-of-charter and stock ownership restrictions that affect Federal association investment in service corporations. Associations are only permitted to invest in service corporations chartered in their home state, and whose stock is available for purchase only by savings and loan associations headquartered in that state, and a recent U. S. District Court case in New Jersey indicated that these restrictions likewise should apply to investments by primary service corporations in their subsidiaries.

6. Foreign Assistance Investments. See Section 206.

7. Small Business Investment Corporations. New §5(c)(4)(D) would restore authority to Federal associations to invest in Small Business Investment Corporations that inadvertently was deleted from §5(c) in the course of the reenactment of that provision by Public Law 96-221. This replaces authority to invest in certain state and local government obligations that is to be subsumed under section 204, supra.

Section 211. Reasonably Incident Activities: This section would create a new §5(c)(8) that would clarify the power of Federal associations to engage in activities and ventures reasonably incident to the exercise of authority conferred under §5(b) or (c). For instance, questions have been raised as to the ability of Federals under current law to form joint ventures with investors to facilitate the sale of low-yield mortgages. Given the present power of associations to sell mortgages, new paragraph (8) would remove any doubt as to the authority of those institutions to enter into business relationships designed to facilitate such sale.

Section 212. Liquidity Eligible Investments: This section would amend §5A(b)(1)(B) of the Federal Home Loan Bank Act (12 U.S.C. §1425a(b)(1)(B)) to specify that members of Federal Home Loan Banks could use their investments in time and savings deposits in other members, or in institutions eligible to become members to help satisfy the statutory requirement that they maintain at all times a certain amount of liquid assets. Present law authorizes time and savings deposits to count toward satisfaction of this liquidity requirement only if the deposits are in Federal Home Loan Banks or commercial banks.

TITLE III: PREEMPTION OF DUE-ON-SALE PROHIBITIONS

Title III would provide for Federal preemption of state laws prohibiting exercise by lenders of so-called due-on-sale clauses that stipulate that a borrower's mortgage becomes due when he sells his home. The preemption would apply to all depository institutions,

not just savings associations. Regulations and interpretations governing implementation of the preemption would be issued by the Bank Board, which could require observance of appropriate consumer safeguards. Specific provision would be made for delegation by the Bank Board to its staff of authority to issue approvals or interpretations, and any lender relying in good faith on the Bank Board's regulations or on its interpretations or those of its staff would be free from application of state law penalties. This delegation and good-faith reliance provision would apply as well to the Bank Board's existing authority to implement the Federal preemption of state mortgage usury laws.

The need for preemption in the due-on-sale area is acute. Thrifts' current earnings problems stem directly from the fact that they have large portfolios of low-yield fixed-rate mortgages. It is essential that these mortgages be "rolled-over" and replaced with instruments bearing interest more in keeping with the rates being demanded by depositors for their funds. Under normal circumstances mortgage loans roll-over roughly every 7-8 years. Where due-on-sale clauses are prohibited, however, effectively allowing automatic assumptions of mortgages, the average life span of the low-yield mortgages that are causing so much difficulty for thrifts increases greatly, since those are precisely the mortgages that sellers of homes wish to pass along to prospective purchasers. Thus, the negative impact on earnings of those mortgages in such localities can be expected to persist far into the future, diminishing the ability of affected thrifts to provide competitive yields on savings and attract an adequate mortgage lending base.

TITLE IV: EXTRAORDINARY AUTHORITY

Sections 401 and 402. Emergency Thrift Acquisitions: These sections would allow the FSLIC, regardless of any other law (except antitrust law) to authorize an insured institution eligible for FSLIC assistance to merge with any other insured institution, or to be acquired by a savings and loan holding company. This would enable the FSLIC to arrange mergers of state-chartered institutions across state lines notwithstanding state law prohibitions, and to let savings and loan holding companies acquire institutions other than in their home state. In making such authorizations, the paramount consideration would be minimize the cost to the FSLIC, but the Corporation would have to make a reasonable effort to arrange transactions involving: first, institutions of the same type in the same state; second, institutions of the same type in different states; third, institutions of different types in the same state; and, fourth, institutions of different types in different states. The condition precedent to the use of the authority conferred by this section would be the existence of severe financial conditions which threaten the stability of a significant number of insured institutions or of institutions possessing significant resources.

Section 403. Emergency Stock Charters: This section would allow the Bank Board to authorize (or in the case of a Federally-chartered association, require) a mutual institution to become, or merge into a newly chartered, Federal stock association, regardless of other state or Federal law. These authorizations could be granted only with respect to: (1) an institution in receivership; (2) an

institution that has contracted to receive FDIC or FSLIC assistance; or (3) an institution the stability of which is threatened by the existence of severe financial conditions, provided the authorization is likely to improve its financial condition. In cases where the converting institution is FDIC-insured, conversion to a Federal charter would be accompanied by an indemnification agreement between the FDIC and FSLIC that would be negotiated on a case-by-case basis, rather than being tied to the statutory indemnification provisions applicable to ordinary conversions involving changing of deposit insurers.

Section 404. Assistance to Thrift Institutions: This section would allow the FSLIC to provide assistance to insured institutions at a somewhat earlier point in their financial difficulties than is presently allowed under the threshold criteria that to receive aid, an institution must be in default or in danger of default. The amendment would permit assistance in cases when severe financial conditions exist threatening the stability of a significant number of insured institutions, or of insured institutions possessing significant financial resources, where such assistance would reduce the threat to the FSLIC posed by institutions under such threat of instability. In addition, the amendment clarifies that assistance may take the form of deposits in the institution or of purchase of its securities, as well as the current approach of making contributions or loans or purchasing the assets of the troubled institution.

Section 405. Conservatorship and Receivership Powers: This section would provide the FSLIC with conservatorship/receivership powers over State-chartered insured institutions approximately equal to those which it now has with respect to Federal associations. While the FSLIC still could accept an appointment as receiver or conservator from a State authority, and operate according to its regulation, the Bank Board would be able to appoint the FSLIC as sole conservator or receiver of a State-chartered insured institution, superseding and preempting any state appointment, upon a determination that the institution was in an unsafe or unsound condition to transact business, had substantially dissipated its assets, or had assets less than its obligations. Under current law, such preemptive power exists only where an institution actually has been closed or a State receiver has been appointed for at least 15 days, where grounds exist identical to those required to appoint a receiver or conservator for a Federal association, and an account-holder has been unable to obtain a full withdrawal of his account.

Section 405 also would clarify the fact that when the FSLIC acts in its capacity as a receiver of a Federal association, it pays the credit obligations of that institution only in its capacity as receiver. The present statutory language raises the possibility that the FSLIC's insurance fund might be held liable for all the debts of a defaulted Federal association. Additionally, the amendment would allow the FSLIC as receiver of a defaulted institution, to make such disposition of the defaulted institution as it determines to be in the best interests of the association, its savers and the Corporation itself. Currently, an anomalous situation exists whereby the ability of the FSLIC to make "such other disposition" of a defaulted S&L as is in the best interests of its insured members applies only to state-chartered insured institutions, and not to Federal associations.

Section 406. Assistance to Federal Home Loan Bank Members: Section 404 would allow the Bank Board, upon its determination that severe financial conditions exist threatening the stability of member institutions, to waive the requirement of §16 of the Federal Home Loan Bank Act that a portion of net earnings of the FHLBanks be set aside semi-annually to a reserve account, and allow the Banks to pay dividends from undivided profits.

Section 407. Borrowing Authority: This section would allow the FSLIC to borrow from the FHLBanks, as long as the rate on the loan is not less than the FHLBanks' marginal cost of funds, and the loan is adequately secured.

Section 408. Secondary Insurance Reserve: Section 407 would permit the FSLIC, when it determines extraordinary financial conditions exist increasing the risk to it, to terminate the payback of the secondary insurance reserve and to use the reserve exactly as it uses the primary reserve. The payback could continue thereafter, if otherwise authorized by law. Under present law, the FSLIC's secondary reserve (now approximately \$700 million) is required to be paid back to insured institutions until such time as the aggregate of the primary reserve and the secondary reserve is not at least equal to 1 1/4 percent of the total amount of all accounts of insured members of all insured institutions. The secondary reserve at present may be used only to cover losses of the Corporation, and only to the extent the primary reserve is not available.

TITLE V: MISCELLANEOUS

Section 501. Delegations: Section 501 would allow the Bank Board to delegate any of its functions, except those of promulgating regulations, and performing adjudications. The Federal Reserve already has similar power under 12 U.S.C. §248.

Section 502. Payment of Attorneys' Fees: This section would clarify that a court may assess attorneys' fees against the Bank Board only in the event the agency loses a lawsuit.

Section 503. Increase in Insurance of Accounts Limit: Section 503 would allow \$500,000 insurance coverage for all pension-related accounts, including Individual Retirement Accounts, Keogh Plan Accounts, Trusteed Employee Benefit Plan Accounts, and State Deferred Compensation Plan Accounts. The amendment would increase the security of monies intended for retirement purposes, and would help attract a stable long-term source of funds for housing finance.

Section 504. Collateralization of FHLBank Advances: Section 504 would strike the extensive and detailed statutory collateralization requirements appearing in §10 of the Federal Home Loan Bank Act, and give the Bank Board authority to prescribe what should constitute acceptable security. In addition, it would correct a technical omission connected with the recent liberalization by Congress of the stock-to-advances ratio that must be observed by FHLBank members.

Section 505. Insurance of Accounts in Mergers: This section would provide that depositors who have accounts in a FSLIC-insured institution that merges into another such institution in which they have accounts will be able to have separate insurance for the two accounts for a period of six months. Authority to offer short-term dual coverage of this type already is possessed by the FDIC.

Section 506. Deletion of Obsolete Stockholding Requirements: Section 507 would delete obsolete language in §6(c) of the Federal Home Loan Bank Act that operates to require a handful of FHLBank members to hold stock in excess of the one percent of aggregate loan principal level applicable to all other members.

Section 507. Compensation of Federal Savings and Loan Advisory Council Members: Section 508 would allow the Bank Board to compensate the members of the Federal Savings and Loan Advisory Council, subject to the limitations of the Federal Advisory Committee Act. This would be particularly useful in attracting public interest members of the FSLAC, who currently serve at a considerable financial sacrifice because of the inadequacy of the traveling expense reimbursement currently available to them.

Section 508. Prepayment of FHLBank Advances: Section 509 would require an institution withdrawing voluntarily from FHLBank membership to pay prepayment penalties in connection with liquidating any indebtedness it owes the Bank, assuming the contract governing the indebtedness calls for imposition of such penalties. This provision is designed to dissuade institutions from engaging in disruptive in-and-out FHLBank membership.

CHANGES IN EXISTING LAW MADE BY THRIFT INSTITUTIONS
RESTRUCTURING ACT OF 1981

1. Section 102: Section 5(a) of the Home Owners' Loan Act of 1933
(12 U.S.C. §1464(a))

(a)(1) In order to provide [local mutual] thrift institutions [in which people may invest their funds and in order to provide for the financing of homes,] the Board is authorized, under such rules and regulations as it may prescribe, to provide for the organization, incorporation, examination, operation, and regulation of associations to be known as "Federal Savings and Loan Associations", or "Federal [mutual] savings banks" [(but only in the case of institutions which, prior to conversion, were State mutual savings banks located in States which authorize the chartering of State mutual savings banks, provided such conversion is not in contravention of State law),] and to issue charters therefor, giving primary consideration to the best practices of [local mutual] thrift [and home-financing] institutions in the United States. [An association which was formerly organized as a savings bank under State law may not convert from the mutual to the stock form of ownership. An association which was formerly organized as a savings bank under State law may not convert from the mutual to the stock form of ownership.¹ An association which was formally organized as a savings bank under State law may, to the extent authorized by the Board, continue to

for the deposit or investment of funds and for the extension of credit for homes and other goods and services,

carry on any activities it was engaged in on December 31, 1977, and to retain or make any investments of a type it held on that date, except that its equity, corporate bond, and consumer loan investments may not exceed the average ratio of such investments to total assets for the five-year period immediately preceding the filing of an application for conversion and such an association which was formerly organized as a savings bank under State law shall only be permitted to establish branch offices and other facilities in accordance with the limitations imposed by State law controlling applications of a savings bank organized under such State law, provided that such an association: (A) shall be exempt from any numerical limitations of State law on the establishment of branch offices and other facilities, and (B) may, in any case, subject to the approval of the Board, establish branch offices and other facilities in its own Standard Metropolitan Statistical Area, its own county or within thirty-five miles of its home office, but only in its State of domicile. An association which was formerly organized as a savings bank under State law shall be subject to the requirements of State law (including any regulations promulgated thereunder and any sanction for the violation of any such law or regulation) in effect at the time of conversion, in the State of its original charter—

(A) pertaining to discrimination in the extension of home mortgage loans or adjustment in the terms of mortgage instruments based on neighborhood or geographical area,

(B) pertaining to requirements imposed under the Consumer Credit Protection Act,

if the Board determines that State law and regulations impose more stringent requirements than Federal law and regulations.

(2) A Federal mutual savings bank may make commercial, corporate, and business loans except that—

(A) not more than 5 per centum of the assets of such a bank may be so loaned; and

(B) such loans may only be made within the State where the bank is located or within 75 miles of the bank's home office.

(3) In addition to the authority conferred by paragraph (1), Federal mutual savings bank may accept demand deposits in connection with a commercial, corporate, or business loan relationship.

2. Section 103: Section 5(b)(1) and (2) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(b)(1), (2))

"(b)(1) An association may raise capital in the form of such savings deposits, shares, or other accounts, for fixed, minimum, or indefinite periods of time (all of which are referred to in this section as savings accounts), or in the form of such demand accounts, as are authorized by its charter or by regulations of the Board, and may issue such passbooks, time certificates of deposit, or other evidence of accounts as are so authorized. All savings accounts and demand accounts shall have the same priority upon liquidation.

[and all of which shall have the same priority upon liquidation] holders of accounts and obligors of an association shall, to such extent as may be provided by its charter or by regulations of the Board, be members of the association, and shall have such voting rights and such other rights as are thereby provided. Except as may be otherwise authorized by the association's charter or regulation of the Board in the case of savings accounts for fixed or minimum terms of not less than [thirty] fourteen days, the payment of any savings account shall be subject to the right of the association to require such advance notice, not less than fourteen [thirty] days, as shall be provided for by the charter of the association or the regulations of the Board. The payment of withdrawals from accounts in the event an association does not pay all withdrawals in full (subject to the right of the association, where applicable, to require notice) shall be subject to such rules and procedures as may be prescribed by the association's charter or by regulation of the Board, but any association which, except as authorized in writing by the Board, fails to make full payment of any withdrawal when due shall be deemed to be in an unsafe or unsound condition to transact business within the meaning of subsection (d) of this section. Accounts may be [Savings accounts shall not] subject to check or to withdrawal or transfer on negotiable or transferable or other order or authorization to the

[savings]

[savings]

[but] association, as the Board may by regulation provide. [for withdrawal or transfer of savings accounts upon nontransferable order or authorization]

Associations may establish remote service units for [This section does not prohibit establishment of] the purpose of crediting savings or demand accounts, debiting such accounts, crediting payments on loans, and the disposition of related financial transactions, [by associations] as provided in regulations prescribed by the Board.

(2) To such extent as the Board may authorize by regulation or advice in writing, an association may borrow, may give security, may be surety as defined by the Board and may issue such notes, bonds, debentures, or other obligations, or other securities, including [except] capital stock, as the Board may so authorize."

3. Section 104: Section 5(i) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(i))

"(i)(1) Any institution that is, or is eligible to become, a member of a Federal Home Loan Bank may convert itself into a Federal Savings and Loan Association or Federal Savings Bank under this Act, (and in so doing may change directly from the mutual form to the stock form, or the reverse), [including a savings bank]

[and any State stock savings and loan type institution may (if such institution existed in stock form for at least the 4 years preceding March 31, 1980) convert its charter to a Federal stock charter under this chapter, upon a vote of 51 per centum or more of the votes cast at a legal meeting called to consider such action].

but such conversion shall be subject to such rules and regulations as the Board shall prescribe, [may] and thereafter the converted association shall be entitled to all the benefits of this section and shall be subject to examination and regulation to the same extent as other associations incorporated pursuant to this Act.

(2) Subject to the rules and regulations of the Board, any Federal association may convert itself from the mutual form to the stock form of organization, or from the stock form to the mutual form, and any Federal association may change its designation from a Federal Savings and Loan Association to a Federal Savings Bank, or the reverse.

[savings and loan] (3) Any Federal association may convert itself into a savings and loan or savings bank type of institution organized pursuant to the laws of the State, District, Commonwealth, or Territory (hereinafter referred to in this section as the State) in which the principal office of such Federal association is located: Provided, (i) [(1)] That the State permits the conversion of any savings and loan or savings bank type of institution of such State into a Federal association; (ii) that such conversion of a [(2)]

[savings and loan]
[savings and loan]

a Federal association, but in no event upon a vote of less than 51 per centum of all the votes cast at such meeting, and upon compliance with other requirements reciprocally equivalent to the requirements of such State law for the conversion of a State-chartered institution into a Federal association; ~~(iii)~~ that notice of the meeting to ~~vote on conversion shall be given as herein provided and no other notice thereof shall be necessary; the notice shall expressly state that such meeting is called to vote thereon, as well as the time and place thereof, and such notice shall be mailed, postage prepaid, at least thirty and not more than sixty days prior to the date of the meeting, to each member or stockholder of record of the Federal association at his last address as shown on the books of the~~ ~~General Manager of the Federal Home Loan Bank Board, Washington, District of Columbia;~~ ~~(iv) that,~~ ~~(4)~~

[thirty] ~~more than~~ ~~sixty~~ days prior to the date of the meeting, to each member or stockholder of record of the Federal association at his last address as shown on the books of the ~~General Manager of the Federal Home Loan Bank Board, Washington, District of Columbia;~~ ~~(iv) that,~~ ~~(4)~~

[General Manager of the Federal Home Loan Bank Board, Washington, District of Columbia; Savings and Loan Insurance Corporation]

Upon the effective date of the conversion, the association has repurchased the total amount invested in its shares by the Secretary of the Treasury; and (5) that if, upon the effective date of conversion, the Home Owners' Loan Corporation will hold of record shares of the association, its approval of the conversion has been obtained; (6) that

in the event of dissolution of a mutual association after conversion, the members or shareholders of the association will share on a mutual basis in the assets of the association in exact proportion to their relative share or account credits; (v) that, in the event of dissolution of a stock association after conversion, the stockholders will share on an equitable basis in the assets of the association; and ~~(vi)~~ that ~~(7)~~ such conversion shall be effective upon the date that all the provisions of this chapter shall have been fully complied with and upon the issuance of a new charter by the State wherein the association is located; it being provided that its act of converting into a State-chartered institution shall constitute an agreement to be bound by all the requirements that the Federal Savings and Loan Insurance Corporation may legally impose under section 403 of Title IV of the National Housing Act, as now or hereafter amended, and the association shall upon conversion and thereafter be authorized to issue securities in any form currently approved at the time of issue by the Federal Savings and Loan Insurance Corporation for issuance by similar insured institutions in such State ~~or~~ ~~Territory~~ [District, or Territory]

In addition to the foregoing provision for conversion upon a vote of the members only any association chartered as a Federal savings and loan association, including any having outstanding shares held by the Secretary of the Treasury or Home Owners' Loan Corporation, may convert itself into a State institution upon an equitable basis, subject to approval, by regulations or otherwise, by the Federal Home Loan Bank Board and by the Federal Savings and Loan Insurance Corporation.] *Provided*, That if the insurance of accounts is terminated in connection with such conversion, the notice and other action shall be taken as provided by law and regulation for the termination of insurance of accounts.

(4) Any aggrieved person may obtain review of a final action of the Board or the Federal Savings and Loan Insurance Corporation which approves, with or without conditions, or disapproves a plan of conversion from the mutual to the stock form, only by complying with the provisions of subsection (k) of section 408 of the National Housing Act within the time limit and in the manner therein prescribed, which provisions shall apply in all respects as if such final action were an order the review of which is therein provided for, except that such time limit shall commence upon publication of notice of such final action in the Federal Register or upon the giving of such general notice of final action as is required by or approved under regulations of the Corporation, whichever is later.

(5) To the extent authorized by the Board, any Federal savings bank chartered as such prior to the enactment of this paragraph may continue to make any investment or engage in any activity not otherwise authorized under this subsection, to the degree it was permitted to do so as a Federal savings bank prior to such enactment. The authority conferred by this paragraph may be utilized by any Federal association that acquires, by merger or consolidation, a Federal savings bank enjoying grandfathered rights hereunder."

4. Section 105: Section 402(j) of the National Housing Act (12 U.S.C. §1725(j))

(j) [1] Except as otherwise provided in this subsection, until June 30, 1976, the Corporation shall not approve, under regulations adopted pursuant to this subchapter or section 1464 of this title, by order or otherwise, a conversion from the mutual to stock form of organization involving or to involve an insured institution, except that this sentence shall not be deemed to limit now or hereafter the authority of the Corporation to approve conversions in supervisory cases. The Corporation may by rule, regulation, or otherwise and under such civil penalties (which may be cumulative to any other remedies) as it may prescribe take whatever action it deems necessary or appropriate to implement or enforce this subsection.]

(1) Other than as provided in section 5 of the Home Owners' Loan Act of 1933, as amended, no insured institution may convert from the mutual to the stock form except in accordance with the rules and regulations of the Corporation.

(2) [The number of applications for conversion which the Corporation may approve pursuant to such regulations prior to such date shall be determined by the Corporation but shall not in any case be in excess of 1 per centum of the total number of all insured institutions in existence on the date of enactment, exclusive of the number of applications submitted for filing prior to May 22, 1973. *Provided*, That the Corporation shall process to final determination any application submitted for filing prior to May 22, 1973, pursuant to regulations in effect and adopted pursuant to this subchapter or section 1464 of this title, with further proviso that, with respect to a plan of conversion of any such applicant which, before May 22, 1973, has given written public notice to its accountholders of adoption of a plan of conversion or has obtained waiver forms from substantially all its new accountholders subsequent to the giving of such notice, such plan need not require payment for stock distributed to accountholders as of a record date prior to the date of such notice.

(3) Notwithstanding any other provision of law, an insured institution converting in accordance with this subsection may retain its Federal charter. The Corporation shall not, however, permit the conversion of Federally chartered associations in States the laws of which do not authorize the operation of State chartered stock associations, except that the prohibition contained in this sentence shall

not apply to the District of Columbia, the Commonwealth of Puerto Rico, or a State where all insured institutions domiciled therein are Federally chartered.

(4) Any aggrieved person may obtain review of a final action of the Federal Home Loan Bank Board or the Corporation which approves, with or without conditions, or disapproves a plan of conversion pursuant to this subsection only by complying with the provisions of subsection (k) of section 1730a of this title within the time limit and in the manner therein prescribed, which provisions shall apply in all respects as if such final action were an order the review of which is therein provided for, except that such time limit shall commence upon publication of notice of such final action in the Federal Register or upon the giving of such general notice of such final action as is required by or approved under regulations of the Corporation, whichever is later.

(5) The Corporation shall, at least annually and more often as circumstances require, render reports to the Congress on the exercise of its authority under this subsection.

(6) In implementing the provisions of this subsection the Corporation shall regulate the approvals granted so as to achieve (A) as much geographical dispersion as practicable; (B) an equitable distribution with respect to the size of converting institutions; (C) an appropriate distribution between State chartered and Federally chartered institutions; (D) timeliness of filing; (E) flexibility to the extent possible in plans of conversion taking into account the characteristics of particular converting institutions; (F) the meeting of capital needs; and (G) such other reasonable results as it may consider necessary or appropriate in the public interest.]

5. Section 106: Section 2(d) of the Home Owners' Loan Act of 1933
(12 U.S.C. §1462(d))

§ 1462. Definitions

As used in this chapter—

- (a) The term "Board" means the Federal Home Loan Bank Board.
- (b), (c) Omitted.
- (d) The term "association" means a Federal savings and loan association or a Federal [mutual] savings bank chartered by the Board under section 1464 of this title, and any reference in any other law to a Federal savings and loan association shall be deemed to be also a reference to a Federal [mutual] savings bank, unless the context indicates otherwise.

6. Section 107: Section 403(a) of the National Housing Act (12 U.S.C. §1726(a))

§ 1726. Insurance of accounts and eligibility provisions

Insurance of accounts

- (a) It shall be the duty of the Corporation to insure the accounts of all Federal savings and loan associations and Federal [mutual] savings banks, and it may insure the accounts of building and loan, savings and loan, and homestead associations and cooperative banks organized and operated according to the laws of the State, District, Territory, or possession in which they are chartered or organized.

7. Section 108: Section 408(a)(1)(A) of the National Housing Act
(12 U.S.C. §1730a(a)(1)(A))

"(A) "insured institution" means a Federal savings and loan association, a Federal savings bank, or a building and loan, savings and loan, or homestead association, or a cooperative bank, the accounts of which are insured by the Federal Savings and Loan Insurance Corporation;"

8. Sections 201, 202: Section 5(c)(1)(A), (B) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(c)(1)(A), (B))

Investment authority

(c) An association may to such extent, and subject to such rules and regulations as the Board may prescribe from time to time, invest in, sell, or otherwise deal with the following loans, or other investments:

(1) Loans or investments without percentage of assets limitation: Without limitation as a percentage of assets, the following are permitted:

(A) Account loans.—Loans on the security of its savings accounts and loans specifically related to negotiable order-of-withdrawal accounts. } transactions

(B) Single-family and multi-family mortgage loans.—Loans on the security of liens upon residential real property in an amount which, when added to the amount unpaid upon prior mortgages, liens or encumbrances, if any, upon such real estate does not exceed the appraised value thereof, except that the amount of any such loan hereafter made shall not exceed 66 $\frac{2}{3}$ per centum of the appraised value if such real estate is unimproved, 75 per centum of the appraised value if such real estate is improved by offsite improvements such as street, water, sewers, or other utilities, 75 per centum of the appraised value if such real estate is in the process of being improved by a building or buildings to be constructed or in the process of construction, or 90 per centum of the appraised value if such real estate is improved by a building or buildings. Notwithstanding the

above loan-to-value ratios, the Board may permit a loan-to-value ratio in excess of 90 per centum if such real estate is improved by a building or buildings and that portion of the unpaid balance of such loan which is in excess of an amount equal to 90 per centum of such value is guaranteed or insured by a public or private mortgage insurer or in the case of any loan for the purpose of providing housing for persons of low income, as described in regulations of the Board.]

"(B) Real property loans. -- Loans on the security of liens upon residential or nonresidential real property."

- 9. Section 203: Section 5(c)(1)(G) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(c)(1)(G))

[Bank deposits] "(G) Deposits. -- Investments in the time deposits, certificates, or accounts of any bank the deposits of which are insured by the Federal Deposit Insurance Corporation, or in the savings accounts, certificates or other accounts of any institution the accounts of which are insured by the Federal Savings and Loan Insurance Corporation."

- 10. Section 204: Section 5(c)(1)(H) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(c)(1)(H))

(H) State securities. -- Investments in obligations of, or issued by, any State or political subdivision thereof (including any agency, corporation or instrumentality).]general]

- 11. Section 205: Section 5(c)(1)(L) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(c)(1)(L))

[(L) Loans to financial institutions, brokers and dealers. -- Loans to financial institutions with respect to which the United States or an agency or instrumentality thereof has any function of examination or supervision, or to any broker or dealer registered with the Securities and Exchange Commission, secured by loans, obligations or investments in which the association has the statutory authority to invest directly.]

(L) Commercial and other loans. -- Secured or unsecured loans for commercial, corporate, business or agricultural purposes.

- 12. Section 206: Section 5(c)(1)(O) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(c)(1)(O))

"(O)^[8] Housing ^[i] and Land and Urban ^[u] Development Insured or Guaranteed Investments. -- (i) Loans secured by mortgages as to which the association has the benefit of insurance under Title X of the National Housing Act or of a commitment or agreement for such insurance, [L] or (ii) loans as to which the association has the benefit of any guarantee under Title IV of the Housing and [L] Urban Development Act of 1968 or under Part B of the [Growth] National Urban Policy and New Community Development [L] Act of 1970 or under Section 802 of the Housing and Community Development Act of 1974 as now or hereafter [on or after March 31, 1980] in effect, or of a commitment or agreement therefor."

13. Section 207: Section 5(c)(1)(P) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(c)(1)(P))

[(P) State housing corporation investments.—Investments in, commitments to invest in, loans to, or commitments to lend to any State housing corporation, provided that such obligations or loans are secured directly, or indirectly through an agent or fiduciary, by a first lien on improved real estate which is insured under the provisions of the National Housing Act and that in the event of default, the holder of such obligations or loans would have the right directly, or indirectly through an agent or fiduciary, to cause to be subject to the satisfaction of such obligations or loans the real estate described in the first lien or the insurance proceeds under the National Housing Act.]

(P) Corporate securities. -- An association may invest in, sell or hold commercial paper and corporate debt securities, as defined and approved by the Board.

14. Section 208: Section 5(c)(1)(Q) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(c)(1)(Q))

"(Q) Investment companies. -- An association may invest [solely] in, redeem or hold shares or certificates in any open-end management investment company which is registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and the portfolio of which is restricted by such management company's investment policy, changeable only if authorized by shareholder vote, primarily to such investments [any] (without regard to any percentage-of-assets restriction applicable to such investment under this subsection) as an association by law or regulation may invest in, without limitation as to percentage of assets

[The Board shall prescribe rules and regulations to implement the provisions of this subparagraph.]

15. Section 209: Section 5(c)(1)(R) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(c)(1)(R))

(R) Consumer loans -- An association may make secured or unsecured loans for personal, family or household purposes, and loans reasonably incident to the provision of such credit.

16. Section 210: Section 5(c) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(c))

[(2) Loans or investments limited to 20 per centum of assets.
 —The following loans or investments are permitted, but authority conferred in the following subparagraphs is limited to not in excess of 20 per centum of the assets of the association for each subparagraph:

(A) Commercial real estate loans.—Loans on security of first liens upon other improved real estate.

(B) Consumer loans and certain securities.—An association may make secured or unsecured loans for personal, family, or household purposes, and may invest in, sell, or hold commercial paper and corporate debt securities, as defined and approved by the Board.]

(2) Investments limited to 10 per centum of assets. -- The following investments are permitted, but authority conferred in the following subparagraphs is limited to not in excess of 10 per centum of the assets of the association for each subparagraph:

(A) Investment in realty. -- An association may invest in real property, and such investment may include, without limitation, subdividing, developing, constructing improvements upon, and renovating such property. An association may own, rent, lease, manage, operate for income or sell such property.

(B) Investment in personalty. -- An association may invest in tangible personal property, including, without limitation, vehicles, mobile homes, machinery, equipment, or furniture, and may hold such property for rental or sale;

(C) Nonconforming loans and investments. -- An association may make loans and other investments not otherwise permitted under this subsection.

(3) Loans or investments limited to 5 per centum of assets.
 —The following loans or investments are permitted, but the authority conferred in the following subparagraphs is limited to not in excess of 5 per centum of assets of the association for each subparagraph:

(A) Education loans.—Loans made for the payment of expenses ~~of~~ college, university, or vocational education] educational

(B) Community development investments.—Investments in real property and obligations secured by liens on real property located within a geographic area or neighborhood receiving concentrated development assistance by a local government under Title I of the Housing and Community Development Act of 1974, except that no investment under this subparagraph in such real property may exceed an aggregate investment of 2 per centum of the assets of the association.

[(C) Nonconforming loans.—Loans upon the security of or respecting real property or interests therein used for primarily residential or farm purposes that do not comply with the limitations of this subsection.]

(D) Construction loans without security.—Investments not exceeding the greater of (A) the sum of its surplus, undivided profits, and reserves or (B) 5 per centum of the assets of the association, in loans the principal purpose of which is to provide financing with respect to what is or is expected to become primarily residential real estate where (i) the association relies substantially for repayment on the

borrower's general credit standing and forecast of income without other security, or (ii) the association relies on other assurances for repayment, including but not limited to a guaranty or similar obligation of a third party. Investments under this subsection shall not be included in any percentage of assets or other percentage referred to in this subsection.]

(4) Other loans and investments.—The following additional loans and other investments to the extent authorized below:

(A) Business development credit corporations.—An association whose general reserves, surplus, and undivided profits aggregate a sum in excess of 5 per centum of its withdrawable accounts is authorized to invest in, lend to, or to commit itself to lend to, any business development credit corporation incorporated in the State in which the home office of the association is located in the same manner and to the same extent as savings and loan associations chartered by such State are authorized, but the aggregate amount of such investments, loans, and commitments of any such association shall not exceed one-half of 1 per centum of the total outstanding loans of the association or \$250,000, whichever is less.

(B) Service corporations. -- Investments in the capital stock, obligations, or other securities of any corporation organized under the laws of the State in which the home office of the association is located, if the entire capital stock of such corporation is available for purchase only by savings and loan associations of that State and by Federal associations having their home offices therein, but no association may make any investment under this subparagraph if its aggregate outstanding investment under this subparagraph would exceed 5 per centum of the assets of the association. Provided, that an association may make an investment under this subparagraph notwithstanding that the service corporation in which investment is authorized has invested in any other corporation (i) that is not chartered by the State in which the home office of the association is located, or (ii) that has stock available for purchase by entities other than savings and loan associations of that State or by Federal associations having their home offices in such State.

3 per centum of the assets of the association, except that not less than one-half of the investment permitted under this subparagraph which exceeds one per centum of assets shall be used primarily for community, inner-city, and community development purposes.]

(C) Foreign assistance ^[, certain guaranteed loans] investments. --

[(i) Loans secured by mortgages as to which the association has the benefit of insurance under Title X of the National Housing Act or of a commitment or agreement for such insurance.]

Investments in housing project loans having the benefit of any guaranty under section 221 of the Foreign Assistance Act of 1961 or loans having the benefit of any guarantee under section 224 of such Act, or any commitment or agreement with respect to such loans made pursuant to either of such sections and in the share capital and capital reserve of the Inter-American Savings and Loan Bank. This authority extends to the acquisition, holding and disposition of loans having the benefit of any guaranty under Section 221 or 222 of such Act as hereafter amended or extended, or of any commitment or agreement for any such guaranty.

[(iii) Investments under clause (i) of this subparagraph shall not be included in any percentage of assets or other percentage referred to in this subsection.] Investments under clause (ii) of this subparagraph shall not exceed, in the case of any association, one per centum of the assets of such association.

one

[(D) State and local government obligations.—An association whose general reserves, surplus, and undivided profits aggregate a sum in excess of that amount which is determined by the Board for the purpose of the third sentence of section 403(b) of the National Housing Act is authorized to invest in obligations which constitute prudent investments, as defined by the Board, of its home State and political subdivisions thereof (including any agency, corporation, or instrumentality) if (i) the proceeds of such obligations are to be used for rehabilitation, financing, or the construction of residential real estate, and (ii) the aggregate amount of all investments under this subparagraph shall not exceed the amount of the association's general reserves, surplus, and undivided profits.]

(D) Small business investment companies. -- An association may invest in stock, obligations, or other securities of any small business investment company formed pursuant to section 301(d) of the Small Business Investment Act of 1958, for the purpose of aiding members of the Federal Home Loan Bank System, but no association may make any investment under this subparagraph if its aggregate outstanding investment under this subparagraph would exceed 1 per centum of the assets of such association.

(5) 7
[6] Definitions.—As used in this subsection—

(A) the terms "residential real property" or "residential real estate" mean leaseholds, homes (including condominiums and cooperatives, except that in connection with loans on individual cooperative units, such loans shall be adequately secured as defined by the Board), combinations of homes and business property, other dwelling units, or combinations of dwelling units including homes and business property involving only minor or incidental business use, or property to be improved by construction of such structures;

(B) the term "loans" includes obligations and extensions or advances of credit; and any reference to a loan or investment includes an interest in such a loan or investment; and

(C) the term "State" means any State of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, the Canal Zone, Guam, American Samoa, and any territory or possession of the United States.

17. Section 211: Section 5(c)(8) of the Home Owners' Loan Act of 1933. (12 U.S.C. §1464(c)(8))

"(8) An association may engage in any activity or venture the Board determines to be reasonably incident to the exercise of the authority conferred by this subsection, or by subsection (b)."

18. Section 212: Section 5A(b)(1)(B) of the Federal Home Loan Bank Act (12 U.S.C. §1425a(b)(1)(B))

Liquidity requirements; minimum and maximum amounts; rules and regulations

(b)(1) Any institution which is a member or which is an insured institution as defined in section 1724(a) of this title shall maintain the aggregate amount of its assets of the following types at not less than such amount as, in the opinion of the Board, is appropriate:

(A) cash;

(B) to such extent as the Board may approve for the purposes of this section, time and savings deposits in Federal Home Loan Banks ~~and commercial banks;~~ , institutions that are, or are eligible to become,

(C) to such extent as the Board may so approve, such obligations, including such special obligations, of the United States, a State, any territory or possession the United States, or a political subdivision, agency or instrumentality of any one or more of the foregoing, and bankers' acceptances, as the Board may approve;

members thereof,
and commercial
banks.

(D) to such extent as the Board may so approve, shares or certificates of any open-end management investment company which is registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and the portfolio of which is restricted by such investment company's investment policy, changeable only if authorized by shareholder vote, solely to any of the obligations or other investments enumerated in subparagraphs (A) through (C);

(E) balances maintained in a Federal Reserve bank or passed through a Federal Home Loan Bank or another depository institution to a Federal Reserve bank pursuant to the Federal Reserve Act;

(F) to such extent as the Board may approve as liquid, highly rated corporate debt obligations with 3 years or less remaining until maturity; and

(G) to such extent as the board may so approve, highly rated commercial paper with 270 days or less remaining until maturity.

(2) The requirement prescribed by the Board pursuant to this subsection (hereinafter in this section referred to as the "liquidity requirement") may not be less than 4 per centum or more than 10 per centum of the obligation of the institution on withdrawable accounts and borrowings payable on demand or with unexpired maturities of one year or less, or in the case of institutions which are insurance companies, such other base or bases as the Board may determine to be comparable. The Board shall prescribe rules and regulations to implement the provisions of this subsection.

19. Sections 301, 302, 303: Section 501 of Public Law 96-221
(12 U.S.C. §1735f-7 note)

"(f) The provisions of the constitution or the laws of any State limiting the ability of a depository institution to enter into contracts, or to enforce contracts, whenever executed, providing that the institution may, at its option, declare due and payable sums secured by the institution's security instrument if all or any part of the real property securing the loan is sold or transferred by the borrower without the institution's prior written consent shall not apply to contracts involving loans secured by a lien on residential real property, by a lien on stock allocated to a dwelling unit in a residential cooperative housing corporation, or by a lien on a residential manufactured home. Except as limited by the Federal Home Loan Bank Board pursuant to subsection (g) herein, exercise by the institution of such option (hereafter called a due-on-sale clause) shall be exclusively governed by the terms of the loan contract, and all rights and remedies of the institution and borrower shall be fixed and governed by the contract. In the exercise of its authority under subsection (g), the Board may require institutions to observe appropriate consumer safeguards to the extent it is authorized to require such observance by Federal savings and loan associations."

[(f)] "/(g)(1) The Federal Home Loan Bank Board is authorized to --
[and] [and to publish]

(A) issue rules, regulations, interpretations or approvals governing the implementation of this section; and

(B) delegate authority to duly authorized officials, employees or agents of the Board to issue interpretations or approvals governing the implementation of this section.

"(2) No provision of the constitution or laws of any State imposing any liability, penalty or forfeiture shall apply to any act done or omitted in good faith in conformity with any rule, regulation, interpretation or approval under this section by the Federal Home Loan Bank Board or in conformity with any interpretation or approval by an official, employee or agent of the Board duly authorized by the Board to issue interpretations or approvals under this section under such procedures as the Board may prescribe therefor, notwithstanding that, after such act or omission has occurred, such rule, regulation, or approval is amended, rescinded, or determined by judicial or other authority to be invalid for any reason."

[(g)] (h) This section takes effect on April 1, 1980[.], except for subsection (f).

* 20. Section 401: Section 408(m) of the National Housing Act
(12 U.S.C. §1730a)

(m) Notwithstanding any other provision of State or Federal law, except as provided in subsections (e)(2) and (1) hereof, the Corporation, upon its determination that severe financial conditions exist which threaten the stability of a significant number of insured institutions, or of insured institutions possessing significant financial resources, may authorize, in its discretion and where it determines such authorization would lessen the risk to the Corporation, an insured institution that is eligible for assistance pursuant to section 406(f) of this Act to merge or consolidate with, or to transfer its assets and liabilities to, any other insured institution, may authorize any other insured institution to acquire control of said insured institution, or may authorize any savings and loan holding company to acquire control of said insured institution or to acquire the assets or assume the liabilities thereof. Mergers, consolidations, transfers and acquisitions under this subsection shall be on such terms as the Corporation shall provide. In considering authorizations under this subsection, the need to minimize financial assistance required of the Corporation shall be the paramount consideration, but the Corporation shall make a reasonable effort to authorize transactions under this subsection in the following sequence: First, between institutions of the same type within the same State; second, between institutions of the same type in different States; third, between institutions of different types in the same State; and fourth, between institutions of different types in different States.

21. Section 402: Section 408(e)(2) of the National Housing Act
(12 U.S.C. §1730a(e)(2))

(2) The Corporation shall not approve any acquisition under subparagraphs (A)(i) or (A)(ii), or of more than one insured institution under subparagraph (B), of paragraph (1) of this subsection except in accordance with this paragraph. In every case, the Corporation shall take into consideration the financial and managerial resources and future prospects of the company and institution involved, and the convenience and needs of the community to be served, and shall render its decision within ninety days after submission to the Board of the complete record on the application. Before approving any such acquisition, the Corporation shall request from the Attorney General and consider any report rendered within thirty days on the competitive factors involved. The Corporation shall not approve any proposed acquisition—

(A) which would result in a monopoly, or which would be in furtherance of any combination or conspiracy to monopolize or to attempt to monopolize the savings and loan business in any part of the United States, or

(B) the effect of which in any section of the country may be substantially to lessen competition, or tend to create a monopoly, or which in any other manner would be in restraint of trade, unless it finds that the anticompetitive effects of the proposed acquisition are clearly outweighed in the public interest by the probable effect of the acquisition in meeting the convenience and needs of the community to be served.

, or any transaction under subsection (m) hereof,

except a transaction under subsection (m) hereof

22. Section 403: Section 5(o) of the Home Owners' Loan Act of 1933
(12 U.S.C. §1464(o))

"(o) Notwithstanding any other provision of this section or State law, and consistent with the purposes of this Act, the Board may authorize (or in the case of a Federal association, require) the conversion of a mutual savings and loan association or mutual savings bank into a Federal stock savings and loan association or Federal stock savings bank, or charter a Federal stock savings and loan association or Federal stock savings bank to acquire the assets of, or merge with such a mutual institution under the rules and regulations of the Board. The Board may condition its approval of the conversion or acquisition of a mutual savings bank under this subsection that was previously insured by the Federal Deposit Insurance Corporation upon the receipt from the Federal Deposit Insurance Corporation of reasonable indemnification of the Federal Savings and Loan Insurance Corporation for losses that may be incurred by the latter as a consequence of its insuring the accounts of such institution, as agreed to by the Corporations. Authorizations under this subsection may be made only to assist an institution in receivership, or if the primary Federal supervisor has determined that severe financial conditions exist which threaten the stability of an institution and that such authorization is likely to improve the financial condition of the institution, or when either of the Corporations has contracted to provide assistance to such institution under section 406 of the National Housing Act or section 13 of the Federal Deposit Insurance Act."

23. Section 404: Section 406(f) of the National Housing Act
(12 U.S.C. §1729(f))

[a] [in]
 "(f)(1) In order to prevent the default of an insured institution, or in order to restore an insured institution in default to normal operation, or, when severe financial conditions exist which threaten the stability of a significant number of insured institutions, or of insured institutions possessing significant financial resources, in order to lessen the risk to the Corporation posed by an insured institution under such threat of instability, the Corporation is authorized, in its sole discretion and upon such terms and conditions as it may determine, to make loans to, to make deposits in, to purchase the assets or securities or to assume the liabilities of, or to make a contribution to, such an insured institution or such an insured institution so threatened.
 [in default]

"(2) Whenever an insured institution is in default or, in the judgment of the Corporation, is in danger of default or, whenever severe financial conditions exist which threaten the stability of a significant number of insured institutions, or of insured institutions possessing significant financial resources, and in order to lessen the risk to the Corporation posed by an insured institution under such threat of instability, the Corporation is authorized, [may] in its sole discretion, in order to facilitate a merger or consolidation of such insured institution with another insured institution or the sale of assets of such insured [the] institution and the assumption of its liabilities by another insured institution, and upon such terms and conditions as the Corporation may determine, to purchase any such assets or assume any such liabilities, or make loans or contributions to, or deposits in, or purchase the securities of, such other insured institution, or guarantee such other insured institution against loss by reason of its merging or consolidating with or assuming the liabilities and purchasing the assets of such insured institution in or in danger of default, or under threat of instability. The Corporation may provide any party acquiring control of, merging with, consolidating with or acquiring the assets of an insured institution under section 408(m) of this Act with such financial assistance as it could provide an insured institution under this subsection.

[contribution or guarantee] [made]
 "(3) No assistance shall be provided pursuant to [paragraphs (1) or this subsection in an amount in excess of that which (2) of] the Corporation finds to be reasonably necessary to save the cost of liquidating, including paying the insured accounts of, such insured institution in or in danger of default, or under threat of instability, but if the Corporation determines that the continued operation of such institution is essential to provide adequate savings or home financing services in its community, such limitation upon the amount of assistance shall not apply."
 [a contribution or guarantee]

24. Section 405: Section 406 of the National Housing Act
(12 U.S.C. §1729)

(a) In order to facilitate the liquidation of insured institutions, the Corporation is authorized (1) to contract with any insured institution with respect to the making available of insured accounts to the insured members of any insured institution in default, or (2) to provide for the organization of a new Federal [savings and loan] association for such purpose subject to the approval of the Federal Home Loan Bank Board.

(b) In the event that a Federal [savings and loan] association is in default, the Corporation shall be appointed as conservator or receiver and [is authorized] as such (1) is authorized (i) to take over the assets of and operate such association, [(2)] (ii) to take such action as may be necessary to put it in a sound and solvent condition, [(3)] (iii) to merge it with another insured institution, [(4)] (iv) to organize a new Federal [savings and loan] association to take over its assets, [or (5)] (v) to proceed to liquidate its assets in an orderly manner, [whichever shall appear] or (vi) to make such other disposition of the matter as it deems to be [to] in the best interest[s] of the [insured members of the] association [in default], its savers, and the Corporation, and (2) shall pay all valid credit obligations of the association. [and in any event the] The Corporation shall pay[the] insurance as provided in section 405 [and all valid credit obligations of such association]. The surrender and transfer to the Corporation of an insured account in any such association which is in default shall subrogate the Corporation with respect to such insured account, but shall not affect any right which the insured member may have in the uninsured portion of his account or any right which he may have to participate in the distribution of the net proceeds remaining from the disposition of the assets of such association.

(A)

(c)(1) In the event any insured institution other than a Federal [savings and loan] association is in default, the Corporation shall have authority to act as conservator, receiver, or other legal custodian of such insured institution, and the services of the Corporation are tendered to the court or other public authority having the power of appointment. If the Corporation is so appointed, it shall have the same powers and duties with respect to the insured institution in default as are conferred upon it under subsection (b) of this section with respect to Federal [savings and loan] associations. If the Corporation is not so appointed it shall pay the insurance as provided in section 1728 of this title, and shall have power (1) to bid for the assets of the insured institution in default, (2) to negotiate for the merger of the insured institution or the transfer of its assets, or (3) to make any other disposition of the matter as it may deem in the best interests of all concerned.

(B) Notwithstanding any provision of state law, or of this section, in the event the Federal Home Loan Bank Board determines that any of the grounds specified in section 5(d)(6)(A)(i), (ii) or (iii) of the Home Owners' Loan Act of 1933 exist with respect to an insured institution, other than a Federal association, the Board shall have exclusive power and jurisdiction to appoint the Corporation as sole conservator or receiver of such institution. In such cases the Corporation shall have the same powers and duties with respect to insured institutions as are conferred upon it under subsection (b) of this section with respect to Federal associations.

(2) In the event the Federal Home Loan Bank Board determines—

(A) that (i) a conservator, receiver, or other legal custodian (whether or not the Corporation) has been or is hereafter appointed for an insured institution which is not a Federal [savings and loan] association other than by the Board (whether or not such institution is in default) and that the appointment of such conservator, receiver, or custodian, or any combination thereof, has been outstanding for a period of at least fifteen consecutive days, or (ii) an insured institution (other than a Federal [savings and loan] association) has been closed by or under the laws of any State;

(B) that one or more of the grounds specified in paragraph (6)(A) of section 1464(d) of this title, existed with respect to such institution at the time a conservator, receiver, or other legal custodian was appointed, or at the time such institution was

closed, or exists thereafter during the appointment of the conservator, receiver, or other legal custodian or while the institution is closed; and

(C) that one or more of the holders of withdrawable accounts in such institution is unable to obtain a withdrawal of his account, in whole or in part;

the Board shall have exclusive power and jurisdiction to appoint the Corporation as sole receiver for such institution. As used in this paragraph (2), the term "State" includes the Commonwealth of Puerto Rico, the territories and possessions, and any place subject to the jurisdiction of the United States.

conservator or

paragraph (1)
or

(3) In any case where the Corporation is appointed receiver of an insured institution pursuant to paragraph (2)—

(A) the provisions of section 1464(d) of this title shall be applicable in the same manner and to the same extent as if such institution were a Federal [savings and loan] association with respect to which the Corporation had been appointed receiver under paragraph (6) thereof, and the provisions of paragraph (14) of said subsection (d) shall be applicable in the same manner and the same extent that they would be applicable if the insured institution were an institution referred to in the first sentence of said paragraph; and

conservator or

(B) the Corporation shall have authority to liquidate such institution in an orderly manner or to make such other disposition of the matter as it deems to be in the best interests of the institution, its savers, and the Corporation.

[In connection with the liquidation of any such institution, the language "the court or other public authority having jurisdiction over the matter" in subsection (d) of this section shall mean said Board.]

(d) In connection with the liquidation of insured institutions in default, the Corporation shall have power to carry on the business of and to collect all obligations to the insured institutions, to settle, compromise, or release claims in favor of or against the insured institutions, and to do all other things that may be necessary in connection therewith, subject only to the regulation of the [court or other public authority having jurisdiction over the matter.]

Federal Home Loan Bank Board, or, in cases where the Corporation has been appointed conservator, receiver, or legal custodian solely by a public authority having jurisdiction over the matter other than said Board, subject only to the regulation of such public authority.

25. Section 406: Section 16 of the Federal Home Loan Bank Act (12 U.S.C. §1436)

§ 1436. Reserves and dividends

(a) Each Federal Home Loan Bank shall carry to a reserve account semi-annually 20 per centum of its net earnings until said reserve account shall show a credit balance equal to 100 per centum of the paid-in capital of such bank. After said reserve has reached 100 per centum of the paid-in capital of said bank, 5 per centum of its net earnings shall be added thereto semiannually. Whenever said reserve shall have been impaired below 100 per centum of the paid-in capital it shall be restored before any dividends are paid. Each Federal Home Loan Bank shall establish such additional reserves and/or make such charge-offs on account of depreciation or impairment of its assets as the board shall require from time to time. No dividends shall be paid except out of net earnings remaining after all reserves and charge-offs required under this chapter have been provided for, and then only with the approval of the board. The reserves of each Federal Home Loan Bank shall be invested, subject to such regulations, restrictions, and limitations as may be prescribed by the board, in direct obligations of the United States, in obligations, participations, or other instruments of or issued by the Federal National Mortgage Association or the Government National Mortgage Association, in mortgages, obligations, or other securities which are or ever have been sold by the Federal Home Loan Mortgage Corporation pursuant to section 1454 or section 1455 of this title, and in such securities as fiduciary and trust funds may be invested in under the laws of the State in which the Federal Home Loan Bank is located.

"(b) Notwithstanding subsection (a) or any other provision of this Act, if the Board determines that severe financial conditions exist threatening the stability of member institutions, it may suspend temporarily the requirements under subsection (a) that a portion of net earnings be set aside semi-annually by each Federal Home Loan Bank to a reserve account and permit each Federal Home Loan Bank to declare and pay dividends out of undivided profits. Thereafter, dividends shall be paid in accordance with subsection (a)."

Financial operations

(d) For the purposes of this subchapter, the Corporation shall have power to borrow money, and to issue notes, bonds, debentures, or other such obligations upon such terms and conditions as the Federal Home Loan Bank Board may determine. Moneys of the Corporation not required for current operations shall be deposited in the Treasury of the United States, or upon the approval of the Secretary of the Treasury, in any Federal Reserve bank, or shall be invested in obligations of, or guaranteed as to principal and interest by, the United States. When designated for that purpose by the Secretary of the Treasury, the Corporation shall be a depository of public money under such regulations as may be prescribed by the Secretary of the Treasury, and may also be employed as fiscal agent of the United States, and it shall perform all such reasonable duties as depository of public money and fiscal agent as may be required of it. Insured institutions shall be depositories of public money and may be employed as fiscal agents of the United States. The Secretary of the Treasury is authorized to deposit public money in such insured institutions, and shall prescribe such regulations as may be necessary to enable such institutions to become depositories of public money and fiscal agents of the United States. Each insured institution shall perform all such reasonable duties as depository of public money and fiscal agent of the United States as may be required of it including services in connection with the collection of taxes and other obligations owed the United States.

, except that interest on loans from the Federal Home Loan Banks shall be not less than their current marginal cost of funds, taking into account the maturities involved, and loans from the Federal Home Loan Banks shall be adequately secured, as determined by the Federal Home Loan Bank Board.

Loans to corporation

(i) The Corporation is authorized to borrow from the Treasury, and the Secretary of the Treasury is authorized and directed to loan to the Corporation on such terms as may be fixed by the Corporation and the Secretary, such funds as in the judgment of the Federal Home Loan Bank Board are from time to time required for insurance purposes, not exceeding in the aggregate \$750,000,000 outstanding at any one time, and the Corporation hereafter shall not exercise its borrowing power under the first sentence of subsection (d) of this section for the purpose of borrowing money from any other source: Provided, That each such loan shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the current average rate on outstanding marketable obligations of the United States as of the last day of the month preceding the making of such loan: Provided further, That nothing in this subsection shall prevent the Corporation from issuing debentures in accordance with the provisions of subsection (b) of section 1728 of this title. For the purposes of this subsection the Secretary of the Treasury is authorized to use as a public-debt transaction the proceeds of the sale of any securities hereafter issued under the Second Liberty Bond Act, as now or hereafter in force, and the purposes for which securities may be issued under the Second Liberty Bond Act, as now or hereafter in force, are extended to include such loans. Any such loan shall be used by the Corporation solely in carrying out its functions with respect to such insurance. All loans and repayments under this subsection shall be treated as public-debt transactions of the United States.

from the Treasury

except the Federal Home Loan Banks

27. Section 407(c): Section 11 of the Federal Home Loan Bank Act (12 U.S.C. §1431)

(k) The Federal Home Loan Banks are authorized to make loans to the Federal Savings and Loan Insurance Corporation, as directed by the board, but subject to Section 402(d) of the National Housing Act.

28. Section 408: Section 404 of the National Housing Act (12 U.S.C. §1727)

"(h) Notwithstanding any other provision of this section, the Corporation, upon its determination that extraordinary financial conditions exist increasing the risk to the Corporation, may terminate distribution of shares of the secondary reserve and utilize said reserve on the same basis as the primary reserve. If otherwise authorized, the Corporation may resume such distribution upon its determination that said conditions no longer exist."

- 29.. Section 501: Section 17(a) of the Federal Home Loan Bank Act (12 U.S.C. §1437(a))

§ 1437. Federal Home Loan Bank Board; creation; composition; powers and duties; salaries; independent agency; report to Congress

(a) The board shall supervise the Federal Home Loan Banks created by this chapter, shall perform the other duties specifically prescribed by this chapter, and shall have power to adopt, amend, and require the observance of such rules, regulations, and orders as shall be necessary from time to time for carrying out the purposes of the provisions of this chapter. The board shall have power to suspend or remove any director, officer, employee, or agent of any Federal Home Loan Bank, the cause of such suspension or removal to be communicated in writing forthwith to such director, officer, employee, or agent, and to such Federal Home Loan Bank.

"Notwithstanding any other provision of law, the Board may from time to time make such provision as it deems appropriate authorizing the performance by any officer, employee, agent or administrative unit thereof of any function of the Board (including any function of the Federal Savings and Loan Insurance Corporation), except with regard to promulgation of rules and regulations in accordance with the Administrative Procedures Act, and adjudications subject to such Act."

30. Section 502: Section 5(d)(8)(A) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(d)(8)(A))

(8)(A) The Board may in its discretion apply to the United States district court, or the United States court of any territory, within the jurisdiction of which the home office of the association is located, for the enforcement of any effective and outstanding notice or order issued by the Board under this subsection (d), and such courts shall have jurisdiction and power to order and require compliance therewith; but except as otherwise provided in this subsection no court shall have jurisdiction to affect by injunction or otherwise the issuance or enforcement of any notice or order under this subsection, or to review, modify, suspend, terminate, or set aside any such notice or order. Any court having jurisdiction of any proceeding instituted under this subsection by an association or a director or officer thereof, may allow to any such party such reasonable expenses and attorneys' fees as it deems just and proper, which prevails, and such expenses and fees shall be paid by the association or from its assets.

31. Section 503: Section 405(d)(3) of the National Housing Act (12 U.S.C. §1728(d)(3))

"(3)(a) Notwithstanding any limitation in this title or in any other provision of law relating to the amount of deposit insurance available for any one account 1.1
[f]

(i) Funds invested in an insured institution pursuant to a pension or profit-sharing plan described in section 401(d) of the Internal Revenue Code of 1954, as amended, and funds invested in an insured institution in the form of individual retirement accounts as described in section 408(a) of the Internal Revenue Code of 1954, (\$100,000) as amended, shall be insured in the amount of \$500,000 per account;

(ii) Funds invested in an insured institution pursuant to a trustee employee benefit plan shall be insured in the amount of \$500,000 per trust estate; and

(iii) Funds invested in an insured institution in the form of an account of any State deferred compensation plan as described in section 457 of the Internal Revenue Code of 1954, as amended, shall be insured in the amount of \$500,000 per each employee's contributions to such accounts.

(b) As to any plan qualifying under section 401(d) as amended, or section 408(a) of the Internal Revenue Code of 1954, the term "per account" means the present vested and ascertainable interest of each beneficiary under the plan, excluding any remainder interest created by, or as a result of, the plan."

32. Section 504: Section 10 of the Federal Home Loan Bank Act
(12 U.S.C. §1430)

(a) Each Federal Home Loan ^{such} Bank is authorized to make ^{secured} advances to its members upon ~~the~~ security ~~of~~ home mortgages, or obligations of the United States, or obligations fully guaranteed by the United States, subject to such regulations, restrictions, and limitations as the Board may prescribe. [Any such advance shall be subject to the following limitations as to amount:

(1) If secured by a mortgage insured under the provisions of subchapters I, II, VI, VIII, or X of chapter 13 of this title, the advance may be for an amount not in excess of 90 per centum of the unpaid principal of the mortgage loan.

(2) If secured by a home mortgage given in respect of an amortized home mortgage loan which was for an original term of six years or more, or in cases where shares of stock, which are pledged as security for such loan, mature in a period of six years or more, the advance may be for an amount not in excess of 65 per centum of the unpaid principal of the home mortgage loan; but in no case shall the amount of the advance exceed 60 per centum of the value of the real estate securing the home mortgage loan.

(3) If secured by a home mortgage given in respect of any other home mortgage loan, the advance shall not be for an amount in excess of 50 per centum of the unpaid principal of the home mortgage loan; but in no case shall the amount of such advance exceed 40 per centum of the value of the real estate securing the home mortgage loan.

(4) If secured by obligations of the United States, or obligations fully guaranteed by the United States, the advance shall not be for an amount in excess of the face value of such obligations.]

(b) [No home mortgage shall be accepted as collateral security for an advance by a Federal Home Loan Bank if, at the time such advance is made (1) the home mortgage loan secured by it has more than thirty years to run to maturity, unless such home mortgage is insured under the National Housing Act, as amended, or insured or guaranteed under the Servicemen's Readjustment Act of 1944, as amended, chapter 37 of Title 38, or (2) the home mortgage exceeds a sum equal to the dollar limitation under the first proviso of the first sentence of section 1464(c) of this title for each home or other dwelling unit covered by such mortgage, or (3) is past due more than six months when presented, unless the amount of the debt secured by such home mortgage is less than 50 per centum of the value of the real estate with respect to which the home mortgage was given, as such real estate was appraised when the home mortgage was made. For the purposes of this subsection and subsection (a) of this section the value of real estate shall be as of the time the advance is made and shall be established by such certification by the borrowing institution, or such other evidence, as the board may require.] For the purposes of this section, each Federal Home Loan Bank shall have power to make, or to cause or require to be made, such appraisals and other investigations as it may deem necessary. No home mortgage otherwise eligible to be accepted as collateral security for an advance by a Federal Home Loan Bank shall be accepted if any director, officer, employee, attorney, or agent of the Federal Home Loan Bank or of the borrowing institution is personally liable thereon, unless the board has specifically approved by formal resolution such acceptance.

(c) Such advances shall be made upon the note or obligation of the member or nonmember borrower secured as provided in this section, bearing such rate of interest as the board may approve or determine, and the Federal Home Loan Bank shall have a lien upon and shall hold the stock of such member as further collateral security for all indebtedness of the member to the Federal Home Loan Bank. At no time shall the aggregate outstanding advances made by any Federal Home Loan Bank to any member exceed ~~twelve~~ twenty times the amounts paid in by such member for outstanding capital stock held by it, or made to a nonmember borrower exceed ~~twelve~~ twenty times the value of the security required to be deposited under subsection (e) of section 1426 of this title.

33. Section 505: Section 405(a) of the National Housing Act (12 U.S.C. §1728(a))

Amount of Insurance

(a) Each institution whose application for insurance under this subchapter is approved by the Corporation shall be entitled to insurance up to the full withdrawal or repurchasable value of the accounts of each of its members and investors (including individuals, partnerships, associations, and corporations) holding withdrawable or repurchasable shares, investment certificates, or deposits, in such institution; except that no member or investor (other than a member or investor referred to in subsection (d) of this title) of any such institution shall be insured for an aggregate amount in excess of \$100,000. For the purpose of clarifying and defining the insurance coverage under this subsection, subsection (d) of this section, and subsection (b) of section 1724 of this title, the Corporation is authorized to define, with such classifications and exceptions as it may prescribe, terms used in those subsections and in subsection (c) of section 1724 of this title and the extent of the insurance coverage resulting therefrom.

"Whenever the liabilities of an insured institution for accounts shall have been assumed by another insured institution or institutions, whether by way of merger, consolidation, or other statutory assumption, or pursuant to contract, all accounts so assumed shall have separate insurance which shall terminate at the end of six months from the date such assumption takes effect or, in the case of any certificate account, the earliest maturity date after the six-month period."

34. Section 506: Section 6(c)(2) of the Federal Home Loan Bank Act
(12 U.S.C. §1426(c)(2))

**Minimum subscriptions; retirement of oversubscriptions; Limitations;
cancellation of oversubscriptions; aggregate unpaid loan
principal; reports and information**

(c) (1) The original stock subscription of each institution eligible to become a member under section 1424 of this title shall be an amount equal to 1 per centum of the subscriber's aggregate unpaid loan principal, but not less than \$500. The bank shall annually, as of the close of the calendar year, adjust, at such time and in such manner and upon such terms and conditions as the Federal Home Loan Bank Board may by regulations or otherwise prescribe, the amount of stock held by each member so that such member shall have invested in the stock of the Federal Home Loan Bank at least an amount calculated in the manner provided in the next preceding sentence (but not less than \$500). If the bank finds that the investment of any member in stock is greater than that required under this subsection it may, unless prohibited by said Board or by the provisions of paragraph (2) of this subsection, in its discretion and upon application of such member retire the stock of such member in excess of the amount so required. Said Board, in its discretion, may, by regulations or otherwise, provide for adjustments in amounts of stock to be issued or retired in order that stock may be issued or retired only in entire shares.

(2) [The provisions of paragraph (1) of this subsection shall be subject to the following limitations:

(1) No member which is a member on September 8, 1961 shall be permitted to reduce its stock to an amount which is less than the amount held by it as of the close of such date, except that a member may at any time reduce its stock to an amount which is not less than 2 per centum of its aggregate unpaid loan principal as of the beginning of the calendar year in which the reduction is made (but not less than \$500): *Provided*, That if the amount to which such stock is so reduced is less than 2 per centum of such member's aggregate unpaid loan principal as of the close of September 8, 1961 such reduction may be made only to such extent as said Board in its discretion may by regulations or otherwise provide.

(2) [Notwithstanding any other provision of this subsection, no action shall be taken by any bank with respect to any member pursuant, to any of the foregoing provisions of this subsection if the effect of such action would be to cause the aggregate outstanding advances, within the meaning of the last sentence of subsection (c) of section 1430 of this title or within the meaning of regulations of the [said] Board defining said term for the purposes of this sentence, made by such bank to such member to exceed twenty times the amount paid in by such member for outstanding capital stock held by such member.

(3) Except as provided in subsection (1), of this section, upon retirement of stock of any member the bank shall pay such member for the stock retired an amount equal to the par value of such stock, or, at the election of the bank, the whole or any part of the payment which would otherwise be so made shall be credited upon the indebtedness of the member to the bank. In either such event, stock equal in par value to the amount of the payment or credit, or both, as the case may be, shall be canceled.

(4) For the purposes of this subsection, the term "aggregate unpaid loan principal" means the aggregate unpaid principal of a subscriber's or member's home mortgage loans, home-purchase contracts, and similar obligations.

(5) The Federal Home Loan Bank Board, by regulations or otherwise, may require each member to submit such reports and information as said Board, in its discretion, may determine to be necessary or appropriate for the purposes of this subsection.

35. Section 507: Section 8a of the Federal Home Loan Bank Act
(12 U.S.C. §1428a)

There is hereby created a Federal Savings and Loan Advisory Council, which shall continue to exist as long as the Board biannually determines, as a matter of formal record, after consultation with the Director of the Office of Management and Budget, with timely notice in the Federal Register, to be in the public interest in connection with the performance of duties imposed on the Council by law. The Council shall, in all other respects, be subject to the provisions of the Federal Advisory Committee Act. The Council shall consist of one member for each Federal Home Loan Bank district to be elected annually by the board of directors of the Federal Home Loan Bank in such district and twelve members to be appointed annually by the Board to represent the public interest. Each such elected member shall be a resident of the district for which he is elected. All members of the Council shall serve without compensation, but shall be entitled to reimbursement from the Board for traveling expenses incurred in attendance at meetings of such Council. The Council shall meet at Washington, District of Columbia, at least twice a year and oftener if requested by the Board. The Council may select its chairman, vice chairman, and secretary, and adopt methods of procedure, and shall have power—

(1) To confer with the Board on general business conditions, and on special conditions affecting the Federal Home Loan Banks and their members and the Federal Savings and Loan Insurance Corporation.

(2) To request information, and to make recommendations, with respect to matters within the jurisdiction of the Board and the Federal Savings and Loan Insurance Corporation.

"Subject to the provisions of §7 of the Federal Advisory Committee Act, all members and alternates of the Council may be compensated and shall be entitled to reimbursement from the Board for traveling expenses incurred in attendance at meetings of such Council."

36. Section 508: Section 6(i) of the Federal Home Loan Bank Act
(12 U.S.C. §1426(i))

Withdrawal or removal of members; surrender and cancellation of stock

(i) Any member other than a Federal savings and loan association may withdraw from membership in a Federal Home Loan Bank six months after filing with the board written notice of intention so to do, and the board may, after hearing, remove any member from membership, or deprive any nonmember borrower of the privilege of obtaining further advances, if, in the opinion of the board, such member or nonmember borrower (i) has failed to comply with any provision of this chapter or regulation of the board made pursuant thereto; (ii) is insolvent: *Provided*, That any member of a bank which is a building and loan association, savings and loan association, cooperative bank, or homestead association shall be deemed insolvent if the assets of such member are less than its obligations to its creditors and others, including the holders of its withdrawable accounts; or (iii) has a management or home-financing policy of a character inconsistent with sound and economical home financing or with the purposes of this chapter. In any such case, the indebtedness of such member or nonmember borrower to the Federal Home Loan Bank shall be liquidated, and the capital stock in the Federal Home Loan Bank owned by such member shall be surrendered and canceled. Upon the liquidation of such indebtedness such member or nonmember borrower shall be entitled to the return of its collateral, and, upon surrender and cancellation of such capital stock, the member shall receive a sum equal to its cash paid subscriptions for the capital stock surrendered, except that if at any time the board finds that the paid-in capital of a Federal Home Loan Bank is or is likely to be impaired as a result of losses in or depreciation of the assets held, the Federal Home Loan Bank shall on the order of the board withhold from the amount to be paid in retirement of the stock a pro rata share of the amount of such impairment as determined by the board.

"; provided, however, that in the case of a voluntary withdrawal, such liquidation shall be deemed a prepayment of any such indebtedness, and shall be subject to any penalties applicable to such prepayment."

JUN 15 1981

The Honorable Richard T. Pratt
Chairman
Federal Home Loan Bank Board
1700 G Street, N.W.
Washington, D.C. 20552

Deak
Dear Mr. Chairman:

We appreciated your sending us the 1981 report to Congress describing the Bank Board's activities under Section 18(f) of the Federal Trade Commission Act. Since we have similar responsibilities under the act, I have forwarded your report to Janet Hart and her staff in our Division of Consumer and Community Affairs for closer reading.

Again, thank you for the information.

Sincerely,

IS/ [Signature]

bcc: Chairman's office
J. Hart
D. Smith ✓
Governor Schultz

#1341

DSS:aem
6/11/81
M-1208

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1981 MAY 15 PM 2:02

RECEIVED
OFFICE OF THE CHAIRMAN



1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

Federal Home Loan Bank Board

RICHARD T. PRATT
CHAIRMAN

MAY 14 1981

#1341

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

Dear Mr. Chairman:

I am pleased to forward to you the Federal Home Loan Bank Board's second annual report to the Congress on this agency's activities to eliminate unfair and deceptive trade practices in the savings and loan industry. Our report indicates that we have improved our handling of consumer complaints and significantly reduced the number of unresolved complaints. Exhibit A to the Report lists regulations adopted by the Board which address areas potentially involving unfair or deceptive trade practices.

Sincerely,

Richard T. Pratt

Enclosure

ANNUAL REPORT TO CONGRESS
ON
SECTION 18(f) OF THE FEDERAL TRADE COMMISSION ACT

FEDERAL HOME LOAN BANK BOARD

May 8, 1981

INTRODUCTION

This is the second annual report describing the activities of the Federal Home Loan Bank Board ("Board") in fulfilling its responsibilities under Section 18(f) of the Federal Trade Commission Act. Those responsibilities are: (1) to identify unfair or deceptive trade practices and to adopt regulations prohibiting such practices; (2) to receive and take appropriate action upon complaints directed against insured savings and loan associations; and (3) unless certain exceptions apply, to promulgate regulations applicable to insured associations that are substantially similar to rules prescribed by the Federal Trade Commission, within 60 days after such FTC rules take effect.

The Department of Consumer and Civil Rights (DCCR) of the Office of Examinations and Supervision (OES) administers the Board's activities relating to unfair and deceptive trade practices. DCCR, established in late 1979, was staffed and became fully operational in 1980. The activities of DCCR form the core of the Board's Consumer Program, published for comment in the Federal Register in October 1980, and adopted by the Board on February 19, 1981.

1. REGULATORY ACTIVITIES

A. New Regulations

A large number of the Board's regulations cover subjects which could involve unfair and deceptive trade practices. These regulations, including those adopted in 1980, are listed in Exhibit A. As new regulations are considered and as existing regulations are simplified or revised, the Board takes into account its responsibility to eliminate unfair and deceptive trade practices. During 1980, this consideration resulted in the requirement for disclosures on adjustable mortgage loans, elimination of the "Rule of 78's"* for certain mobile home loans, and generally in the new consumer and real-estate lending powers granted to savings and loan associations.

During the public comment periods for proposed amendments to the Board's adjustable mortgage regulations, DCCR circulated the proposals to consumer organizations and invited them to comment. DCCR reviewed all consumer comments as well as many industry comments to these proposals and ensured that the Board, in deliberating the proposals, was fully aware of consumer considerations.

* The "Rule of 78's" is a mathematical formula for calculating the refund of unearned interest when an installment loan is paid before maturity. The formula is front-loaded, thus favoring the lender.

B. Identification of Practices

Another major DCCR activity was its participation in the activities of the Consumer Compliance Task Force of the Federal Financial Institutions Examination Council, a forum for coordinating the examination activities of the federal financial regulatory agencies. Through participation in the FFIEC, the Board identifies and designs corrections for unfair and deceptive trade practices. The Council adopted the Task Force's recommendations for uniform procedures for examining regulated institutions for compliance with the Community Reinvestment Act ("CRA") and with the Right to Financial Privacy Act. The Consumer Compliance Task Force also wrote and obtained Council approval for the CRA and Regulation Z (Truth in Lending) Policy Guides for examiners and a Consumer Guide for CRA.

The Board joined the other members of the FFIEC in issuing a policy statement on advertising for NOW accounts. The Board issued the policy statement on September 30, 1980, requiring associations advertising NOW account services to clearly state when the NOW account would be opened, and reminding associations that all advertisements for NOW accounts should comply with Regulation Q, and that the accounts should be accurately described.

C. Consumer Education

An important factor in eliminating unfair and deceptive trade practices is the knowledgeable consumer. To this end, during 1980, Board's staff attended meetings on invitation from civil rights groups and consumer groups including meetings scheduled by the White House Consumer Office.

Using the consumer complaint process to identify issues of importance to consumers, DCCR staff found that consumers need more information about the early withdrawal penalty changes which the Board and the Depository Institutions Deregulation Committee ("DIDC") made in the last two years. DCCR receives numerous complaints and questions about changes in penalty requirements. To help reduce this confusion, DCCR prepared a fact sheet which explains each penalty, the time period during which each was effective, and how these penalties must be applied by the institution.

To better distribute consumer information, DCCR prepared a Consumer Resources Guide containing information for consumers on various Board programs. The information included material explaining the Board and the Federal Home Loan Bank System, fact sheets of Board regulations, and the consumer brochure "There Ought to Be a Law... There Is" which includes a form and instructions for filing a complaint. DCCR distributed this Consumer Resource Guide at the consumer information fairs in which DCCR participated.

2. COMPLAINT INVESTIGATION AND ENFORCEMENT ACTIVITIES

During 1980, DCCR continued to monitor consumer complaints and unfair or deceptive trade practice problems identified in examinations. In 1980, the Board received 4,210 complaints. The largest category of these complaints, involving savings accounts, comprised 43.5 percent of the complaints, up from 30 percent in 1979. Complaints about loans fell from 56.2 percent in 1979 to 43.4 percent in 1980. The decrease in complaints about loans is attributable largely to the decrease in complaints concerning loan charges (720 in 1979 and 542 in 1980). We also received fewer complaints alleging discrimination in lending in 1980 (123) than in 1979 (215); fewer complaints concerning the adverse action notices required by Regulation B (144 in 1980, 162 in 1979) and fewer complaints under the Consumer Credit Protection Act (85 in 1980, 142 in 1979).

During 1980, DCCR acted on 4,276 complaints, including complaints received in 1979. DCCR has reduced the number of unresolved complaints from 475 at the end of calendar year 1979 to 409 at the end of 1980. As of April 1981, only 37 complaints received in 1980 remain open. In 13.7 percent of the cases received and closed in 1980, the Board found association violations or errors. This includes 182 instances of voluntary correction by an association both before and after the Board's investigation. Proportionately, the highest rate of association error (39 percent) was in complaints alleging problems with advertising practices.

In complaints concerning escrow accounts, there was also a comparatively high rate of association violation or error. Of the 212 escrow account complaints, there were 43 (20 percent) with that result. In lending discrimination complaints, there were only 6 cases (5 percent) of association violation or error. In complaints concerning the Consumer Credit Protection Act there were only 14 instances (16 percent) of association violation or error.

Since its organization, DCCR has streamlined the Board's system for investigating and resolving consumer complaints. To do this, DCCR revised the complaint processing instructions and introduced an acknowledgment procedure to ensure more efficient complaint handling. To enable more detailed identification of consumer problems, and to improve the Board's ability to monitor complaints, DCCR revised the data system for complaint information and added new computer codes for identification of complaint problems and their disposition.

3. FTC REGULATIONS

The FTC did not issue any regulations relating to § 18(f) during 1980. The Board did not comment on the FTC's proposed regulation on credit practices.

EXHIBIT A

Federal Home Loan Bank Board Regulations (12 CFR) that Address
Areas Potentially Involving Unfair or Deceptive
Trade Practices

Regulations applicable to member institutions of the Federal Home Loan Banks
(the district banks)

*Part 526: Savings account structures, including NOW accounts

§ 526.2(g): Calculation of savings earnings

§ 526.6: Advertising of interest or dividend on savings accounts

*§ 526.6-1, 526.7: Premature withdrawal penalties

*Part 528: Nondiscrimination regulations (lending, appraising,
advertising, employment)

§531.8: Guidelines on nondiscrimination in lending

Regulations applicable to member federally-chartered savings and loan associations

*§ 545.1 - 545.4: Terms of savings and other accounts

*§ 545.4-2(f) - (1): Safeguards on remote service units ("RSUs")

§ 545.5: Give-aways (premlums)

*§ 545.6-4a: Adjustable mortgage loans

*§ 545.7-10: Consumer lending

§ 545.8-2: Initial loan charges

§ 545.8-3 Loan contracts (including escrow, late charges, and due-on-sale
provisions)

§ 545.8-5(b), 555.15: Prepayment penalties

§ 545.23: Annual Statement of condition

*§ 550: Trust Powers

§ 555.8: Rulings regarding savings accounts, including initiation of earning
period, non-discriminatory redemption of savings accounts, and sales of merchandise
in connection with promotions

* Revised or amended in 1980.

§ 556.9: Statement of policy on imposition of late charges and due-on-sale clauses

Regulations applicable to institutions whose accounts are insured by FSLIC

§ 562.10: Prohibition on advertising of prospective insurance of accounts

*§§ 563.1 - 563.3-3, 563.5, 563.7-1: Terms of savings and other accounts

§ 563.17: Management and financial policies

§ 563.24: Sales plans and give-aways

*§§ 563.25, 563.26: Sales commissions

§ 563.27: Accuracy in advertising

§ 563.34: Restrictions on interlocks between savings and loan and affiliated persons

§ 563.35: Restrictions on loan services (tie-in prohibitions)

§ 563.40: Loan processing fees, kickbacks and insurance fees

§ 563.41: Restrictions on real-estate transactions with affiliated persons

*§ 563.43: Restrictions on loans and other investments involving affiliated persons

§ 563.44: Restrictions on loans involving mortgage insurance

Part 590: Preemption of state usury laws for federally-related mortgage loans.

§ 590.4: Consumer protection rules for federally-related loans, mortgages, credit sales and advances secured by first liens on residential mobile homes.

* Revised or amended in 1980.

§ 57a. Unfair or deceptive acts or practices rulemaking proceedings—
Authority of Commission to prescribe rules and general statements of policy

(a) (1) The Commission may prescribe—

(A) Interpretive rules and general statements of policy with respect to unfair or deceptive acts or practices in or affecting commerce (within the meaning of section 45(a)(1) of this title), and

(B) rules which define with specificity acts or practices which are unfair or deceptive acts or practices in or affecting commerce (within the meaning of section 45(a)(1) of this title). Rules under this subparagraph may include requirements prescribed for the purpose of preventing such acts or practices.

(2) The Commission shall have no authority under this chapter, other than its authority under this section, to prescribe any rule with respect to unfair or deceptive acts or practices in or affecting commerce (within the meaning of section 45(a)(1) of this title). The preceding sentence shall not affect any authority of the Commission to prescribe rules (including interpretive rules), and general statements of policy, with respect to unfair methods of competition in or affecting commerce.

Procedures applicable

(b) When prescribing a rule under subsection (a)(1)(B) of this section, the Commission shall proceed in accordance with section 553 of Title 5 (without regard to any reference in such section to sections 554 and 557 of such title), and shall also (1) publish a notice of proposed rulemaking stating with particularity the reason for the proposed rule; (2) allow interested persons to submit written data, views, and arguments, and make all such submissions publicly available; (3) provide an opportunity for an informal hearing in accordance with subsection (c) of this section; and (4) promulgate, if appropriate, a final rule based on the matter in the rulemaking record (as defined in subsection (e)(1)(B) of this section), together with a statement of basis and purpose.

Informal hearing procedure

(c) The Commission shall conduct any informal hearings required by subsection (b)(3) of this section in accordance with the following procedure:

(1) Subject to paragraph (2) of this subsection, an interested person is entitled—

(A) to present his position orally or by documentary submissions (or both), and

(B) if the Commission determines that there are disputed issues of material fact it is necessary to resolve, to present such rebuttal submissions and to conduct (or have conducted under paragraph (2)(B)) such cross-examination of persons as the Commission determines (i) to be appropriate, and (ii) to be required for a full and true disclosure with respect to such issues.

(2) The Commission may prescribe such rules and make such rulings concerning proceedings in such hearings as may tend to avoid unnecessary costs or delay. Such rules or rulings may include

(A) imposition of reasonable time limits on each interested person's oral presentations, and (B) requirements that any cross-examination to which a person may be entitled under paragraph (1) be conducted by the Commission on behalf of that person in such manner as the Commission determines (i) to be appropriate, and (ii) to be required for a full and true disclosure with respect to disputed issues of material fact.

(3) (A) Except as provided in subparagraph (B), if a group of persons each of whom under paragraphs (1) and (2) would be entitled to conduct (or have conducted) cross-examination and who are determined by the Commission to have the same or similar interests in a proceeding cannot agree upon a single representative of such

interests for purposes of cross-examination, the Commission may make rules and rulings (i) limiting the representation of such interest, for such purposes, and (ii) governing the manner in which such cross-examination shall be limited.

(B) When any person who is a member of a group with respect to which the Commission has made a determination under subparagraph (A) is unable to agree upon group representation with the other members of the group, then such person shall not be denied under the authority of subparagraph (A) the opportunity to conduct (or have conducted) cross-examination as to issues affecting his particular interests if (i) he satisfies the Commission that he has made a reasonable and good faith effort to reach agreement upon group representation with the other members of the group and (ii) the Commission determines that there are substantial and relevant issues which are not adequately presented by the group representative.

(4) A verbatim transcript shall be taken of any oral presentation, and cross-examination, in an informal hearing to which this subsection applies. Such transcript shall be available to the public.

Statement of basis and purpose accompanying rule; "Commission" defined; judicial review of amendment or repeal of rule; violation of rules

(d) (1) The Commission's statement of basis and purpose to accompany a rule promulgated under subsection (a)(1)(B) of this section shall include (A) a statement as to the prevalence of the acts or practices treated by the rule; (B) a statement as to the manner and context in which such acts or practices are unfair or deceptive; and (C) a statement as to the economic effect of the rule, taking into account the effect on small business and consumers.

(2) (A) The term "Commission" as used in this subsection and subsections (b) and (c) of this section includes any person authorized to act in behalf of the Commission in any part of the rulemaking proceeding.

(B) A substantive amendment to, or repeal of, a rule promulgated under subsection (a)(1)(B) of this section shall be prescribed, and subject to judicial review, in the same manner as a rule prescribed under such subsection. An exemption under subsection (g) of this section shall not be treated as an amendment or repeal of a rule.

(3) When any rule under subsection (a)(1)(B) of this section takes effect a subsequent violation thereof shall constitute an unfair or deceptive act or practice in violation of section 45(a)(1) of this title, unless the Commission otherwise expressly provides in such rule.

Judicial review; petition; jurisdiction and venue; rulemaking record; additional submissions and presentations; scope of review and relief; review by Supreme Court; additional remedies

(e) (1) (A) Not later than 60 days after a rule is promulgated under subsection (a)(1)(B) of this section by the Commission, any interested person (including a consumer or consumer organization) may file a petition, in the United States Court of Appeals for the District of Columbia circuit or for the circuit in which such person resides or has his principal place of business, for judicial review of such rule. Copies of the petition shall be forthwith transmitted by the clerk of the court to the Commission or other officer designated by it for that purpose. The provisions of section 2112 of Title 28 shall apply to the filing of the rulemaking record of proceedings on which the Commission based its rule and to the transfer of proceedings in the courts of appeals.

(B) For purposes of this section, the term "rulemaking record" means the rule, its statement of basis and purpose, the transcript required by subsection (c)(4) of this section, any written submissions, and any other information which the Commission considers relevant to such rule.

(2) If the petitioner or the Commission applies to the court for leave to make additional oral submissions or written presentations,

to the satisfaction of the court that such submissions and presentations would be material and that there were reasonable grounds for the submissions and failure to make such submissions and presentations in the proceeding before the Commission, the court may order the Commission to provide additional opportunity to make such submissions and presentations. The Commission may modify or set aside its rule or make a new rule by reason of the additional submissions and presentations and shall file such modified or new rule, and the rule's statement of basis of purpose, with the return of such submissions and presentations. The court shall thereafter review such new or modified rule.

(3) Upon the filing of the petition under paragraph (1) of this subsection, the court shall have jurisdiction to review the rule in accordance with chapter 7 of Title 5 and to grant appropriate relief, including interim relief, as provided in such chapter. The court shall hold unlawful and set aside the rule on any ground specified in subparagraphs (A), (B), (C), or (D) of section 706(2) of Title 5 (taking due account of the rule of prejudicial error), or if—

(A) the court finds that the Commission's action is not supported by substantial evidence in the rulemaking record (as defined in paragraph (1)(B) of this subsection) taken as a whole, or

(B) the court finds that—

(1) a Commission determination under subsection (c) of this section that the petitioner is not entitled to conduct cross-examination or make rebuttal submissions, or

(2) a Commission rule or ruling under subsection (c) of this section limiting the petitioner's cross-examination or rebuttal submissions,

has precluded disclosure of disputed material facts which was necessary for fair determination by the Commission of the rulemaking proceeding taken as a whole.

The term "evidence", as used in this paragraph, means any matter in the rulemaking record.

(4) The judgment of the court affirming or setting aside, in whole or in part, any such rule shall be final, subject to review by the Supreme Court of the United States upon certiorari or certification, as provided in section 1254 of Title 28.

(5)(A) Remedies under the preceding paragraphs of this subsection are in addition to and not in lieu of any other remedies provided by law.

(B) The United States Courts of Appeal shall have exclusive jurisdiction of any action to obtain judicial review (other than in an enforcement proceeding) of a rule prescribed under subsection (a)(1)(B) of this section, if any district court of the United States would have had jurisdiction of such action but for this subparagraph. Any such action shall be brought in the United States Court of Appeals for the District of Columbia circuit, or for any circuit which includes a judicial district in which the action could have been brought but for this subparagraph.

(C) A determination, rule, or ruling of the Commission described in paragraph (3)(B)(1) or (2) may be reviewed only in a proceeding under this subsection and only in accordance with paragraph (3)(B). Section 706(2)(E) of Title 5 shall not apply to any rule promulgated under subsection (a)(1)(B) of this section. The contents and adequacy of any statement required by subsection (b)(4) of this section shall not be subject to judicial review in any respect.

Unfair or deceptive acts or practices by banks or savings and loan institutions; promulgation of regulations by Board of Governors of Federal Reserve System and by Federal Home Loan Bank Board; agency enforcement and compliance proceedings; violations; power of other Federal agencies unaffected; reporting requirements

(f)(1) In order to prevent unfair or deceptive acts or practices in or commerce (including acts or practices which are unfair or deceptive) by banks or savings and loan institutions described

subsection shall establish a separate division of consumer affairs which shall receive and take appropriate action upon complaints with respect to such acts or practices by banks or savings and loan institutions described in paragraph (3) subject to its jurisdiction. The Board of Governors of the Federal Reserve System (with respect to banks) and the Federal Home Loan Bank Board (with respect to savings and loan institutions described in paragraph (3)) shall prescribe regulations to carry out the purposes of this section, including regulations defining with specificity such unfair or deceptive acts or practices, and containing requirements prescribed for the purpose of preventing such acts or practices. Whenever the Commission prescribes a rule under subsection (a)(1)(B) of this section, then within 60 days after such rule takes effect each such Board shall promulgate substantially similar regulations prohibiting acts or practices of banks or savings and loan institutions described in paragraph (3) as the case may be, which are substantially similar to those prohibited by rules of the Commission and which impose substantially similar requirements, unless (A) either such Board finds that such acts or practices of banks or savings and loan institutions described in paragraph (3), as the case may be, are not unfair or deceptive, or (B) the Board of Governors of the Federal Reserve System finds that implementation of similar regulations with respect to banks would seriously conflict with essential monetary and payments systems policies of such Board, and publishes any such finding, and the reasons therefor, in the Federal Register.

(2) Compliance with regulations prescribed under this subsection shall be enforced under section 1818 of Title 12, in the case of—

(A) national banks and banks operating under the code of law for the District of Columbia, by the division of consumer affairs established by the Comptroller of the Currency;

(B) member banks of the Federal Reserve System (other than banks referred to in subparagraph (A)) by the division of consumer affairs established by the Board of Governors of the Federal Reserve System; and

(C) banks insured by the Federal Deposit Insurance Corporation (other than banks referred to in subparagraph (A) or (B)), by the division of consumer affairs established by the Board of Directors of the Federal Deposit Insurance Corporation.

(3) Compliance with regulations prescribed under this subsection shall be enforced under section 5 of the Home Owners' Loan Act of 1933 with respect to Federal savings and loan associations, section 407 of the National Housing Act with respect to insured institutions, and sections 6(1) and 17 of the Federal Home Loan Bank Act with respect to savings and loan institutions which are members of a Federal Home Loan Bank, by a division of consumer affairs to be established by the Federal Home Loan Bank Board pursuant to the Federal Home Loan Bank Act.

(4) For the purpose of the exercise by any agency referred to in paragraph (2) of its powers under any Act referred to in that paragraph, a violation of any regulation prescribed under this subsection shall be deemed to be a violation of a requirement imposed under that Act. In addition to its powers under any provision of law specifically referred to in paragraph (2), each of the agencies referred to in that paragraph may exercise, for the purpose of enforcing compliance with any regulation prescribed under this subsection, any other authority conferred on it by law.

(5) The authority of the Board of Governors of the Federal Reserve System to issue regulations under this subsection does not impair the authority of any other agency designated in this subsection to make rules respecting its own procedures in enforcing compliance with regulations prescribed under this subsection.

(6) Each agency exercising authority under this subsection shall trans-

port on its activities under this paragraph during the preceding calendar year.

Exemptions and stays from application of rules; procedures

(g) (1) Any person to whom a rule under subsection (a) (1) (B) of this section applies may petition the Commission for an exemption from such rule.

(2) If, on its own motion or on the basis of a petition under paragraph (1), the Commission finds that the application of a rule prescribed under subsection (a) (1) (B) of this section to any person or class or persons is not necessary to prevent the unfair or deceptive act or practice to which the rule relates, the Commission may exempt such person or class from all or part of such rule. Section 553 of Title 5 shall apply to action under this paragraph.

(3) Neither the pendency of a proceeding under this subsection respecting an exemption from a rule, nor the pendency of judicial proceedings to review the Commission's action or failure to act under this subsection, shall stay the applicability of such rule under subsection (a) (1) (B) of this section.

Compensation for attorney fees, expert witness fees, etc., incurred by persons in rulemaking proceedings; aggregate amount payable in any fiscal year

(h) (1) The Commission may, pursuant to rules prescribed by it, provide compensation for reasonable attorneys fees, expert witness fees, and other costs of participating in a rulemaking proceeding under this section to any person (A) who has, or represents, an interest (i) which would not otherwise be adequately represented in such proceeding, and (ii) representation of which is necessary for a fair determination of the rulemaking proceeding taken as a whole, and (B) who is unable effectively to participate in such proceeding because such person cannot afford to pay costs of making oral presentations, conducting cross-examination, and making rebuttal submissions in such proceeding.

(2) The aggregate amount of compensation paid under this subsection in any fiscal year to all persons who, in rulemaking proceedings in which they receive compensation, are persons who either (A) would be regulated by the proposed rule, or (B) represent persons who would be so regulated, may not exceed 25 percent of the aggregate amount paid as compensation under this subsection to all persons in such fiscal year.

(3) The aggregate amount of compensation paid to all persons in any fiscal year under this subsection may not exceed \$1,000,000.

Sept. 26, 1914, c. 311, § 18, as added Jan. 4, 1975, Pub.L. 93-637, Title II, § 202(a), 88 Stat. 2193; July 23, 1979, Pub.L. 96-37, § 1(c), 92 Stat. 95.

¹ So in original.

References in Text. Section 5 of the Home Owners' Loan Act of 1933, referred to in subsec. (f)(3), is classified to section 1411 of Title 12, Banks and Banking.

Section 107 of the National Housing Act, referred to in subsec. (f)(3), is classified to section 1730 of Title 12.

The Federal Home Loan Bank Act, referred to in subsec. (f)(3), is classified to section 1421 et seq. of Title 12. Sections 601 and 17 of that Act are classified, respectively, to sections 1426(b) and 1437 of Title 12.

1979 Amendment. Subsec. (f)(1), Pub. L. 96-37, § 1(c)(1), added provisions relating to savings and loan institutions and to regulations with respect to savings and loan institutions promulgated by the Federal Home Loan Bank Board.

Subsec. (f)(3), Pub.L. 96-37, § 1(c)(2), added Subsec. (f)(3). Former subsec. (f)(3) was redesignated (f)(4).

Subsec. (f)(4)(6), Pub.L. 96-37, § 1(c)(2), redesignated subsec. (f)(4)-(5) as (f)(4)-(6), respectively.

tion 202(c) of Pub.L. 93-637 provided that:

"(1) The amendments made by subsections (a) and (b) of this section [adding section 57a of this title and amending section 504(g) of this title] shall not affect the validity of any rule which was promulgated under section 601 of the Federal Trade Commission Act [section 490(g) of this title] prior to the date of enactment of this section [Jan. 4, 1975]. Any proposed rule under section 601 of that Act with respect to which presentation of data, views, and arguments was substantially completed before such date may be promulgated in the same manner and with the same validity as such rule could have been promulgated had this section not been enacted.

"(2) If a rule described in paragraph (1) of this subsection is valid and if section 18 of the Federal Trade Commission Act [section 57a of this title] would have applied to such rule had such rule been promulgated after the date of enactment

Study, Evaluation and Report by Federal Trade Commission and Administrative Conference of United States on Unfair or Deceptive Acts or Practices Rulemaking Procedures. Section 202(d) of Pub.L. 93-637, as amended by Pub.L. 91-299, § 2, May 29, 1970, 84 Stat. 588; Pub. L. 95-508, Nov. 1, 1978, 92 Stat. 2130, provided that: "The Federal Trade Commission and the Administrative Conference of the United States shall each conduct a study and evaluation of the rulemaking procedures under section 18 of the Federal Trade Commission Act [this section] and each shall submit a report of its study (including any legislative recommendations) to the Congress not later than June 30, 1979."

Legislative History. For legislative history and purpose of Pub.L. 93-637, see 1974 U.S. Code Cong. and Adm. News, p. 7102. See, also, Pub.L. 96-37, 1979 U.S. Code Cong. and Adm. News, p. —.

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1. Construction

Congress has specifically authorized Commission to conduct adjudicative proceedings and to promulgate trade regulation rules, and there is nothing improper in Commission's concurrent use of both procedures, even if they appear to have a common objective. *Beltone Electronics Corp. v. F. T. C.*, D.C.H.1975, 402 F.Supp. 590.

Procedures set out in this section are exclusive rule-making authority of Commission. *Id.*

2. Generally

Commission's final action in every rule-making proceeding must satisfy substantial evidence test on judicial review after parties have been afforded a circumscribed opportunity at agency level for cross-examination as to relevant disputed issues of material fact; thus, typically, some aspects of every such proceeding are adjudicative in nature so that conduct of each commissioner must be such that disinterested observer will not conclude that commissioner has in some measure adjudged facts as well as law in advance of hearing which must be attended not only with every element of fairness, but with every appearance of complete fairness. *Association of Nat. Advertisers, Inc. v. F.T.C.*, D.C.D.C.1978, 460 F.Supp. 996.

When Commission decides to adopt a trade regulation rule, it must comply with procedure set out in subsection (b) of this section including publication of proposed rule and reasons therefor in Federal Register, informal hearings, submission of written data, views, and arguments by interested persons, and promulgation of a final rule based on rulemaking record together with a statement of rule's basis and purpose. *Beltone Electronics Corp. v. F. T. C.*, D.C.H.1975, 402 F.Supp. 590.

Rule making is a most desirable means of obtaining the broad objectives of this chapter. *Id.*

3. Power of Commission

In addition to its broad investigatory and adjudicatory powers, Commission has explicit authority to promulgate trade

Provision of this section prescribing procedure to be followed by Commission when it exercises its rule-making authority does not diminish authority of Commission to proceed on a case by case basis in appropriate circumstances and to deal with fact situations that may result in decisions which articulate general standards of conduct. *Id.*

4. Moot questions

Portion of complaint wherein plaintiffs sought initiation of a proceeding before Commission for promulgation of an industrywide rule was moot where Commission subsequently honored plaintiffs' request by initiating a rule-making proceeding. *Beltone Electronics Corp. v. F. T. C.*, D.C.H.1975, 402 F.Supp. 590.

5. Collateral judicial intervention

Conduct of Commission in avoiding a multiplicity of actions by determining to adjudicate false advertising charges against corporate plaintiff as well as charges of alleged nondisclosure was to be commended rather than characterized as arbitrary and capricious so as to warrant judicial intervention. *Beltone Electronics Corp. v. F. T. C.*, D.C.H.1975, 402 F.Supp. 590.

Though Commission had taken a stance against entire hearing and industry as evidenced by its proposed rule, while it proceeded on identical question against corporate plaintiff and five other manufacturers by way of individual adjudication, judicial intervention was not warranted, where view, if any, was that proposed rule and proposed order against plaintiff were in all essential respects identical when it came to disclosures and, in event Commission entered an arbitrary order against plaintiff at conclusion of administrative proceeding, plaintiff could obtain direct review of order. *Id.*

Record failed to establish that circumstances were so inappropriate as to warrant rehearing collateral judicial interference with decision of Commission to initiate adjudicatory proceedings against plaintiff and five other manufacturers with regard to alleged advertising omissions that were industrywide. *Id.*

6. Disqualification of Commissioners

Test for disqualification of federal trade commissioner in adjudicative proceeding is whether disinterested observer may conclude the commissioner has in some measure adjudged facts as well as law of particular case in advance of hearing. *Association of National Advertisers, Inc. v. F. T. C.*, D.C.D.C.1978, 460 F.Supp. 996.

Generally, when disqualification of commissioner in Commission trade regulation rule-making proceeding is sought, district court stays its hand and lets parties await termination of administrative process, but there is exception where issue can not be raised from later order of agency or where agency has very clearly violated important constitutional or statutory right. *Id.*

7. Adjudicative proceedings

Adjudicative proceeding before federal trade commissioner must be attended not only with every element of fairness, but with every appearance of complete fairness. *Association of National Advertisers, Inc. v. F.T.C.*, D.C.D.C.1978, 460 F.Supp. 996.

8. Burden of proof

On motion to enjoin chairman of Commission from further participation in major trade regulation rule-making proceeding, movants made substantial showing that chairman's continued participation would violate movants' constitutional pro-

May 14, 1981

The Honorable Richard T. Pratt
Chairman
Federal Home Loan Bank Board
Washington, D. C.

Dear Dick:

Sorry I will be in the air for your
swearing-in. I would like to welcome you
officially to the "family," but I'm glad
you're here in any event!

All the best,

PAV:ccm

Federal Home Loan Bank Board



1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

JAY JANIS
Chairman

DEC 5 1980

3114

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

Dear Paul:

The most current numbers we have on the condition of S&Ls are not encouraging. I thought it would be helpful for you to have the following update:

Profitability:

For the first half of 1981, we expect that 75 percent of the S&Ls will have negative earnings. For the second half of the year there will be approximately 73 percent under water. This compares to our estimate for 1980 of 50 percent with losses for the second half of the year and 30 percent for the first half. Note that these estimates are based on a medium interest rate scenario. Under a high interest rate scenario, the percent with losses in 1981 approaches 82 percent.

Return on Assets:

ROA for 1981 -- under the medium interest rate scenario -- is estimated at between -.35 to -.40. Under a high interest rate scenario, the range is -.65 to -.90.

FSLIC Fund:

Based on our current problem book cases -- under a worse case scenario -- the losses to the insurance fund could reach as high as \$2.5 billion. The book value of the fund is \$5.8 billion, but the market value is probably closer to \$4.6 billion.

Enclosed are a couple of charts and the backup simulations for your staff to review and compare with their own. On the first chart you can see our interest rate assumptions.

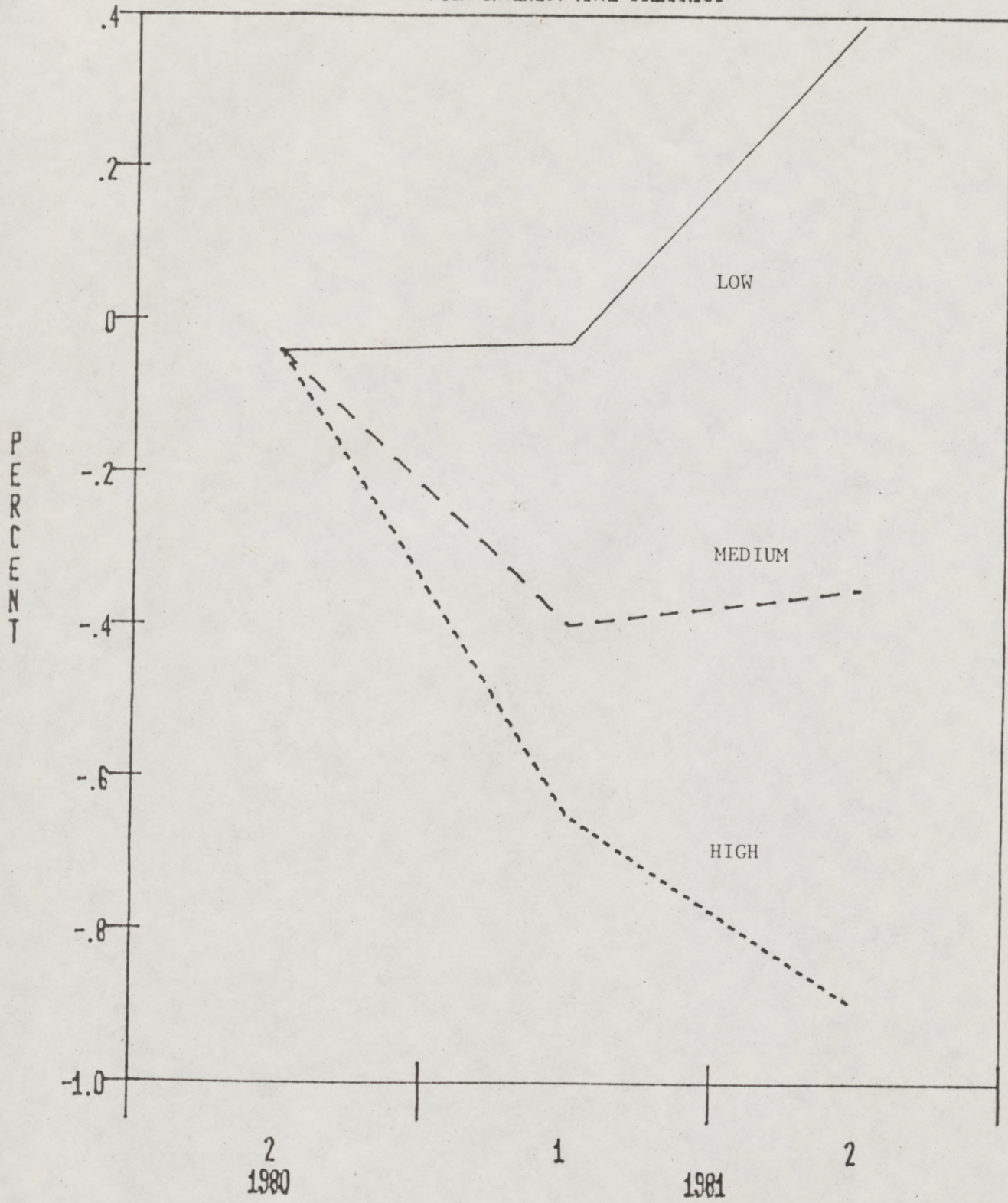
Sincerely,

Jay Janis

~~Handwritten signature~~
ans.
12/19

Enclosures

ROA PROJECTIONS FOR LOW, MEDIUM, AND
HIGH INTEREST RATE SCENARIOS



LOW—SOLID LINE
MEDIUM—DASHED LINE
HIGH—DOTTED LINE

December 2, 1980

OPER Interest Rate Scenario
 Semi-annual Averages
 and Implications for ROA

	Low			Medium			High		
	<u>80:2</u>	<u>81:1</u>	<u>81:2</u>	<u>80:2</u>	<u>81:1</u>	<u>81:2</u>	<u>80:2</u>	<u>81:1</u>	<u>81:2</u>
MMC Rate	13.0	10.5	9.9	13.1	13.5	12.9	13.2	15.5	14.9
2-1/2 Certificate Rate	10.8	11.0	10.85	10.8	12.0	12.0	10.8	12.0	12.0
Jumbo Rate	14.6	11.9	11.2	14.7	15.15	14.40	14.8	17.15	16.80
Mortgage Contract Rate	12.25	13.25	13.00	12.30	14.25	14.0	12.35	15.0	14.75
ROA	-.04	-.03	.39	-.04	-.40	-.35	-.04	-.65	-.90

OPER FORECAST - LOW INTEREST RATES

ASSETS	80:1	80:2	81:1	81:2
MORTGAGE LOANS AND CONTRACTS ...	472.234	495.227	517.547	536.288
FIXED RATE	457.234	478.727	490.342	497.669
VARIABLE RATE	15.000	16.500	15.437	14.541
RENEGOTIATED RATE .....	.000	.000	11.868	24.078
MORTGAGE-BACKED SECURITIES (US)	22.151	22.628	23.541	24.279
CONSUMER LOANS .....	.000	2.449	6.433	10.046
OTHER LOANS	16.960	17.726	18.488	19.139
CASH & INVESTMENT SECURITIES ...	55.740	58.186	60.531	62.457
REAL ESTATE OWNED	1.973	2.062	2.173	2.270
FIXED ASSETS (NET)	7.782	8.206	8.634	9.000
OTHER ASSETS	5.431	5.685	5.989	6.251
TOTAL ASSETS	582.272	612.168	643.337	669.730

LIABILITIES

SAVING ACCOUNTS	475.187	498.979	524.978	542.978
PASSBOOK ACCOUNTS	104.540	109.775	102.370	97.735
CERTIFICATES, TOTAL	370.646	389.205	422.608	445.242
EXISTING CERTIFICATES	149.923	105.956	96.761	87.566
NEW 2-1/2 & 4 YEAR CERT. ...	3.325	48.688	86.982	102.477
NMO'S	185.324	174.644	196.868	211.762
\$100,000+	32.074	39.917	41.997	43.437
THIRD-PARTY ACCOUNTS .....	.620	.800	3.000	5.000
BORROWED MONEY	54.936	60.109	61.980	66.293
FHLB ADVANCES	40.345	43.093	44.499	47.777
OTHER BORROWED MONEY	14.091	17.015	17.482	18.516
LOANS IN PROCESS	7.089	7.359	7.823	8.169
SPECIFIC RESERVES .....	.217	.227	.239	.247
DEFERRED CREDITS	3.635	3.827	4.053	4.217
OTHER LIABILITIES	8.509	8.941	9.450	9.813
TOTAL LIABILITIES	550.193	580.243	611.524	636.717

NET WORTH

NET WORTH	32.080	31.926	31.813	33.019
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OPER FORECAST - LOW INTEREST RATES

INCOME	80:1	80:2	81:1	81:2
TOTAL OPERATING INCOME	27.141	29.521	31.355	33.551
INTEREST INCOME	25.648	27.887	29.795	31.853
MORTGAGE LOANS & CONTRACTS .	21.111	22.628	24.514	26.192
CONSUMER AND OTHER LOANS ...	.896	.867	.964	1.400
INVESTMENTS & DEPOSITS	2.762	3.415	3.275	3.156
MORTGAGE-BACKED SEC. (US) ..	.880	.977	1.042	1.105
FROM LOAN FEES & DISCOUNTS ...	.720	.823	.705	.806
ALL OTHER OPERATING INCOME ...	.773	.811	.855	.892
TOTAL NON-OPERATING INCOME .....	.412	.429	.453	.475
TOTAL INCOME	27.553	29.951	31.809	34.026
EXPENSE				
TOTAL OPERATING EXPENSE	3.818	3.987	4.209	4.426
COST OF FUNDS (INTEREST)	22.816	25.918	27.472	27.541
SAVING ACCOUNTS	19.949	22.988	24.430	24.269
THIRD-PARTY ACCOUNTS .....	.000	.019	.050	.105
FHLB ADVANCES	2.096	2.141	2.312	2.491
OTHER BORROWED MONEY .....	.772	.771	.680	.677
TOTAL NON-OPERATING EXPENSE .....	.171	.174	.182	.190
TOTAL EXPENSE BEFORE TAXES	26.805	30.079	31.862	32.157
TAXES .....	.267	.001	.029	.589
FEDERAL TAXES .....	.209	-.035	-.010	.474
STATE, LOCAL, AND OTHER TAXES	.059	.037	.041	.115
TOTAL EXPENSE AFTER TAXES	27.073	30.081	31.891	32.747
NET INCOME				
NET INCOME BEFORE TAXES .....	.748	-.128	-.053	1.869
TAXES .....	.267	.001	.029	.589
NET INCOME .....	.480	-.129	-.082	1.279
CASH DIVIDENDS ON STOCK .....	.030	.023	.030	.074
NET INCOME AFTER TAXES & DIV. ...	.450	-.152	-.112	1.205

OPER FORECAST - LOW INTEREST RATES

AREA/YEAR	NET WORTH % OF DEPOSITS	AS % OF AVERAGE NET ASSETS				AVERAGE COST OF FUNDS	AVERAGE COST OF SAVINGS	AVERAGE YIELD ON MORTGAGES
		NET INCOME	GROSS INCOME	INTEREST EXPENSE	SAVINGS INTEREST			
U.S								
80:1	6.74	.17	9.74	8.06	7.05	8.74	8.53	9.16
80:2	6.39	-.04	10.15	8.79	7.80	9.51	9.43	9.50
81:1	6.03	-.03	10.26	8.86	7.89	9.56	9.53	9.83
81:2	6.03	.39	10.49	8.49	7.52	9.15	9.06	10.09
DIST. 1								
80:1	5.99	-.02	9.27	7.60	6.86	8.17	7.99	8.79
80:2	5.75	-.12	9.71	8.22	7.47	8.81	8.73	9.08
81:1	5.47	-.18	9.75	8.33	7.57	8.91	8.87	9.34
81:2	5.45	.09	9.89	8.10	7.32	8.65	8.58	9.53
DIST. 2								
80:1	5.96	-.20	9.10	7.97	6.81	8.59	8.23	8.38
80:2	5.60	-.23	9.46	8.39	7.41	9.03	8.85	8.65
81:1	5.27	-.17	9.63	8.47	7.61	9.08	8.99	8.96
81:2	5.20	.10	9.76	8.23	7.36	8.81	8.69	9.20
DIST. 3								
80:1	7.05	.12	9.19	7.62	6.76	8.30	8.04	8.85
80:2	6.78	.07	9.75	8.23	7.47	9.01	8.91	9.18
81:1	6.47	.02	9.79	8.39	7.56	9.10	9.05	9.48
81:2	6.47	.35	10.01	8.14	7.29	8.82	8.73	9.71
DIST. 4								
80:1	6.34	.26	9.57	7.85	7.03	8.45	8.27	9.01
80:2	5.95	-.11	9.99	8.80	8.02	9.47	9.41	9.35
81:1	5.54	-.11	10.09	8.89	8.10	9.53	9.52	9.67
81:2	5.49	.30	10.29	8.52	7.73	9.11	9.06	9.93
DIST. 5								
80:1	7.00	.17	9.48	7.79	7.00	8.44	8.31	9.10
80:2	6.70	-.04	10.02	8.62	7.77	9.32	9.27	9.42
81:1	6.33	-.11	10.03	8.72	7.82	9.40	9.39	9.72
81:2	6.32	.29	10.25	8.38	7.47	9.03	8.96	9.95

OPER FORECAST - LOW INTEREST RATES

AREA/YEAR	NET WORTH % OF DEPOSITS	AS % OF AVERAGE NET ASSETS				AVERAGE COST OF FUNDS	AVERAGE COST OF SAVINGS	AVERAGE YIELD ON MORTGAGES
		NET INCOME	GROSS INCOME	INTEREST EXPENSE	SAVINGS INTEREST			
DIST. 6								
80:1	6.53	.08	9.37	7.92	7.31	8.58	8.48	9.09
80:2	6.25	.00	9.97	8.68	8.01	9.41	9.39	9.48
81:1	5.93	-.03	10.02	8.77	8.05	9.48	9.50	9.82
81:2	5.99	.41	10.28	8.39	7.66	9.06	9.04	10.09
DIST. 7								
80:1	6.26	.13	9.46	7.78	6.95	8.43	8.23	8.96
80:2	5.93	-.03	9.97	8.58	7.77	9.29	9.21	9.29
81:1	5.55	-.14	10.00	8.69	7.87	9.37	9.34	9.61
81:2	5.52	.26	10.24	8.36	7.54	9.01	8.93	9.86
DIST. 8								
80:1	6.34	.11	9.38	7.82	6.68	8.41	8.16	8.96
80:2	5.88	-.34	9.82	8.88	7.74	9.53	9.47	9.29
81:1	5.40	-.34	9.93	8.98	7.85	9.61	9.59	9.63
81:2	5.30	.10	10.17	8.62	7.47	9.20	9.10	9.89
DIST. 9								
80:1	6.34	.29	10.06	8.14	7.36	8.84	8.73	9.23
80:2	5.89	-.13	10.41	9.07	8.27	9.83	9.83	9.62
81:1	5.46	-.07	10.56	9.13	8.32	9.86	9.90	9.98
81:2	5.42	.40	10.76	8.67	7.86	9.34	9.33	10.27
DIST. 10								
80:1	7.45	.35	9.88	7.89	6.76	8.60	8.47	9.29
80:2	7.05	-.08	10.27	8.89	7.71	9.65	9.63	9.63
81:1	6.63	-.09	10.37	8.99	7.80	9.73	9.73	9.97
81:2	6.61	.36	10.61	8.60	7.39	9.29	9.20	10.24
DIST. 11								
80:1	7.61	.24	10.46	8.73	7.29	9.51	9.34	9.70
80:2	7.29	.13	10.76	9.13	7.77	9.93	9.87	10.04
81:1	7.01	.29	10.94	9.13	7.87	9.92	9.87	10.40
81:2	7.15	.80	11.25	8.68	7.41	9.42	9.29	10.70

OPER FORECAST - LOW INTEREST RATES

AREA/YEAR	NET WORTH % OF DEPOSITS	AS % OF AVERAGE NET ASSETS				AVERAGE COST OF FUNDS	AVERAGE COST OF SAVINGS	AVERAGE YIELD ON MORTGAGES
		NET INCOME	GROSS INCOME	INTEREST EXPENSE	SAVINGS INTEREST			
DIST. 12								
80:1	7.65	.21	10.24	8.27	6.90	9.03	8.78	9.64
80:2	7.29	.12	10.62	8.77	7.42	9.56	9.45	9.94
81:1	6.89	.09	10.67	8.84	7.50	9.61	9.52	10.26
81:2	6.89	.51	10.24	8.50	7.15	9.23	9.06	10.51

OPER FORECAST - LOW INTEREST RATES

ANNUALIZED NET INCOME AS A PERCENT OF AVERAGE NET ASSETS, 1980:1

DISTRICT													TOTAL	%	CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL			%	
1 -	40	83	117	269	192	67	189	101	221	101	64	46	1490	37.17	1490	37.17
2 -	10	45	46	117	78	46	70	51	93	38	37	25	661	16.49	2151	53.65
3 -	17	42	47	109	90	45	67	48	92	29	31	20	637	15.89	2788	69.54
4 -	19	29	25	68	45	20	71	23	66	24	18	16	424	10.58	3212	80.11
5 -	11	32	30	43	36	12	37	19	45	10	19	12	306	7.63	3518	87.75
6 -	8	26	9	31	19	5	17	10	23	5	11	9	173	4.32	3691	92.07
7 -	12	45	18	35	32	18	35	13	58	13	25	14	318	7.93	4009	100.00
8 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
9 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00
1 -	GREATER THAN 0.40															
2 -	0.20 TO 0.40															
3 -	0.00 TO 0.20															
4 -	-0.20 TO 0.00															
5 -	-0.40 TO -0.20															
6 -	-0.60 TO -0.40															
7 -	LESS THAN -0.60															
8 -	UNDEFINED															
9 -	TOTAL															

NET WORTH AS A PERCENT OF TOTAL DEPOSITS, 1980:1

DISTRICT													TOTAL	%	CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL			%	
1 -	58	171	199	383	338	157	265	142	291	155	147	109	2415	60.24	2415	60.24
2 -	47	101	80	201	123	45	174	93	227	50	40	25	1206	30.08	3621	90.32
3 -	4	16	9	48	17	7	30	14	42	5	8	2	202	5.04	3823	95.36
4 -	7	14	4	39	14	4	16	13	39	9	8	6	173	4.32	3996	99.68
5 -	1	0	0	1	0	0	1	3	4	1	2	0	13	.32	4009	100.00
6 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
7 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00
1 -	GREATER THAN 6.0															
2 -	4.0 TO 6.0															
3 -	3.0 TO 4.0															
4 -	0.0 TO 3.0															
5 -	LESS THAN 0.0															
6 -	UNDEFINED															
7 -	TOTAL															

OPER FORECAST - LOW INTEREST RATES

ANNUALIZED NET INCOME AS A PERCENT OF AVERAGE NET ASSETS, 1980:2

DISTRICT															CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	24	77	111	131	103	47	110	28	87	42	71	38	369	21.68	869	21.68
2 -	18	40	48	92	77	40	63	25	60	31	35	21	550	13.72	1419	35.40
3 -	22	38	42	109	79	44	72	36	75	46	25	27	615	15.34	2034	50.74
4 -	14	27	34	107	67	24	83	43	79	29	23	18	548	13.67	2582	64.41
5 -	15	38	17	102	68	24	68	47	89	31	17	18	534	13.32	3116	77.73
6 -	11	31	13	63	45	16	41	39	78	14	10	5	366	9.13	3482	86.85
7 -	13	51	27	68	53	18	49	47	135	27	24	15	527	13.15	4009	100.00
8 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
9 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

1 - GREATER THAN 0.40

2 - 0.20 TO 0.40

3 - 0.00 TO 0.20

4 - -0.20 TO 0.00

5 - -0.40 TO -0.20

6 - -0.60 TO -0.40

7 - LESS THAN -0.60

8 - UNDEFINED

9 - TOTAL

NET WORTH AS A PERCENT OF TOTAL DEPOSITS, 1980:2

DISTRICT															CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	53	151	184	338	303	153	248	129	240	136	133	101	2169	54.10	2169	54.10
2 -	48	106	85	211	141	42	158	92	238	68	51	27	1267	31.60	3436	85.71
3 -	7	25	16	66	26	12	54	22	57	4	9	6	304	7.58	3740	93.29
4 -	7	19	7	51	21	6	24	19	59	9	9	8	239	5.96	3979	99.25
5 -	2	1	0	6	1	0	2	3	9	3	3	0	30	.75	4009	100.00
6 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
7 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

1 - GREATER THAN 6.0

2 - 4.0 TO 6.0

3 - 3.0 TO 4.0

4 - 0.0 TO 3.0

5 - LESS THAN 0.0

6 - UNDEFINED

7 - TOTAL

OPER' FORECAST - LOW INTEREST RATES

ANNUALIZED NET INCOME AS A PERCENT OF AVERAGE NET ASSETS, 1981:1

DISTRICT															CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	21	71	102	115	76	36	74	17	91	40	71	31	745	18.58	745	18.58
2 -	13	49	39	87	70	34	65	29	58	26	30	18	518	12.92	1263	31.50
3 -	25	35	45	118	79	46	75	39	84	49	33	35	663	16.54	1926	48.04
4 -	17	31	36	112	83	38	82	42	87	28	18	18	592	14.77	2518	62.81
5 -	15	39	29	108	72	23	76	50	89	33	22	12	568	14.17	3086	76.98
6 -	11	30	11	77	46	15	53	42	79	20	5	10	399	9.95	3485	86.93
7 -	15	47	30	55	66	21	61	46	115	24	26	18	524	13.07	4009	100.00
8 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
9 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

- 1 - GREATER THAN 0.40
- 2 - 0.20 TO 0.40
- 3 - 0.00 TO 0.20
- 4 - -0.20 TO 0.00
- 5 - -0.40 TO -0.20
- 6 - -0.60 TO -0.40
- 7 - LESS THAN -0.60
- 8 - UNDEFINED
- 9 - TOTAL

NET WORTH AS A PERCENT OF TOTAL DEPOSITS, 1981:1

DISTRICT															CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	48	141	169	301	248	143	231	109	213	121	123	89	1956	48.79	1956	48.79
2 -	47	94	95	214	153	46	137	87	204	76	51	37	1241	30.96	3197	79.75
3 -	12	36	17	77	35	12	75	40	91	9	13	7	424	10.58	3621	90.32
4 -	8	29	10	71	34	12	39	25	79	10	13	8	338	8.43	3959	98.75
5 -	2	2	1	9	2	0	4	4	16	4	5	1	50	1.25	4009	100.00
6 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
7 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

- 1 - GREATER THAN 6.0
- 2 - 4.0 TO 6.0
- 3 - 3.0 TO 4.0
- 4 - 0.0 TO 3.0
- 5 - LESS THAN 0.0
- 6 - UNDEFINED
- 7 - TOTAL

OPER FORECAST - LOW INTEREST RATES

ANNUALIZED NET INCOME AS A PERCENT OF AVERAGE NET ASSETS, 1981:2

	DISTRICT												TOTAL	%	CUMULATIVE	
	1	2	3	4	5	6	7	8	9	10	11	12			TOTAL	%
1 -	42	128	177	384	250	127	237	113	297	129	141	91	2116	52.78	2116	52.78
2 -	24	43	43	112	88	38	79	46	92	34	23	20	642	16.01	2758	68.80
3 -	22	38	25	85	64	21	67	37	81	28	14	9	491	12.25	3249	81.04
4 -	8	32	20	48	37	10	41	33	47	10	4	6	296	7.38	3545	88.43
5 -	6	22	10	21	33	9	21	16	27	7	5	4	181	4.51	3726	92.94
6 -	8	13	9	7	7	3	13	8	20	6	0	4	98	2.44	3824	95.39
7 -	7	26	8	15	13	5	28	12	39	6	18	8	185	4.61	4009	100.00
8 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
9 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

- 1 - GREATER THAN 0.40
- 2 - 0.20 TO 0.40
- 3 - 0.00 TO 0.20
- 4 - -0.20 TO 0.00
- 5 - -0.40 TO -0.20
- 6 - -0.60 TO -0.40
- 7 - LESS THAN -0.60
- 8 - UNDEFINED
- 9 - TOTAL

NET WORTH AS A PERCENT OF TOTAL DEPOSITS, 1981:2

	DISTRICT												TOTAL	%	CUMULATIVE	
	1	2	3	4	5	6	7	8	9	10	11	12			TOTAL	%
1 -	47	140	170	305	274	144	234	107	206	119	117	85	1951	48.67	1951	48.67
2 -	46	86	88	207	148	42	132	89	203	74	53	38	1201	29.96	3152	78.62
3 -	12	41	17	73	38	14	73	37	94	12	19	10	440	10.98	3592	89.60
4 -	11	28	16	75	35	13	42	27	84	11	12	8	362	9.03	3954	98.63
5 -	1	4	1	12	2	0	5	5	16	4	4	1	55	1.37	4009	100.00
6 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
7 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

- 1 - GREATER THAN 6.0
- 2 - 4.0 TO 6.0
- 3 - 3.0 TO 4.0
- 4 - 0.0 TO 3.0
- 5 - LESS THAN 0.0
- 6 - UNDEFINED
- 7 - TOTAL

OPER FORECAST - MEDIUM INTEREST RATES

ASSETS	80:1	80:2	81:1	81:2
MORTGAGE LOANS AND CONTRACTS ...	472.234	495.227	514.060	531.711
FIXED RATE	457.234	478.727	487.778	494.382
VARIABLE RATE	15.000	16.500	15.482	14.582
RENEGOTIATED RATE .....	.000	.000	10.801	22.747
MORTGAGE-BACKED SECURITIES (US)	22.151	22.628	23.381	24.073
CONSUMER LOANS .....	.000	2.449	6.390	9.960
OTHER LOANS	16.960	17.726	18.364	18.977
CASH & INVESTMENT SECURITIES ...	55.740	58.186	60.124	61.932
REAL ESTATE OWNED	1.973	2.062	2.159	2.251
FIXED ASSETS (NET)	7.782	8.206	8.576	8.923
OTHER ASSETS	5.431	5.685	5.949	6.198
TOTAL ASSETS	582.272	612.168	639.003	664.026
LIABILITIES				
SAVING ACCOUNTS	475.187	498.979	520.978	538.978
PASSBOOK ACCOUNTS	104.540	109.775	98.985	91.625
CERTIFICATES, TOTAL	370.646	389.205	421.993	447.352
EXISTING CERTIFICATES	149.923	105.956	96.761	87.566
NEW 2-1/2 & 4 YEAR CERT. ...	3.325	68.688	82.977	95.687
MMD'S	185.324	174.644	197.973	215.592
\$100,000+	32.074	39.917	44.282	48.507
THIRD-PARTY ACCOUNTS .....	.620	.800	3.000	5.000
BORROWED MONEY	54.936	60.109	62.941	68.225
FHLB ADVANCES	40.845	43.093	44.967	48.714
OTHER BORROWED MONEY	14.091	17.015	17.974	19.511
LOANS IN PROCESS	7.089	7.359	7.764	8.110
SPECIFIC RESERVES .....	.217	.227	.237	.246
DEFERRED CREDITS	3.635	3.827	4.022	4.186
OTHER LIABILITIES	8.509	8.941	9.378	9.741
TOTAL LIABILITIES	550.193	580.243	608.321	634.485
NET WORTH				
NET WORTH	32.080	31.926	30.679	29.538

OPER FORECAST - MEDIUM INTEREST RATES

INCOME	80:1	80:2	81:1	81:2
TOTAL OPERATING INCOME	27.141	29.521	31.841	34.406
INTEREST INCOME	25.648	27.887	30.350	32.735
MORTGAGE LOANS & CONTRACTS .	21.111	22.628	24.544	26.286
CONSUMER AND OTHER LOANS ...	.896	.867	1.019	1.476
INVESTMENTS & DEPOSITS	2.762	3.415	3.744	3.867
MORTGAGE-BACKED SEC. (US) ..	.880	.977	1.043	1.107
FROM LOAN FEES & DISCOUNTS ...	.720	.823	.642	.786
ALL OTHER OPERATING INCOME ...	.773	.811	.849	.885
TOTAL NON-OPERATING INCOME .....	.412	.429	.450	.471
TOTAL INCOME	27.553	29.951	32.292	34.877
EXPENSE				
TOTAL OPERATING EXPENSE	3.818	3.987	4.194	4.393
COST OF FUNDS (INTEREST)	22.816	25.918	29.558	31.776
SAVING ACCOUNTS	19.949	22.988	26.278	28.153
THIRD-PARTY ACCOUNTS000	.019	.050	.105
FHLB ADVANCES	2.096	2.141	2.388	2.660
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TOTAL EXPENSE BEFORE TAXES	26.805	30.079	33.933	36.357
TAXES267	.001	-.402	-.356
FEDERAL TAXES209	-.035	-.416	-.376
STATE, LOCAL, AND OTHER TAXES	.059	.037	.014	.020
TOTAL EXPENSE AFTER TAXES	27.073	30.081	33.530	36.000
NET INCOME				
NET INCOME BEFORE TAXES .....	.748	-.128	-1.640	-1.479
TAXES .....	.267	.001	-.402	-.356
NET INCOME .....	.480	-.129	-1.237	-1.122
CASH DIVIDENDS ON STOCK .....	.030	.023	.010	.018
NET INCOME AFTER TAXES & DIV. ...	.450	-.152	-1.247	-1.139

OPER FORECAST - MEDIUM INTEREST RATES

AREA/YEAR	NET WORTH % OF DEPOSITS	AS % OF AVERAGE NET ASSETS				AVERAGE COST OF FUNDS	AVERAGE COST OF SAVINGS	AVERAGE YIELD ON MORTGAGES
		NET INCOME	GROSS INCOME	INTEREST EXPENSE	SAVINGS INTEREST			
U.S.								
80:1	6.74	.17	9.74	8.06	7.05	8.74	8.53	9.16
80:2	6.39	-.04	10.15	8.79	7.80	9.51	9.43	9.50
81:1	5.85	-.40	10.45	9.57	8.52	10.31	10.29	9.88
81:2	5.43	-.35	10.84	9.87	8.78	10.60	10.58	10.21
DIST. 1								
80:1	5.99	-.02	9.27	7.60	6.86	8.17	7.99	8.79
80:2	5.75	-.12	9.71	8.22	7.47	8.81	8.73	9.08
81:1	5.32	-.50	9.93	8.94	8.11	9.55	9.51	9.36
81:2	4.91	-.58	10.20	9.32	8.44	9.92	9.89	9.60
DIST. 2								
80:1	5.96	-.20	9.10	7.97	6.81	8.59	8.23	8.38
80:2	5.60	-.23	9.46	8.39	7.41	9.03	8.85	8.65
81:1	5.13	-.47	9.85	9.11	8.17	9.76	9.66	8.99
81:2	4.70	-.52	10.16	9.49	8.51	10.13	10.04	9.28
DIST. 3								
80:1	7.05	.12	9.19	7.62	6.76	8.30	8.04	8.85
80:2	6.78	.07	9.75	8.28	7.47	9.01	8.91	9.18
81:1	6.33	-.30	9.99	9.02	8.11	9.78	9.72	9.51
81:2	5.94	-.31	10.35	9.38	8.43	10.13	10.09	9.81
DIST. 4								
80:1	6.34	.26	9.57	7.85	7.08	8.45	8.27	9.01
80:2	5.95	-.11	9.99	8.80	8.02	9.47	9.41	9.35
81:1	5.36	-.50	10.27	9.60	8.74	10.28	10.27	9.72
81:2	4.87	-.47	10.63	9.92	9.02	10.57	10.57	10.04
DIST. 5								
80:1	7.00	.17	9.48	7.79	7.00	8.44	8.31	9.10
80:2	6.70	-.04	10.02	8.62	7.77	9.32	9.27	9.42
81:1	6.17	-.47	10.22	9.39	8.42	10.12	10.11	9.76
81:2	5.74	-.44	10.58	9.71	8.69	10.42	10.41	10.05

OPER FORECAST - MEDIUM INTEREST RATES

AREA/YEAR	NET WORTH % OF DEPOSITS	AS % OF AVERAGE NET ASSETS				AVERAGE COST OF FUNDS	AVERAGE COST OF SAVINGS	AVERAGE YIELD ON MORTGAGES
		NET INCOME	GROSS INCOME	INTEREST EXPENSE	SAVINGS INTEREST			
DIST. 6								
80:1	6.53	.08	9.37	7.92	7.31	8.58	8.48	9.09
80:2	6.25	.00	9.97	8.68	8.01	9.41	9.39	9.48
81:1	5.77	-.39	10.23	9.46	8.67	10.22	10.24	9.87
81:2	5.41	-.31	10.64	9.75	8.92	10.49	10.52	10.21
DIST. 7								
80:1	6.26	.13	9.46	7.78	6.95	8.43	8.23	8.96
80:2	5.93	-.08	9.97	8.58	7.77	9.29	9.21	9.29
81:1	5.39	-.50	10.19	9.36	8.47	10.09	10.05	9.65
81:2	4.94	-.45	10.59	9.69	8.75	10.40	10.37	9.97
DIST. 8								
80:1	6.34	.11	9.38	7.82	6.68	8.41	8.16	8.96
80:2	5.88	-.34	9.82	8.88	7.74	9.53	9.47	9.29
81:1	5.22	-.71	10.11	9.67	8.46	10.33	10.33	9.67
81:2	4.67	-.65	10.50	9.98	8.69	10.61	10.60	10.00
DIST. 9								
80:1	6.34	.29	10.06	8.14	7.36	8.84	8.73	9.23
80:2	5.89	-.13	10.41	9.07	8.27	9.83	9.83	9.62
81:1	5.28	-.47	10.79	9.89	9.01	10.67	10.72	10.04
81:2	4.80	-.39	11.16	10.15	9.24	10.90	10.95	10.41
DIST. 10								
80:1	7.45	.35	9.88	7.89	6.76	8.60	8.47	9.29
80:2	7.05	-.08	10.27	8.89	7.71	9.65	9.63	9.63
81:1	6.45	-.46	10.55	9.69	8.42	10.48	10.50	10.02
81:2	5.98	-.38	10.95	9.97	8.63	10.74	10.75	10.36
DIST. 11								
80:1	7.61	.24	10.46	8.73	7.29	9.51	9.34	9.70
80:2	7.29	.18	10.76	9.13	7.77	9.93	9.87	10.04
81:1	6.82	-.12	11.12	9.89	8.55	10.74	10.73	10.45
81:2	6.52	.00	11.57	10.16	8.76	11.00	10.98	10.83

OPER FORECAST - MEDIUM INTEREST RATES

AREA/YEAR	NET WORTH % OF DEPOSITS	AS % OF AVERAGE NET ASSETS				AVERAGE COST OF FUNDS	AVERAGE COST OF SAVINGS	AVERAGE YIELD ON MORTGAGES
		NET INCOME	GROSS INCOME	INTEREST EXPENSE	SAVINGS INTEREST			
DIST. 12								
80:1	7.65	.21	10.24	8.27	6.90	9.03	8.78	9.64
80:2	7.29	.12	10.62	8.77	7.42	9.56	9.45	9.94
81:1	6.71	-.28	10.85	9.54	8.11	10.36	10.30	10.31
81:2	6.27	-.22	11.27	9.86	8.37	10.67	10.61	10.64

OPER FORECAST - MEDIUM INTEREST RATES

ANNUALIZED NET INCOME AS A PERCENT OF AVERAGE NET ASSETS, 1980:1

DISTRICT															CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	40	83	117	269	192	67	189	101	221	101	64	46	1490	37.17	1490	37.17
2 -	10	45	46	117	78	46	70	51	98	38	37	25	661	16.49	2151	53.65
3 -	17	42	47	109	90	45	67	48	92	29	31	20	637	15.89	2788	69.54
4 -	19	29	25	68	45	20	71	23	66	24	18	16	424	10.58	3212	80.12
5 -	11	32	30	43	36	12	37	19	45	10	19	12	306	7.63	3518	87.75
6 -	8	26	9	31	19	5	17	10	23	5	11	9	173	4.32	3691	92.07
7 -	12	45	18	35	32	18	35	13	58	13	25	14	318	7.93	4009	100.00
8 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
9 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00
1 -	GREATER THAN 0.40															
2 -	0.20 TO 0.40															
3 -	0.00 TO 0.20															
4 -	-0.20 TO 0.00															
5 -	-0.40 TO -0.20															
6 -	-0.60 TO -0.40															
7 -	LESS THAN -0.60															
8 -	UNDEFINED															
9 -	TOTAL															

NET WORTH AS A PERCENT OF TOTAL DEPOSITS, 1980:1

DISTRICT															CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	58	171	199	383	338	157	265	142	291	155	147	109	2415	60.24	2415	60.24
2 -	47	101	80	201	123	45	174	93	227	50	40	25	1206	30.08	3621	90.32
3 -	4	16	9	48	17	7	30	14	42	5	8	2	202	5.04	3823	95.36
4 -	7	14	4	39	14	4	16	13	39	9	8	6	173	4.32	3996	99.68
5 -	1	0	0	1	0	0	1	3	4	1	2	0	13	.32	4009	100.00
6 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
7 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00
1 -	GREATER THAN 6.0															
2 -	4.0 TO 6.0															
3 -	3.0 TO 4.0															
4 -	0.0 TO 3.0															
5 -	LESS THAN 0.0															
6 -	UNDEFINED															
7 -	TOTAL															

OPER FORECAST - MEDIUM INTEREST RATES

ANNUALIZED NET INCOME AS A PERCENT OF AVERAGE NET ASSETS, 1980:2

DISTRICT															CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	24	77	111	131	103	47	110	28	87	42	71	38	869	21.68	869	21.68
2 -	18	40	48	92	77	40	63	25	60	31	35	21	550	13.72	1419	35.40
3 -	22	38	42	109	79	44	72	36	75	46	25	27	615	15.34	2034	50.74
4 -	14	27	34	107	67	24	83	43	79	29	23	18	548	13.67	2582	64.41
5 -	15	38	17	102	68	24	68	47	89	31	17	18	534	13.32	3116	77.73
6 -	11	31	13	63	45	16	41	39	78	14	10	5	366	9.13	3482	86.85
7 -	13	51	27	68	53	18	49	47	135	27	24	15	527	13.15	4009	100.00
8 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
9 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00
1 -	GREATER THAN 0.40															
2 -	0.20 TO 0.40															
3 -	0.00 TO 0.20															
4 -	-0.20 TO 0.00															
5 -	-0.40 TO -0.20															
6 -	-0.60 TO -0.40															
7 -	LESS THAN -0.60															
8 -	UNDEFINED															
9 -	TOTAL															

NET WORTH AS A PERCENT OF TOTAL DEPOSITS, 1980:2

DISTRICT															CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	53	151	184	338	303	153	248	129	240	136	133	101	2169	54.10	2169	54.10
2 -	48	106	85	211	141	42	158	92	238	68	51	27	1267	31.60	3436	85.71
3 -	7	25	16	66	26	12	54	22	57	4	9	6	304	7.58	3740	93.29
4 -	7	19	7	51	21	6	24	19	59	9	9	8	239	5.96	3979	99.25
5 -	2	1	0	6	1	0	2	3	9	3	3	0	30	.75	4009	100.00
6 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
7 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00
1 -	GREATER THAN 6.0															
2 -	4.0 TO 6.0															
3 -	3.0 TO 4.0															
4 -	0.0 TO 3.0															
5 -	LESS THAN 0.0															
6 -	UNDEFINED															
7 -	TOTAL															

OPER FORECAST - MEDIUM INTEREST RATES

ANNUALIZED NET INCOME AS A PERCENT OF AVERAGE NET ASSETS, 1981:1

DISTRICT													TOTAL	%	CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL			%	TOTAL
1 -	8	46	62	49	33	14	36	5	44	17	35	17	366	9.13	366	9.13
2 -	9	27	32	40	34	13	23	8	26	8	16	9	245	6.11	611	15.24
3 -	11	32	30	53	38	22	47	17	50	17	27	12	356	8.88	967	24.12
4 -	18	25	29	63	50	33	56	26	42	24	21	11	398	9.93	1365	34.05
5 -	16	37	46	106	73	41	68	29	80	42	34	37	609	15.19	1974	49.24
6 -	18	30	28	114	86	31	81	45	86	38	19	16	592	14.77	2566	64.01
7 -	37	105	65	247	178	59	175	135	275	74	53	40	1443	35.99	4009	100.00
8 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
9 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00
1 -	GREATER THAN 0.40															
2 -	0.20 TO 0.40															
3 -	0.00 TO 0.20															
4 -	-0.20 TO 0.00															
5 -	-0.40 TO -0.20															
6 -	-0.60 TO -0.40															
7 -	LESS THAN -0.60															
8 -	UNDEFINED															
9 -	TOTAL															

NET WORTH AS A PERCENT OF TOTAL DEPOSITS, 1981:1

DISTRICT													TOTAL	%	CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL			%	TOTAL
1 -	45	135	160	289	259	137	215	101	203	112	117	85	1858	46.35	1858	46.35
2 -	47	95	94	207	152	48	146	89	195	79	54	38	1244	31.03	3102	77.38
3 -	13	40	22	78	39	13	74	39	100	14	14	10	456	11.37	3558	88.75
4 -	10	29	15	86	40	15	46	31	88	9	15	8	392	9.78	3950	98.53
5 -	2	3	1	12	2	0	5	5	17	6	5	1	59	1.47	4009	100.00
6 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
7 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00
1 -	GREATER THAN 6.0															
2 -	4.0 TO 6.0															
3 -	3.0 TO 4.0															
4 -	0.0 TO 3.0															
5 -	LESS THAN 0.0															
6 -	UNDEFINED															
7 -	TOTAL															

OPER FORECAST - MEDIUM INTEREST RATES

ANNUALIZED NET INCOME AS A PERCENT OF AVERAGE NET ASSETS, 1981:2

DISTRICT												TOTAL	%	CUMULATIVE		
1	2	3	4	5	6	7	8	9	10	11	12			TOTAL	%	TOTAL
1 -	6	39	58	60	44	16	41	8	61	23	45	20	421	10.50	421	10.50
2 -	9	23	32	39	37	18	33	10	32	12	26	11	282	7.03	703	17.54
3 -	12	30	32	75	45	29	44	21	38	25	21	15	387	9.65	1090	27.19
4 -	8	33	37	84	52	31	68	30	73	29	30	23	498	12.42	1588	39.61
5 -	19	32	36	108	80	38	67	40	86	36	19	23	584	14.57	2172	54.18
6 -	26	33	32	102	77	33	81	49	80	33	20	18	584	14.57	2756	68.75
7 -	37	112	65	204	157	48	152	107	233	62	44	32	1253	31.25	4009	100.00
8 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
9 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00
1 -	GREATER THAN 0.40															
2 -	0.20 TO 0.40															
3 -	0.00 TO 0.20															
4 -	-0.20 TO 0.00															
5 -	-0.40 TO -0.20															
6 -	-0.60 TO -0.40															
7 -	LESS THAN -0.60															
8 -	UNDEFINED															
9 -	TOTAL															

NET WORTH AS A PERCENT OF TOTAL DEPOSITS, 1981:2

DISTRICT												TOTAL	%	CUMULATIVE		
1	2	3	4	5	6	7	8	9	10	11	12			TOTAL	%	TOTAL
1 -	36	127	154	260	231	121	200	78	170	96	105	71	1649	41.13	1649	41.13
2 -	48	79	81	186	142	58	123	88	161	75	54	44	1139	28.41	2788	69.54
3 -	17	42	37	96	58	14	70	45	118	26	21	11	555	13.84	3343	83.39
4 -	14	49	18	115	56	19	87	45	127	16	20	13	579	14.44	3922	97.83
5 -	2	5	2	15	5	1	6	9	27	7	5	3	87	2.17	4009	100.00
6 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
7 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00
1 -	GREATER THAN 6.0															
2 -	4.0 TO 6.0															
3 -	3.0 TO 4.0															
4 -	0.0 TO 3.0															
5 -	LESS THAN 0.0															
6 -	UNDEFINED															
7 -	TOTAL															

OPER FORECAST - HIGH INTEREST RATES

ASSETS	80:1	80:2	81:1	81:2
MORTGAGE LOANS AND CONTRACTS ...	472.234	495.227	512.564	527.904
FIXED RATE	457.234	478.727	486.739	491.787
VARIABLE RATE	15.000	16.500	15.504	14.623
RENEGOTIATED RATE .....	.000	.000	10.321	21.495
MORTGAGE-BACKED SECURITIES (US)	22.151	22.628	23.311	23.899
CONSUMER LOANS .....	.000	2.449	6.371	9.889
OTHER LOANS	16.960	17.726	18.312	18.842
CASH & INVESTMENT SECURITIES ...	55.740	58.186	59.947	61.488
REAL ESTATE OWNED	1.973	2.062	2.153	2.235
FIXED ASSETS (NET)	7.782	8.206	8.551	8.860
OTHER ASSETS	5.431	5.685	5.932	6.155
TOTAL ASSETS	582.272	612.168	637.141	659.271
LIABILITIES				
SAVING ACCOUNTS	475.187	498.979	518.979	534.978
PASSBOOK ACCOUNTS	104.540	109.775	96.010	85.596
CERTIFICATES, TOTAL	370.646	389.205	422.968	449.382
EXISTING CERTIFICATES	149.923	105.956	96.761	87.566
NEW 2-1/2 & 4 YEAR CERT. ...	3.325	68.688	79.693	88.977
MMCS	185.324	174.644	199.808	219.342
\$100,000+	32.074	39.917	46.707	53.497
THIRD-PARTY ACCOUNTS .....	.620	.800	3.000	5.000
BORROWED MONEY	54.936	60.109	63.911	70.141
FHLB ADVANCES	40.845	43.093	45.435	49.651
OTHER BORROWED MONEY	14.091	17.015	18.476	20.490
LOANS IN PROCESS	7.089	7.359	7.734	8.050
SPECIFIC RESERVES .....	.217	.227	.237	.244
DEFERRED CREDITS	3.635	3.827	4.007	4.155
OTHER LIABILITIES	8.509	8.941	9.342	9.670
TOTAL LIABILITIES	550.193	580.243	607.210	632.237
NET WORTH				
NET WORTH	32.080	31.926	29.927	27.029

OPER FORECAST - HIGH INTEREST RATES

INCOME	80:1	80:2	81:1	81:2
TOTAL OPERATING INCOME	27.141	29.521	32.141	34.875
INTEREST INCOME	25.648	27.887	30.680	33.261
MORTGAGE LOANS & CONTRACTS .	21.111	22.628	24.600	26.330
CONSUMER AND OTHER LOANS ...	.896	.867	1.061	1.533
INVESTMENTS & DEPOSITS	2.762	3.415	3.974	4.291
MORTGAGE-BACKED SEC. (US) ..	.880	.977	1.044	1.107
FROM LOAN FEES & DISCOUNTS ...	.720	.823	.614	.736
ALL OTHER OPERATING INCOME ...	.773	.811	.847	.878
TOTAL NON-OPERATING INCOME .....	.412	.429	.449	.468
TOTAL INCOME	27.553	29.951	32.590	35.343
EXPENSE				
TOTAL OPERATING EXPENSE	3.818	3.987	4.188	4.371
COST OF FUNDS (INTEREST)	22.816	25.918	30.902	34.698
SAVING ACCOUNTS	19.949	22.988	27.518	30.902
THIRD-PARTY ACCOUNTS .....	.000	.019	.050	.105
FHLB ADVANCES	2.096	2.141	2.405	2.705
OTHER BORROWED MONEY .....	.772	.771	.929	.986
TOTAL NON-OPERATING EXPENSE .....	.171	.174	.181	.188
TOTAL EXPENSE BEFORE TAXES	26.805	30.079	35.271	39.257
TAXES .....	.267	.001	-.684	-1.017
FEDERAL TAXES .....	.209	-.035	-.690	-1.021
STATE, LOCAL, AND OTHER TAXES	.059	.037	.006	.004
TOTAL EXPENSE AFTER TAXES	27.073	30.081	34.586	38.238
NET INCOME				
NET INCOME BEFORE TAXES .....	.748	-.128	-2.680	-3.912
TAXES .....	.267	.001	-.684	-1.017
NET INCOME .....	.480	-.129	-1.995	-2.894
CASH DIVIDENDS ON STOCK .....	.030	.023	.004	.003
NET INCOME AFTER TAXES & DIV. ...	.450	-.152	-1.999	-2.897

OPER FORECAST - HIGH INTEREST RATES

AREA/YEAR	NET WORTH % OF DEPOSITS	AS % OF AVERAGE NET ASSETS				AVERAGE COST OF FUNDS	AVERAGE COST OF SAVINGS	AVERAGE YIELD ON MORTGAGES
		NET INCOME	GROSS INCOME	INTEREST EXPENSE	SAVINGS INTEREST			
U.S.								
80:1	6.74	.17	9.74	8.06	7.05	8.74	8.53	9.16
80:2	6.39	-.04	10.15	8.79	7.80	9.51	9.43	9.50
81:1	5.73	-.65	10.56	10.02	8.93	10.79	10.79	9.91
81:2	5.01	-.90	11.04	10.84	9.69	11.60	11.63	10.23
DIST. 1								
80:1	5.99	-.02	9.27	7.60	6.86	8.17	7.99	8.79
80:2	5.75	-.12	9.71	8.22	7.47	8.81	8.73	9.08
81:1	5.22	-.71	10.04	9.34	8.47	9.97	9.94	9.39
81:2	4.54	-1.07	10.38	10.17	9.24	10.80	10.83	9.64
DIST. 2								
80:1	5.96	-.20	9.10	7.97	6.81	8.59	8.23	8.38
80:2	5.60	-.23	9.46	8.39	7.41	9.03	8.85	8.65
81:1	5.03	-.68	9.98	9.52	8.55	10.20	10.10	9.01
81:2	4.34	-1.00	10.39	10.37	9.33	11.05	11.02	9.33
DIST. 3								
80:1	7.05	.12	9.19	7.62	6.76	8.30	8.04	8.85
80:2	6.78	.07	9.75	8.28	7.47	9.01	8.91	9.18
81:1	6.22	-.52	10.10	9.43	8.49	10.21	10.18	9.55
81:2	5.57	-.80	10.54	10.25	9.24	11.04	11.07	9.87
DIST. 4								
80:1	6.34	.26	9.57	7.85	7.08	8.45	8.27	9.01
80:2	5.95	-.11	9.99	8.80	8.02	9.47	9.41	9.35
81:1	5.24	-.76	10.38	10.06	9.17	10.77	10.78	9.76
81:2	4.44	-1.04	10.82	10.89	9.94	11.58	11.65	10.11
DIST. 5								
80:1	7.00	.17	9.48	7.79	7.00	8.44	8.31	9.10
80:2	6.70	-.04	10.02	8.62	7.77	9.32	9.27	9.42
81:1	6.05	-.71	10.32	9.82	8.82	10.58	10.59	9.79
81:2	5.32	-.98	10.77	10.63	9.55	11.38	11.46	10.10

OPER FORECAST - HIGH INTEREST RATES

AREA/YEAR	NET WORTH % OF DEPOSITS	AS % OF AVERAGE NET ASSETS				AVERAGE COST OF FUNDS	AVERAGE COST OF SAVINGS	AVERAGE YIELD ON MORTGAGES
		NET INCOME	GROSS INCOME	INTEREST EXPENSE	SAVINGS INTEREST			
DIST. 6								
80:1	6.53	.08	9.37	7.92	7.31	8.58	8.48	9.09
80:2	6.25	.00	9.97	8.68	8.01	9.41	9.39	9.48
81:1	5.65	-.64	10.34	9.91	9.09	10.69	10.73	9.91
81:2	5.00	-.85	10.85	10.70	9.82	11.48	11.58	10.28
DIST. 7								
80:1	6.26	.13	9.46	7.78	6.95	8.43	8.23	8.96
80:2	5.93	-.08	9.97	8.58	7.77	9.29	9.21	9.29
81:1	5.27	-.74	10.30	9.80	8.87	10.56	10.53	9.69
81:2	4.54	-.98	10.78	10.61	9.61	11.36	11.39	10.03
DIST. 8								
80:1	6.34	.11	9.38	7.82	6.68	8.41	8.16	8.96
80:2	5.88	-.34	9.82	8.88	7.74	9.53	9.47	9.29
81:1	5.09	-.95	10.22	10.11	8.86	10.80	10.83	9.71
81:2	4.24	-1.19	10.70	10.90	9.55	11.56	11.66	10.06
DIST. 9								
80:1	6.34	.29	10.06	8.14	7.36	8.84	8.73	9.23
80:2	5.89	-.13	10.41	9.07	8.27	9.83	9.83	9.62
81:1	5.15	-.73	10.92	10.37	9.46	11.18	11.26	10.09
81:2	4.36	-.98	11.39	11.18	10.21	11.97	12.11	10.49
DIST. 10								
80:1	7.45	.35	9.88	7.89	6.76	8.60	8.47	9.29
80:2	7.05	-.08	10.27	8.89	7.71	9.65	9.63	9.63
81:1	6.33	-.71	10.67	10.13	8.83	10.95	11.02	10.06
81:2	5.56	-.92	11.16	10.91	9.51	11.71	11.85	10.43
DIST. 11								
80:1	7.61	.24	10.46	8.73	7.29	9.51	9.34	9.70
80:2	7.29	.18	10.76	9.13	7.77	9.93	9.87	10.04
81:1	6.69	-.38	11.23	10.37	8.99	11.25	11.29	10.50
81:2	6.05	-.61	11.76	11.21	9.74	12.10	12.23	10.91

12/02/80 16:20
I.M. - HIGH1

OPER FORECAST - HIGH INTEREST RATES

AREA/YEAR	NET	AS % OF AVERAGE NET ASSETS				AVERAGE COST OF FUNDS	AVERAGE COST OF SAVINGS	AVERAGE YIELD ON MORTGAGES
	WORTH % OF DEPOSITS	NET INCOME	GROSS INCOME	INTEREST EXPENSE	SAVINGS INTEREST			
DIST. 12								
80:1	7.65	.21	10.24	8.27	6.90	9.03	8.78	9.64
80:2	7.29	.12	10.62	8.77	7.42	9.56	9.45	9.94
81:1	6.59	-.52	10.96	9.97	8.50	10.83	10.81	10.35
81:2	5.84	-.76	11.47	10.80	9.24	11.66	11.74	10.72

OPER FORECAST - HIGH INTEREST RATES

ANNUALIZED NET INCOME AS A PERCENT OF AVERAGE NET ASSETS, 1980:1

DISTRICT													CUMULATIVE			
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	40	83	117	269	192	67	189	101	221	101	64	46	1490	37.17	1490	37.17
2 -	10	45	46	117	78	46	70	51	98	38	37	25	661	16.49	2151	53.65
3 -	17	42	47	109	90	45	67	48	92	29	31	20	637	15.89	2788	69.54
4 -	19	29	25	68	45	20	71	23	66	24	18	16	424	10.58	3212	80.12
5 -	11	32	30	43	36	12	37	19	45	10	19	12	306	7.63	3518	87.75
6 -	8	26	9	31	19	5	17	10	23	5	11	9	173	4.32	3691	92.07
7 -	12	45	18	35	32	18	35	13	58	13	25	14	318	7.93	4009	100.00
8 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
9 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

- 1 - GREATER THAN 0.40
- 2 - 0.20 TO 0.40
- 3 - 0.00 TO 0.20
- 4 - -0.20 TO 0.00
- 5 - -0.40 TO -0.20
- 6 - -0.60 TO -0.40
- 7 - LESS THAN -0.60
- 8 - UNDEFINED
- 9 - TOTAL

NET WORTH AS A PERCENT OF TOTAL DEPOSITS, 1980:1

DISTRICT													CUMULATIVE			
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	58	171	199	383	338	157	265	142	291	155	147	109	2415	60.24	2415	60.24
2 -	47	101	80	201	123	45	174	93	227	50	40	25	1206	30.08	3621	90.32
3 -	4	16	9	48	17	7	30	14	42	5	8	2	202	5.04	3823	95.36
4 -	7	14	4	39	14	4	16	13	39	9	8	6	173	4.32	3996	99.68
5 -	1	0	0	1	0	0	1	3	4	1	2	0	13	.32	4009	100.00
6 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
7 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

- 1 - GREATER THAN 6.0
- 2 - 4.0 TO 6.0
- 3 - 3.0 TO 4.0
- 4 - 0.0 TO 3.0
- 5 - LESS THAN 0.0
- 6 - UNDEFINED
- 7 - TOTAL

OPER FORECAST - HIGH INTEREST RATES

ANNUALIZED NET INCOME AS A PERCENT OF AVERAGE NET ASSETS, 1980:2

DISTRICT															CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	24	77	111	131	103	47	110	28	87	42	71	38	869	21.68	869	21.68
2 -	13	40	48	92	77	40	63	25	60	31	35	21	550	13.72	1419	35.40
3 -	22	38	42	109	79	44	72	36	75	46	25	27	615	15.34	2034	50.74
4 -	14	27	34	107	67	24	83	43	79	29	23	18	548	13.67	2582	64.41
5 -	15	38	17	102	68	24	68	47	89	31	17	18	534	13.32	3116	77.73
6 -	11	31	13	63	45	16	41	39	78	14	10	5	366	9.13	3482	86.85
7 -	13	51	27	68	53	18	49	47	135	27	24	15	527	13.15	4009	100.00
8 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
9 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

- 1 - GREATER THAN 0.40
- 2 - 0.20 TO 0.40
- 3 - 0.00 TO 0.20
- 4 - -0.20 TO 0.00
- 5 - -0.40 TO -0.20
- 6 - -0.60 TO -0.40
- 7 - LESS THAN -0.60
- 8 - UNDEFINED
- 9 - TOTAL

NET WORTH AS A PERCENT OF TOTAL DEPOSITS, 1980:2

DISTRICT															CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	53	151	184	338	303	153	248	129	240	136	133	101	2169	54.10	2169	54.10
2 -	48	106	85	211	141	42	158	92	238	68	51	27	1267	31.60	3436	85.71
3 -	7	25	16	66	26	12	54	22	57	4	9	6	304	7.58	3740	93.29
4 -	7	19	7	51	21	6	24	19	59	9	9	8	239	5.96	3979	99.25
5 -	2	1	0	6	1	0	2	3	9	3	3	0	30	.75	4009	100.00
6 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
7 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

- 1 - GREATER THAN 6.0
- 2 - 4.0 TO 6.0
- 3 - 3.0 TO 4.0
- 4 - 0.0 TO 3.0
- 5 - LESS THAN 0.0
- 6 - UNDEFINED
- 7 - TOTAL

OPER FORECAST - HIGH INTEREST RATES

ANNUALIZED NET INCOME AS A PERCENT OF AVERAGE NET ASSETS, 1981:1

DISTRICT															CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	5	30	35	24	18	8	25	3	26	12	20	7	213	5.31	213	5.31
2 -	3	20	29	26	16	8	13	3	19	3	14	10	164	4.09	377	9.40
3 -	10	26	27	33	29	10	20	8	22	10	19	11	225	5.61	602	15.02
4 -	12	25	28	42	35	15	36	12	42	10	21	7	285	7.11	887	22.13
5 -	14	25	31	58	46	35	56	20	46	22	22	11	386	9.63	1273	31.75
6 -	19	41	43	93	71	40	74	29	66	35	30	35	576	14.37	1849	46.12
7 -	54	135	99	396	277	97	262	190	382	128	79	61	2160	53.88	4009	100.00
8 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
9 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

- 1 - GREATER THAN 0.40
- 2 - 0.20 TO 0.40
- 3 - 0.00 TO 0.20
- 4 - -0.20 TO 0.00
- 5 - -0.40 TO -0.20
- 6 - -0.60 TO -0.40
- 7 - LESS THAN -0.60
- 8 - UNDEFINED
- 9 - TOTAL

NET WORTH AS A PERCENT OF TOTAL DEPOSITS, 1981:1

DISTRICT															CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	42	132	157	279	252	131	209	94	197	106	114	80	1793	44.72	1793	44.72
2 -	48	96	93	200	149	52	141	90	184	78	53	42	1226	30.58	3019	75.31
3 -	15	39	24	88	48	15	76	42	110	21	18	9	505	12.60	3524	87.90
4 -	10	32	17	93	41	15	55	33	91	9	15	10	421	10.50	3945	98.40
5 -	2	3	1	12	2	0	5	6	21	6	5	1	64	1.60	4009	100.00
6 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
7 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

- 1 - GREATER THAN 6.0
- 2 - 4.0 TO 6.0
- 3 - 3.0 TO 4.0
- 4 - 0.0 TO 3.0
- 5 - LESS THAN 0.0
- 6 - UNDEFINED
- 7 - TOTAL

OPER FORECAST - HIGH INTEREST RATES

ANNUALIZED NET INCOME AS A PERCENT OF AVERAGE NET ASSETS, 1981:2

DISTRICT															CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	2	14	16	13	9	4	13	1	22	9	17	8	128	3.19	128	3.19
2 -	0	11	17	15	11	2	12	2	17	4	6	4	101	2.52	229	5.71
3 -	4	16	23	20	14	10	11	6	11	3	14	6	138	3.44	367	9.15
4 -	7	17	23	28	27	9	21	5	24	7	17	7	192	4.79	559	13.94
5 -	9	27	27	38	32	19	35	14	35	12	22	10	280	6.98	839	20.93
6 -	12	32	35	63	50	26	54	19	44	26	16	18	395	9.85	1234	30.78
7 -	83	185	151	495	349	143	340	218	450	159	113	89	2775	69.22	4009	100.00
8 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
9 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

- 1 - GREATER THAN 0.40
- 2 - 0.20 TO 0.40
- 3 - 0.00 TO 0.20
- 4 - -0.20 TO 0.00
- 5 - -0.40 TO -0.20
- 6 - -0.60 TO -0.40
- 7 - LESS THAN -0.60
- 8 - UNDEFINED
- 9 - TOTAL

NET WORTH AS A PERCENT OF TOTAL DEPOSITS, 1981:2

DISTRICT															CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	32	112	145	230	203	110	173	69	134	81	95	65	1449	36.14	1449	36.14
2 -	44	76	75	166	138	62	124	78	163	73	49	41	1089	27.16	2538	63.31
3 -	19	46	35	105	71	15	67	48	105	35	26	16	588	14.67	3126	77.97
4 -	19	59	35	149	74	23	112	58	164	24	30	17	764	19.06	3890	97.03
5 -	3	9	2	22	6	3	10	12	37	7	5	3	119	2.97	4009	100.00
6 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
7 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

- 1 - GREATER THAN 6.0
- 2 - 4.0 TO 6.0
- 3 - 3.0 TO 4.0
- 4 - 0.0 TO 3.0
- 5 - LESS THAN 0.0
- 6 - UNDEFINED
- 7 - TOTAL



Paul A. Volcker

July 9, 1981

Dick:

Following our telephone conversation, I have taken the liberty of modifying your letter to me, which I hope I can consider in the nature of a draft. We are moving ahead with developing a program on the assumption that the Home Loan Bank System has altered its earlier view about Federal Reserve lending to thrifts, and perhaps I will want to get together tomorrow or Tuesday.

PAV

Pratt lv. 145 7/10

July 9, 1981

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

Dear Paul:

The Federal Home Loan Bank Board wishes to express our position concerning Federal Reserve lending to savings and loan associations and Federal Home Loan Banks at this time.

The Bank Board takes the view that lending by the Federal Reserve System to S&L associations, both for adjustment credit and longer-term credit, is a useful complement, under current circumstances, to lending by the Home Loan Bank System, consistent with the provision of the Depository Institution Deregulation and Monetary Control Act of 1980. To the extent that the Bank Board may have felt that institutions should first exhaust credit availability from the Federal Home Loan Bank System, we believe that such a requirement, as previously interpreted, needs reevaluation and is not appropriate at this time. The Bank Board will be happy to cooperate and provide input concerning appropriate programs.

We would like to further recommend that the Federal Reserve Board and the Federal Home Loan Bank Board work together to reestablish provision of Federal Reserve Bank credit to the Federal Home Loan Bank System, should such credit extension become necessary. We look forward to cooperating with you in the development of such a program.

We have received excellent cooperation in working toward the implementation of Federal Reserve credit to thrift institutions, and we are appreciative of the efforts of you and your staff in this regard.

Sincerely,

Richard T. Pratt

Federal Home Loan Bank Board



1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

RICHARD T. PRATT
CHAIRMAN

July 2, 1981

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

Dear Paul:

The Federal Home Loan Bank Board wishes to express our position concerning Federal Reserve lending to savings and loan associations and Federal Home Loan Banks at this time.

The Board encourages the Federal Reserve Banks to institute lending programs to S&L associations, both for adjustment credit and longer term credit, consistent with the provisions of the Depository Institutions Deregulation and Monetary Control Act of 1980. The Bank Board will be happy to cooperate and provide input concerning appropriate programs. To the extent that the Federal Reserve System may have felt that institutions should first exhaust credit availability from the Federal Home Loan Bank System, we believe that such a requirement is not consistent with the law and would be inappropriate at this time.

We would like to further recommend that the Federal Reserve Board and the Federal Home Loan Bank Board work together to reestablish provisions of Federal Reserve Bank credit to the Federal Home Loan Bank System, should such credit extension become necessary. We look forward to cooperating with you in the development of such a program.

We have received excellent cooperation in working toward the implementation of Federal Reserve credit to thrift institutions, and we are appreciative of the efforts of you and your staff in this regard.

Sincerely,

Dick

Richard T. Pratt

restate from my draft

Bank Board

has previously reported

needs reevaluation and is not

of approval

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM

1981 JUL 15 AM 9:10

RECEIVED
OFFICE OF THE CHAIRMAN



1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

Federal Home Loan Bank Board

RICHARD T. PRATT
CHAIRMAN

JUL 13 1981

*File 100-100-100-100
to Peter Hines*

Elliott G. Carr
President
Robert M. Henderson
Chairman
Savings Banks Association of Massachusetts
50 Congress Street
Boston, Massachusetts 02109

Dear Gentlemen:

Thank you for your letter of June 16, 1981 expressing concern with thrift institutions' access to the Federal Reserve discount window.

The Bank Board appreciates your concerns and has been working with the Federal Reserve Board to resolve issues raised in connection with Federal Reserve credit. We are receiving excellent cooperation from Federal Reserve Board Chairman Paul Volcker and his staff and we hope appropriate solutions to problems with thrift institutions' access to Federal Reserve credit will be reached shortly.

Sincerely,

/s/ Richard T. Pratt

Richard Pratt

cc: Paul A. Volcker, Chairman
Federal Reserve Board

Frank E. Morris, President
Federal Reserve Bank of Boston

Raymond H. Elliott, President
Federal Home Loan Bank of Boston

Federal Home Loan Bank Board



1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

RICHARD T. PRATT
CHAIRMAN

June 19, 1981

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

Dear Paul:

With regard to our 5 p.m. meeting today, I thought you might like a draft copy of our proposed bill, which we have entitled the "Thrift Institutions Restructuring Act of 1981." It is accompanied by a section-by-section analysis, as well as by an interlineation showing the relationship of the provisions of the bill to current law.

Sincerely,

Richard T. Pratt

enclosures

CHANGES IN EXISTING LAW MADE BY THRIFT INSTITUTIONS
RESTRUCTURING ACT OF 1981

1. Section 102: Section 5(a) of the Home Owners' Loan Act of 1933
(12 U.S.C. §1464(a))

(a)(1) In order to provide local mutual thrift institutions in which people may invest their funds and in order to provide for the financing of homes the Board is authorized, under such rules and regulations as it may prescribe, to provide for the organization, incorporation, examination, operation, and regulation of associations to be known as "Federal Savings and Loan Associations", or "Federal [mutual] savings banks" (but only in the case of institutions which, prior to conversion, were State mutual savings banks located in States which authorize the chartering of State mutual savings banks, provided such conversion is not in contravention of State law) and to issue charters therefor, giving primary consideration to the best practices of [local mutual] thrift [and home-financing] institutions in the United States. [An association which was formerly organized as a savings bank under State law may not convert from the mutual to the stock form of ownership. An association which was formerly organized as a savings bank under State law may not convert from the mutual to the stock form of ownership.¹ An association which was formally organized as a savings bank under State law may, to the extent authorized by the Board, continue to

for the deposit or investment of funds and for the extension of credit for homes and other goods and services,

carry on any activities it was engaged in on December 31, 1977, and to retain or make any investments of a type it held on that date, except that its equity, corporate bond, and consumer loan investments may not exceed the average ratio of such investments to total assets for the five-year period immediately preceding the filing of an application for conversion and such an association which was formerly organized as a savings bank under State law shall only be permitted to establish branch offices and other facilities in accordance with the limitations imposed by State law controlling applications of a savings bank organized under such State law, provided that such an association: (A) shall be exempt from any numerical limitations of State law on the establishment of branch offices and other facilities, and (B) may, in any case, subject to the approval of the Board, establish branch offices and other facilities in its own Standard Metropolitan Statistical Area, its own county or within thirty-five miles of its home office, but only in its State of domicile. An association which was formerly organized as a savings bank under State law shall be subject to the requirements of State law (including any regulations promulgated thereunder and any sanction for the violation of any such law or regulation) in effect at the time of conversion, in the State of its original charter—

(A) pertaining to discrimination in the extension of home mortgage loans or adjustment in the terms of mortgage instruments based on neighborhood or geographical area,

(B) pertaining to requirements imposed under the Consumer Credit Protection Act,

if the Board determines that State law and regulations impose more stringent requirements than Federal law and regulations.

(2) A Federal mutual savings bank may make commercial, corporate, and business loans except that—

(A) not more than 5 per centum of the assets of such a bank may be so loaned; and

(B) such loans may only be made within the State where the bank is located or within 75 miles of the bank's home office.

(3) In addition to the authority conferred by paragraph (1), Federal mutual savings bank may accept demand deposits in connection with a commercial, corporate, or business loan relationship.

2. Section 103: Section 5(b)(1) and (2) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(b)(1), (2))

"(b)(1) An association may raise capital in the form of such savings deposits, shares, or other accounts, for fixed, minimum, or indefinite periods of time (all of which are referred to in this section as savings accounts), or in the form of such demand accounts, as are authorized by its charter or by regulations of the Board, and may issue such passbooks, time certificates of deposit, or other evidence of accounts as are so authorized. All savings accounts and demand accounts shall have the same priority upon liquidation.

[and all of which shall have the same priority upon liquidation] Holder[s] of accounts and obligors of an association shall, to such extent as may be provided by its charter or by regulations of the Board, be members of the association, and shall have such voting rights and such other rights as are thereby provided. Except as may be otherwise authorized by the association's charter or regulation of the Board in the case of savings accounts for fixed or minimum terms of not less than [thirty] fourteen days, the payment of any savings account shall be subject to the right of the association to require such advance notice, not less than fourteen [thirty] days, as shall be provided for by the charter of the association or the regulations of the Board.

[savings] The payment of withdrawals from accounts in the event an association does not pay all withdrawals in full (subject to the right of the association, where applicable, to require notice) shall be subject to such rules and procedures as may be prescribed by the association's charter or by regulation of the Board, but any association which, except as authorized in writing by the Board, fails to make full payment of any withdrawal when due shall be deemed to be in an unsafe or unsound condition to transact business within the meaning of subsection (d) of this section. Accounts may be [Savings accounts subject to check or to withdrawal or transfer on negotiable shall not] or transferable or other order or authorization to the

[but] association, [for withdrawal or transfer of savings accounts upon nontransferable order or authorization] as the Board may by regulation provide.

Associations may establish remote service units for [This section does not prohibit establishment of] the purpose of crediting savings or demand accounts, debiting such accounts, crediting payments on loans, and the disposition of related financial transactions, [by associations] as provided in regulations prescribed by the Board.

(2) To such extent as the Board may authorize by regulation or advice in writing, an association may borrow, may give security, may be surety as defined by the Board and may issue such notes, bonds, debentures, or other obligations, or other securities, including [except] capital stock, as the Board may so authorize."

3. Section 104: Section 5(i) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(i))

"(i)(1) Any institution that is, or is eligible to become, a member of a Federal ^[a] Home Loan Bank ^[including] may convert itself into a Federal Savings and Loan Association or Federal Savings Bank under this Act, ^[a savings bank] (and in so doing may change directly from the mutual form to the stock form, or the reverse),

and any State stock savings and loan type institution may (if such institution existed in stock form for at least the 4 years preceding March 31, 1980) convert its charter to a Federal stock charter under this chapter, upon a vote of 51 per centum or more of the votes cast at a legal meeting called to consider such action,

but such conversion shall be subject to such rules and regulations as the Board ~~shall prescribe,~~ ^[may] and thereafter the converted association shall be entitled to all the benefits of this section and shall be subject to examination and regulation to the same extent as other associations incorporated pursuant to this Act.

(2) Subject to the rules and regulations of the Board, any Federal association may convert itself from the mutual form to the stock form of organization, or from the stock form to the mutual form, and any Federal association may change its designation from a Federal Savings and Loan Association to a Federal Savings Bank, or the reverse.

(3) Any Federal ^[savings and loan] association may convert itself into a savings and loan or savings bank type of institution organized pursuant to the laws of the State, District, Commonwealth, or Territory (hereinafter referred to in this section as the State) in which the principal office of such Federal association is located: Provided, ^{[(1)] [(1)]} That the State permits the conversion of any savings and loan or savings bank type of institution of such State into a Federal association; ^[(2)] (ii) that such conversion of a Federal association into such a State institution is determined upon the vote in favor of such conversion cast in person or by proxy at a special meeting of members or stockholders called to consider such action, specified by the law of the State in which the home office of the Federal association is located, as required by such law for a State-chartered institution to convert itself into

[savings and loan]
[savings and loan]

a Federal association, but in no event upon a vote of less than 51 per centum of all the votes cast at such meeting, and upon compliance with other requirements reciprocally equivalent to the requirements of such State law for the conversion of a State-chartered institution into a Federal association; ~~(iii)~~ that notice of the meeting to ~~vote on conversion shall be given as herein provided and no other notice thereof shall be necessary; the notice shall expressly state that such meeting is called to vote thereon, as well as the time and place thereof, and such notice shall be mailed, postage prepaid, at least thirty and not~~ ~~more than sixty~~ ~~days prior to the date of the meeting, to each member or stockholder of record of the Federal association at his last address as shown on the books of the~~ ~~Federal association and to the~~ ~~General Counsel of the Federal~~ ~~Home Loan Bank Board,~~ ~~Washington, District of Columbia;~~ ~~(iv) that,~~ ~~(3)~~ ~~(4)~~

[thirty]

[General Manager
of the Federal
Savings and Loan
Insurance Corp-
oration]

[upon the effective date of the conversion, the association has repurchased the total amount invested in its shares by the Secretary of the Treasury; and (5) that if, upon the effective date of conversion, the Home Owners' Loan Corporation will hold of record shares of the association, its approval of the conversion has been obtained; (6) that.]

in the event of dissolution of a mutual association after conversion, the members or shareholders of the association will share on a mutual basis in the assets of the association in exact proportion to their relative share or account credits; (v) that, in the event of dissolution of a stock association after conversion, the stockholders will share on an equitable basis in the assets of the association; and ~~(vi)~~ that ~~(7)~~ such conversion shall be effective upon the date that all the provisions of this chapter shall have been fully complied with and upon the issuance of a new charter by the State wherein the association is located; it being provided that its act of converting into a State-chartered institution shall constitute an agreement to be bound by all the requirements that the Federal Savings and Loan Insurance Corporation may legally impose under section 403 of Title IV of the National Housing Act, as now or hereafter amended, and the association shall upon conversion and thereafter be authorized to issue securities in any form currently approved at the time of issue by the Federal Savings and Loan Insurance Corporation for issuance by similar insured institutions in such State ~~or~~ ~~Territory~~

[District, or Territory]

In addition to the foregoing provision for conversion upon a vote of the members only any association chartered as a Federal savings and loan association, including any having outstanding shares held by the Secretary of the Treasury or Home Owners' Loan Corporation, may convert itself into a State institution upon an equitable basis, subject to approval, by regulations or otherwise, by the Federal Home Loan Bank Board and by the Federal Savings and Loan Insurance Corporation.] *Provided*, That if the insurance of accounts is terminated in connection with such conversion, the notice and other action shall be taken as provided by law and regulations for the termination of insurance of accounts.

(4) Any aggrieved person may obtain review of a final action of the Board or the Federal Savings and Loan Insurance Corporation which approves, with or without conditions, or disapproves a plan of conversion from the mutual to the stock form, only by complying with the provisions of subsection (k) of section 408 of the National Housing Act within the time limit and in the manner therein prescribed, which provisions shall apply in all respects as if such final action were an order the review of which is therein provided for, except that such time limit shall commence upon publication of notice of such final action in the Federal Register or upon the giving of such general notice of final action as is required by or approved under regulations of the Corporation, whichever is later.

(5) To the extent authorized by the Board, any Federal savings bank chartered as such prior to the enactment of this paragraph may continue to make any investment or engage in any activity not otherwise authorized under this subsection, to the degree it was permitted to do so as a Federal savings bank prior to such enactment. The authority conferred by this paragraph may be utilized by any Federal association that acquires, by merger or consolidation, a Federal savings bank enjoying grandfathered rights hereunder."

4. Section 105: Section 402(j) of the National Housing Act (12 U.S.C. §1725(j))

(j) (1) Except as otherwise provided in this subsection, until June 30, 1976, the Corporation shall not approve, under regulations adopted pursuant to this subchapter or section 1464 of this title, by order or otherwise, a conversion from the mutual to stock form of organization involving or to involve an insured institution, except that this sentence shall not be deemed to limit now or hereafter the authority of the Corporation to approve conversions in supervisory cases. The Corporation may by rule, regulation, or otherwise and under such civil penalties (which may be cumulative to any other remedies) as it may prescribe take whatever action it deems necessary or appropriate to implement or enforce this subsection.]

(1) Other than as provided in section 5 of the Home Owners' Loan Act of 1933, as amended, no insured institution may convert from the mutual to the stock form except in accordance with the rules and regulations of the Corporation.

(2) [The number of applications for conversion which the Corporation may approve pursuant to such regulations prior to such date shall be determined by the Corporation but shall not in any case be in excess of 1 per centum of the total number of all insured institutions in existence on the date of enactment, exclusive of the number of applications submitted for filing prior to May 22, 1973. *Provided*, That the Corporation shall process to final determination any application submitted for filing prior to May 22, 1973, pursuant to regulations in effect and adopted pursuant to this subchapter or section 1464 of this title, with further proviso that, with respect to a plan of conversion of any such applicant which, before May 22, 1973, has given written public notice to its accountholders of adoption of a plan of conversion or has obtained waiver forms from substantially all its new accountholders subsequent to the giving of such notice, such plan need not require payment for stock distributed to accountholders as of a record date prior to the date of such notice.

(3) Notwithstanding any other provision of law, an insured institution converting in accordance with this subsection may retain its Federal charter. The Corporation shall not, however, permit the conversion of Federally chartered associations in States the laws of which do not authorize the operation of State chartered stock associations, except that the prohibition contained in this sentence shall

not apply to the District of Columbia, the Commonwealth of Puerto Rico, or a State where all insured institutions domiciled therein are Federally chartered.

(4) Any aggrieved person may obtain review of a final action of the Federal Home Loan Bank Board or the Corporation which approves, with or without conditions, or disapproves a plan of conversion pursuant to this subsection only by complying with the provisions of subsection (k) of section 1730a of this title within the time limit and in the manner therein prescribed, which provisions shall apply in all respects as if such final action were an order the review of which is therein provided for, except that such time limit shall commence upon publication of notice of such final action in the Federal Register or upon the giving of such general notice of such final action as is required by or approved under regulations of the Corporation, whichever is later.

(5) The Corporation shall, at least annually and more often as circumstances require, render reports to the Congress on the exercise of its authority under this subsection.

(6) In implementing the provisions of this subsection the Corporation shall regulate the approvals granted so as to achieve (A) as much geographical dispersion as practicable; (B) an equitable distribution with respect to the size of converting institutions; (C) an appropriate distribution between State chartered and Federally chartered institutions; (D) timeliness of filing; (E) flexibility to the extent possible in plans of conversion taking into account the characteristics of particular converting institutions; (F) the meeting of capital needs; and (G) such other reasonable results as it may consider necessary or appropriate in the public interest.]

5. Section 106: Section 2(d) of the Home Owners' Loan Act of 1933
(12 U.S.C. §1462(d))

§ 1462. Definitions

As used in this chapter—

- (a) The term "Board" means the Federal Home Loan Bank Board.
- (b), (c) Omitted.
- (d) The term "association" means a Federal savings and loan association or a Federal [mutual] savings bank chartered by the Board under section 1464 of this title, and any reference in any other law to a Federal savings and loan association shall be deemed to be also a reference to a Federal [mutual] savings bank, unless the context indicates otherwise.

6. Section 107: Section 403(a) of the National Housing Act (12 U.S.C. §1726(a))

§ 1726. Insurance of accounts and eligibility provisions

Insurance of accounts

- (a) It shall be the duty of the Corporation to insure the accounts of all Federal savings and loan associations and Federal [mutual] savings banks, and it may insure the accounts of building and loan, savings and loan, and homestead associations and cooperative banks organized and operated according to the laws of the State, District, Territory, or possession in which they are chartered or organized.

7. Section 108: Section 408(a)(1)(A) of the National Housing Act (12 U.S.C. §1730a(a)(1)(A))

"(A) "insured institution" means a Federal savings and loan association, a Federal savings bank, or a building and loan, savings and loan, or homestead association, or a cooperative bank, the accounts of which are insured by the Federal Savings and Loan Insurance Corporation;"

8. Section 201: Section 5(c)(1)(B) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(c)(1)(B))

Investment authority

(c) An association may to such extent, and subject to such rules and regulations as the Board may prescribe from time to time, invest in, sell, or otherwise deal with the following loans, or other investments:

(1) Loans or investments without percentage of assets limitation: Without limitation as a percentage of assets, the following are permitted:

(A) **Account loans.**—Loans on the security of its savings accounts and loans specifically related to negotiable order-of-withdrawal accounts.

(B) **Single-family and multi-family mortgage loans.**—Loans on the security of liens upon residential real property in an amount which, when added to the amount unpaid upon prior mortgages, liens or encumbrances, if any, upon such real estate does not exceed the appraised value thereof, except that the amount of any such loan hereafter made shall not exceed 66⅔ per centum of the appraised value if such real estate is unimproved, 75 per centum of the appraised value if such real estate is improved by offsite improvements such as street, water, sewers, or other utilities, 75 per centum of the appraised value if such real estate is in the process of being improved by a building or buildings to be constructed or in the process of construction, or 90 per centum of the appraised value if such real estate is improved by a building or buildings. Notwithstanding the

above loan-to-value ratios, the Board may permit a loan-to-value ratio in excess of 90 per centum if such real estate is improved by a building or buildings and that portion of the unpaid balance of such loan which is in excess of an amount equal to 90 per centum of such value is guaranteed or insured by a public or private mortgage insurer or in the case of any loan for the purpose of providing housing for persons of low income, as described in regulations of the Board.]

"(B) Real property loans. -- Loans on the security of liens upon residential or nonresidential real property."

9. Section 202: Section 5(c)(1)(G) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(c)(1)(G))

[Bank deposits] "(G) Deposits. -- Investments in the time deposits, certificates, or accounts of any bank the deposits of which are insured by the Federal Deposit Insurance Corporation, or in the savings accounts, certificates or other accounts of any institution the accounts of which are insured by the Federal Savings and Loan Insurance Corporation."

10. Section 203: Section 5(c)(1)(L) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(c)(1)(L))

"(L) Loans to financial institutions, brokers and dealers. -- (1) Loans to financial institutions with respect to which the United States or an agency or instrumentality thereof has any function of examination or supervision, or to any broker or dealer registered with the Securities and Exchange Commission, secured by loans, obligations or investments in which the association has the statutory authority to invest directly.

(2) Loans to financial institutions to enable such institutions to satisfy reserves requirements under section 19(b) of the Federal Reserve Act."

11. Section 204: Section 5(c)(1)(O) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(c)(1)(O))

"(O) ^[g] Housing ^[i] and Land and ^[u] Urban Development Insured ^[d] or Guaranteed Investments. -- (i) Loans secured by mortgages as to which the association has the benefit of insurance under Title X of the National Housing Act or of a commitment or agreement for such insurance, [L] or (ii) loans as to which the association has the benefit of any guarantee under Title IV of the Housing and [Growth] Urban Development Act of 1968 or under Part B of the National Urban Policy and New Community Development Act of 1970 or under [solely] Section 802 of the Housing and Community Development Act of 1974 as now or hereafter [on or after March 31, 1980] in effect, or of a commitment or agreement therefor."

12. Section 205: Section 5(c)(1)(Q) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(c)(1)(Q))

"(Q) Investment companies. -- An association may invest [solely] in, redeem or hold shares or certificates in any open-end management investment company which is registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and the portfolio of which is restricted by such management company's investment policy, changeable only if authorized [solely] by shareholder vote, primarily to such investments [any] (without regard to any percentage-of-assets restriction applicable to such investment under this subsection) as an association by law or regulation may invest in, without limitation as to percentage of assets, sell, redeem, hold, or otherwise deal with

[The Board shall prescribe rules and regulations to implement the provisions of this subparagraph.]

13. Section 206: Section 5(c) of the Home Owners' Loan Act of 1933
(12 U.S.C. §1464(c))

(2) Loans or investments limited to 20 per centum of assets.
—The following loans or investments are permitted, but authority conferred in the following subparagraphs is limited to not in excess of 20 per centum of the assets of the association for each subparagraph:

(A) Commercial real estate loans.—Loans on security of first liens upon other improved real estate.

(B) Consumer loans and certain securities.—An association may make secured or unsecured loans for personal, family, or household purposes, and may invest in, sell, or hold commercial paper and corporate debt securities, as defined and approved by the Board.]

(2) Loans or investments limited to 20 per centum of assets. -- The following loans or investments are permitted, but authority conferred in the following subparagraphs is limited to not in excess of 20 per centum of the assets of the association for each subparagraph:

(A) Commercial loans. -- An association may make secured or unsecured loans for commercial, corporate or business purposes.

(B) Consumer loans. -- An association may make secured or unsecured loans for personal, family or household purposes, and loans reasonably incident to the extension of such credit.

(C) Certain corporate securities. -- An association may invest in, sell or hold commercial paper and corporate debt securities, as defined and approved by the Board.

(D) Certain governmental securities. -- An association may invest in, sell or hold obligations of, or issued by, any State or political subdivision thereof (including any agency, corporation or instrumentality).

(3) Investments limited to 10 per centum of assets. -- The following investments are permitted, but authority conferred in the following subparagraphs is limited to not in excess of 10 per centum of the assets of the association for each subparagraph:

(A) Investment in realty. -- An association may invest in real property, and such investment may include, without limitation, subdividing, developing, constructing improvements upon, and renovating such property. An association may own, rent, lease, manage, operate for income or sell such property.

(B) Investment in personalty. -- An association may invest in tangible personal property, including, without limitation, vehicles, mobile homes, machinery, equipment, or furniture, and may hold such property for rental or sale."

(4)

(3) Loans or investments limited to 5 per centum of assets. The following loans or investments are permitted, but the authority conferred in the following subparagraphs is limited to not in excess of 5 per centum of assets of the association for each subparagraph:

(A) Education loans.—Loans made for the payment of expenses of college, university, or vocational education educational

(B) Community development investments.—Investments in real property and obligations secured by liens on real property located within a geographic area or neighborhood receiving concentrated development assistance by a local government under Title I of the Housing and Community Development Act of 1974, except that no investment under this subparagraph in such real property may exceed an aggregate investment of 2 per centum of the assets of the association.

(C) Nonconforming loans.—Loans and investments upon the security of or respecting real property or interests therein used for primarily residential or farm purposes that do not comply with the limitations of this subsection and investments not otherwise permitted under

(D) Construction loans without security.—Investments not exceeding the greater of (A) the sum of its surplus, undivided profits, and reserves or (B) 5 per centum of the assets of the association, in loans the principal purpose of which is to provide financing with respect to what is or is expected to become primarily residential real estate where (i) the association relies substantially for repayment on the borrower's general credit standing and forecast of income without other security, or (ii) the association relies on other assurances for repayment, including but not limited to a guaranty or similar obligation of a third party. Investments under this subsection shall not be included in any percentage of assets or other percentage referred to in this subsection.

The authority conferred by this subparagraph shall be cumulative of the authority provided in paragraph (2)(A) of this subsection.

(5)

(4) Other loans and investments.—The following additional loans and other investments to the extent authorized below:

(A) Business development credit corporations.—An association whose general reserves, surplus, and undivided profits aggregate a sum in excess of 5 per centum of its withdrawable accounts is authorized to invest in, lend to, or to commit itself to lend to, any business development credit corporation incorporated in the State in which the home office of the association is located in the same manner and to the same extent as savings and loan associations chartered by such State are authorized, but the aggregate amount of such investments, loans, and commitments of any such association shall not exceed one-half of 1 per centum of the total outstanding loans of the association or \$250,000, whichever is less.

"(B) Service corporations. -- Investments in the capital stock, obligations, or other securities of any corporation organized under the laws of the State in which the home office of the association is located, if the entire capital stock of such corporation is available for purchase only by savings and loan associations of ^[such] that State and by Federal associations having their home offices therein, but no association may make any investment under this subparagraph if its aggregate outstanding investment under this subparagraph would ^[3] exceed 5 per centum of the assets of the association, except that not less than one-half of the investment permitted under this subparagraph which exceeds 3 per [one] centum of assets shall be used primarily for community, inner-city, and community development purposes. Provided, that an association may make an investment under this subparagraph notwithstanding that the service corporation in which investment is authorized has invested in any other corporation (i) that is not chartered by the State in which the home office of the association is located, or (ii) that has stock available for purchase by entities other than savings and loan associations of that State or by Federal associations having their home offices in such State."

"(C) Foreign assistance ^[, certain guaranteed loans] investments. -- /

[(i) Loans secured by mortgages as to which the association has the benefit of insurance under Title X of the National Housing Act or of a commitment or agreement for such insurance.]

Investments in housing project loans having the benefit of any guaranty under section 221 of the Foreign Assistance Act of 1961 or loans having the benefit of any guaranty ^[vi] under section 224 of such Act, or any commitment or agreement with respect to such loans made pursuant to either of such sections and in the share capital and capital reserve of the Inter-American Savings and Loan Bank. This authority extends to the acquisition, holding and disposition ^[v] of loans having the benefit of any guaranty under Section 221 or 222 of such Act as hereafter amended or extended, or of any commitment or agreement for any such guaranty.

[(iii) Investments under clause (i) of this subparagraph shall not be included in any percentage of assets or other percentage referred to in this subsection.] Investments under [clause (ii) of] this subparagraph shall not exceed, in the case of any association, [1] per centum of the assets of such association.

one

(D) State and local government obligations.— An association whose general reserves, surplus, and undivided profits aggregate a sum in excess of that amount which is determined by the Board for the purpose of the third sentence of section 403(b) of the National Housing Act is authorized to invest in obligations which constitute prudent investments, as defined by the Board, of its home State and political subdivisions thereof (including any agency, corporation, or instrumentality) if (i) the proceeds of such obligations are to be used for rehabilitation, financing, or the construction of residential real estate, and (ii) the aggregate amount of all investments under this subparagraph shall not exceed the amount of the association's general reserves, surplus, and undivided profits. or issued by

"(E) Small business investment companies. -- An association may invest in stock, obligations, or other securities of any small business investment company formed pursuant to section 301(d) of the Small Business Investment Act of 1958, for the purpose of aiding members of the Federal Home Loan Bank System, but no association may make any investment under this subparagraph if its aggregate outstanding investment under this subparagraph would exceed 1 per centum of the assets of such association."

(6) Definitions.—As used in this subsection—

(A) the terms "residential real property" or "residential real estate" mean leaseholds, homes (including condominiums and cooperatives, except that in connection with loans on individual cooperative units, such loans shall be adequately secured as defined by the Board), combinations of homes and business property, other dwelling units, or combinations of dwelling units including homes and business property involving only minor or incidental business use, or property to be improved by construction of such structures;

(B) the term "loans" includes obligations and extensions or advances of credit; and any reference to a loan or investment includes an interest in such a loan or investment; and

(C) the term "State" means any State of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, the Canal Zone, Guam, American Samoa, and any territory or possession of the United States.

- 14. Section 207: Section 5(c)(8) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(c)(8))

"(8) An association may engage in any activity or venture the Board determines to be reasonably incident to the exercise of the authority conferred by this subsection, or by subsection (b)."

- 15. Section 208: Section 5A(b)(1)(B) of the Federal Home Loan Bank Act (12 U.S.C. §1425a(b)(1)(B))

Liquidity requirements; minimum and maximum amounts; rules and regulations

(b)(1) Any institution which is a member or which is an insured institution as defined in section 1724(a) of this title shall maintain the aggregate amount of its assets of the following types at not less than such amount as, in the opinion of the Board, is appropriate:

(A) cash;

(B) to such extent as the Board may approve for the purposes of this section, time and savings deposits in Federal Home Loan Banks and commercial banks;

(C) to such extent as the Board may so approve, such obligations, including such special obligations, of the United States, a State, any territory or possession the United States, or a political subdivision, agency or instrumentality of any one or more of the foregoing, and bankers' acceptances, as the Board may approve;

(D) to such extent as the Board may so approve, shares or certificates of any open-end management investment company which is registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and the portfolio of which is restricted by such investment company's investment policy, changeable only if authorized by shareholder vote, solely to any of the obligations or other investments enumerated in subparagraphs (A) through (C);

(E) balances maintained in a Federal Reserve bank or passed through a Federal Home Loan Bank or another depository institution to a Federal Reserve bank pursuant to the Federal Reserve Act;

(F) to such extent as the Board may approve as liquid, highly rated corporate debt obligations with 3 years or less remaining until maturity; and

(G) to such extent as the board may so approve, highly rated commercial paper with 270 days or less remaining until maturity.

(2) The requirement prescribed by the Board pursuant to this subsection (hereinafter in this section referred to as the "liquidity requirement") may not be less than 4 per centum or more than 10 per centum of the obligation of the institution on withdrawable accounts and borrowings payable on demand or with unexpired maturities of one year or less, or in the case of institutions which are insurance companies, such other base or bases as the Board may determine to be comparable. The Board shall prescribe rules and regulations to implement the provisions of this subsection.

eligible to become, members thereof, and commercial banks.

16. Sections 301, 302, 303: Section 501 of Public Law 96-221
(12 U.S.C. §1735f-7 note)

"(f) The provisions of the constitution or the laws of any State limiting the ability of a depository institution to enter into contracts, or to enforce contracts, whenever executed, providing that the institution may, at its option, declare due and payable sums secured by the institution's security instrument if all or any part of the real property securing the loan is sold or transferred by the borrower without the institution's prior written consent shall not apply to contracts involving loans secured by a lien on residential real property, by a lien on stock allocated to a dwelling unit in a residential cooperative housing corporation, or by a lien on a residential manufactured home. Except as limited by the Federal Home Loan Bank Board pursuant to subsection (g) herein, exercise by the institution of such option (hereafter called a due-on-sale clause) shall be exclusively governed by the terms of the loan contract, and all rights and remedies of the institution and borrower shall be fixed and governed by the contract. In the exercise of its authority under subsection (g), the Board may require institutions to observe appropriate consumer safeguards to the extent it is authorized to require such observance by Federal savings and loan associations."

[(f)] "/(g)(1) The Federal Home Loan Bank Board is authorized to --
[and] [and to publish]

(A) issue rules, regulations, interpretations or approvals governing the implementation of this section; and

(B) delegate authority to duly authorized officials, employees or agents of the Board to issue interpretations or approvals governing the implementation of this section.

"(2) No provision of the constitution or laws of any State imposing any liability, penalty or forfeiture shall apply to any act done or omitted in good faith in conformity with any rule, regulation, interpretation or approval under this section by the Federal Home Loan Bank Board or in conformity with any interpretation or approval by an official, employee or agent of the Board duly authorized by the Board to issue interpretations or approvals under this section under such procedures as the Board may prescribe therefor, notwithstanding that, after such act or omission has occurred, such rule, regulation, or approval is amended, rescinded, or determined by judicial or other authority to be invalid for any reason."

[(g)] (h) This section takes effect on April 1, 1980[.], except for subsection (f).

17. Section 401: Section 408(m) of the National Housing Act
(12 U.S.C. §1730a)

"(m) Notwithstanding any other provision of State or Federal law, except as provided in subsections (e)(2) and (1) hereof, the Corporation, upon its determination that severe financial conditions exist which threaten the stability of a significant number of insured institutions, or of insured institutions possessing significant financial resources, may authorize, in its discretion and where it determines such authorization would lessen the risk to the Corporation, an insured institution that is eligible for assistance pursuant to section 406(f) of this Act to merge or consolidate with, or to transfer its assets and liabilities to, any other insured institution, or may authorize any savings and loan holding company to acquire control of said insured institution or to acquire the assets or assume the liabilities thereof. Mergers, consolidations, transfers and acquisitions under this subsection shall be on such terms as the Corporation shall provide. In considering authorizations under this subsection, the need to minimize financial assistance required of the Corporation shall be the paramount consideration, but the Corporation shall make a reasonable effort to authorize transactions under this subsection in the following sequence: First, between institutions of the same type within the same State; second, between institutions of the same type in different States; third, between institutions of different types in the same State; and fourth, between institutions of different types in different States."

18. Section 402: Section 408(e)(2) of the National Housing Act
(12 U.S.C. §1730a(e)(2))

(2) The Corporation shall not approve any acquisition under subparagraphs (A)(i) or (A)(ii), or of more than one insured institution under subparagraph (B), of paragraph (1) of this subsection except in accordance with this paragraph. In every case, the Corporation shall take into consideration the financial and managerial resources and future prospects of the company and institution involved, and the convenience and needs of the community to be served, and shall render its decision within ninety days after submission to the Board of the complete record on the application. Before approving any such acquisition, the Corporation shall request from the Attorney General and consider any report rendered within thirty days on the competitive factors involved. The Corporation shall not approve any proposed acquisition—

(A) which would result in a monopoly, or which would be in furtherance of any combination or conspiracy to monopolize or to attempt to monopolize the savings and loan business in any part of the United States, or

(B) the effect of which in any section of the country may be substantially to lessen competition, or tend to create a monopoly, or which in any other manner would be in restraint of trade, unless it finds that the anticompetitive effects of the proposed acquisition are clearly outweighed in the public interest by the probable effect of the acquisition in meeting the convenience and needs of the community to be served.

, or any transaction
under subsection (m)
hereof,

19. Section 403: Section 5(o) of the Home Owners' Loan Act of 1933
(12 U.S.C. §1464(o))

"(o) Notwithstanding any other provision of this section or State law, and consistent with the purposes of this Act, the Board may authorize (or in the case of a Federal association, require) the conversion of a mutual savings and loan association or mutual savings bank into a Federal stock savings and loan association or Federal stock savings bank, or charter a Federal stock savings and loan association or Federal stock savings bank to acquire the assets of, or merge with such a mutual institution under the rules and regulations of the Board. The Board may condition its approval of the conversion or acquisition of a mutual savings bank under this subsection that was previously insured by the Federal Deposit Insurance Corporation upon the receipt from the Federal Deposit Insurance Corporation of reasonable indemnification of the Federal Savings and Loan Insurance Corporation for losses that may be incurred by the latter as a consequence of its insuring the accounts of such institution, as agreed to by the Corporations. Authorizations under this subsection may be made only to assist an institution in receivership, or if the primary Federal supervisor has determined that severe financial conditions exist which threaten the stability of an institution and that such authorization is likely to improve the financial condition of the institution, or when either of the Corporations has contracted to provide assistance to such institution under section 406 of the National Housing Act or section 13 of the Federal Deposit Insurance Act."

20. Section 404(a): Section 406(f) of the National Housing Act
(12 U.S.C. §1729(f))

[a] [in]

"(f)(1) In order to prevent the default ^[in] of an insured institution, or in order to restore an insured institution in default to normal operation, or, when severe financial conditions exist which threaten the stability of a significant number of insured institutions, or of insured institutions possessing significant financial resources, in order to lessen the risk to the Corporation posed by an insured institution under such threat of instability, the Corporation is authorized, in its sole discretion and upon such terms and conditions as it may determine, to make loans to, to make deposits in, to purchase the assets or securities or to assume the liabilities of, or to make a contribution to, such an insured institution or such an insured institution ^[in default] so threatened.

"(2) Whenever an insured institution is in default or, in the judgment of the Corporation, is in danger of default or, whenever severe financial conditions exist which threaten the stability of a significant number of insured institutions, or of insured institutions possessing significant financial resources, and in order to lessen the risk to the Corporation posed by an insured institution under such threat of instability, the Corporation/is authorized, [may] in its sole discretion, in order to facilitate a merger or consolidation of such insured institution with another insured institution or the sale of/assets of such insured [the] institution and the assumption of its liabilities by another insured institution, and upon such terms and conditions as the Corporation may determine, to purchase any such assets or assume any such liabilities, or make loans or contributions to, or deposits in, or purchase the securities of, such other insured institution, or guarantee such other insured institution against loss by reason of its merging or consolidating with or assuming the liabilities and purchasing the assets of such insured institution in or in danger of default, or under threat of instability. The Corporation may provide any party acquiring control of, merging with, consolidating with or acquiring the assets of an insured institution under section 408(m) of this Act with such financial assistance as it could provide an insured institution under this subsection.

[contribution or guarantee] [made]

"(3) No/assistance shall be/provided pursuant to [paragraphs (1) or this subsection in an amount in excess of that which (2) of] the Corporation finds to be reasonably necessary to save the cost of liquidating, including paying the insured accounts of, such insured institution in or in danger of default, or under threat of instability, but if the Corporation determines that the continued operation of such institution is essential to provide adequate savings or home financing services in its community, such limitation upon the amount of/assistance shall not apply."

[a contribution or guarantee]

21. Section 404(b): Section 406(b) of the National Housing Act
(12 U.S.C. §1729(b))

"(b) In the event that a Federal savings and loan association is in default, the Corporation shall be appointed as conservator or receiver and [is authorized] as such (1) is authorized (i) to take over the assets of and operate such association, [(2)] (ii) to take such action as may be necessary to put it in a sound and solvent condition, [(3)] (iii) to merge it with another insured institution, [(4)] (iv) to organize a new Federal [savings and loan] association to take over its assets, [or (5)] (v) to proceed to liquidate its assets in an orderly manner, [whichever shall appear] or (vi) to make such other disposition of the matter as it deems to be [to] in the best interest[s] of the [insured members of the] association [in default], its savers, and the Corporation, and (2) shall pay all valid credit obligations of the association. [and in any event the] The Corporation shall pay[the] insurance as provided in section 405 [and all valid credit obligations of such association]. The surrender and transfer to the Corporation of an insured account in any such association which is in default shall subrogate the Corporation with respect to such insured account, but shall not affect any right which the insured member may have in the uninsured portion of his account or any right which he may have to participate in the distribution of the net proceeds remaining from the disposition of the assets of such association."

22. Section 405: Section 16 of the Federal Home Loan Bank Act
(12 U.S.C. §1436)

§ 1436. Reserves and dividends

(a) Each Federal Home Loan Bank shall carry to a reserve account semi-annually 20 per centum of its net earnings until said reserve account shall show a credit balance equal to 100 per centum of the paid-in capital of such bank. After said reserve has reached 100 per centum of the paid-in capital of said bank, 5 per centum of its net earnings shall be added thereto semiannually. Whenever said reserve shall have been impaired below 100 per centum of the paid-in capital it shall be restored before any dividends are paid. Each Federal Home Loan Bank shall establish such additional reserves and/or make such charge-offs on account of depreciation or impairment of its assets as the board shall require from time to time. No dividends shall be paid except out of net earnings remaining after all reserves and charge-offs required under this chapter have been provided for, and then only with the approval of the board. The reserves of each Federal Home Loan Bank shall be invested, subject to such regulations, restrictions, and limitations as may be prescribed by the board, in direct obligations of the United States, in obligations, participations, or other instruments of or issued by the Federal National Mortgage Association or the Government National Mortgage Association, in mortgages, obligations, or other securities which are or ever have been sold by the Federal Home Loan Mortgage Corporation pursuant to section 1454 or section 1455 of this title, and in such securities as fiduciary and trust funds may be invested in under the laws of the State in which the Federal Home Loan Bank is located.

"(b) Notwithstanding subsection (a) or any other provision of this Act, if the Board determines that severe financial conditions exist threatening the stability of member institutions, it may suspend temporarily the requirements under subsection (a) that a portion of net earnings be set aside semi-annually by each Federal Home Loan Bank to a reserve account and permit each Federal Home Loan Bank to declare and pay dividends out of undivided profits. Thereafter, dividends shall be paid in accordance with subsection (a)."

23. Section 406(a): Section 402(d),(i) of the National Housing Act (12 U.S.C. §1725(d),(i))

Financial operations

(d) For the purposes of this subchapter, the Corporation shall have power to borrow money, and to issue notes, bonds, debentures, or other such obligations upon such terms and conditions as the Federal Home Loan Bank Board may determine. Monies of the Corporation not required for current operations shall be deposited in the Treasury of the United States, or upon the approval of the Secretary of the Treasury, in any Federal Reserve bank, or shall be invested in obligations of, or guaranteed as to principal and interest by, the United States. When designated for that purpose by the Secretary of the Treasury, the Corporation shall be a depository of public money under such regulations as may be prescribed by the Secretary of the Treasury, and may also be employed as fiscal agent of the United States, and it shall perform all such reasonable duties as depository of public money and fiscal agent as may be required of it. Insured institutions shall be depositories of public money and may be employed as fiscal agents of the United States. The Secretary of the Treasury is authorized to deposit public money in such insured institutions, and shall prescribe such regulations as may be necessary to enable such institutions to become depositories of public money and fiscal agents of the United States. Each insured institution shall perform all such reasonable duties as depository of public money and fiscal agent of the United States as may be required of it including services in connection with the collection of taxes and other obligations owed the United States.

except that interest on loans from the Federal Home Loan Banks shall be not less than their current marginal cost of funds, taking into account the maturities involved, and loans from the Federal Home Loan Banks shall be adequately secured, as determined by the Federal Home Loan Bank Board.

Loans to corporation

(i) The Corporation is authorized to borrow from the Treasury, and the Secretary of the Treasury is authorized and directed to loan to the Corporation on such terms as may be fixed by the Corporation and the Secretary, such funds as in the judgment of the Federal Home Loan Bank Board are from time to time required for insurance purposes, not exceeding in the aggregate \$750,000,000 outstanding at any one time, and the Corporation hereafter shall not exercise its borrowing power under the first sentence of subsection (d) of this section for the purpose of borrowing money from any other source. Provided, That each such loan shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the current average rate on outstanding marketable obligations of the United States as of the last day of the month preceding the making of such loan: Provided further, That nothing in this subsection shall prevent the Corporation from issuing debentures in accordance with the provisions of subsection (b) of section 1728 of this title. For the purposes of this subsection the Secretary of the Treasury is authorized to use as a public-debt transaction the proceeds of the sale of any securities hereafter issued under the Second Liberty Bond Act, as now or hereafter in force, and the purposes for which securities may be issued under the Second Liberty Bond Act, as now or hereafter in force, are extended to include such loans. Any such loan shall be used by the Corporation solely in carrying out its functions with respect to such insurance. All loans and repayments under this subsection shall be treated as public-debt transactions of the United States.

from the Treasury

24. Section 406(c): Section 11 of the Federal Home Loan Bank Act (12 U.S.C. §1431)

(k) The Federal Home Loan Banks are authorized to make loans to the Federal Savings and Loan Insurance Corporation, as directed by the board, but subject to Section 402(d) of the National Housing Act.

25. Section 407: Section 404 of the National Housing Act (12 U.S.C. §1727)

"(h) Notwithstanding any other provision of this section, the Corporation, upon its determination that extraordinary financial conditions exist increasing the risk to the Corporation, may terminate distribution of shares of the secondary reserve and utilize said reserve on the same basis as the primary reserve. If otherwise authorized, the Corporation may resume such distribution upon its determination that said conditions no longer exist."

26. Section 501: Section 17(a) of the Federal Home Loan Bank Act (12 U.S.C. §1437(a))

§ 1437. Federal Home Loan Bank Board; creation; composition; powers and duties; salaries; independent agency; report to Congress

(a) The board shall supervise the Federal Home Loan Banks created by this chapter, shall perform the other duties specifically prescribed by this chapter, and shall have power to adopt, amend, and require the observance of such rules, regulations, and orders as shall be necessary from time to time for carrying out the purposes of the provisions of this chapter. The board shall have power to suspend or remove any director, officer, employee, or agent of any Federal Home Loan Bank, the cause of such suspension or removal to be communicated in writing forthwith to such director, officer, employee, or agent, and to such Federal Home Loan Bank.

"Notwithstanding any other provision of law, the Board may from time to time make such provision as it deems appropriate authorizing the performance by any officer, employee, agent or administrative unit thereof of any function of the Board (including any function of the Federal Savings and Loan Insurance Corporation), except with regard to promulgation of rules and regulations in accordance with the Administrative Procedures Act, and adjudications subject to such Act."

27. Section 502: Section 5(d)(8)(A) of the Home Owners' Loan Act of 1933 (12 U.S.C. §1464(d)(8)(A))

(8)(A) The Board may in its discretion apply to the United States district court, or the United States court of any territory, within the jurisdiction of which the home office of the association is located, for the enforcement of any effective and outstanding notice or order issued by the Board under this subsection (d), and such courts shall have jurisdiction and power to order and require compliance therewith; but except as otherwise provided in this subsection no court shall have jurisdiction to affect by injunction or otherwise the issuance or enforcement of any notice or order under this subsection, or to review, modify, suspend, terminate, or set aside any such notice or order. Any court having jurisdiction of any proceeding instituted under this subsection by an association or a director or officer thereof, may allow to any such party such reasonable expenses and attorneys' fees as it deems just and proper, which prevails, and such expenses and fees shall be paid by the association or from its assets.

28. Section 503: Section 405(d)(3) of the National Housing Act (12 U.S.C. §1728(d)(3))

"(3)(a) Notwithstanding any limitation in this title or in any other provision of law relating to the amount of deposit insurance available for any one account 1.1

[f]

(i) Funds invested in an insured institution pursuant to a pension or profit-sharing plan described in section 401(d) of the Internal Revenue Code of 1954, as amended, and funds invested in an insured institution in the form of individual retirement accounts as described in section 408(a) of the Internal Revenue Code of 1954, (\$100,000) as amended, shall be insured in the amount of \$500,000 per account;

(ii) Funds invested in an insured institution pursuant to a trustee employee benefit plan shall be insured in the amount of \$500,000 per trust estate; and

(iii) Funds invested in an insured institution in the form of an account of any State deferred compensation plan as described in section 457 of the Internal Revenue Code of 1954, as amended, shall be insured in the amount of \$500,000 per each employee's contributions to such accounts.

(b) As to any plan qualifying under section 401(d) as amended, or section 408(a) of the Internal Revenue Code of 1954, the term "per account" means the present vested and ascertainable interest of each beneficiary under the plan, excluding any remainder interest created by, or as a result of, the plan."

29. Section 504: Section 10 of the Federal Home Loan Bank Act
(12 U.S.C. §1430)

(a) Each Federal Home Loan ^{such} Bank is authorized to make ^{secured} advances to its members upon ~~the~~ security ~~of~~ home mortgages, or obligations of the United States, or obligations fully guaranteed by the United States, subject to such regulations, restrictions, and limitations as the Board may prescribe. [Any such advance shall be subject to the following limitations as to amount:

(1) If secured by a mortgage insured under the provisions of subchapters I, II, VI, VIII, or X of chapter 13 of this title, the advance may be for an amount not in excess of 90 per centum of the unpaid principal of the mortgage loan.

(2) If secured by a home mortgage given in respect of an amortized home mortgage loan which was for an original term of six years or more, or in cases where shares of stock, which are pledged as security for such loan, mature in a period of six years or more, the advance may be for an amount not in excess of 65 per centum of the unpaid principal of the home mortgage loan; but in no case shall the amount of the advance exceed 60 per centum of the value of the real estate securing the home mortgage loan.

(3) If secured by a home mortgage given in respect of any other home mortgage loan, the advance shall not be for an amount in excess of 50 per centum of the unpaid principal of the home mortgage loan; but in no case shall the amount of such advance exceed 40 per centum of the value of the real estate securing the home mortgage loan.

(4) If secured by obligations of the United States, or obligations fully guaranteed by the United States, the advance shall not be for an amount in excess of the face value of such obligations.]

(b) [No home mortgage shall be accepted as collateral security for an advance by a Federal Home Loan Bank if, at the time such advance is made (1) the home mortgage loan secured by it has more than thirty years to run to maturity, unless such home mortgage is insured under the National Housing Act, as amended, or insured or guaranteed under the Servicemen's Readjustment Act of 1944, as amended, chapter 37 of Title 38, or (2) the home mortgage exceeds a sum equal to the dollar limitation under the first proviso of the first sentence of section 1464(c) of this title for each home or other dwelling unit covered by such mortgage, or (3) is past due more than six months when presented, unless the amount of the debt secured by such home mortgage is less than 50 per centum of the value of the real estate with respect to which the home mortgage was given, as such real estate was appraised when the home mortgage was made. For the purposes of this subsection and subsection (a) of this section the value of real estate shall be as of the time the advance is made and shall be established by such certification by the borrowing institution, or such other evidence, as the board may require.] For the purposes of this section, each Federal Home Loan Bank shall have power to make, or to cause or require to be made, such appraisals and other investigations as it may deem necessary. No home mortgage otherwise eligible to be accepted as collateral security for an advance by a Federal Home Loan Bank shall be accepted if any director, officer, employee, attorney, or agent of the Federal Home Loan Bank or of the borrowing institution is personally liable thereon, unless the board has specifically approved by formal resolution such acceptance.

(c) Such advances shall be made upon the note or obligation of the member or nonmember borrower secured as provided in this section, bearing such rate of interest as the board may approve or determine, and the Federal Home Loan Bank shall have a lien upon and shall hold the stock of such member as further collateral security for all indebtedness of the member to the Federal Home Loan Bank. At no time shall the aggregate outstanding advances made by any Federal Home Loan Bank to any member exceed ~~twelve~~ twenty times the amounts paid in by such member for outstanding capital stock held by it, or made to a nonmember borrower exceed ~~twelve~~ twenty times the value of the security required to be deposited under subsection (e) of section 1426 of this title.

30. Section 505: Section 405(a) of the National Housing Act (12 U.S.C. §1728(a))

Amount of insurance

(a) Each institution whose application for insurance under this subchapter is approved by the Corporation shall be entitled to insurance up to the full withdrawal or repurchasable value of the accounts of each of its members and investors (including individuals, partnerships, associations, and corporations) holding withdrawable or repurchasable shares, investment certificates, or deposits, in such institution; except that no member or investor (other than a member or investor referred to in subsection (d) of this title) of any such institution shall be insured for an aggregate amount in excess of \$100,000. For the purpose of clarifying and defining the insurance coverage under this subsection, subsection (d) of this section, and subsection (b) of section 1724 of this title, the Corporation is authorized to define, with such classifications and exceptions as it may prescribe, terms used in those subsections and in subsection (c) of section 1724 of this title and the extent of the insurance coverage resulting therefrom.

"Whenever the liabilities of an insured institution for accounts shall have been assumed by another insured institution or institutions, whether by way of merger, consolidation, or other statutory assumption, or pursuant to contract, all accounts so assumed shall have separate insurance which shall terminate at the end of six months from the date such assumption takes effect or, in the case of any certificate account, the earliest maturity date after the six-month period."

31. Section 506: Section 6(c)(2) of the Federal Home Loan Bank Act
(12 U.S.C. §1426(c)(2))

Minimum subscriptions; retirement of oversubscriptions; limitations;
cancellation of oversubscriptions; aggregate unpaid loan
principal; reports and information

(c) (1) The original stock subscription of each institution eligible to become a member under section 1424 of this title shall be an amount equal to 1 per centum of the subscriber's aggregate unpaid loan principal, but not less than \$500. The bank shall annually, as of the close of the calendar year, adjust, at such time and in such manner and upon such terms and conditions as the Federal Home Loan Bank Board may by regulations or otherwise prescribe, the amount of stock held by each member so that such member shall have invested in the stock of the Federal Home Loan Bank at least an amount calculated in the manner provided in the next preceding sentence (but not less than \$500). If the bank finds that the investment of any member in stock is greater than that required under this subsection it may, unless prohibited by said Board or by the provisions of paragraph (2) of this subsection, in its discretion and upon application of such member retire the stock of such member in excess of the amount so required. Said Board, in its discretion, may, by regulations or otherwise, provide for adjustments in amounts of stock to be issued or retired in order that stock may be issued or retired only in entire shares.

(2) The provisions of paragraph (1) of this subsection shall be subject to the following limitations:

(1) No member which is a member on September 8, 1961 shall be permitted to reduce its stock to an amount which is less than the amount held by it as of the close of such date, except that a member may at any time reduce its stock to an amount which is not less than 2 per centum of its aggregate unpaid loan principal as of the beginning of the calendar year in which the reduction is made (but not less than \$500): *Provided*, That if the amount to which such stock is so reduced is less than 2 per centum of such member's aggregate unpaid loan principal as of the close of September 8, 1961 such reduction may be made only to such extent as said Board in its discretion may by regulations or otherwise provide.

(ii) Notwithstanding any other provision of this subsection, no action shall be taken by any bank with respect to any member pursuant to any of the foregoing provisions of this subsection if the effect of such action would be to cause the aggregate outstanding advances, within the meaning of the last sentence of subsection (c) of section 1430 of this title or within the meaning of regulations of the Board defining said term for the purposes of this sentence, made by such bank to such member to exceed twenty times the amounts paid in by such member for outstanding capital stock held by such member.

(3) Except as provided in subsection (1), of this section, upon retirement of stock of any member the bank shall pay such member for the stock retired an amount equal to the par value of such stock, or, at the election of the bank, the whole or any part of the payment which would otherwise be so made shall be credited upon the indebtedness of the member to the bank. In either such event, stock equal in par value to the amount of the payment or credit, or both, as the case may be, shall be canceled.

(4) For the purposes of this subsection, the term "aggregate unpaid loan principal" means the aggregate unpaid principal of a subscriber's or member's home mortgage loans, home-purchase contracts, and similar obligations.

(5) The Federal Home Loan Bank Board, by regulations or otherwise, may require each member to submit such reports and information as said Board, in its discretion, may determine to be necessary or appropriate for the purposes of this subsection.

32. Section 507: Section 8a of the Federal Home Loan Bank Act
(12 U.S.C. §1428a)

There is hereby created a Federal Savings and Loan Advisory Council, which shall continue to exist as long as the Board biannually determines, as a matter of formal record, after consultation with the Director of the Office of Management and Budget, with timely notice in the Federal Register, to be in the public interest in connection with the performance of duties imposed on the Council by law. The Council shall, in all other respects, be subject to the provisions of the Federal Advisory Committee Act. The Council shall consist of one member for each Federal Home Loan Bank district to be elected annually by the board of directors of the Federal Home Loan Bank in such district and twelve members to be appointed annually by the Board to represent the public interest. Each such elected member shall be a resident of the district for which he is elected. All members of the Council shall serve without compensation, but shall be entitled to reimbursement from the Board for traveling expenses incurred in attendance at meetings of such Council. The Council shall meet at Washington, District of Columbia, at least twice a year and oftener if requested by the Board. The Council may select its chairman, vice chairman, and secretary, and adopt methods of procedure, and shall have power—

(1) To confer with the Board on general business conditions, and on special conditions affecting the Federal Home Loan Banks and their members and the Federal Savings and Loan Insurance Corporation.

(2) To request information, and to make recommendations, with respect to matters within the jurisdiction of the Board and the Federal Savings and Loan Insurance Corporation.

"Subject to the provisions of §7 of the Federal Advisory Committee Act, all members and alternates of the Council may be compensated and shall be entitled to reimbursement from the Board for traveling expenses incurred in attendance at meetings of such Council."

33. Section 508: Section 6(i) of the Federal Home Loan Bank Act
(12 U.S.C. §1426(i))

Withdrawal or removal of members; surrender and cancellation of stock

(i) Any member other than a Federal savings and loan association may withdraw from membership in a Federal Home Loan Bank six months after filing with the board written notice of intention so to do, and the board may, after hearing, remove any member from membership, or deprive any nonmember borrower of the privilege of obtaining further advances, if, in the opinion of the board, such member or nonmember borrower (i) has failed to comply with any provision of this chapter or regulation of the board made pursuant thereto; (ii) is insolvent: *Provided*, That any member of a bank which is a building and loan association, savings and loan association, cooperative bank, or homestead association shall be deemed insolvent if the assets of such member are less than its obligations to its creditors and others, including the holders of its withdrawable accounts; or (iii) has a management or home-financing policy of a character inconsistent with sound and economical home financing or with the purposes of this chapter. In any such case, the indebtedness of such member or nonmember borrower to the Federal Home Loan Bank shall be liquidated, and the capital stock in the Federal Home Loan Bank owned by such member shall be surrendered and canceled. Upon the liquidation of such indebtedness such member or nonmember borrower shall be entitled to the return of its collateral, and, upon surrender and cancellation of such capital stock, the member shall receive a sum equal to its cash paid subscriptions for the capital stock surrendered, except that if at any time the board finds that the paid-in capital of a Federal Home Loan Bank is or is likely to be impaired as a result of losses in or depreciation of the assets held, the Federal Home Loan Bank shall on the order of the board withhold from the amount to be paid in retirement of the stock a pro rata share of the amount of such impairment as determined by the board.

"; provided, however, that in the case of a voluntary withdrawal, such liquidation shall be deemed a prepayment of any such indebtedness, and shall be subject to any penalties applicable to such prepayment."

Ms Mallardi

December 29, 1980

Mr. John Dalton
Chairman
Federal Home Loan Bank Board
1700 G Street, W.W.
Washington, D.C. 20552

Dear John:

This is in response to Jay Janis's letter of December 15, 1980, concerning proposed guidelines for the purchase of Federal funds by Federal Home Loan Banks. The proposals appear to be reasonable, in view of the size limitations currently in place on the total volume of Federal funds sold by Federal Home Loan Banks. We do not anticipate that any extraordinary reporting requirements need be established; the volume of Federal funds purchased can be made a part of the existing structure. Accordingly, we have no objection to your finalizing the proposal.

We appreciate your cooperation in keeping us advised of your plans.

Sincerely,

bcc: Ms. Mallardi (2)
Chairman Log #3216

GTS:bbo
12/29/80

*Mr. Volcker
sent to DLDC*



1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

Federal Home Loan Bank Board

JAY JANIS
Chairman

DEC 5 1980

3114

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

Dear Paul:

The most current numbers we have on the condition of S&Ls are not encouraging. I thought it would be helpful for you to have the following update:

Profitability:

For the first half of 1981, we expect that 75 percent of the S&Ls will have negative earnings. For the second half of the year there will be approximately 73 percent under water. This compares to our estimate for 1980 of 50 percent with losses for the second half of the year and 30 percent for the first half. Note that these estimates are based on a medium interest rate scenario. Under a high interest rate scenario, the percent with losses in 1981 approaches 82 percent.

Return on Assets:

ROA for 1981 -- under the medium interest rate scenario -- is estimated at between -.35 to -.40. Under a high interest rate scenario, the range is -.65 to -.90.

FSLIC Fund:

Based on our current problem book cases -- under a worse case scenario -- the losses to the insurance fund could reach as high as \$2.5 billion. The book value of the fund is \$5.8 billion, but the market value is probably closer to \$4.6 billion.

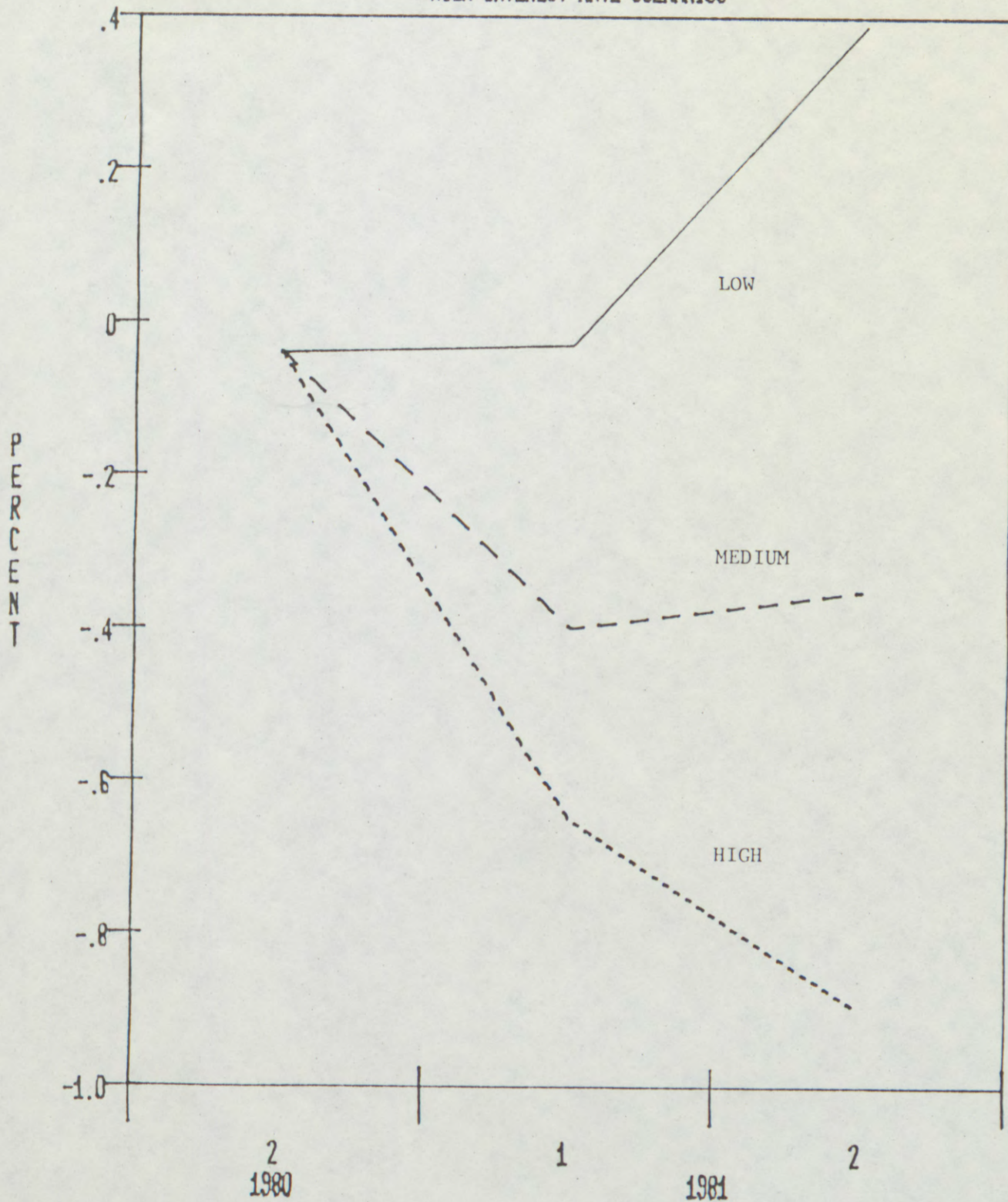
Enclosed are a couple of charts and the backup simulations for your staff to review and compare with their own. On the first chart you can see our interest rate assumptions.

Sincerely,

Jay Janis

Enclosures

ROA PROJECTIONS FOR LOW, MEDIUM, AND
HIGH INTEREST RATE SCENARIOS



LOW—SOLID LINE
MEDIUM—DASHED LINE
HIGH—DOTTED LINE

December 2, 1980

OPER Interest Rate Scenario
Semi-annual Averages
and Implications for ROA

	Low			Medium			High		
	<u>80:2</u>	<u>81:1</u>	<u>81:2</u>	<u>80:2</u>	<u>81:1</u>	<u>81:2</u>	<u>80:2</u>	<u>81:1</u>	<u>81:2</u>
MMC Rate	13.0	10.5	9.9	13.1	13.5	12.9	13.2	15.5	14.9
2-1/2 Certificate Rate	10.8	11.0	10.85	10.8	12.0	12.0	10.8	12.0	12.0
Jumbo Rate	14.6	11.9	11.2	14.7	15.15	14.40	14.8	17.15	16.80
Mortgage Contract Rate	12.25	13.25	13.00	12.30	14.25	14.0	12.35	15.0	14.75
ROA	-.04	-.03	.39	-.04	-.40	-.35	-.04	-.65	-.90

OPER FORECAST - LOW INTEREST RATES

ASSETS	80:1	80:2	81:1	81:2
MORTGAGE LOANS AND CONTRACTS ...	472.234	495.227	517.547	536.288
FIXED RATE	457.234	478.727	490.242	497.669
VARIABLE RATE	15.000	16.500	15.437	14.541
RENEGOTIATED RATE .....	.000	.000	11.868	24.078
MORTGAGE-BASED SECURITIES (US)	22.151	22.628	23.541	24.279
CONSUMER LOANS .....	.000	2.449	6.433	10.046
OTHER LOANS	16.960	17.726	18.488	19.139
CASH & INVESTMENT SECURITIES ...	55.740	58.186	60.531	62.457
REAL ESTATE OWNED	1.973	2.062	2.173	2.270
FIXED ASSETS (NET)	7.782	8.206	8.634	9.000
OTHER ASSETS	5.431	5.685	5.989	6.251
TOTAL ASSETS	582.272	612.168	643.337	669.730
 LIABILITIES				
SAVING ACCOUNTS	475.187	498.979	524.978	542.978
PASSBOOK ACCOUNTS	104.540	109.775	102.370	97.735
CERTIFICATES, TOTAL	370.646	389.205	422.608	445.242
EXISTING CERTIFICATES	149.923	105.956	96.761	87.566
NEW 2-1/2 & 4 YEAR CERT. ...	3.325	48.688	86.982	102.477
MMDS	185.324	174.644	196.868	211.762
\$100,000+	32.074	39.917	41.997	43.437
THIRD-PARTY ACCOUNTS .....	.620	.800	3.000	5.000
BORROWED MONEY	54.936	60.109	61.980	66.293
FHLB ADVANCES	40.845	43.093	44.499	47.777
OTHER BORROWED MONEY	14.091	17.015	17.482	18.516
LOANS IN PROCESS	7.089	7.359	7.823	8.169
SPECIFIC RESERVES .....	.217	.227	.239	.247
DEFERRED CREDITS	3.635	3.827	4.053	4.217
OTHER LIABILITIES	8.509	8.941	9.450	9.813
TOTAL LIABILITIES	550.193	580.243	611.524	636.717
 NET WORTH				
NET WORTH	32.080	31.926	31.813	33.019

OPER FORECAST - LOW INTEREST RATES

INCOME	80:1	80:2	81:1	81:2
TOTAL OPERATING INCOME	27.141	29.521	31.355	33.551
INTEREST INCOME	25.648	27.887	29.795	31.853
MORTGAGE LOANS & CONTRACTS .	21.111	22.628	24.514	26.192
CONSUMER AND OTHER LOANS ...	.896	.867	.964	1.400
INVESTMENTS & DEPOSITS	2.762	3.415	3.275	3.156
MORTGAGE-BACKED SEC. (US) ..	.880	.977	1.042	1.105
FROM LOAN FEES & DISCOUNTS ...	.720	.823	.705	.806
ALL OTHER OPERATING INCOME ...	.773	.811	.855	.892
TOTAL NON-OPERATING INCOME .....	.412	.429	.453	.475
TOTAL INCOME	27.553	29.951	31.809	34.026
EXPENSE				
TOTAL OPERATING EXPENSE	3.818	3.987	4.209	4.426
COST OF FUNDS (INTEREST)	22.816	25.918	27.472	27.541
SAVING ACCOUNTS	19.949	22.988	24.430	24.269
THIRD-PARTY ACCOUNTS .....	.000	.019	.050	.105
FHLB ADVANCES	2.096	2.141	2.312	2.491
OTHER BORROWED MONEY .....	.772	.771	.680	.677
TOTAL NON-OPERATING EXPENSE .....	.171	.174	.182	.190
TOTAL EXPENSE BEFORE TAXES	26.805	30.079	31.862	32.157
TAXES .....	.267	.001	.029	.589
FEDERAL TAXES .....	.209	-.035	-.010	.474
STATE, LOCAL, AND OTHER TAXES	.059	.037	.041	.115
TOTAL EXPENSE AFTER TAXES	27.073	30.081	31.891	32.747
NET INCOME				
NET INCOME BEFORE TAXES .....	.748	-.128	-.053	1.869
TAXES .....	.267	.001	.029	.589
NET INCOME .....	.480	-.129	-.082	1.279
CASH DIVIDENDS ON STOCK .....	.030	.023	.030	.074
NET INCOME AFTER TAXES & DIV. ...	.450	-.152	-.112	1.205

OPER FORECAST - LOW INTEREST RATES

AREA/YEAR	NET WORTH % OF DEPOSITS	AS % OF AVERAGE NET ASSETS				AVERAGE COST OF FUNDS	AVERAGE COST OF SAVINGS	AVERAGE YIELD ON MORTGAGES
		NET INCOME	GROSS INCOME	INTEREST EXPENSE	SAVINGS INTEREST			
U.S.								
80:1	6.74	.17	9.74	8.06	7.05	8.74	8.53	9.16
80:2	6.39	-.04	10.15	8.79	7.80	9.51	9.43	9.50
81:1	6.03	-.03	10.26	8.86	7.89	9.56	9.53	9.83
81:2	6.03	.39	10.49	8.49	7.52	9.15	9.06	10.09
DIST. 1								
80:1	5.99	-.02	9.27	7.60	6.86	8.17	7.99	8.79
80:2	5.75	-.12	9.71	8.22	7.47	8.81	8.73	9.08
81:1	5.47	-.18	9.75	8.33	7.57	8.91	8.87	9.34
81:2	5.45	.09	9.89	8.10	7.32	8.65	8.58	9.53
DIST. 2								
80:1	5.96	-.20	9.10	7.97	6.81	8.59	8.23	8.38
80:2	5.60	-.23	9.46	8.39	7.41	9.03	8.85	8.65
81:1	5.27	-.17	9.63	8.47	7.61	9.08	8.99	8.96
81:2	5.20	.10	9.76	8.23	7.36	8.81	8.69	9.20
DIST. 3								
80:1	7.05	.12	9.19	7.62	6.76	8.30	8.04	8.85
80:2	6.78	.07	9.75	8.23	7.47	9.01	8.91	9.13
81:1	6.47	.02	9.79	8.39	7.56	9.10	9.05	9.48
81:2	6.47	.35	10.01	8.14	7.29	8.82	8.73	9.71
DIST. 4								
80:1	6.34	.26	9.57	7.85	7.08	8.45	8.27	9.01
80:2	5.95	-.11	9.99	8.80	8.02	9.47	9.41	9.35
81:1	5.54	-.11	10.09	8.89	8.10	9.53	9.52	9.67
81:2	5.49	.30	10.29	8.52	7.73	9.11	9.06	9.93
DIST. 5								
80:1	7.00	.17	9.48	7.79	7.00	8.44	8.31	9.10
80:2	6.70	-.04	10.02	8.62	7.77	9.32	9.27	9.42
81:1	6.33	-.11	10.03	8.72	7.82	9.40	9.39	9.72
81:2	6.32	.29	10.25	8.38	7.47	9.03	8.96	9.95

OPER FORECAST - LOW INTEREST RATES

AREA/YEAR	NET WORTH % OF DEPOSITS	AS % OF AVERAGE NET ASSETS				AVERAGE COST OF FUNDS	AVERAGE COST OF SAVINGS	AVERAGE YIELD ON MORTGAGES
		NET INCOME	GROSS INCOME	INTEREST EXPENSE	SAVINGS INTEREST			
DIST. 6								
80:1	6.53	.08	9.37	7.92	7.31	8.58	8.48	9.09
80:2	6.25	.00	9.97	8.68	8.01	9.41	9.39	9.48
81:1	5.93	-.03	10.02	8.77	8.05	9.48	9.50	9.82
81:2	5.99	.41	10.28	8.39	7.66	9.06	9.04	10.09
DIST. 7								
80:1	6.26	.13	9.46	7.78	6.95	8.43	8.23	8.96
80:2	5.93	-.08	9.97	8.58	7.77	9.29	9.21	9.29
81:1	5.55	-.14	10.00	8.69	7.87	9.37	9.34	9.61
81:2	5.52	.26	10.24	8.36	7.54	9.01	8.93	9.86
DIST. 8								
80:1	6.34	.11	9.38	7.82	6.68	8.41	8.16	8.96
80:2	5.88	-.34	9.82	8.88	7.74	9.53	9.47	9.29
81:1	5.40	-.34	9.93	8.98	7.85	9.61	9.59	9.63
81:2	5.30	.10	10.17	8.62	7.47	9.20	9.10	9.89
DIST. 9								
80:1	6.34	.29	10.06	8.14	7.36	8.84	8.73	9.23
80:2	5.89	-.13	10.41	9.07	8.27	9.83	9.83	9.62
81:1	5.46	-.07	10.56	9.13	8.32	9.86	9.90	9.98
81:2	5.42	.40	10.76	8.67	7.86	9.34	9.33	10.27
DIST. 10								
80:1	7.45	.35	9.88	7.89	6.76	8.60	8.47	9.29
80:2	7.05	-.08	10.27	8.89	7.71	9.65	9.63	9.63
81:1	6.63	-.09	10.37	8.99	7.80	9.73	9.73	9.97
81:2	6.61	.36	10.61	8.60	7.39	9.29	9.20	10.24
DIST. 11								
80:1	7.61	.24	10.46	8.73	7.29	9.51	9.34	9.70
80:2	7.29	.18	10.76	9.13	7.77	9.93	9.87	10.04
81:1	7.01	.29	10.94	9.13	7.87	9.92	9.87	10.40
81:2	7.15	.80	11.25	8.68	7.41	9.42	9.29	10.70

OPER FORECAST - LOW INTEREST RATES

AREA/YEAR	NET WORTH % OF DEPOSITS	AS % OF AVERAGE NET ASSETS				AVERAGE COST OF FUNDS	AVERAGE COST OF SAVINGS	AVERAGE YIELD ON MORTGAGES
		NET INCOME	GROSS INCOME	INTEREST EXPENSE	SAVINGS INTEREST			
DIST. 12								
80:1	7.65	.21	10.24	8.27	6.90	9.03	8.78	9.64
80:2	7.29	.12	10.62	8.77	7.42	9.56	9.45	9.94
81:1	6.89	.09	10.67	8.84	7.50	9.61	9.52	10.26
81:2	6.89	.51	10.94	8.50	7.15	9.23	9.06	10.51

OPER FORECAST - LOW INTEREST RATES

ANNUALIZED NET INCOME AS A PERCENT OF AVERAGE NET ASSETS, 1980:1

DISTRICT												TOTAL	%	CUMULATIVE		
1	2	3	4	5	6	7	8	9	10	11	12			TOTAL	%	
1 -	40	83	117	269	192	67	189	101	221	101	64	46	1490	37.17	1490	37.17
2 -	10	45	46	117	78	46	70	51	93	38	37	25	661	16.49	2151	53.65
3 -	17	42	47	109	90	45	67	48	92	29	31	20	637	15.89	2788	69.54
4 -	19	29	25	68	45	20	71	23	66	24	18	16	424	10.58	3212	80.11
5 -	11	32	30	43	36	12	37	19	45	10	19	12	306	7.63	3518	87.75
6 -	8	26	9	31	19	5	17	10	23	5	11	9	173	4.32	3691	92.07
7 -	12	45	18	35	32	18	35	13	58	13	25	14	318	7.93	4009	100.00
8 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
9 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

- 1 - GREATER THAN 0.40
 2 - 0.20 TO 0.40
 3 - 0.00 TO 0.20
 4 - -0.20 TO 0.00
 5 - -0.40 TO -0.20
 6 - -0.60 TO -0.40
 7 - LESS THAN -0.60
 8 - UNDEFINED
 9 - TOTAL

NET WORTH AS A PERCENT OF TOTAL DEPOSITS, 1980:1

DISTRICT												TOTAL	%	CUMULATIVE		
1	2	3	4	5	6	7	8	9	10	11	12			TOTAL	%	
1 -	58	171	199	383	338	157	265	142	291	155	147	109	2415	60.24	2415	60.24
2 -	47	101	80	201	123	45	174	93	227	50	40	25	1206	30.08	3621	90.32
3 -	4	16	9	48	17	7	30	14	42	5	8	2	202	5.04	3823	95.36
4 -	7	14	4	39	14	4	16	13	39	9	8	6	173	4.32	3996	99.68
5 -	1	0	0	1	0	0	1	3	4	1	2	0	13	.32	4009	100.00
6 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
7 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

- 1 - GREATER THAN 6.0
 2 - 4.0 TO 6.0
 3 - 3.0 TO 4.0
 4 - 0.0 TO 3.0
 5 - LESS THAN 0.0
 6 - UNDEFINED
 7 - TOTAL

OPER FORECAST - LOW INTEREST RATES

ANNUALIZED NET INCOME AS A PERCENT OF AVERAGE NET ASSETS, 1980:2

DISTRICT															CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	24	77	111	131	103	47	110	28	87	42	71	38	869	21.68	869	21.68
2 -	18	40	48	92	77	40	63	25	60	31	35	21	550	13.72	1419	35.40
3 -	22	38	42	109	79	44	72	36	75	46	25	27	615	15.34	2034	50.74
4 -	14	27	34	107	67	24	83	43	79	29	23	18	548	13.67	2582	64.41
5 -	15	38	17	102	68	24	68	47	89	31	17	18	534	13.32	3116	77.73
6 -	11	31	13	63	45	16	41	39	78	14	10	5	366	9.13	3482	86.85
7 -	13	51	27	68	53	18	49	47	135	27	24	15	527	13.15	4009	100.00
8 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
9 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

- 1 - GREATER THAN 0.40
- 2 - 0.20 TO 0.40
- 3 - 0.00 TO 0.20
- 4 - -0.20 TO 0.00
- 5 - -0.40 TO -0.20
- 6 - -0.60 TO -0.40
- 7 - LESS THAN -0.60
- 8 - UNDEFINED
- 9 - TOTAL

NET WORTH AS A PERCENT OF TOTAL DEPOSITS, 1980:2

DISTRICT															CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	53	151	184	333	303	153	248	129	240	136	133	101	2169	54.10	2169	54.10
2 -	48	106	85	211	141	42	158	92	238	68	51	27	1267	31.60	3436	85.71
3 -	7	25	16	66	26	12	54	22	57	4	9	6	304	7.58	3740	93.29
4 -	7	19	7	51	21	6	24	19	59	9	9	8	239	5.96	3979	99.25
5 -	2	1	0	6	1	0	2	3	9	3	3	0	30	.75	4009	100.00
6 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
7 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

- 1 - GREATER THAN 6.0
- 2 - 4.0 TO 6.0
- 3 - 3.0 TO 4.0
- 4 - 0.0 TO 3.0
- 5 - LESS THAN 0.0
- 6 - UNDEFINED
- 7 - TOTAL

OPER FORECAST - LOW INTEREST RATES

ANNUALIZED NET INCOME AS A PERCENT OF AVERAGE NET ASSETS, 1981:1

DISTRICT													CUMULATIVE			
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	21	71	102	115	76	36	74	17	91	40	71	31	745	18.58	745	18.58
2 -	13	49	39	87	70	34	65	29	58	26	30	18	518	12.92	1263	31.50
3 -	25	35	45	118	79	46	75	39	84	49	33	35	663	16.54	1926	48.04
4 -	17	31	36	112	83	38	82	42	87	28	18	18	592	14.77	2518	62.81
5 -	15	39	29	108	72	23	76	50	89	33	22	12	568	14.17	3086	76.98
6 -	11	30	11	77	46	15	53	42	79	20	5	10	399	9.95	3485	86.93
7 -	15	47	30	55	66	21	61	46	115	24	26	18	524	13.07	4009	100.00
8 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
9 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

- 1 - GREATER THAN 0.40
- 2 - 0.20 TO 0.40
- 3 - 0.00 TO 0.20
- 4 - -0.20 TO 0.00
- 5 - -0.40 TO -0.20
- 6 - -0.60 TO -0.40
- 7 - LESS THAN -0.60
- 8 - UNDEFINED
- 9 - TOTAL

NET WORTH AS A PERCENT OF TOTAL DEPOSITS, 1981:1

DISTRICT													CUMULATIVE			
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	48	141	169	301	268	143	231	109	213	121	123	89	1956	48.79	1956	48.79
2 -	47	94	95	214	153	46	137	87	204	76	51	37	1241	30.96	3197	79.75
3 -	12	36	17	77	35	12	75	40	91	9	13	7	424	10.58	3621	90.32
4 -	8	29	10	71	34	12	39	25	79	10	13	8	338	8.43	3959	98.75
5 -	2	2	1	9	2	0	4	4	16	4	5	1	50	1.25	4009	100.00
6 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
7 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

- 1 - GREATER THAN 6.0
- 2 - 4.0 TO 6.0
- 3 - 3.0 TO 4.0
- 4 - 0.0 TO 3.0
- 5 - LESS THAN 0.0
- 6 - UNDEFINED
- 7 - TOTAL

OPER FORECAST - LOW INTEREST RATES

ANNUALIZED NET INCOME AS A PERCENT OF AVERAGE NET ASSETS, 1981:2

DISTRICT															CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	42	128	177	384	250	127	237	113	297	129	141	91	2116	52.78	2116	52.78
2 -	24	43	43	112	88	38	79	46	92	34	23	20	642	16.01	2758	68.80
3 -	22	38	25	85	64	21	67	37	81	28	14	9	491	12.25	3249	81.04
4 -	8	32	20	48	37	10	41	33	47	10	4	6	296	7.38	3545	88.43
5 -	6	22	10	21	33	9	21	16	27	7	5	4	181	4.51	3726	92.94
6 -	8	13	9	7	7	3	13	8	20	6	0	4	98	2.44	3824	95.38
7 -	7	26	8	15	13	5	28	12	39	6	18	8	185	4.61	4009	100.00
8 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
9 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

- 1 - GREATER THAN 0.40
- 2 - 0.20 TO 0.40
- 3 - 0.00 TO 0.20
- 4 - -0.20 TO 0.00
- 5 - -0.40 TO -0.20
- 6 - -0.60 TO -0.40
- 7 - LESS THAN -0.60
- 8 - UNDEFINED
- 9 - TOTAL

NET WORTH AS A PERCENT OF TOTAL DEPOSITS, 1981:2

DISTRICT															CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	47	143	170	305	274	144	234	107	206	119	117	85	1951	48.67	1951	48.67
2 -	46	86	88	207	143	42	132	89	203	74	53	38	1201	29.96	3152	78.62
3 -	12	41	17	73	38	14	73	37	94	12	19	10	440	10.98	3592	89.60
4 -	11	28	16	75	35	13	42	27	84	11	12	8	362	9.03	3954	98.63
5 -	1	4	1	12	2	0	5	5	16	4	4	1	55	1.37	4009	100.00
6 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
7 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

- 1 - GREATER THAN 6.0
- 2 - 4.0 TO 6.0
- 3 - 3.0 TO 4.0
- 4 - 0.0 TO 3.0
- 5 - LESS THAN 0.0
- 6 - UNDEFINED
- 7 - TOTAL

OPER FORECAST - MEDIUM INTEREST RATES

ASSETS	80:1	80:2	81:1	81:2
MORTGAGE LOANS AND CONTRACTS ...	472.234	495.227	514.060	531.711
FIXED RATE	457.234	478.727	487.778	494.382
VARIABLE RATE	15.000	16.500	15.482	14.582
RENEGOTIATED RATE .....	.000	.000	10.801	22.747
MORTGAGE-BACKED SECURITIES (US)	22.151	22.628	23.381	24.073
CONSUMER LOANS .....	.000	2.449	6.390	9.960
OTHER LOANS	16.960	17.726	18.364	18.977
CASH & INVESTMENT SECURITIES ...	55.740	58.186	60.124	61.932
REAL ESTATE OWNED	1.973	2.062	2.159	2.251
FIXED ASSETS (NET)	7.782	8.206	8.576	8.923
OTHER ASSETS	5.431	5.685	5.949	6.193
TOTAL ASSETS	582.272	612.168	639.003	664.026
 LIABILITIES				
SAVING ACCOUNTS	475.187	498.979	520.978	538.978
PASSBOOK ACCOUNTS	104.540	109.775	98.985	91.625
CERTIFICATES, TOTAL	370.646	389.205	421.993	447.352
EXISTING CERTIFICATES	149.923	105.956	96.761	87.566
NEW 2-1/2 & 4 YEAR CERT. ...	3.325	68.688	82.977	95.687
MMC'S	185.324	174.644	197.973	215.592
\$100,000+	32.074	39.917	44.282	48.507
THIRD-PARTY ACCOUNTS .....	.620	.800	3.000	5.000
BORROWED MONEY	54.936	60.109	62.941	68.225
FHLB ADVANCES	40.845	43.093	44.967	48.714
OTHER BORROWED MONEY	14.091	17.015	17.974	19.511
LOANS IN PROCESS	7.089	7.359	7.764	8.110
SPECIFIC RESERVES .....	.217	.227	.237	.246
DEFERRED CREDITS	3.635	3.827	4.022	4.186
OTHER LIABILITIES	8.509	8.941	9.378	9.741
TOTAL LIABILITIES	550.193	580.243	608.321	634.485
 NET WORTH				
NET WORTH	32.080	31.926	30.679	29.538

OPER FORECAST - MEDIUM INTEREST RATES

INCOME	80:1	80:2	81:1	81:2
TOTAL OPERATING INCOME	27.141	29.521	31.841	34.406
INTEREST INCOME	25.648	27.887	30.350	32.735
MORTGAGE LOANS & CONTRACTS ..	21.111	22.628	24.544	26.286
CONSUMER AND OTHER LOANS ...	.896	.867	1.019	1.476
INVESTMENTS & DEPOSITS	2.762	3.415	3.744	3.867
MORTGAGE-BACKED SEC. (US) ..	.880	.977	1.043	1.107
FROM LOAN FEES & DISCOUNTS ...	.720	.823	.642	.786
ALL OTHER OPERATING INCOME ...	.773	.811	.849	.885
TOTAL NON-OPERATING INCOME .....	.412	.429	.450	.471
TOTAL INCOME	27.553	29.951	32.292	34.877
EXPENSE				
TOTAL OPERATING EXPENSE	3.818	3.987	4.194	4.393
COST OF FUNDS (INTEREST)	22.816	25.918	29.558	31.776
SAVING ACCOUNTS	19.949	22.988	26.278	28.153
THIRD-PARTY ACCOUNTS .....	.000	.019	.050	.105
FHLB ADVANCES	2.096	2.141	2.388	2.660
OTHER BORROWED MONEY .....	.772	.771	.841	.857
TOTAL NON-OPERATING EXPENSE .....	.171	.174	.181	.189
TOTAL EXPENSE BEFORE TAXES	26.805	30.079	33.933	36.357
TAXES .....	.267	.001	-.402	-.356
FEDERAL TAXES .....	.209	-.035	-.416	-.376
STATE, LOCAL, AND OTHER TAXES	.059	.037	.014	.020
TOTAL EXPENSE AFTER TAXES	27.073	30.081	33.530	36.000
NET INCOME				
NET INCOME BEFORE TAXES .....	.748	-.128	-1.640	-1.479
TAXES .....	.267	.001	-.402	-.356
NET INCOME .....	.480	-.129	-1.237	-1.122
CASH DIVIDENDS ON STOCK .....	.030	.023	.010	.018
NET INCOME AFTER TAXES & DIV. ...	.450	-.152	-1.247	-1.139

OPER FORECAST - MEDIUM INTEREST RATES

AREA/YEAR	NET WORTH % OF DEPOSITS	AS % OF AVERAGE NET ASSETS				AVERAGE COST OF FUNDS	AVERAGE COST OF SAVINGS	AVERAGE YIELD ON MORTGAGES
		NET INCOME	GROSS INCOME	INTEREST EXPENSE	SAVINGS INTEREST			
U.S.								
80:1	6.74	.17	9.74	8.06	7.05	8.74	8.53	9.16
80:2	6.39	-.04	10.15	8.79	7.80	9.51	9.43	9.50
81:1	5.85	-.40	10.45	9.57	8.52	10.31	10.29	9.88
81:2	5.43	-.35	10.84	9.87	8.73	10.60	10.58	10.21
DIST. 1								
80:1	5.99	-.02	9.27	7.60	6.86	8.17	7.99	8.79
80:2	5.75	-.12	9.71	8.22	7.47	8.81	8.73	9.08
81:1	5.32	-.50	9.93	8.94	8.11	9.55	9.51	9.36
81:2	4.91	-.58	10.20	9.32	8.44	9.92	9.89	9.60
DIST. 2								
80:1	5.96	-.20	9.10	7.97	6.81	8.59	8.23	8.38
80:2	5.60	-.23	9.46	8.39	7.41	9.03	8.85	8.65
81:1	5.13	-.47	9.85	9.11	8.17	9.76	9.66	8.99
81:2	4.70	-.52	10.16	9.49	8.51	10.13	10.04	9.28
DIST. 3								
80:1	7.05	.12	9.19	7.62	6.76	8.30	8.04	8.85
80:2	6.78	.07	9.75	8.28	7.47	9.01	8.91	9.18
81:1	6.33	-.30	9.99	9.02	8.11	9.78	9.72	9.51
81:2	5.94	-.31	10.35	9.38	8.43	10.13	10.09	9.81
DIST. 4								
80:1	6.34	.26	9.57	7.85	7.08	8.45	8.27	9.01
80:2	5.95	-.11	9.99	8.80	8.02	9.47	9.41	9.35
81:1	5.36	-.50	10.27	9.60	8.74	10.28	10.27	9.72
81:2	4.87	-.47	10.63	9.92	9.02	10.57	10.57	10.04
DIST. 5								
80:1	7.00	.17	9.48	7.79	7.00	8.44	8.31	9.10
80:2	6.70	-.04	10.02	8.62	7.77	9.32	9.27	9.42
81:1	6.17	-.47	10.22	9.39	8.42	10.12	10.11	9.76
81:2	5.74	-.44	10.58	9.71	8.69	10.42	10.41	10.05

OPER FORECAST - MEDIUM INTEREST RATES

AREA/YEAR	NET WORTH % OF DEPOSITS	AS % OF AVERAGE NET ASSETS				AVERAGE COST OF FUNDS	AVERAGE COST OF SAVINGS	AVERAGE YIELD ON MORTGAGES
		NET INCOME	GROSS INCOME	INTEREST EXPENSE	SAVINGS INTEREST			
DIST. 6								
80:1	6.53	.08	9.37	7.92	7.31	8.58	8.48	9.09
80:2	6.25	.00	9.97	8.68	8.01	9.41	9.39	9.48
81:1	5.77	-.39	10.23	9.46	8.67	10.22	10.24	9.87
81:2	5.41	-.31	10.64	9.75	8.92	10.49	10.52	10.21
DIST. 7								
80:1	6.26	.13	9.46	7.78	6.95	8.43	8.23	8.96
80:2	5.93	-.08	9.97	8.58	7.77	9.29	9.21	9.29
81:1	5.39	-.50	10.19	9.36	8.47	10.09	10.05	9.65
81:2	4.94	-.45	10.59	9.69	8.75	10.40	10.37	9.97
DIST. 8								
80:1	6.34	.11	9.38	7.82	6.68	8.41	8.16	8.96
80:2	5.88	-.34	9.82	8.88	7.74	9.53	9.47	9.29
81:1	5.22	-.71	10.11	9.67	8.46	10.33	10.33	9.67
81:2	4.67	-.65	10.50	9.98	8.69	10.61	10.60	10.00
DIST. 9								
80:1	6.34	.29	10.06	8.14	7.36	8.84	8.73	9.23
80:2	5.89	-.13	10.41	9.07	8.27	9.83	9.83	9.62
81:1	5.28	-.47	10.79	9.89	9.01	10.67	10.72	10.04
81:2	4.80	-.39	11.16	10.15	9.24	10.90	10.95	10.41
DIST. 10								
80:1	7.45	.35	9.88	7.89	6.76	8.60	8.47	9.29
80:2	7.05	-.08	10.27	8.89	7.71	9.65	9.63	9.63
81:1	6.45	-.46	10.55	9.69	8.42	10.48	10.50	10.02
81:2	5.98	-.38	10.95	9.97	8.63	10.74	10.75	10.36
DIST. 11								
80:1	7.61	.24	10.46	8.73	7.29	9.51	9.34	9.70
80:2	7.29	.18	10.76	9.13	7.77	9.93	9.87	10.04
81:1	6.82	-.12	11.12	9.89	8.55	10.74	10.73	10.45
81:2	6.52	.00	11.57	10.16	8.76	11.00	10.98	10.83

OPER FORECAST - MEDIUM INTEREST RATES

AREA/YEAR	NET WORTH % OF DEPOSITS	AS % OF AVERAGE NET ASSETS				AVERAGE COST OF FUNDS	AVERAGE COST OF SAVINGS	AVERAGE YIELD ON MORTGAGES
		NET INCOME	GROSS INCOME	INTEREST EXPENSE	SAVINGS INTEREST			
DIST. 12								
80:1	7.65	.21	10.24	8.27	6.90	9.03	8.78	9.64
80:2	7.29	.12	10.62	8.77	7.42	9.56	9.45	9.94
81:1	6.71	-.28	10.85	9.54	8.11	10.36	10.30	10.31
81:2	6.27	-.22	11.27	9.86	8.37	10.67	10.61	10.64

OPER FORECAST - MEDIUM INTEREST RATES

ANNUALIZED NET INCOME AS A PERCENT OF AVERAGE NET ASSETS, 1980:1

DISTRICT												TOTAL	%	CUMULATIVE		
1	2	3	4	5	6	7	8	9	10	11	12			TOTAL	%	
1 -	40	83	117	269	192	67	189	101	221	101	64	46	1490	37.17	1490	37.17
2 -	10	45	46	117	78	46	70	51	98	38	37	25	661	16.49	2151	53.65
3 -	17	42	47	109	90	45	67	48	92	29	31	20	637	15.89	2788	69.54
4 -	19	29	25	68	45	20	71	23	66	24	18	16	424	10.58	3212	80.12
5 -	11	32	30	43	36	12	37	19	45	10	19	12	306	7.63	3518	87.75
6 -	8	26	9	31	19	5	17	10	23	5	11	9	173	4.32	3691	92.07
7 -	12	45	18	35	32	18	35	13	58	13	25	14	318	7.93	4009	100.00
8 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
9 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

- 1 - GREATER THAN 0.40
 2 - 0.20 TO 0.40
 3 - 0.00 TO 0.20
 4 - -0.20 TO 0.00
 5 - -0.40 TO -0.20
 6 - -0.60 TO -0.40
 7 - LESS THAN -0.60
 8 - UNDEFINED
 9 - TOTAL

NET WORTH AS A PERCENT OF TOTAL DEPOSITS, 1980:1

DISTRICT												TOTAL	%	CUMULATIVE		
1	2	3	4	5	6	7	8	9	10	11	12			TOTAL	%	
1 -	58	171	199	383	338	157	265	142	291	155	147	109	2415	60.24	2415	60.24
2 -	47	101	80	201	123	45	174	93	227	50	40	25	1206	30.08	3621	90.32
3 -	4	16	9	48	17	7	30	14	42	5	8	2	202	5.04	3823	95.36
4 -	7	14	4	39	14	4	16	13	39	9	8	6	173	4.32	3996	99.68
5 -	1	0	0	1	0	0	1	3	4	1	2	0	13	.32	4009	100.00
6 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
7 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

- 1 - GREATER THAN 6.0
 2 - 4.0 TO 6.0
 3 - 3.0 TO 4.0
 4 - 0.0 TO 3.0
 5 - LESS THAN 0.0
 6 - UNDEFINED
 7 - TOTAL

OPER FORECAST - MEDIUM INTEREST RATES

ANNUALIZED NET INCOME AS A PERCENT OF AVERAGE NET ASSETS, 1980:2

DISTRICT														CUMULATIVE		
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	24	77	111	131	103	47	110	28	87	42	71	38	869	21.68	869	21.68
2 -	18	40	48	92	77	40	63	25	60	31	35	21	550	13.72	1419	35.40
3 -	22	38	42	109	79	44	72	36	75	46	25	27	615	15.34	2034	50.74
4 -	14	27	34	107	67	24	83	43	79	29	23	18	548	13.67	2582	64.41
5 -	15	38	17	102	68	24	68	47	89	31	17	18	534	13.32	3116	77.73
6 -	11	31	13	63	45	16	41	39	78	14	10	5	366	9.13	3482	86.85
7 -	13	51	27	68	53	18	49	47	135	27	24	15	527	13.15	4009	100.00
8 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
9 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00
1 -	GREATER THAN 0.40															
2 -	0.20 TO 0.40															
3 -	0.00 TO 0.20															
4 -	-0.20 TO 0.00															
5 -	-0.40 TO -0.20															
6 -	-0.60 TO -0.40															
7 -	LESS THAN -0.60															
8 -	UNDEFINED															
9 -	TOTAL															

NET WORTH AS A PERCENT OF TOTAL DEPOSITS, 1980:2

DISTRICT														CUMULATIVE		
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	53	151	184	338	303	153	248	129	240	136	133	101	2169	54.10	2169	54.10
2 -	48	106	85	211	141	42	158	92	238	68	51	27	1267	31.60	3436	85.71
3 -	7	25	16	66	26	12	54	22	57	4	9	6	304	7.58	3740	93.29
4 -	7	19	7	51	21	6	24	19	59	9	9	8	239	5.96	3979	99.25
5 -	2	1	0	6	1	0	2	3	9	3	3	0	30	.75	4009	100.00
6 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
7 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00
1 -	GREATER THAN 6.0															
2 -	4.0 TO 6.0															
3 -	3.0 TO 4.0															
4 -	0.0 TO 3.0															
5 -	LESS THAN 0.0															
6 -	UNDEFINED															
7 -	TOTAL															

OPER FORECAST - MEDIUM INTEREST RATES

ANNUALIZED NET INCOME AS A PERCENT OF AVERAGE NET ASSETS, 1981:1

DISTRICT													TOTAL	%	CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL			%	TOTAL
1 -	8	46	62	49	33	14	36	5	44	17	35	17	366	9.13	366	9.13
2 -	9	27	32	40	34	13	23	8	26	8	16	9	245	6.11	611	15.24
3 -	11	32	30	53	38	22	47	17	50	17	27	12	356	8.88	967	24.12
4 -	18	25	29	63	50	33	56	26	42	24	21	11	398	9.93	1365	34.05
5 -	16	37	46	106	73	41	68	29	80	42	34	37	609	15.19	1974	49.24
6 -	18	30	28	114	86	31	81	45	86	38	19	16	592	14.77	2566	64.01
7 -	37	105	65	247	178	59	175	135	275	74	53	40	1443	35.99	4009	100.00
8 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
9 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00
1 -	GREATER THAN 0.40															
2 -	0.20 TO 0.40															
3 -	0.00 TO 0.20															
4 -	-0.20 TO 0.00															
5 -	-0.40 TO -0.20															
6 -	-0.60 TO -0.40															
7 -	LESS THAN -0.60															
8 -	UNDEFINED															
9 -	TOTAL															

NET WORTH AS A PERCENT OF TOTAL DEPOSITS, 1981:1

DISTRICT													TOTAL	%	CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL			%	TOTAL
1 -	45	135	160	289	259	137	215	101	203	112	117	85	1858	46.35	1858	46.35
2 -	47	95	94	207	152	48	146	89	195	79	54	38	1244	31.03	3102	77.38
3 -	13	40	22	78	39	13	74	39	100	14	14	10	456	11.37	3558	88.75
4 -	10	29	15	86	40	15	46	31	88	9	15	8	392	9.78	3950	98.53
5 -	2	3	1	12	2	0	5	5	17	6	5	1	59	1.47	4009	100.00
6 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
7 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00
1 -	GREATER THAN 6.0															
2 -	4.0 TO 6.0															
3 -	3.0 TO 4.0															
4 -	0.0 TO 3.0															
5 -	LESS THAN 0.0															
6 -	UNDEFINED															
7 -	TOTAL															

OPER FORECAST - MEDIUM INTEREST RATES

ANNUALIZED NET INCOME AS A PERCENT OF AVERAGE NET ASSETS, 1981:2

DISTRICT															CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	6	39	58	60	44	16	41	8	61	23	45	20	421	10.50	421	10.50
2 -	9	23	32	39	37	18	33	10	32	12	26	11	282	7.03	703	17.54
3 -	12	30	32	75	45	29	44	21	38	25	21	15	387	9.65	1090	27.19
4 -	8	33	37	84	52	31	68	30	73	29	30	23	498	12.42	1588	39.61
5 -	19	32	36	108	80	38	67	40	86	36	19	23	584	14.57	2172	54.18
6 -	26	33	32	102	77	33	81	49	80	33	20	18	584	14.57	2756	68.75
7 -	37	112	65	204	157	48	152	107	233	62	44	32	1253	31.25	4009	100.00
8 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
9 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

1 - GREATER THAN 0.40
 2 - 0.20 TO 0.40
 3 - 0.00 TO 0.20
 4 - -0.20 TO 0.00
 5 - -0.40 TO -0.20
 6 - -0.60 TO -0.40
 7 - LESS THAN -0.60
 8 - UNDEFINED
 9 - TOTAL

NET WORTH AS A PERCENT OF TOTAL DEPOSITS, 1981:2

DISTRICT															CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	36	127	154	260	231	121	200	78	170	96	105	71	1649	41.13	1649	41.13
2 -	48	79	81	186	142	58	123	88	161	75	54	44	1139	28.41	2788	69.54
3 -	17	42	37	96	58	14	70	45	118	26	21	11	555	13.84	3343	83.35
4 -	14	49	18	115	56	19	87	45	127	16	20	13	579	14.44	3922	97.83
5 -	2	5	2	15	5	1	6	9	27	7	5	3	87	2.17	4009	100.00
6 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
7 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

1 - GREATER THAN 6.0
 2 - 4.0 TO 6.0
 3 - 3.0 TO 4.0
 4 - 0.0 TO 3.0
 5 - LESS THAN 0.0
 6 - UNDEFINED
 7 - TOTAL

OPER FORECAST - HIGH INTEREST RATES

ASSETS -----	80:1	80:2	81:1	81:2
MORTGAGE LOANS AND CONTRACTS ...	472.234	495.227	512.564	527.904
FIXED RATE	457.234	478.727	486.739	491.787
VARIABLE RATE	15.000	16.500	15.504	14.623
RENEGOTIATED RATE .....	.000	.000	10.321	21.495
MORTGAGE-BACKED SECURITIES (US)	22.151	22.628	23.311	23.899
CONSUMER LOANS .....	.000	2.449	6.371	9.889
OTHER LOANS	16.960	17.726	18.312	18.842
CASH & INVESTMENT SECURITIES ...	55.740	58.186	59.947	61.488
REAL ESTATE OWNED	1.973	2.062	2.153	2.235
FIXED ASSETS (NET)	7.782	8.206	8.551	8.860
OTHER ASSETS	5.431	5.685	5.932	6.155
TOTAL ASSETS	582.272	612.168	637.141	659.271
 LIABILITIES -----				
SAVING ACCOUNTS	475.187	498.979	518.979	534.978
PASSBOOK ACCOUNTS	104.540	109.775	96.010	85.596
CERTIFICATES, TOTAL	370.646	389.205	422.968	449.382
EXISTING CERTIFICATES	149.923	105.956	96.761	87.566
NEW 2-1/2 & 4 YEAR CERT. ...	3.325	68.688	79.693	88.977
MMDS	185.324	174.644	199.808	219.342
\$100,000+	32.074	39.917	46.707	53.497
THIRD-PARTY ACCOUNTS .....	.620	.800	3.000	5.000
BORROWED MONEY	54.936	60.109	63.911	70.141
FHLB ADVANCES	40.845	43.093	45.435	49.651
OTHER BORROWED MONEY	14.091	17.015	18.476	20.490
LOANS IN PROCESS	7.089	7.359	7.734	8.050
SPECIFIC RESERVES .....	.217	.227	.237	.244
DEFERRED CREDITS	3.635	3.827	4.007	4.155
OTHER LIABILITIES	8.509	8.941	9.342	9.670
TOTAL LIABILITIES	550.193	580.243	607.210	632.237
 NET WORTH -----				
NET WORTH	32.080	31.926	29.927	27.029

OPER FORECAST - HIGH INTEREST RATES

INCOME -----	80:1	80:2	81:1	81:2
TOTAL OPERATING INCOME	27.141	29.521	32.141	34.875
INTEREST INCOME	25.648	27.887	30.680	33.261
MORTGAGE LOANS & CONTRACTS .	21.111	22.628	24.600	26.330
CONSUMER AND OTHER LOANS ...	.896	.867	1.061	1.533
INVESTMENTS & DEPOSITS	2.762	3.415	3.974	4.291
MORTGAGE-BACKED SEC. (US) ..	.880	.977	1.044	1.107
FROM LOAN FEES & DISCOUNTS ...	.720	.823	.614	.736
ALL OTHER OPERATING INCOME ...	.773	.811	.847	.878
TOTAL NON-OPERATING INCOME .....	.412	.429	.449	.468
TOTAL INCOME	27.553	29.951	32.590	35.343
 EXPENSE -----				
TOTAL OPERATING EXPENSE	3.818	3.987	4.188	4.371
COST OF FUNDS (INTEREST)	22.816	25.918	30.902	34.698
SAVING ACCOUNTS	19.949	22.988	27.518	30.902
THIRD-PARTY ACCOUNTS .....	.000	.019	.050	.105
FHLB ADVANCES	2.096	2.141	2.405	2.705
OTHER BORROWED MONEY .....	.772	.771	.929	.986
TOTAL NON-OPERATING EXPENSE .....	.171	.174	.181	.188
TOTAL EXPENSE BEFORE TAXES	26.805	30.079	35.271	39.257
TAXES .....	.267	.001	-.684	-1.017
FEDERAL TAXES .....	.209	-.035	-.690	-1.021
STATE, LOCAL, AND OTHER TAXES	.059	.037	.006	.004
TOTAL EXPENSE AFTER TAXES	27.073	30.081	34.586	38.238
 NET INCOME -----				
NET INCOME BEFORE TAXES .....	.748	-.128	-2.680	-3.912
TAXES .....	.267	.001	-.684	-1.017
NET INCOME .....	.480	-.129	-1.995	-2.894
CASH DIVIDENDS ON STOCK .....	.030	.023	.004	.003
NET INCOME AFTER TAXES & DIV. ...	.450	-.152	-1.999	-2.897

12/02/80 16:20
I.M. - HIGH1

OPER FORECAST - HIGH INTEREST RATES

AREA/YEAR	NET WORTH % OF DEPOSITS	AS % OF AVERAGE NET ASSETS				AVERAGE COST OF FUNDS	AVERAGE COST OF SAVINGS	AVERAGE YIELD ON MORTGAGES
		NET INCOME	GROSS INCOME	INTEREST EXPENSE	SAVINGS INTEREST			
U.S.								
80:1	6.74	.17	9.74	8.06	7.05	8.74	8.53	9.16
80:2	6.39	-.04	10.15	8.79	7.80	9.51	9.43	9.50
81:1	5.73	-.65	10.56	10.02	8.93	10.79	10.79	9.91
81:2	5.01	-.90	11.04	10.84	9.69	11.60	11.68	10.28
DIST. 1								
80:1	5.99	-.02	9.27	7.60	6.86	8.17	7.99	8.79
80:2	5.75	-.12	9.71	8.22	7.47	8.81	8.73	9.08
81:1	5.22	-.71	10.04	9.34	8.47	9.97	9.94	9.39
81:2	4.54	-1.07	10.38	10.17	9.24	10.80	10.83	9.64
DIST. 2								
80:1	5.96	-.20	9.10	7.97	6.81	8.59	8.23	8.38
80:2	5.60	-.23	9.46	8.39	7.41	9.03	8.85	8.65
81:1	5.03	-.68	9.98	9.52	8.55	10.20	10.10	9.01
81:2	4.34	-1.00	10.39	10.37	9.33	11.05	11.02	9.33
DIST. 3								
80:1	7.05	.12	9.19	7.62	6.76	8.30	8.04	8.85
80:2	6.78	.07	9.75	8.28	7.47	9.01	8.91	9.18
81:1	6.22	-.52	10.10	9.43	8.49	10.21	10.18	9.55
81:2	5.57	-.80	10.54	10.25	9.24	11.04	11.07	9.87
DIST. 4								
80:1	6.34	.26	9.57	7.85	7.08	8.45	8.27	9.01
80:2	5.95	-.11	9.99	8.80	8.02	9.47	9.41	9.35
81:1	5.24	-.76	10.38	10.06	9.17	10.77	10.78	9.76
81:2	4.44	-1.04	10.82	10.89	9.94	11.58	11.65	10.11
DIST. 5								
80:1	7.00	.17	9.48	7.79	7.00	8.44	8.31	9.10
80:2	6.70	-.04	10.02	8.62	7.77	9.32	9.27	9.42
81:1	6.05	-.71	10.32	9.82	8.82	10.58	10.59	9.79
81:2	5.32	-.98	10.77	10.63	9.55	11.38	11.46	10.10

OPER FORECAST - HIGH INTEREST RATES

AREA/YEAR	NET WORTH % OF DEPOSITS	AS % OF AVERAGE NET ASSETS				AVERAGE COST OF FUNDS	AVERAGE COST OF SAVINGS	AVERAGE YIELD ON MORTGAGES
		NET INCOME	GROSS INCOME	INTEREST EXPENSE	SAVINGS INTEREST			
DIST. 6								
80:1	6.53	.08	9.37	7.92	7.31	8.58	8.48	9.09
80:2	6.25	.00	9.97	8.68	8.01	9.41	9.39	9.48
81:1	5.65	-.64	10.34	9.91	9.09	10.69	10.73	9.91
81:2	5.00	-.85	10.85	10.70	9.82	11.48	11.58	10.28
DIST. 7								
80:1	6.26	.13	9.46	7.78	6.95	8.43	8.23	8.96
80:2	5.93	-.08	9.97	8.58	7.77	9.29	9.21	9.29
81:1	5.27	-.74	10.30	9.80	8.87	10.56	10.53	9.69
81:2	4.54	-.98	10.78	10.61	9.61	11.36	11.39	10.03
DIST. 8								
80:1	6.34	.11	9.38	7.82	6.68	8.41	8.16	8.96
80:2	5.88	-.34	9.82	8.88	7.74	9.53	9.47	9.29
81:1	5.09	-.95	10.22	10.11	8.86	10.80	10.83	9.71
81:2	4.24	-1.19	10.70	10.90	9.55	11.56	11.66	10.06
DIST. 9								
80:1	6.34	.29	10.06	8.14	7.36	8.84	8.73	9.23
80:2	5.89	-.13	10.41	9.07	8.27	9.83	9.83	9.62
81:1	5.15	-.73	10.92	10.37	9.46	11.18	11.26	10.09
81:2	4.36	-.98	11.39	11.18	10.21	11.97	12.11	10.49
DIST. 10								
80:1	7.45	.35	9.88	7.89	6.76	8.60	8.47	9.29
80:2	7.05	-.08	10.27	8.89	7.71	9.65	9.63	9.63
81:1	6.33	-.71	10.67	10.13	8.83	10.95	11.02	10.06
81:2	5.56	-.92	11.16	10.91	9.51	11.71	11.85	10.43
DIST. 11								
80:1	7.61	.24	10.46	8.73	7.29	9.51	9.34	9.70
80:2	7.29	.18	10.76	9.13	7.77	9.93	9.87	10.04
81:1	6.69	-.38	11.23	10.37	8.99	11.25	11.29	10.50
81:2	6.05	-.61	11.76	11.21	9.74	12.10	12.23	10.91

12/02/80 16:20
I.M. - HIGH1

OPER FORECAST - HIGH INTEREST RATES

AREA/YEAR	NET WORTH % OF DEPOSITS	AS % OF AVERAGE NET ASSETS				AVERAGE COST OF FUNDS	AVERAGE COST OF SAVINGS	AVERAGE YIELD ON MORTGAGES
		NET INCOME	GROSS INCOME	INTEREST EXPENSE	SAVINGS INTEREST			
DIST. 12								
80:1	7.65	.21	10.24	8.27	6.90	9.03	8.78	9.64
80:2	7.29	.12	10.62	8.77	7.42	9.56	9.45	9.94
81:1	6.59	-.52	10.96	9.97	8.50	10.83	10.81	10.35
81:2	5.84	-.76	11.47	10.80	9.24	11.66	11.74	10.72

OPER FORECAST - HIGH INTEREST RATES

ANNUALIZED NET INCOME AS A PERCENT OF AVERAGE NET ASSETS, 1980:1

DISTRICT															CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	40	83	117	269	192	67	189	101	221	101	64	46	1490	37.17	1490	37.17
2 -	10	45	46	117	78	46	70	51	98	38	37	25	661	16.49	2151	53.65
3 -	17	42	47	109	90	45	67	48	92	29	31	20	637	15.89	2788	69.54
4 -	19	29	25	68	45	20	71	23	66	24	18	16	424	10.58	3212	80.12
5 -	11	32	30	43	36	12	37	19	45	10	19	12	306	7.63	3518	87.75
6 -	8	26	9	31	19	5	17	10	23	5	11	9	173	4.32	3691	92.07
7 -	12	45	18	35	32	18	35	13	58	13	25	14	318	7.93	4009	100.00
8 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
9 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00
1 -	GREATER THAN 0.40															
2 -	0.20 TO 0.40															
3 -	0.00 TO 0.20															
4 -	-0.20 TO 0.00															
5 -	-0.40 TO -0.20															
6 -	-0.60 TO -0.40															
7 -	LESS THAN -0.60															
8 -	UNDEFINED															
9 -	TOTAL															

NET WORTH AS A PERCENT OF TOTAL DEPOSITS, 1980:1

DISTRICT															CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	58	171	199	383	338	157	265	142	291	155	147	109	2415	60.24	2415	60.24
2 -	47	101	80	201	123	45	174	93	227	50	40	25	1206	30.08	3621	90.32
3 -	4	16	9	48	17	7	30	14	42	5	8	2	202	5.04	3823	95.36
4 -	7	14	4	39	14	4	16	13	39	9	8	6	173	4.32	3996	99.68
5 -	1	0	0	1	0	0	1	3	4	1	2	0	13	.32	4009	100.00
6 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
7 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00
1 -	GREATER THAN 6.0															
2 -	4.0 TO 6.0															
3 -	3.0 TO 4.0															
4 -	0.0 TO 3.0															
5 -	LESS THAN 0.0															
6 -	UNDEFINED															
7 -	TOTAL															

OPER FORECAST - HIGH INTEREST RATES

ANNUALIZED NET INCOME AS A PERCENT OF AVERAGE NET ASSETS, 1980:2

DISTRICT															CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	24	77	111	131	103	47	110	28	87	42	71	38	869	21.68	869	21.68
2 -	18	40	48	92	77	40	63	25	60	31	35	21	550	13.72	1419	35.40
3 -	22	38	42	109	79	44	72	36	75	46	25	27	615	15.34	2034	50.74
4 -	14	27	34	107	67	24	83	43	79	29	23	18	548	13.67	2582	64.41
5 -	15	38	17	102	68	24	68	47	89	31	17	18	534	13.32	3116	77.73
6 -	11	31	13	63	45	16	41	39	78	14	10	5	366	9.13	3482	86.85
7 -	13	51	27	68	53	18	49	47	135	27	24	15	527	13.15	4009	100.00
8 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
9 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

- 1 - GREATER THAN 0.40
- 2 - 0.20 TO 0.40
- 3 - 0.00 TO 0.20
- 4 - -0.20 TO 0.00
- 5 - -0.40 TO -0.20
- 6 - -0.60 TO -0.40
- 7 - LESS THAN -0.60
- 8 - UNDEFINED
- 9 - TOTAL

NET WORTH AS A PERCENT OF TOTAL DEPOSITS, 1980:2

DISTRICT															CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	53	151	184	338	303	153	248	129	240	136	133	101	2169	54.10	2169	54.10
2 -	48	106	85	211	141	42	158	92	238	68	51	27	1267	31.60	3436	85.71
3 -	7	25	16	66	26	12	54	22	57	4	9	6	304	7.58	3740	93.29
4 -	7	19	7	51	21	6	24	19	59	9	9	8	239	5.96	3979	99.25
5 -	2	1	0	6	1	0	2	3	9	3	3	0	30	.75	4009	100.00
6 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
7 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

- 1 - GREATER THAN 6.0
- 2 - 4.0 TO 6.0
- 3 - 3.0 TO 4.0
- 4 - 0.0 TO 3.0
- 5 - LESS THAN 0.0
- 6 - UNDEFINED
- 7 - TOTAL

OPER FORECAST - HIGH INTEREST RATES

ANNUALIZED NET INCOME AS A PERCENT OF AVERAGE NET ASSETS, 1981:1

DISTRICT															CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	5	30	35	24	18	8	25	3	26	12	20	7	213	5.31	213	5.31
2 -	3	20	29	26	16	8	13	3	19	3	14	10	164	4.09	377	9.40
3 -	10	26	27	33	29	10	20	8	22	10	19	11	225	5.61	602	15.02
4 -	12	25	28	42	35	15	36	12	42	10	21	7	285	7.11	887	22.13
5 -	14	25	31	58	46	35	56	20	46	22	22	11	386	9.63	1273	31.75
6 -	19	41	43	93	71	40	74	29	66	35	30	35	576	14.37	1849	46.12
7 -	54	135	99	396	277	97	262	190	382	128	79	61	2160	53.88	4009	100.00
8 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
9 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

- 1 - GREATER THAN 0.40
- 2 - 0.20 TO 0.40
- 3 - 0.00 TO 0.20
- 4 - -0.20 TO 0.00
- 5 - -0.40 TO -0.20
- 6 - -0.60 TO -0.40
- 7 - LESS THAN -0.60
- 8 - UNDEFINED
- 9 - TOTAL

NET WORTH AS A PERCENT OF TOTAL DEPOSITS, 1981:1

DISTRICT															CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	42	132	157	279	252	131	209	94	197	106	114	80	1793	44.72	1793	44.72
2 -	48	96	93	200	149	52	141	90	184	78	53	42	1226	30.58	3019	75.31
3 -	15	39	24	88	48	15	76	42	110	21	18	9	505	12.60	3524	87.90
4 -	10	32	17	93	41	15	55	33	91	9	15	10	421	10.50	3945	98.40
5 -	2	3	1	12	2	0	5	6	21	6	5	1	64	1.60	4009	100.00
6 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
7 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00

- 1 - GREATER THAN 6.0
- 2 - 4.0 TO 6.0
- 3 - 3.0 TO 4.0
- 4 - 0.0 TO 3.0
- 5 - LESS THAN 0.0
- 6 - UNDEFINED
- 7 - TOTAL

OPER FORECAST - HIGH INTEREST RATES

ANNUALIZED NET INCOME AS A PERCENT OF AVERAGE NET ASSETS, 1981:2

DISTRICT															CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	2	14	16	13	9	4	13	1	22	9	17	8	128	3.19	128	3.19
2 -	0	11	17	15	11	2	12	2	17	4	6	4	101	2.52	229	5.71
3 -	4	16	23	20	14	10	11	6	11	3	14	6	138	3.44	367	9.15
4 -	7	17	23	28	27	9	21	5	24	7	17	7	192	4.79	559	13.94
5 -	9	27	27	38	32	19	35	14	35	12	22	10	280	6.98	839	20.93
6 -	12	32	35	63	50	26	54	19	44	26	16	18	395	9.85	1234	30.78
7 -	83	185	151	495	349	143	340	218	450	159	113	89	2775	69.22	4009	100.00
8 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
9 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00
1 -	GREATER THAN 0.40															
2 -	0.20 TO 0.40															
3 -	0.00 TO 0.20															
4 -	-0.20 TO 0.00															
5 -	-0.40 TO -0.20															
6 -	-0.60 TO -0.40															
7 -	LESS THAN -0.60															
8 -	UNDEFINED															
9 -	TOTAL															

NET WORTH AS A PERCENT OF TOTAL DEPOSITS, 1981:2

DISTRICT															CUMULATIVE	
1	2	3	4	5	6	7	8	9	10	11	12	TOTAL	%	TOTAL	%	
1 -	32	112	145	230	203	110	173	69	134	81	95	65	1449	36.14	1449	36.14
2 -	44	76	75	166	138	62	124	78	163	73	49	41	1089	27.16	2538	63.31
3 -	19	46	35	105	71	15	67	48	105	35	26	16	588	14.67	3126	77.97
4 -	19	59	35	149	74	23	112	58	164	24	30	17	764	19.06	3890	97.03
5 -	3	9	2	22	6	3	10	12	37	7	5	3	119	2.97	4009	100.00
6 -	0	0	0	0	0	0	0	0	0	0	0	0	0	.00	4009	100.00
7 -	117	302	292	672	492	213	486	265	603	220	205	142	4009	100.00	4009	100.00
1 -	GREATER THAN 6.0															
2 -	4.0 TO 6.0															
3 -	3.0 TO 4.0															
4 -	0.0 TO 3.0															
5 -	LESS THAN 0.0															
6 -	UNDEFINED															
7 -	TOTAL															



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

Chairman files

December 9, 1980

PAUL A. VOLCKER
CHAIRMAN

The Honorable Jay Janis
Chairman
Federal Home Loan Bank Board
1700 G Street, N.W.
Washington, D. C. 20552

Dear Mr. Janis:

Thank you for your letter of November 26 concerning lenders in Wisconsin who include interest rate adjustment provisions in their mortgage notes. Wisconsin law requires lenders to make disclosures to their borrowers that are similar to, but not the same as, those required under Regulation Z. For instance, no example of the effect of a rate adjustment need be provided. You ask whether lenders complying with the Wisconsin law may be excused from making the additional Regulation Z disclosures.

The Board is certainly in a mood to simplify regulations where possible, as you can see by the revision of the Regulation Z proposal which has just been proposed for public comment, and we have examined your request with a sympathetic eye with this in mind. For several reasons, however, I have reluctantly concluded that we will not be able to do as you ask.

The present statute would apply, of course, to the transactions you have in mind, since the amendments (with one minor exception) do not come into effect until April 1982. The only mechanism under the present Act, and Regulation Z, for exempting state-regulated transactions requires an application from a state and a determination by the Board that the state law is substantially similar and that there is adequate provision for enforcement. The Board has uniformly interpreted these provisions to apply to quite broad categories of transactions, such as all open-end credit plans. We have never granted exemptions covering such a narrow category as variable rate mortgages. I would see serious problems of enforcement and compliance if we began to act on individual items like this one so that there was a whole new mix of federal and state requirements for each state.

Looking to the future, you pointed out in your letter that the revision of Regulation Z which the Board published for comment last May did not contain any requirement for showing a hypothetical increase in rate for variable mortgages. You suggested that this would be a reason for lifting the requirement by rule in the meantime. This omission, however, was strongly criticized by a number of commentators, and the second draft of the regulation approved by the Board for publication last week requires disclosure of a

Mr. Jay Janis

-2-

hypothetical example. In order to make the requirement more realistic, hence more useful to consumers, the creditor would be allowed to structure an example which fitted the particular transaction in question, rather than using the specific format required in the present rule. In light of the revised proposal, however, it isn't clear to me that it would be proper for the Board to exempt lenders complying with the Wisconsin law--particularly since variable rate transactions are becoming so common (and controversial).

I am generally disposed to relieve regulatory burdens where possible, as you know, but I am afraid that this situation is one in which it is still more appropriate to require the federal disclosures.

Sincerely,

Paul

*P.S. I am not wholly satisfied with
their answer. It will have to stand for
now, but I will look again.*

Paul

Federal Home Loan Bank Board



1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

JAY JANIS
Chairman

November 26, 1980

#3019

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

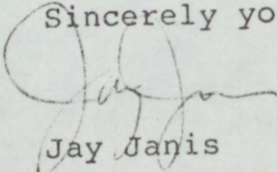
Dear Chairman Volker:

This is to request your assistance in a Truth in Lending matter that affects a large number of borrowers and lenders in Wisconsin. As I understand it, 80% of thrift lenders in Wisconsin use mortgage notes containing a standard interest rate adjustment provision. Pursuant to Wisc. Stat. §138.053, lenders implementing such a clause are subject to certain restrictions and must make certain disclosures to borrowers. With the sole exception of the requirement of disclosure of information pertaining to a hypothetical .025% increase and the designation of the interest rate as the Annual Percentage Rate, all the disclosures currently required by 12 CFR 226.8 (b)(8) are required by the Wisconsin statute.

Lenders allege that under these circumstances additional disclosures on a Regulation Z form are at best unnecessary and at worst confusing to the borrower; furthermore, additional disclosures would entail added expense to the lender which would be passed on to the borrower. I agree that the consumer under the Wisconsin statute appears to have all the protections afforded under Regulation Z and would not be well served by additional disclosures. Further, the proposed revision of Regulation Z omits the requirement of the hypothetical increase, indicating your recognition that such information is not always pertinent. For these reasons, we request a ruling that would permit Wisconsin lenders to meet the requirements of the Truth in Lending Act by making disclosures required by this Wisconsin statute without additional Regulation Z material.

Since approximately 15,000 of these adjustments will be made as of December 1, 1980, I would appreciate your prompt attention to this matter.

Sincerely yours,


Jay Janis

Received C&CA
Log No.
Date Out

NOV 28 1980

RS-01141

July 15, 1980

Dear Jay:

I've just now read the material you sent regarding the near-term outlook for housing starts which had arrived when I was in the Far East. As always, your views are thoughtful and useful.

The next few months will tell us a lot!

Sincerely,

The Honorable Jay Janis
Chairman
Federal Home Loan Bank Board
1700 G Street, N.W.
Washington, D. C. 20552

cc: Mr. Kichline
Mr. Fisher

RMF/JLK/EGC:slw
#2215

P.S. I'll hold my breath as to what the latest data mean.

s/PAV

Federal Home Loan Bank Board



1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

JAY JANIS
Chairman

June 20, 1980

#2215

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BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM

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

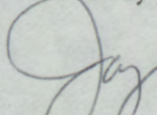
Dear Paul:

I don't think housing starts will rebound nearly as fast as people think. The main reasons are --

1. New home sales dropped very sharply in recent months. This means builder inventories are increasing.
2. The thrift institutions still have not significantly increased their commitment activity. The pipeline is almost empty, and it will take some time for it to build up again.
3. Both builders and buyers are in a hesitant mood. Builders want to see some positive numbers before they put large amounts of new starts in the ground. Buyers are waiting to see if mortgage rates go any lower.
4. Deposit flows into thrifts remain weak. This situation will reverse itself with the higher DIDC "floors", but there is a time lag involved before the effects are felt on starts.
5. The economic recession over the next several months will increase the problem of affordability, at least in the short run.

Attached is a memo which deals with these issues on a more detailed basis.

Sincerely,


Jay Janis

Attachment

Federal Home Loan Bank Board



1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

OFFICE OF POLICY AND ECONOMIC RESEARCH

June 18, 1980

MEMORANDUM FOR: Federal Home Loan Bank Board
FROM : Marshall A. Kaplan
SUBJECT : Monthly Report on Housing Developments

Housing starts declined to a seasonally adjusted annual rate of 920 thousand units in May from 1.04 million units in April. The decline was almost entirely in multi-family starts. Single-family starts declined only modestly to a seasonally adjusted annual rate of 616 thousand units from 631 thousand units in April, remaining below the low point of 667 thousand units reached in the '74-'75 housing decline.

In contrast to the sharp decrease in housing starts, building permit activity rose to a seasonally adjusted annual rate of 806 thousand units in May from 789 thousand units in April. However, the May rate of permit activity was substantially below that of any month during the current housing decline except for April and well below the previous low of 968 thousand units in March. Building permit activity in April would normally have implied a level of 900 thousand starts or less instead of the 1.04 million starts actually recorded; and even the low level of housing starts in May was consistent with and possibly somewhat higher than would normally be implied by permit activity in May. In particular, single-family starts of 616 thousand units in May was greater than would be implied by the single-family permit activity of 489 thousand units. Single-family starts would have been lower if it were not for a decline in the backlog of unutilized building permits. Thus, unless single-family permit activity improves in June, single-family starts could decline to a new low.

In contrast to single-family starts, multi-family starts were weaker than would be implied by multi-family building permit activity. In contrast to the normal pattern, multi-family starts were less than multi-family permit activity. Multi-family starts typically exhibit an erratic month-to-month behavior and could well bounce back to some extent in June.

During the current housing recession, there has been a considerable divergence in the pattern of decline among geographic regions. Over the past year, housing starts have declined only about 25 percent in the Northeast--although from a low level. In contrast, housing starts in the North Central states declined almost 70 percent and, in May, were actually slightly below the level of housing starts in the Northeast, which is normally a very much smaller housing market. The geographic region with the second largest decrease in housing starts was the West, where starts have declined almost 60 percent during the past year. Housing starts in the largest housing market, namely the South, declined by about 40 percent over the past year and accounted for about half of total starts in May.

Analysis of Housing Market Developments

I emphasized in last month's housing report that the level of housing starts in April, although low, was stronger than implied by the basic forces at work in the housing market. This was confirmed by the sharp drop in housing starts in May. Continued weakness in the housing market still seems likely through the third quarter--despite declining interest rates--because of the following reasons:

1. New home sales plunged sharply to a seasonally adjusted annual rate of 364 thousand units in April. During the '74-'75 housing recession, new home sales reached a low point of 416 thousand units. As a result of the sharp drop of new home sales in April, total unsold homes escalated to 12 months of sales. This exceeded the peak of 10.4 months reached in February 1975. Unless new home sales recover sharply, builders now have significant excess inventories to work off.
2. Commitment activity of thrift institutions has continued low through at least the end of May. Thus, builders have a limited stock of mortgage loan commitments to draw on. Reports indicate that, despite the low level of new home sales, the latter has been supported to some extent by the ability of larger builders to subsidize financing terms of unsold homes as well as the willingness of some lenders to provide below market permanent financing to builders for whom they are providing construction financing.
3. Builders will want to see concrete evidence of a turn-around in new home sales and some progress in reducing unsold inventories before stepping up housing starts. In addition, lenders should want to see evidence of some significant absorption of builders' inventories before extending significant new lines of credit to builders.

4. There is the question of the time lag involved before thrifts can be certain that their savings flows will be improving adequately enough to support a substantial increase in mortgage lending. Despite the attractive interest rate on 2-1/2 year certificates, savings flows of S&Ls were weak in early June after having strengthened in late May. Moreover, S&Ls are continuing to reduce advances; and it appears that S&Ls will be reluctant to increase loan commitments significantly before improving their balance sheets by reducing reliance to some extent on short-term money that would be vulnerable to a turn-around in interest rates, if this should occur.

5. The economic recession will be an important constraint to any housing recovery. Even if the decline in interest rates persists, the ability of households to afford housing it being eroded by the fact that households continue to experience a decline in real income. This will continue; and the recession is bound to raise questions in the minds of households not directly affected by the recession with respect to whether this is a good time to purchase a home, and assume an increased debt burden.

It does appear that S&Ls are abandoning the emphasis on money market management. However, given the still only moderate recovery in savings flows and the desire of S&Ls to reduce reliance on borrowed money, S&Ls continue to be cautious in getting back into the mortgage market. This is reflected in the fact that S&Ls continue to be cautious in reducing mortgage interest rates to levels necessary to generate a substantial volume of mortgage originations. It is likely, because of the recession and consumer uncertainty, that a lower mortgage interest rate will be necessary to turn on mortgage demand in a big way than the mortgage interest rate that could still generate substantial mortgage demand when credit markets were tightening.

The following represents my current projection of housing starts through the second quarter of 1981:

Housing Starts, Historical Data and Projections
(quarterly average, seasonally adjusted annual rates)

		<u>Total</u>	<u>Single-Family</u>	<u>2-4 Units</u>	<u>5 or More Units</u>
1979	1st Qr.	1.67	1.15	.11	.41
	2nd Qr.	1.82	1.26	.12	.44
	3rd Qr.	1.81	1.23	.14	.44
	4th Qr.	1.59	1.06	.12	.42

Housing Starts, Historical Data and Projections
(quarterly average, seasonally adjusted annual rates)
Continued

		<u>Total</u>	<u>Single- Family</u>	<u>2-4 Units</u>	<u>5 or More Units</u>
1980	1st Qr.	1.26	.79	.11	.36
	2nd Qr.	.96	.60	.10	.26
	3rd Qr.	.96	.60	.09	.27
	4th Qr.	1.10	.70	.10	.30
1981	1st Qr.	1.35	.93	.10	.32
	2nd Qr.	1.46	1.00	.11	.35
Full Year					
	1976	1.54	1.16	.09	.29
	1977	1.99	1.45	.12	.41
	1978	2.02	1.42	.13	.46
	1980	1.07	.67	.10	.30

MAK

Marshall A. Kaplan
Deputy Director

Attachment: Table

Key Monthly Housing Statistics
(all figures in thousand except where noted)

	May 1980	Apr. 1980	Mar. 1980	Feb. 1980	Jan. 1980	Dec. 1980	Nov. 1979	Oct. 1979	Sept. 1979	Aug. 1979	July 1979	June 1979	May 1979	Apr. 1979
Starts ^{1/}	920	1,039	1,041	1,330	1,419	1,548	1,522	1,710	1,874	1,788	1,764	1,910	1,801	1,750
1 unit structures	616	631	617	786	1,002	1,055	980	1,139	1,237	1,237	1,222	1,276	1,229	1,273
2-4 unit structures	91	101	91	101	127	110	114	129	123	152	130	123	120	112
5 or more unit structures	213	307	333	443	290	383	428	424	514	399	412	511	452	364
Permits authorized ^{1/} ^{3/}	806	789	968	1,168	1,271	1,247	1,287	1,418	1,695	1,622	1,563	1,639	1,648	1,517
Mobile Home Shipments ^{1/}	N.A.	201	226	270	276	241	251	293	268	277	282	279	271	277
New Home Sales ^{1/}	N.A.	364	459	546	584	571	617	674	716	738	768	698	713	730
Median new Home Sales Price	N.A.	\$64.1	\$62.7	\$65.0	\$63.2	\$61.5	\$63.9	\$62.3	\$66.1	\$63.9	\$63.8	\$64.1	\$63.0	\$62.7
Average New Home Sales Price	N.A.	\$73.9	\$71.4	\$77.0	\$72.5	\$72.6	\$74.2	\$71.5	\$77.1	\$74.2	\$71.8	\$74.3	\$71.8	\$71.1
Existing Home Sales ^{1/}	N.A.	2,420	2,750	2,990	3,210	3,350	3,450	3,870	3,900	3,790	3,750	3,620	3,830	3,740
Median Existing Home Sales Price	N.A.	\$60.4	\$59.5	\$59.0	\$57.9	\$56.5	\$55.6	\$56.3	\$57.3	\$57.7	\$57.9	\$56.8	\$55.9	\$54.7
Total Unsold Homes	N.A.	359	370	381	392	403	409	414	414	419	420	420	425	416
Completed	N.A.	123	120	118	118	117	112	105	101	97	93	94	90	89
Under Construction	N.A.	181	192	204	216	227	236	247	244	249	257	255	252	246
Not Started	N.A.	55	58	58	57	59	61	63	69	73	70	71	83	81
Total Unsold Homes as Ratio to Sales ^{2/}	N.A.	12.0	10.3	8.9	8.0	8.7	8.0	7.5	7.4	6.9	6.6	7.2	7.2	7.0
Completions ^{1/}	N.A.	1,895	1,666	1,832	1,857	1,880	1,831	1,819	1,963	1,747	1,776	1,837	2,007	1,964
1 Unit Structures	N.A.	1,128	1,091	1,230	1,276	1,328	1,240	1,255	1,228	1,214	1,229	1,320	1,341	1,389
2-4 Units Structures	N.A.	144	114	118	125	146	134	128	121	121	125	126	109	124
5 or More Unit Structures	N.A.	623	471	484	386	406	457	436	614	412	422	391	558	451
Total Units Under Construction ^{2/}	N.A.	989	1,064	1,095	1,163	1,160	1,188	1,212	1,227	1,235	1,242	1,248	1,251	1,264
1 Unit Structures	N.A.	540	590	622	669	662	687	705	716	717	719	725	732	742
2-4 Units Structures	N.A.	72	76	75	79	79	82	83	83	83	80	80	80	77
5 or More Unit Structures	N.A.	377	399	398	415	419	419	423	427	435	442	442	439	445

^{1/} Seasonally Adjusted Annual Rate
^{2/} Seasonally Adjusted
^{3/} Revised to Reflect Expanded Number of Permit Issuing Areas



Paul A. Volcker

Mr. ^{Page} Ellen -

Janis left me with this letter
for analysis + consideration. He also
asked about F.F. procedure by
F.H.L.B.'s. Refresh my ~~memory~~
memory.

PAV

FF member
by FHLB

see Jim/Dale



FEDERAL HOME LOAN BANK of Cincinnati

OHIO · KENTUCKY · TENNESSEE

2500 DuBois Tower · Cincinnati, Ohio 45201 · P.O. Box 598

CHARLES LEE THIEMANN
PRESIDENT

October 31, 1980

Mr. Jay Janis, Chairman
Federal Home Loan Bank Board
1700 G Street, N.W.
Washington, D.C. 20552

Dear Jay:

At the October CIC meeting, you asked me to explain in greater detail my concerns over the treatment of deposit balances of savings and loan associations in Federal Home Loan Banks and commercial banks.

The Monetary Control Act of 1980 requires that depository institutions maintaining transaction accounts hold reserves against these accounts either directly or indirectly with the Federal Reserve. Before calculating its reserve requirement, a savings and loan is permitted to deduct any balances "due from" its correspondent bank from its transaction account deposits, but not balances "due from" its Federal Home Loan Bank. It is argued that since the correspondent bank is required by Regulation D to hold reserves against the association's balance at the bank, the "due from" deduction prevents double reserving of the same transaction account balance. Since Federal Home Loan Banks are not required to hold reserves against member deposits, associations are not permitted to use the "due from" deduction.

In deciding whether to hold balances with a correspondent bank or its Federal Home Loan Bank, an association must consider the yield on the two alternatives. When an association maintains a given balance in its account at a correspondent bank, that bank will generally deduct the reserves it must hold against this balance before calculating the credit the association earns on the balance. At present, a large bank that is a member of the Federal Reserve System usually deducts \$16.25 out of every \$100.00 maintained in the account under the current 16.25 percent reserve ratio. The association is credited with earnings, at some agreed upon rate, on the remaining \$83.75.

When an association maintains a balance at a Federal Home Loan Bank, it is credited with earnings on the entire balance since no reserve requirement is imposed. Offsetting the higher yield for a given balance, however, is the increase in reserves the association must hold because it cannot deduct any balances "due from" its Federal Home Loan Bank. Thus, for every \$100.00 deposited with its Federal Home Loan Bank, an association with more than \$25 million in transaction accounts must maintain additional non-earning reserves of \$12.00 at the present 12 percent reserve ratio. In effect, the association will earn interest on only \$88.00.

Mr. Jay Janis, Chairman
Page 2
October 31, 1980

From the numbers cited, it is clear that the Federal Home Loan Banks are currently in a position to provide a somewhat better yield to members holding demand balances with them. Also, the immediate impact of reserving transaction accounts will not be significant since reserve balance requirements will be small during the initial phase-in. These issues are clear.

What I find disturbing and the issue which I feel needs to be immediately addressed is the fact this decision changes the fundamental competitive balance which has been established in several legislative decisions and reverses the very intent of Congress in excluding demand deposits held with the Federal Home Loan Banks from reserve requirements.

The Federal Home Loan Bank Act provides that "(e)ach Federal Home Loan Bank shall have power to accept deposits made by members of such Bank . . .". I have always interpreted this authority as a way to provide services to members and to generate a source of funds to assist the Bank's lending activities in support of housing. No subsequent piece of legislation has modified or restricted these powers, presumably because the intent remained constant. The Monetary Control Act of 1980 specifically excludes demand deposits held with the Federal Home Loan Banks from reserve requirements and permits members of the Bank System to maintain reserves with the Federal Home Loan Banks. To me, the implication is very clear. The legislation is an affirmation of the original intent to allow the Federal Home Loan Banks to retain a special banking relationship with their members. Down through the years, this relationship has benefited the nation through the efficient mobilization of resources within the savings and loan industry for the support of housing finance.

The present reserve calculation procedure of the Federal Reserve challenges the basic doctrine of allowing the Federal Home Loan Banks to hold deposits and excluding these deposits from reserve requirements. The same paragraph of the Bank Act quoted above goes on to prohibit the Federal Home Loan Banks from providing banking services not explicitly authorized. Although the Federal Home Loan Banks provide many deposit services to members, they have never been able to offer a set of services that would make a commercial relationship with a Federal Home Loan Bank as attractive as with a commercial bank. The exclusion of Federal Home Loan Bank deposits from reserve requirements provided a yield advantage to offset the obvious advantages of commercial banks.

The decision of the Federal Reserve, if allowed to stand, will change the present structure to the detriment of the Bank System, but more significantly to the detriment of the members and housing. We must recognize that reserves against transaction accounts at all depository institutions will be equalized within eight years. This will eliminate any yield advantage we currently enjoy. Beyond diminished ability to offset with yield the inherent advantages of commercial banks, this action will distinguish the Bank's deposits as something distinct and inferior. The only other institutions whose deposits are not eligible for inclusion in the "due from" category are those of non-U.S. offices of domestic and foreign banks and certain trust companies.

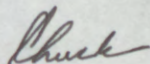
Mr. Jay Janis, Chairman
Page 3
October 31, 1980

The Federal Home Loan Banks cannot maintain or expand their role as a source of funds for housing to replace the funds lost to such vehicles as money market funds if the very basis for the current position is undercut.

There is also a slight distortion in the asset composition of savings and loans caused by this decision. Even if associations were to receive the same yield from both the Federal Home Loan Banks and commercial banks, to hold deposits with a Federal Home Loan Bank requires they hold both the demand deposit and the reserves. A little more of the available assets of the industry must be held in a liquid form and a little less in mortgages. I point this out only because it is a further illustration of the manner in which an interpretation of the Monetary Control Act by the Federal Reserve has a perverse effect on housing.

I hope I have made both the facts of the reserve accounting procedure and the nature of my concerns clear. I am certain that there are many inconsistencies which will come out of interpretations of H.R. 4986. We must make certain that the broader goals, such as housing for the nation, do not suffer from such narrow and technical interpretations.

Best wishes,



Charles Lee Thiemann

Janis



1700 G Street, N.W.
Washington, D.C. 20552

Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

Federal Home Loan Bank Board

W.H.W. 10/27

September 23, 1980

Mr. William Wallace, Staff Director
Board of Governors of the
Federal Reserve System
Twentieth Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Dear Mr. Wallace:

Chairman Janis has asked me to respond to your letter of August 29. I agree that it is important to pursue as soon as possible the joint feasibility study on the conversion of third-party payment instruments issued by savings and loan associations to electronic payments. I have asked Dan Chase of this Office to contact your staff to discuss the formation of a joint working group.

I would also like to thank you for the copy of the Federal Reserve PACS expense report which you provided to me under cover dated August 4.

I look forward to continued joint efforts between our agencies on the many issues which we face.

Sincerely,

James W. McBride
James W. McBride, Director
Office of District Banks

cc: Chairman Janis

2364



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

OFFICE OF THE STAFF DIRECTOR
FOR FEDERAL RESERVE BANK ACTIVITIES

August 29, 1980

The Honorable Jay Janis, Chairman
Federal Home Loan Bank Board
1700 G Street, N.W.
Washington, D. C. 20552

Dear Chairman Janis:

Chairman Volcker has asked me to respond to your letter of July 28. We are delighted that the Bank Board has accepted our invitation to participate in a joint feasibility study on the conversion of third-party payment instruments issued by savings and loan associations to electronic payments. We believe that this study has considerable merit at this time because of the impact of the Monetary Control Act of 1980 on operating costs at depository financial institutions.

I would like to suggest that an appropriate way to initiate our study is for the designated members of your staff to contact Jim Kudlinski, Director of the Division of Federal Reserve Bank Operations, to develop a study plan and to form a joint working group. Although both the Federal Reserve and the Home Loan Bank System have substantial resources committed to implementation of the Monetary Control Act, I believe that it is important to pursue this study as early as possible.

We appreciate your support of this study effort and look forward to continued cooperation with your staff.

Sincerely,

William H. Wallace
William H. Wallace
Staff Director

2364

0-1641

572-2

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

August 7, 1980

Jim:

Per our conversation yesterday.

A handwritten signature in dark ink, consisting of a stylized capital letter 'K' with a horizontal bar extending to the right and a short vertical stroke at the bottom right.

Karl Scheld

Federal Home Loan Bank Board



1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

JAY JANIS
Chairman

July 28, 1980

2364

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

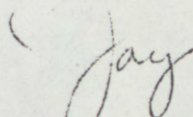
Dear Paul:

Thank you for your letter of July 8, 1980 which conveyed the action of the Federal Reserve Board in authorizing the Federal Reserve offices to provide cross-zone presentment to all depository financial institutions. I believe this action will facilitate the clearing of NOW drafts for many savings and loan institutions.

In your letter, you also invited the Bank Board to join with you in a feasibility study on the conversion of third party payment instruments issued by savings and loan associations to electronic payments. I believe such a study could lead to increased efficiencies in the clearing of NOW drafts and we would be pleased to join with you in this feasibility study. In addition, I share your concern with the choice of routing and transit numbers which associations may use on their payment instruments. The Bank Board will continue to encourage associations' use of their own routing and transit number.

I would like to express my appreciation for the efforts of the Federal Reserve Board and staff in considering the payment instrument clearing needs of savings and loan institutions.

Sincerely,


Jay Janis

Federal Home Loan Bank Board

BOARD OF FEDERAL RESERVE BANKS
FEDERAL RESERVE BOARD
1980 JUL 30 11 30 AM '80



1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

JAY JANIS
Chairman

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OFFICE OF THE CHAIRMAN

July 28, 1980

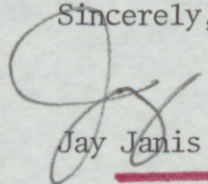
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no reply

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

Dear Paul:

I thought you would be interested in the attached. It appears that the "bring-a-friend" approach is proliferating.

Sincerely,


Jay Janis

Attachment

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Citation Information

Document Type: Magazine article

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Citations: Gross, Laura. "Savings Drive Goes Interstate." *American Banker*, July 21, 1980.

S Wolfe

July 8, 1980

The Honorable Jay Janis
Chairman
Federal Home Loan Bank Board
1700 G Street, N.W.
Washington, D.C. 20552

Dear Jay:

The Federal Reserve Board has reviewed its policy on the delivery and presentment of checks and other payment instruments across territorial boundaries of Federal Reserve offices ("cross-zone delivery and presentment"). It has concluded as follows. The Reserve Banks are authorized to provide cross-zone presentment to all depository financial institutions under the following terms:

1. The Reserve Banks will arrange transportation (at the expense of the payor financial institution or its agent) for cross-zone presentment, provided that the items can be presented to the agent on the same banking day that the items would have been presented within the territory of the Federal Reserve Bank. The return item deadline shall be calculated from the time of presentment of these items to the agent. The payor financial institution and its agent shall agree to comply with all applicable return item requirements. If a scheduled air carrier is used for transportation purposes and the time of the flight is changed without adequate notice for alternative transportation, the Reserve Bank will place these items on the next available flight and presentment will have occurred at the dock of the Federal Reserve Bank. This procedure will be followed until alternative arrangements can be made to present payment items on a timely basis within the territory of the agent.
2. In those instances where presentment to the agent on a regular basis can not occur on the same banking day that these items would have been presented to the payor financial institution within the territory of the Reserve Bank, presentment shall

occur at the dock of the Reserve Bank. The Reserve Bank shall provide assistance to the payor financial institution or its agent in arranging transportation to the territory of the agent. The return item deadline shall be calculated from the time of presentment of these items to the agent at the dock of the Reserve Bank. The payor financial institution and its agent shall agree to comply with all applicable return item requirements.

3. The Reserve Banks shall negotiate these arrangements on a case by case basis, with consideration given to the needs of both parties with respect to efficiency, timeliness, and cost.
4. In all instances, the Reserve Banks shall charge the payor financial institution for its cash letters upon presentment.
5. Existing Reserve Bank policy on the cross-zone delivery of automated clearinghouse payments is not affected by this decision.

The Board expects the Reserve Banks to cooperate fully with the Federal Home Loan Banks in implementing this policy. Though the Board believes that cross-zone presentment could result in some inefficiencies in the payments mechanism, the Board has decided to authorize the Reserve Banks to offer this service because it may help some thrift institutions to minimize operating disruptions associated with offering third-party payment instruments for the first time. Moreover, the Board believes that, when combined with efforts to convert NOW account payments to electronic payments, its actions will contribute to the long-term improvement of the payments mechanism.

Therefore, I invite you to join with us in a feasibility study on the conversion of third-party payment instruments issued by savings and loan associations to electronic payments. In addition, I would like to solicit your support in encouraging savings and loan associations to use their own routing/transit numbers on their payment instruments.

I look forward to continued cooperation between our agencies, and receiving your response to our study proposal.

Sincerely,

(signed) Paul A. Volcker

MJH:mrk

*original to J. Hart
for J. Corrigan
4/12/80*

Janis

Federal Home Loan Bank Board



1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

JAY JANIS
Chairman

March 21, 1980

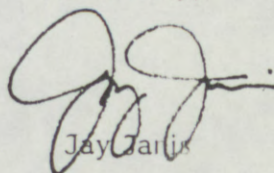
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Honorable Paul A. Volcker
Chairman
Board of Governors of the
Federal Reserve System
20th and Constitution Avenue, N.W.
Washington, D. C. 20551

Dear Mr. Chairman:

According to the requirements of the Federal Trade Commission Act, Title 15, U.S.C. Section 57a(f)(6), I am submitting the first Annual Report of the Federal Home Loan Bank Board, for the calendar year 1979. This report describes our activities to fulfill Section 18(f) of the Act.

Sincerely,


Jay Janis

Enclosure

Federal Home Loan Bank Board

JAY JANIS
Chairman



1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

MAR 2 1 1980

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

Dear Mr. Chairman:

According to the requirements of the Federal Trade Commission Act, Title 15, U.S.C. Section 57a(f)(6), I am submitting the first Annual Report of the Federal Home Loan Bank Board, for the calendar year 1979. This report describes our activities to fulfill Section 18(f) of the Act.

Sincerely,

/s/ Jay Janis

Jay Janis

Enclosure

ANNUAL REPORT TO CONGRESS
ON
SECTION 18(f) OF THE FEDERAL TRADE COMMISSION ACT

FEDERAL HOME LOAN BANK BOARD

March 14, 1980

INTRODUCTION

This is the first annual report describing the activities of the Federal Home Loan Bank Board (Bank Board) in fulfilling its responsibilities under Section 18(f) of the Federal Trade Commission Act. Those responsibilities are: (1) to identify unfair or deceptive trade practices and to adopt regulations prohibiting such practices; (2) to receive and take appropriate action upon complaints directed against insured savings and loan associations; and (3) unless certain exceptions apply, to promulgate regulations applicable to insured associations that are substantially similar to rules prescribed by the Federal Trade Commission, within 60 days after such rules take effect.

DEPARTMENT OF CONSUMER AFFAIRS

Bank Board activities relating to unfair and deceptive trade practices are now administered through the Department of Consumer and Civil Rights (DCCR) of the Office of Examinations and Supervision (OES). DCCR works through the OES Departments of Examinations and Supervision for the investigation and enforcement activities related to consumer and civil rights. OES has twelve field offices out of which examinations are conducted. Supervisory Agents, located in each of the twelve Federal Home Loan Banks (FHLBanks), design enforcement measures based on the findings of violations during examinations.

DCCR has the following major responsibilities:

1. Receive, analyze, and respond to consumer and civil rights complaints and inquiries; forward complaints to the appropriate FHLBank for investigation; and monitor the investigation and resolution of complaints.
2. Coordinate consumer and civil rights functions with the FHLBank and district staffs to assure uniform practices.
3. Propose and assist in the development of consumer and civil rights training for examiners and Supervisory Agents.
4. Identify and recommend for policy consideration or rulemaking industry practices which may be unfair or deceptive, and assist in development of new policy or rules to eliminate such practices.
5. Coordinate Bank Board consumer and civil rights activities with other federal financial regulatory agencies.
6. Assure that consumer interests are understood and considered in development of Bank Board regulations.

7. Provide information to consumers and to organizations representing consumer or civil rights interests.

ENFORCEMENT ACTIVITIES

Complaints against practices of savings and loans are received in both Washington and the districts. DCCR records complaints received in Washington and forwards them to the districts for investigation. The districts prepare records for those complaints received directly and reports back to DCCR. Upon completion of the investigation and corrective action, DCCR is notified of the disposition of the complaint. Supervisory Agents determine appropriate corrective action for any violations using enforcement guidelines set by OES.

In 1979 the Bank Board received 3,536 complaints: 486 in Washington and 3,050 in the districts. Of these, 333 complained of discrimination in lending, 2,161 complained of other problems relating to mortgage transactions and 1,042 complained of problems relating to savings accounts. During 1979, 3,197 complaints were resolved: in 1,495 cases, the institution was upheld; in 541 cases, action was taken upholding the complaint; 480 cases were referred to a more appropriate authority; and 681 cases either required no response or no action.

The Bank Board also receives numerous inquiries related to consumer matters both by telephone and letter. Where the inquiry indicates a probable complaint, the caller is encouraged to file a written complaint with the Bank Board. Many of these calls ultimately result in formal complaints to the Bank Board or another financial regulatory agency.

The Bank Board's Consumer Complaint Records system, developed in 1977, was computerized in 1979. The first complete computer reports were available in October 1979. The new computer system is designed to produce statistical reports on complaint status and to maintain information for up to three years on all complaints received. The systems should enable the Bank Board to determine the status of different complaints and to measure the investigation performance of each district.

Enforcement activity resulting from regularly scheduled examinations follow procedures similar to those for complaints. Upon identifying violations, the examiner in most instances encourages association management to take corrective actions with respect to those matters not requiring action by the board of directors. As a consequence, the vast majority of violations, particularly those of procedural and technical nature, are resolved during the course of the examination. The Supervisory Agent normally seeks written confirmation of the corrective actions taken by management from the institution's board of directors. Corrections of those violations not resolved during the examination is normally accomplished through written correspondence with the association's board of directors. During

1979, the Supervisory Agents issued 2,248 letters requesting corrective actions on consumer and civil rights matters: 549 letters dealt only with civil rights matters, 538 letters dealt with other consumer issues and 1,161 letters dealt with both civil rights and other consumer issues.

In addition, the Supervisory Agents met with management or the directorate of 167 institutions to reinforce requests for corrective action. The Bank Board has seldom found it necessary to resort to formal legal action to obtain compliance with applicable laws and regulations by insured institutions. During 1979, 20 investigations on civil rights issues were conducted by the Office of General Counsel.

REGULATORY ACTIVITIES

A large number of Bank Board regulations cover areas involving potentially unfair and deceptive trade practices. These regulations are listed in Exhibit A, and include matters as nondiscrimination in lending. Other Bank Board responsibilities in the area of unfair or deceptive trade practices stem from our duty to enforce regulations promulgated by the Federal Reserve under the Consumer Credit Protection Act. The Bank Board also has promulgated regulations implementing the Community Reinvestment Act. The Bank Board's Fair Housing regulation is unique to this agency. It is the only federal regulation that prohibits lending practices which result in redlining.

The Bank Board has adopted uniform enforcement guidelines for fair housing violations which establish a range of corrective measures for specific violations to minimize discrepancies of enforcement actions taken by each of the twelve districts. The Bank Board, together with the other federal financial regulatory agencies, adopted Uniform Enforcement Guidelines for Truth in Lending violations which call for reimbursement to customers for certain interest overcharges.

In late 1979, the Bank Board conducted a survey to determine whether there are problems with disclosures made on interest bearing saving accounts by savings and loans to customers. Information acquired includes techniques used by savings and loans to explain to new and existing customers interest rates, terms, and penalties.

EXAMINER AND SUPERVISORY TRAINING

Training for new examiners includes discussion of industry practices which are unfair or deceptive, or which violate civil rights laws and regulations. In addition to new examiner training, the Bank Board requires continued examiner training on consumer and civil rights matters. These receive increasing attention during both new examiner and continuing examiner training. New examiner training now includes eleven hours of lecture, videotapes, group discussion and case studies on consumer and civil rights matters.

The Bank Board held Civil Rights and Community Reinvestment Act training seminars for all its examiners in 1979. Meetings on the same subjects were held with supervisory staff from the twelve districts to ensure that supervisory actions are appropriately responsive to reported violations and consistent with Bank Board policies.

CONSUMER EDUCATION

The Bank Board issued a basic consumer education brochure in November 1979 which explains the rights and obligations of consumers under the Consumer Credit Protection Act and the Fair Housing Act. The brochure also explains how to complain to the Bank Board. Because publication was so recent, it is not yet possible to measure the brochure's impact on complaint volume.

The Bank Board's efforts to provide education for consumers are concentrated in response to requests for training or information. Bank Board staff attended meetings on invitation from civil rights organizations such as the Urban League, NAACP, and consumer groups ranging from meetings scheduled by the White House consumer office to the National Association of Neighborhoods. Some of these meetings involved extensive training by Bank Board staff on the scope and use of the Community Reinvestment Act. Additionally, the Bank Board has worked with the Department of Housing and Urban Development to provide information to industry and private attorneys on CCPA, Fair Housing, and CRA.

Bank Board consumer staff has been working with other federal financial regulatory agencies to identify the need for and develop a course on consumer credit management. During 1979, the task force polled state education departments and companies which prepare education materials to identify materials already available, and types of courses being offered in high school and community colleges. Very few school systems have materials which deal directly with understanding and using the Consumer Credit Protection Act.

During 1979, the Bank Board continued its industry education efforts to promote compliance with civil rights and consumer laws. Consumer and civil rights staffs gave lectures ranging from several hours to all day at meetings offered or organized by state leagues. Also prepared during 1979 were two videotapes for use by savings and loans: one on difficult issues of discrimination, the other on homeownership and credit counselling.

The Bank Board has also used the FHLBB Journal to provide industry education. During 1979, the Journal included articles of ECOA, CRA, and Fair Housing. One issue dealt specifically with community reinvestment.

EXHIBIT A

Bank Board Regulations (12 CFR) Covering Areas Potentially Involving Unfair or Deceptive Trade Practices

Bank System Regulations

§526.2(g): Regulation on calculation of savings earnings.

§§526.6: Advertising of interest or dividend on savings accounts.

§526.6-1, 526.7: Regulations on premature withdrawal penalties.

Part 528: Nondiscrimination regulations (lending, appraising, advertising, employment).

Part 529: Nondiscrimination in Federally-assisted programs.

§531.8: Guidelines on nondiscrimination in lending.

Federal Regulations

§545.1 - 545.4: Regulations regarding terms of savings and other accounts.

§545.4-2(f) - (1): Regulations on remote service unit safeguards.

§545.5: Regulations on give-aways by Federals.

§545.8-2: Regulation on initial loan charges.

§545.8-3: Regulation on loan contracts (including escrow, late charges, and due-on-sale provisions).

§§545.8-5(b), 555.15: Regulation and Ruling regarding pre-payment penalties.

§555.8: Ruling regarding representations on when payment of interest or dividends begins. Ruling on non-discriminatory redemption of savings accounts.

§556.9: Statement of policy on imposition of late charges and due-on-sale clauses.

Insurance Regulations

§562.10: Regulation prohibiting advertising prospective insurance of accounts.

§§563.1 - 563.3-3, 563.5, 563.7-1: Regulations concerning terms of savings and other accounts.

§563.17: Regulation concerning management and financial policies.

§563.24: Regulation on sales plans and give-aways.

§§563.25, 563.26: Regulations on sales commissions.

§563.27: Regulation on accurate advertising.

§563.34: Regulation governing deposit relationships of S&Ls with institutions having "affiliated persons" of S&Ls as directors, or with affiliated persons themselves.

§563.35: Regulation regarding restrictions on loan services (tie-in prohibitions).

§563.40: Regulation on loan processing fees, kickbacks and insurance fees.

§563.41: Regulation restricting real estate transactions with affiliated persons.

§563.43: Regulation restricting loans and other investments involving affiliated persons.

§563.44: Regulation placing restrictions on loans involving mortgage insurance.

Federal Home Loan Bank Board



1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

JAY JANIS
Chairman

February 22, 1980

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

Dear Mr. Chairman:

In connection with restoring the quarter point differential to the \$10,000 MMC, our analysis of the impact on savings and loan associations for 1980 is as follows:

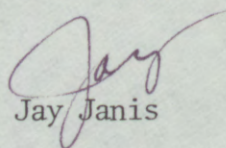
Increased savings flow: \$12 Billion in 1980

Effect on net earnings:

First half of 1980	= +1 basis point
Second half of 1980	= +7 basis points

On balance this would seem like a useful thing to do.

Sincerely,


Jay Janis

RECEIVED
OFFICE OF THE CHAIRMAN
1980 FEB 25 PM 8:50
FEDERAL RESERVE BOARD
WASHINGTON, D.C.

FEDERAL HOME LOAN BANK BOARD

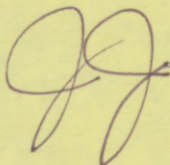
Memo

From Office of the Chairman

To Paul Volcker Date 2/15/80

Subject

I've had several press calls for
comments on your recent action.
Here is the statement I released.

A handwritten signature in dark ink, consisting of two large, stylized, overlapping loops that resemble the letters 'J' and 'J'.

Federal
Home Loan
Bank
Board



NEWS

FEDERAL HOME LOAN BANK SYSTEM FEDERAL HOME LOAN MORTGAGE CORPORATION FEDERAL SAVINGS & LOAN INSURANCE CORPORATION

1700 G Street, N.W., Washington, D.C. 20552 Telephone (202) 377-6680

FOR IMMEDIATE RELEASE

Friday, February 15, 1980

STATEMENT BY CHAIRMAN JAY JANIS ON
FEDERAL RESERVE ACTION TO RAISE DISCOUNT RATE

We regret that the high rate of inflation has made this action necessary. The short-run effect will be higher interest rates, but in the long run, rates will drop if we can beat inflation. The future of housing and the thrift industry depends on getting inflation under control.

#####

ROUTING AND TRANSMITTAL SLIP

Date

2/12/88

TO: (Name, office symbol, room number, building, Agency/Post)

Initials

Date

1.

2.

3.

4.

5.

Action	File	Note and Return
Approval	For Clearance	Per Conversation
As Requested	For Correction	Prepare Reply
Circulate	For Your Information	See Me
Comment	Investigate	Signature
Coordination	Justify	

REMARKS

FYI

Dale

DO NOT use this form as a RECORD of approvals, concurrences, disposals, clearances, and similar actions

FROM: (Name, org. symbol, Agency/Post)

Room No.—Bldg.

Phone No.

5041-102

U.S. G.P.O. 1977-241-530/3090

OPTIONAL FORM 41 (Rev. 7-76)

Prescribed by GSA
FPMR (41 CFR) 101-11.206



Memo

OFFICE OF POLICY AND ECONOMIC RESEARCH

INTER-OFFICE COMMUNICATION

REP
FROM: Richard C. Pickering, Director
Statistical Division
TO: Federal Home Loan Bank Board

DATE: February 11, 1980
SUBJECT: Changes in Association
Mortgage Commitment
Policy and Activity--
January 16-31

Changes in association commitment policy slowed during the latter part of January, following the substantial number made early in the month largely in reaction to the usury override legislation. Most of the changes made during the most recent period were of a liberalizing nature and, by monthend, only 4 percent of the associations in our small sample were not making commitments at all. The vast bulk of the institutions surveyed, however, continued to indicate that new commitment activity was substantially smaller than a year earlier.

Additional detail on commitment developments and activity during the second half of January from the survey of large associations conducted by the Federal Home Loan Banks is provided in the following paragraphs and the attached table.

(1) Only 21 percent of the associations surveyed reported changing their commitment policy during the last half of January. This was less than half the 47 percent who had changed policy during the first half of the month and, except for late December, the smallest number of associations changing policy since we started these surveys in October. Only one or two of the associations making changes in policy indicated their actions were a belated response to the usury override.

(2) Nearly three-fourths of the policy changes made during the second half of January were of a liberalizing nature, moderately more than the 60 percent so characterized during the preceding 15 days. The earlier period, however, had been affected by simultaneous liberalizing (starting to make commitments) and restrictive (increasing rates) actions of institutions affected by the usury override.

(3) Nearly all (8 of 10) of the restrictive actions taken in late January involved raising the effective interest rate charged for mortgage commitments. Such changes were fairly widely scattered throughout the country.

(4) Three-eighths of the liberalizing changes (10 of 27) involved either the reopening of the commitment window or a widening in the types of commitments being made. Approximately 45 percent of the liberalizing changes (12 of 27) represented a reduction in effective interest rate charged for commitments.

(5) As a result of the liberalizing changes, the percentage of surveyed associations not making commitments for any type of single family financing was reduced from 8 to 5 percent (6 of the 127 associations surveyed).

(6) Approximately 79 percent of all respondents reported new commitment activity substantially smaller in the second half of January than a year earlier. This was approximately the same proportion as had reported substantially smaller activity during the preceding 15 days, but a moderately smaller proportion than reported this to have been the case in December. The percentage of respondents indicating their commitment activity was only slightly smaller than a year earlier was 9 percent, while the percentage indicating activity was the same or larger was 12 percent. Most of the respondents in the latter category were associations that had been either completely or largely out of the market last year because of poor savings flow or usury limitations.

Attachment

cc:	F. Bolling	C. Oman	All FHLB Presidents
	P. Brinkerhoff	C. Myers	All FHLB Economists
	S. Ewing	D. Riordan	FHLMC Regional VP's
	R. Fair	S. Stieber	
	J. McBride	I. Tannenbaum	
	M. Miskovsky		

Survey of Commitment Policy and Activity of Savings and Loan Associations
Regarding Mortgages on Single Family Homes a/

(Number of institutions reporting specified response)

Item	All Districts	Federal Home Loan Bank District											
		Boston ^{c/}	New York	Pittsburgh	Atlanta	Cincinnati ^{c/}	Indianapolis	Chicago	Des Moines	Little Rock	Topeka	San Francisco	Seattle
Associations surveyed	127	10	10	10	10	17	10	10	10	10	10	10	10
Changes in commitment policy between January 15 and January 31	27	0	1	3	1	6	1	3	3	3	3	0	3
Type of commitment policy change (Jan. 15-31) - total b/:	37	0	1	3	1	8	1	4	6	6	4	0	3
Restrictive - total	10	0	0	1	1	1	0	0	1	2	2	0	2
Ceased making all new commitments	0	0	0	0	0	0	0	0	0	0	0	0	0
Ceased making new commitments for certain types of loans or classes of borrowers	0	0	0	0	0	0	0	0	0	0	0	0	0
Ceased making firm rate commitments	0	0	0	0	0	0	0	0	0	0	0	0	0
Raised downpayment requirements	1	0	0	0	0	0	0	0	0	0	1	0	0
Raised effective rate charged	8	0	0	1	1	0	0	0	1	2	1	0	2
Other	1	0	0	0	0	1	0	0	0	0	0	0	0
Liberalizing - total	27	0	1	2	0	7	1	4	5	4	2	0	1
Began making new commitments for certain types of loans or classes of borrowers previously not permitted	10	0	0	1	0	1	0	1	3	3	1	0	0
Reduced effective rate charged	12	0	0	0	0	6	0	3	1	0	1	0	1
Reduced downpayment requirement	2	0	1	0	0	0	0	0	1	0	0	0	0
Other	3	0	0	1	0	0	1	0	0	1	0	0	0
Associations not making commitments:													
January 15	10	0	2	2	0	1	1	0	1	2	1	0	0
January 31	6	0	2	1	0	1	1	0	0	0	1	0	0
Year-over-year comparison of new commitment volume:													
15 days before Oct. 6:													
Substantially smaller	43	1	3	9	3	4	4	1	2	5	1	6	4
Slightly smaller	37	4	1	0	2	7	5	5	3	1	3	4	2
Same or larger	45	5	6	1	5	4	1	4	5	4	6	0	4
15 days ending Oct. 26:													
Substantially smaller	93	8	7	10	7	7	6	9	7	7	8	8	9
Slightly smaller	17	2	1	0	0	7	2	0	2	1	1	1	0
Same or larger	15	0	2	0	3	1	2	1	1	2	1	1	1
December 1-14:													
Substantially smaller	116	8	8	9	8	18	10	10	9	7	10	9	10
Slightly smaller	4	1	0	1	0	0	0	0	0	1	0	1	0
Same or larger	7	0	2	0	2	0	0	0	1	2	0	0	0
December 15-31:													
Substantially smaller	105	6	9	8	7	17	10	10	8	8	10	4	8
Slightly smaller	10	1	0	2	1	2	0	0	0	0	0	4	0
Same or larger	12	0	1	0	2	1	0	0	2	2	0	2	2
January 1-15:													
Substantially smaller	98	4	9	9	6	16	10	10	7	8	9	2	8
Slightly smaller	14	2	0	1	3	2	0	0	2	0	1	2	1
Same or larger	15	4	1	0	1	0	0	0	1	2	0	5	1
January 16-31:													
Substantially smaller	100	6	9	10	4	15	10	10	6	8	9	4	9
Slightly smaller	12	1	0	0	2	1	0	0	3	0	0	4	1
Same or larger	15	3	1	0	4	1	0	0	1	2	1	2	0

a/ The associations surveyed are among the twenty largest in each District

b/ Some respondents reported making more than one of the specified policy changes.

c/ The number of associations providing year-over-year comparisons of new commitment volume differs somewhat from period to period.

December 5, 1979

Dear Jay:

We have looked over your proposed rule on Eurodollar borrowings. My people here have no problem.

Having said that, the whole thing leaves me queasy. I doubt that any really significant rate advantage will be obtained. I realize you are starting off in a controlled cautious way. But I wonder if this is not one of those things that develops a momentum of its own -- with the explicit objective of saving a few basis points -- and ends up eventually with a larger commitment to the market than you now bargain for. And sooner or later something comes along to leave the initiatives exposed. Take that only as the warning of an old conservative -- and don't let their eyes get too big or the rules too loose. The pressures to relax are predictable.

Sincerely,

The Honorable Jay Janis
Chairman
Federal Home Loan Bank Board
Washington, D. C.

pav:ccm

Federal Home Loan Bank Board



1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

JAY JANIS
Chairman

OCT 29 1979

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

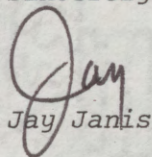
Dear Paul:

In keeping with our discussion at breakfast Tuesday morning, I would like to provide you with the information that places the Federal Home Loan Bank System's current level of advances into perspective when compared to past periods of credit stringency.

As of the end of September, Federal Home Loan Bank advances to FSLIC-insured associations stand at 8.29% of these associations' savings. This ratio reached 9.07% during the 1974 period of credit stringency. As savings rebounded and associations paid back advances during the following year, the ratio declined to a low of 6.19%. At the peak of the 1966 liquidity crisis, advances as a percent of savings reached 6.85%, and the subsequent low in the following year was 3.48%.

I hope you find this information helpful.

Sincerely,


Jay Janis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1979 OCT 31 AM 11:43

RECEIVED
OFFICE OF THE CHAIRMAN

*Given to Mr. Allison
for distribution*



1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

Federal Home Loan Bank Board

JAY JANIS
Chairman

October 10, 1979

2182

979 OCT 10 11:15
RECEIVED
FEDERAL HOME LOAN BANK BOARD

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

Dear Paul:

While the Federal Home Loan Bank Board has not been asked to comment on the Federal Reserve Board's latest proposal to restructure reserve requirements, the Bank Board feels it is essential that the Fed be provided with adequate powers to implement an effective monetary policy and to control inflation. Therefore, we drafted the enclosed letter. Before sending it to Senator Proxmire, I would appreciate any comments you might have and your thoughts as to whether this letter would be helpful.

Sincerely,

Jay Janis

Enclosure

Federal Home Loan Bank Board



1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

JAY JANIS
Chairman

DRAFT

October 4, 1979

Senator William Proxmire
Chairman, Committee on Banking,
Housing, and Urban Affairs
U. S. Senate
Washington, D. C.

Dear Senator Proxmire:

Because of the importance of an effective monetary policy and because of the Bank Board's keen interest in this area, I would like to present the views of the Federal Home Loan Bank Board for your consideration on the proposals before your Committee on restructuring the system of reserve requirements for the implementation of monetary policy. This includes the proposal of the Federal Reserve Board for standby authority to institute supplementary reserves to be imposed on all depository institutions up to a specified maximum percentage.

The Bank Board finds itself in agreement with the general approach taken by Chairman Volcker on behalf of the Federal Reserve Board. In particular, we find ourselves in general agreement with the four principles enunciated by Chairman Volcker on pages 21 and 22 of his testimony of September 26. These are that: (1) reserve requirements should be placed on transactions [underlining my own] balances at all depository institutions, (2) standby authority should be provided in the form of supplementary reserves, with such reserves earning a market rate of return, (3) initial reserve ratios on nonpersonal time deposits should be set at zero, as in H.R. 7, but with the understanding that the Federal Reserve would have "some" flexibility to apply reserves to short-term nonpersonal time deposits if needed to protect the dividing line between transactions and time accounts for cyclical purposes, and (4) there should be full pricing and open access to Federal Reserve services, although with some appropriate flexibility.

Senator William Proxmire
Page Two
October 4, 1979

The Bank Board understands the concern of the Federal Reserve Board with the effective conduct of monetary policy and the resulting need for an adequate reserve base. The general principles of the Federal Reserve's position are deliberately stated so as to leave room for different details and nuances with respect to their implementation.

I would like to turn now to the details with respect to the four principles stated above. First, I agree with the need for reserve requirements on transactions accounts. These are the types of accounts that are the most liquid and most related to spending decisions in the economy.

I would like to emphasize that we are here dealing with a definition of transactions accounts much broader than merely demand deposits at commercial banks. Thus, these would include not only demand deposits at commercial banks but a broader range of accounts at all depository institutions--NOW accounts, credit union share drafts, savings accounts subject to automatic transfer services, and telephone bill paying savings accounts in which the number of transactions exceeds a specific figure. In light of this broad concept of transactions accounts, the reserve requirements on these accounts should not be set too high. Otherwise, the result would be to encourage the growth of money substitutes outside of the banking and thrift system that could impair the ability of the Federal Reserve to control monetary aggregates in the broadest sense of the term.

In connection with reserve requirements on transactions accounts, there is the question of whether there should be an exemption level similar to that in H.R. 7 or, alternatively, a graduated system, as in S.85, under which reserve requirements would be set at a low level on an initial amount of transactions accounts and higher on accounts above this initial level. The Bank Board prefers an exemption level and, in particular, the \$35 million exemption level of H.R. 7. We recognize, however, that a graduated reserve system could be developed whose effect would not be substantially different from that of an exemption. Such a graduated reserve system would be one in which the reserve ratio for the initial volume of transactions accounts was lower than in S. 85 and would extend to a larger volume of transactions accounts than the \$5 million specified. Instead of the two-tier reserve ratio of S. 85, we could have a three-tier reserve requirement so that, for example, a 2 percent reserve requirement might be imposed on the first \$10 million, a 4 percent reserve requirement on the second \$10 million, and a still higher reserve requirement above this.

Senator William Proxmire
Page Three
October 4, 1979

Our position above on an exemption level does not stem from a desire to eliminate most S&Ls from being covered by reserve requirements or covered only in a nominal sense. Rather, our position is the result of two important considerations. First, as will be noted below, under the supplementary reserve requirement proposal, the Federal Reserve will be in a position, if it so chooses, to impose additional reserve requirements on transactions accounts without any exemption level. Second, and most importantly, our support of an exemption level (with a lesser preference for a graduated reserve ratio system) would not impair the effectiveness of monetary policy.

Underlying the Bank Board's support of an exemption is the fact that thrift institutions are in a difficult transitional stage in which rate control is becoming less effective and the cost of money is rising rapidly. Whatever the resolution with respect to the mandated phasing-out of rate control contained in the bill recently reported out by your Committee, thrift institutions will find themselves in a position of having to pay market rates increasingly on their funds. Yet, there will still be the constraint placed on their portfolio yield because of the continued dominance of long-term fixed interest rate mortgages in their portfolios. The transition to the use of VRMs appears increasingly likely to be very gradual, and the addition of NOW accounts and consumer credit to thrift institution powers will hardly put them in an immediate position to compete effectively against commercial banks. The latter have had a large head start in offering these types of financial services, and it will take many years before thrifts find that these additional powers have a positive impact on their earnings position.

In the Bank Board's opinion, equity does not necessarily argue that thrifts should have the same reserve requirements, including the same exemption levels, as commercial banks given the difficult handicaps noted above under which thrifts will continue to operate for some time. Yet, while we believe that we could make a case for special treatment with respect to reserve requirements of thrifts vis a vis commercial banks on equity grounds, we recognize the political realities of the situation.

Let me turn now to the Federal Reserve's proposal for a standby authority in the form of supplementary reserve deposits, with these deposits earning a market rate of return. In supporting this proposal, the Bank Board notes the assurances of Chairman Volcker that this authority would not be used unless the Federal

Senator William Proxmire
Page Four
October 4, 1979

Reserve made the determination that monetary policy would not be effective without such supplementary reserves. We note also that these supplementary requirements would be imposed only if five of the seven members of the Board vote for it.

The Federal Reserve suggests that thrift institutions be permitted to count these supplemental reserves toward meeting existing liquidity requirements imposed by the Bank Board, thus easing the burden of such reserve requirements. While we endorse this latter proposal, we recognize that this creates problems. It reduces the ability of the 12 regional Banks to raise funds through term deposits from member institutions, thus reducing one source of funds for advances. Also, it could reduce the effectiveness of utilizing reductions in liquidity requirements as a means of stimulating the mortgage market when conditions require this. This is because, unlike other liquid assets, reserves could not be sold off or liquidated, with the proceeds going into the mortgage market or offsetting savings withdrawals. Depending upon the precise level of supplementary reserves, if these should be imposed by the Federal Reserve, there would be less leeway for utilizing reductions in liquidity requirements as a tool of housing credit policy.

There is a statutory minimum of 4 percent for the liquidity requirement although the Bank Board's regulations do permit member institutions to go temporarily below the 4 percent minimum liquidity requirement if needed to offset savings outflows. On balance, despite some reservations, we believe that the use of reserves to meet liquidity requirements would not be a serious enough impediment to the implementation of the Bank Board's housing credit policies; and, in any case, the Federal Home Loan Bank System has other important tools to influence the volume of housing credit. My discussions with Chairman Volcker indicate that he would be willing to waive the supplementary reserves for certain institutions if these institutions are having operational problems.

We would emphasize strongly that our endorsement of supplementary reserve requirements on a standby basis and the use of reserve requirements to meet liquidity requirements is dependent upon a market rate of interest being paid upon such reserves. Without such a market rate, there would be a negative earnings impact on thrift institutions that they could ill afford during high interest rate periods.

Senator William Proxmire

Page Five

October 4, 1979

This brings me to an important detail with respect to the nature of these supplementary reserve requirements that the Federal Reserve leaves as an open question. In particular, should these be determined as a percentage of transactions accounts or of all accounts held at depository institutions? Moreover, what should be the maximum percentage supplementary reserve requirement permitted? The Federal Reserve has noted that a maximum of 2 percent for supplementary reserves would be adequate if the base included total accounts. However, if only transactions accounts were covered, the percentage would have to be substantially higher in order to ensure an equivalent reserve base.

The Bank Board prefers that the base on which supplementary reserves are determined include only transactions accounts. Our reasons for this are the same that we gave above with respect to endorsing basic reserve requirements only on transactions accounts. With respect to the maximum percentage of transactions accounts that could be covered by supplemental reserves, we defer to the judgment of the Federal Reserve although we would hope that, in practice, such supplementary reserves would not be needed or could be applied at a lower than maximum level.

I would like to turn now to the treatment of savings and time accounts under the basic--not supplementary--reserve requirements. Both H.R. 7 and S. 85 exempt all savings and personal time accounts from reserve requirements. As the Federal Reserve points out, however, the substantial reserve requirements on short-term nonpersonal time deposits under S. 85 would create difficult competitive problems for depository institutions. It would handicap their ability to compete with alternative sources of savings media issued by institutions not covered by reserve requirements. The Federal Reserve takes the position, therefore, that the desirable approach would be limited authority for the use of reserve requirements on short-term nonpersonal time deposits on a standby basis, with the circumstances for such use "exceptional".

The Bank Board endorses this proposal but contingent on the assurance that the circumstances for use would indeed be quite exceptional and would, therefore, not impose a significant handicap over the long-run with respect to the ability of thrift institutions to compete for nonpersonal time deposits. While we would prefer no reserve requirement on short-term nonpersonal time deposits, we defer to the Federal Reserve on the possible need for such authority on a limited, exceptional basis.

Senator William Proxmire
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October 4, 1979

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In conclusion, we endorse the general principles that the Federal Reserve is recommending with respect to changes in the structure and coverage of reserve requirements. The Bank Board has suggested details of implementation that take into account the fact that thrift institutions are going to have a difficult transitional period as rate controls become less important, either through the growing sophistication of savers or a legislatively mandated phasing-out of rate control. Our concern with this problem in no way detracts from our support of the general principles that the Federal Reserve Board advocates with respect to reserve requirements.

I thank you for the opportunity to make the views of the Federal Home Loan Bank Board available to your Committee.

Sincerely,

Jay Janis
Chairman

cc Messrs. Axelrod
Guenther ✓
Coyne
Corrigan



1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

Federal Home Loan Bank Board

JAY JANIS
Chairman

OCT 16 1979

#2297

Mr. Paul Volcker
Chairman, Federal Reserve Board
21st and Constitution Avenue, N.W.
Washington, D.C. 20551

Dear Mr. Chairman:

I have sent the letter to Senator Proxmire on the Fed membership bill. Please note the new penultimate paragraph I have added and the change made in the final paragraph on page 5.

Sincerely,

Jay Janis
Jay Janis

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
1979 OCT 17 AM 9:05
OFFICE OF THE SECRETARY

Federal Home Loan Bank Board



1700 G Street, N.W.
Washington, D.C. 20552

Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

JAY JANIS
Chairman

OCT 16 1979

Honorable William Proxmire
Chairman, Committee on Banking,
Housing, and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

Because of the importance of an effective monetary policy and because of the Bank Board's keen interest in this area, I would like to present the views of the Federal Home Loan Bank Board for your consideration on the proposals before your Committee on restructuring the system of reserve requirements for the implementation of monetary policy. This includes the proposal of the Federal Reserve Board for standby authority to institute supplementary reserves to be imposed on all depository institutions up to a specified maximum percentage.

The Bank Board finds itself in agreement with the general approach taken by Chairman Volcker on behalf of the Federal Reserve Board. In particular, we find ourselves in general agreement with the four principles enunciated by Chairman Volcker on pages 21 and 22 of his testimony of September 26. These are that: (1) reserve requirements should be placed on transactions [underlining my own] balances at all depository institutions, (2) standby authority should be provided in the form of supplementary reserves, with such reserves earning a market rate of return, (3) initial reserve ratios on nonpersonal time deposits should be set at zero, as in H.R. 7, but with the understanding that the Federal Reserve would have "some" flexibility to apply reserves to short-term nonpersonal time deposits if needed to protect the dividing line between transactions and time accounts for cyclical purposes, and (4) there should be full pricing and open access to Federal Reserve services, although with some appropriate flexibility.

The Bank Board understands the concern of the Federal Reserve Board with the effective conduct of monetary policy and the resulting need for an adequate reserve base. The general principles of the Federal Reserve's position are deliberately stated so as to leave room for different details and nuances with respect to their implementation.

I would like to turn now to the details with respect to the four principles stated above. First, I agree with the need for reserve requirements on transactions accounts. These are the types of accounts that are the most liquid and most related to spending decisions in the economy.

I would like to emphasize that we are here dealing with a definition of transactions accounts much broader than merely demand deposits at commercial banks. Thus, these would include not only demand deposits at commercial banks but a broader range of accounts at all depository institutions--NOW accounts, credit union share drafts, savings accounts subject to automatic transfer services, and telephone bill paying savings accounts in which the number of transactions exceeds a specific figure. In light of this broad concept of transactions accounts, the reserve requirements on these accounts should not be set too high. Otherwise, the result would be to encourage the growth of money substitutes outside of the banking and thrift system that could impair the ability of the Federal Reserve to control monetary aggregates in the broadest sense of the term.

In connection with reserve requirements on transactions accounts, there is the question of whether there should be an exemption level similar to that in H.R. 7 or, alternatively, a graduated system, as in S. 85, under which reserve requirements would be set at a low level on an initial amount of transactions accounts and higher on accounts above this initial level. The Bank Board prefers an exemption level and, in particular, the \$35 million exemption level of H.R. 7. We recognize, however, that a graduated reserve system could be developed whose effect would not be substantially different from that of an exemption. Such a graduated reserve system would be one in which the reserve ratio for the initial volume of transactions accounts was lower than in S. 85 and would extend to a larger volume of transactions accounts than the \$5 million specified. Instead of the two-tier reserve ratio of S. 85, we could have a three-tier reserve requirement so that, for example, a 2 percent reserve requirement might be imposed on the first \$10 million, a 4 percent reserve requirement on the second \$10 million, and a still higher reserve requirement above this.

Our position above on an exemption level does not stem from a desire to eliminate most S&Ls from being covered by reserve requirements or covered only in a nominal sense. Rather, our position is the result of two important considerations. First, as will be noted below, under the supplementary reserve requirement proposal, the Federal Reserve will be in a position, if it so chooses, to impose additional reserve requirements on transactions accounts without any exemption level. Second, and most importantly, our support of an exemption level (with a lesser preference for a graduated reserve ratio system) would not impair the effectiveness of monetary policy.

Underlying the Bank Board's support of an exemption is the fact that thrift institutions are in a difficult transitional stage in which rate control is becoming less effective and the cost of money is rising rapidly. Whatever the resolution with respect to the mandated phasing-out of rate control contained in the bill recently reported out by your Committee, thrift institutions will find themselves in a position of having to pay market rates increasingly on their funds. Yet, there will still be the constraint placed on their portfolio yield because of the continued dominance of long-term fixed interest rate mortgages in their portfolios. The transition to the use of VBNs appears increasingly likely to be very gradual, and the addition of NOW accounts and consumer credit to thrift institution powers will hardly put them in an immediate position to compete effectively against commercial banks. The latter have had a large head start in offering these types of financial services, and it will take many years before thrifts find that these additional powers have a positive impact on their earnings position.

In the Bank Board's opinion, equity does not necessarily argue that thrifts should have the same reserve requirements, including the same exemption levels, as commercial banks given the difficult handicaps noted above under which thrifts will continue to operate for some time. Yet, while we believe that we could make a case for special treatment with respect to reserve requirements of thrifts vis a vis commercial banks on equity grounds, we recognize the political realities of the situation.

Let us turn now to the Federal Reserve's proposal for a standby authority in the form of supplementary reserve deposits, with these deposits earning a market rate of return. In supporting this proposal, the Bank Board notes the assurances of Chairman Volcker that this authority would not be used unless the Federal

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I would like to stress my feelings about the desirability of Congress dealing with this issue this year. It would be extremely useful, I believe, for the ground rules to be known and understood by the industry just as soon as possible.

I thank you for the opportunity to make the views of the Federal Home Loan Bank Board available to your Committee.

Sincerely,

/s/ Jay Janis

Jay Janis

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Paul--- Question? Do you want to answer this by letter or rather call Janis and tell him your thoughts?

I don't think that the letter hurts our cause.. It would be nice if a sentence could be added near the beginning or near the end urging prompt legislative resolution of this issue.

Points in the letter worth noting.

(1) Last paragraph --page 2-- Could Janis be persuaded to fudge a bit on the \$35 million exemption level. [?] Could he be persuaded to come down in support of an exemption level somewhere between the \$35 million in the House-passed bill and the graduated formula in S. [?] 85.

(2) page 5--First paragraph & second paragraph.

Note that Janis asks that the supplemental be placed only on transaction accounts. I think we shouldn't try to talk him out of this.

Logically it is the position the FHLBB would take and the U.S. League has already taken

a similar position.

(3) page 5 bottom-- Should we try to weaken the last paragraph a little?

As noted I think that the letter is generally supportive and helpful and feel that the points mentioned could be well handled by a Volcker call to Janis.

K

Ken G.

It is rather nice that

Janis is giving us a shot at this before he sends the letter -

Prox wanted the Janis letter yesterday and it is in our interest that the Janis reply be expedited. Thus the phone call recommendation!

Federal Home Loan Bank Board



1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

JAY JANIS
Chairman

October 10, 1979

RECEIVED
OFFICE OF THE CHAIRMAN
979 OCT 10 PM 11:45
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

2182

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

Dear Paul:

While the Federal Home Loan Bank Board has not been asked to comment on the Federal Reserve Board's latest proposal to restructure reserve requirements, the Bank Board feels it is essential that the Fed be provided with adequate powers to implement an effective monetary policy and to control inflation. Therefore, we drafted the enclosed letter. Before sending it to Senator Proxmire, I would appreciate any comments you might have and your thoughts as to whether this letter would be helpful.

Sincerely,

Jay Janis

Enclosure

Chairman Volcker
phoned him
10/11/79.

Federal Home Loan Bank Board



1700 G Street, N.W.
Washington, D.C. 20552

Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

JAY JANIS
Chairman

DRAFT

October 4, 1979

Senator William Proxmire
Chairman, Committee on Banking,
Housing, and Urban Affairs
U. S. Senate
Washington, D. C.

Dear Senator Proxmire:

Because of the importance of an effective monetary policy and because of the Bank Board's keen interest in this area, I would like to present the views of the Federal Home Loan Bank Board for your consideration on the proposals before your Committee on restructuring the system of reserve requirements for the implementation of monetary policy. This includes the proposal of the Federal Reserve Board for standby authority to institute supplementary reserves to be imposed on all depository institutions up to a specified maximum percentage.

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Senator William Proxmire
Page Two
October 4, 1979

The Bank Board understands the concern of the Federal Reserve Board with the effective conduct of monetary policy and the resulting need for an adequate reserve base. The general principles of the Federal Reserve's position are deliberately stated so as to leave room for different details and nuances with respect to their implementation.

I would like to turn now to the details with respect to the four principles stated above. First, I agree with the need for reserve requirements on transactions accounts. These are the types of accounts that are the most liquid and most related to spending decisions in the economy.

I would like to emphasize that we are here dealing with a definition of transactions accounts much broader than merely demand deposits at commercial banks. Thus, these would include not only demand deposits at commercial banks but a broader range of accounts at all depository institutions--NOW accounts, credit union share drafts, savings accounts subject to automatic transfer services, and telephone bill paying savings accounts in which the number of transactions exceeds a specific figure. In light of this broad concept of transactions accounts, the reserve requirements on these accounts should not be set too high. Otherwise, the result would be to encourage the growth of money substitutes outside of the banking and thrift system that could impair the ability of the Federal Reserve to control monetary aggregates in the broadest sense of the term.

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Senator William Proxmire
Page Three
October 4, 1979

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October 4, 1979

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The Bank Board endorses this proposal but contingent on the assurance that the circumstances for use would indeed be quite exceptional and would, therefore, not impose a significant handicap over the long-run with respect to the ability of thrift institutions to compete for nonpersonal time deposits. While we would prefer no reserve requirement on short-term nonpersonal time deposits, we defer to the Federal Reserve on the possible need for such authority on a limited, exceptional basis.

Senator William Proxmire

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October 4, 1979

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I thank you for the opportunity to make the views of the Federal Home Loan Bank Board available to your Committee.

Sincerely,

Jay Janis
Chairman

October 18, 1979

Dear Jay:

I appreciate the letter and all your
help.

Sincerely,

The Honorable Jay Janis
Chairman
Federal Home Loan Bank Board
Washington, D. C. 20552

PAV:ccm
#2297

*Cc Messrs. Aphrod
Guenther
Coyne
Corrigan*



1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

Federal Home Loan Bank Board

JAY JANIS
Chairman

OCT 16 1979

#2297

Mr. Paul Volcker
Chairman, Federal Reserve Board
21st and Constitution Avenue, N.W.
Washington, D.C. 20551

Dear Mr. Chairman:

I have sent the letter to Senator Proxmire on the Fed membership bill. Please note the new penultimate paragraph I have added and the change made in the final paragraph on page 5.

Sincerely,

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BOARD OF GOVERNORS
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1979 OCT 17 AM 9:05
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Federal Home Loan Bank Board



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JAY JANIS
Chairman

OCT 16 1979

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

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Because of the importance of an effective monetary policy and because of the Bank Board's keen interest in this area, I would like to present the views of the Federal Home Loan Bank Board for your consideration on the proposals before your Committee on restructuring the system of reserve requirements for the implementation of monetary policy. This includes the proposal of the Federal Reserve Board for standby authority to institute supplementary reserves to be imposed on all depository institutions up to a specified maximum percentage.

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The Bank Board understands the concern of the Federal Reserve Board with the effective conduct of monetary policy and the resulting need for an adequate reserve base. The general principles of the Federal Reserve's position are deliberately stated so as to leave room for different details and nuances with respect to their implementation.

I would like to turn now to the details with respect to the four principles stated above. First, I agree with the need for reserve requirements on transactions accounts. These are the types of accounts that are the most liquid and most related to spending decisions in the economy.

I would like to emphasize that we are here dealing with a definition of transactions accounts much broader than merely demand deposits at commercial banks. Thus, these would include not only demand deposits at commercial banks but a broader range of accounts at all depository institutions--NOW accounts, credit union share drafts, savings accounts subject to automatic transfer services, and telephone bill paying savings accounts in which the number of transactions exceeds a specific figure. In light of this broad concept of transactions accounts, the reserve requirements on these accounts should not be set too high. Otherwise, the result would be to encourage the growth of money substitutes outside of the banking and thrift system that could impair the ability of the Federal Reserve to control monetary aggregates in the broadest sense of the term.

In connection with reserve requirements on transactions accounts, there is the question of whether there should be an exemption level similar to that in H.R. 7 or, alternatively, a graduated system, as in S. 85, under which reserve requirements would be set at a low level on an initial amount of transactions accounts and higher on accounts above this initial level. The Bank Board prefers an exemption level and, in particular, the \$35 million exemption level of H.R. 7. We recognize, however, that a graduated reserve system could be developed whose effect would not be substantially different from that of an exemption. Such a graduated reserve system would be one in which the reserve ratio for the initial volume of transactions accounts was lower than in S. 85 and would extend to a larger volume of transactions accounts than the \$5 million specified. Instead of the two-tier reserve ratio of S. 85, we could have a three-tier reserve requirement so that, for example, a 2 percent reserve requirement might be imposed on the first \$10 million, a 4 percent reserve requirement on the second \$10 million, and a still higher reserve requirement above this.

Our position above on an exemption level does not stem from a desire to eliminate most S&Ls from being covered by reserve requirements or covered only in a nominal sense. Rather, our position is the result of two important considerations. First, as will be noted below, under the supplementary reserve requirement proposal, the Federal Reserve will be in a position, if it so chooses, to impose additional reserve requirements on transactions accounts without any exemption level. Second, and most importantly, our support of an exemption level (with a lesser preference for a graduated reserve ratio system) would not impair the effectiveness of monetary policy.

Underlying the Bank Board's support of an exemption is the fact that thrift institutions are in a difficult transitional stage in which rate control is becoming less effective and the cost of money is rising rapidly. Whatever the resolution with respect to the mandated phasing-out of rate control contained in the bill recently reported out by your Committee, thrift institutions will find themselves in a position of having to pay market rates increasingly on their funds. Yet, there will still be the constraint placed on their portfolio yield because of the continued dominance of long-term fixed interest rate mortgages in their portfolios. The transition to the use of VPMs appears increasingly likely to be very gradual, and the addition of NOW accounts and consumer credit to thrift institution powers will hardly put them in an immediate position to compete effectively against commercial banks. The latter have had a large head start in offering these types of financial services, and it will take many years before thrifts find that these additional powers have a positive impact on their earnings position.

In the Bank Board's opinion, equity does not necessarily argue that thrifts should have the same reserve requirements, including the same exemption levels, as commercial banks given the difficult handicaps noted above under which thrifts will continue to operate for some time. Yet, while we believe that we could make a case for special treatment with respect to reserve requirements of thrifts vis a vis commercial banks on equity grounds, we recognize the political realities of the situation.

Let us turn now to the Federal Reserve's proposal for a standby authority in the form of supplementary reserve deposits, with these deposits earning a market rate of return. In supporting this proposal, the Bank Board notes the assurances of Chairman Volcker that this authority would not be used unless the Federal

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Reserve made the determination that monetary policy would not be effective without such supplementary reserves. We note also that these supplementary requirements would be imposed only if five of the seven members of the Board vote for it.

The Federal Reserve suggests that thrift institutions be permitted to count these supplemental reserves toward meeting existing liquidity requirements imposed by the Bank Board, thus easing the burden of such reserve requirements. While we endorse this latter proposal, we recognize that this creates problems. It reduces the ability of the 12 regional Banks to raise funds through term deposits from member institutions, thus reducing one source of funds for advances. Also, it could reduce the effectiveness of utilizing reductions in liquidity requirements as a means of stimulating the mortgage market when conditions require this. This is because, unlike other liquid assets, reserves could not be sold off or liquidated, with the proceeds going into the mortgage market or offsetting savings withdrawals. Depending upon the precise level of supplementary reserves, if these should be imposed by the Federal Reserve, there would be less leeway for utilizing reductions in liquidity requirements as a tool of housing credit policy.

There is a statutory minimum of 4 percent for the liquidity requirement although the Bank Board's regulations do permit member institutions to go temporarily below the 4 percent minimum liquidity requirement if needed to offset savings outflows. On balance, despite some reservations, we believe that the use of reserves to meet liquidity requirements would not be a serious enough impediment to the implementation of the Bank Board's housing credit policies; and, in any case, the Federal Home Loan Bank System has other important tools to influence the volume of housing credit. My discussions with Chairman Volcker indicate that he would be willing to waive the supplementary reserves for certain institutions if these institutions are having operational problems.

We would emphasize strongly that our endorsement of supplementary reserve requirements on a standby basis and the use of reserve requirements to meet liquidity requirements is dependent upon a market rate of interest being paid upon such reserves. Without such a market rate, there would be a negative earnings impact on thrift institutions that they could ill afford during high interest rate periods.

This brings me to an important detail with respect to the nature of these supplementary reserve requirements that the Federal Reserve leaves as an open question. In particular, should these be determined as a percentage of transactions accounts or of all accounts held at depository institutions? Moreover, what should be the maximum percentage supplementary reserve requirement permitted? The Federal Reserve has noted that a maximum of 2 percent for supplementary reserves would be adequate if the base included total accounts. However, if only transactions accounts were covered, the percentage would have to be substantially higher in order to ensure an equivalent reserve base.

The Bank Board prefers that the base on which supplementary reserves are determined include only transactions accounts. Our reasons for this are the same that we gave above with respect to endorsing basic reserve requirements only on transactions accounts. With respect to the maximum percentage of transactions accounts that could be covered by supplemental reserves, we defer to the judgment of the Federal Reserve although we would hope that, in practice, such supplementary reserves would not be needed or could be applied at a lower than maximum level.

I would like to turn now to the treatment of savings and time accounts under the basic--not supplementary--reserve requirements. Both R.R. 7 and S. 85 exempt all savings and personal time accounts from reserve requirements. As the Federal Reserve points out, however, the substantial reserve requirements on short-term non-personal time deposits under S. 85 would create difficult competitive problems for depository institutions. It would handicap their ability to compete with alternative sources of savings media issued by institutions not covered by reserve requirements. The Federal Reserve takes the position, therefore, that the desirable approach would be limited authority for the use of reserve requirements on short-term nonpersonal time deposits on a standby basis, with the circumstances for such use "exceptional".

The Bank Board endorses this proposal but contingent on the assurance that the circumstances for use would indeed be quite exceptional and would, therefore, not impose a significant handicap over the long-run with respect to the ability of thrift institutions to compete for nonpersonal time deposits. While we would prefer no reserve requirement on short-term nonpersonal time deposits, we defer to the Federal Reserve on the possible need for such authority on a limited, basis.

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Let me turn now to the final proposal of the Federal Reserve, namely full pricing and open access to Federal Reserve services. This is a point of view that the Bank Board has endorsed strongly in the past. We note that the Federal Reserve Board's endorsement of this position is qualified to some extent by reference to "adequate flexibility, in timing and application, to minimize the risk of disruptions in banking markets and to protect the availability of a basic level of payments services to all institutions." We assume that these qualifications would not seriously affect the applicability of the full pricing principles.

In conclusion, we endorse the general principles that the Federal Reserve is recommending with respect to changes in the structure and coverage of reserve requirements. The Bank Board has suggested details of implementation that take into account the fact that thrift institutions are going to have a difficult transitional period as rate controls become less important, either through the growing sophistication of savers or a legislatively mandated phasing-out of rate control. Our concern with this problem in no way detracts from our support of the general principles that the Federal Reserve Board advocates with respect to reserve requirements.

I would like to stress my feelings about the desirability of Congress dealing with this issue this year. It would be extremely useful, I believe, for the ground rules to be known and understood by the industry just as soon as possible.

I thank you for the opportunity to make the views of the Federal Home Loan Bank Board available to your Committee.

Sincerely,

Jay Janis

Jay Janis



Memo

OFFICE OF ECONOMIC RESEARCH

INTER-OFFICE COMMUNICATION

FROM: Ken Biederman

DATE: September 4, 1979

TO: Acting Chairman Miller

SUBJECT: September 6 Meeting
with Chairman Volcker:
Agenda and Attachments

1. Housing Developments and Outlook
 - A. Bank Board Housing Outlook
 - B. Key Monthly Housing Statistics
 - C. Forward Lending Commitments

2. Savings Developments and Outlook
 - D. MMC Activity
 - E. Savings Receipt Activity

3. Sources and Uses of Funds
 - F. S&L System: Sources and Uses of Funds

4. S&L Earnings
 - G. S&L Detailed Earnings Data: 1974-78
 - H. Selected Financial Ratios: First Half-1979

5. Reg Q -- Small Saver Issues

6. Countercyclical Housing Finance Options
 - I. Bank Board Policy Paper

A.-- Housing Outlook

Housing Starts, Historical Data and Projections
 (quarterly average, seasonally adjusted annual rate)
 (Millions of Units)

		<u>Total</u>	<u>Single Family</u>	<u>2-4 Units</u>	<u>5 or More Units</u>
1977	1st qr.	1.74	1.25	.11	.35
	2nd qr.	1.94	1.60	.12	.38
	3rd qr.	2.04	1.47	.12	.45
	4th qr.	2.15	1.55	.14	.46
1978	1st qr.	1.80	1.24	.11	.41
	2nd qr.	2.10	1.46	.12	.52
	3rd qr.	2.04	1.44	.13	.48
	4th qr.	2.07	1.49	.14	.45
1979	1st qr.	1.62	1.12	.10	.40
	2nd qr.	1.84	1.26	.12	.45
	3rd qr.	1.68	1.16	.12	.40
	4th qr.	1.45	1.00	.11	.34
1980	1st qr.	1.45	1.00	.11	.34
	2nd qr.	1.60	1.13	.12	.35
Full Year					
	1976	1.54	1.16	.09	.29
	1977	1.99	1.45	.12	.41
	1978	2.02	1.42	.13	.46
	1979	1.65	1.14	.11	.40

B.-- Key Monthly Housing Statistics
(all figures in thousands except where noted)

	July 1979	June 1979	May 1979	Apr. 1979	Mar. 1979	Feb. 1979	Jan. 1979	Dec. 1978	June 1978
Starts <u>1/</u>	1,749	1,935	1,835	1,745	1,786	1,381	1,679	2,074	2,093
1 unit structures	1,223	1,295	1,226	1,278	1,266	953	1,139	1,539	1,439
2-4 units structures	119	121	119	115	116	76	124	119	143
5 or more unit structures	457	516	490	352	404	352	416	416	511
Permits authorized <u>1/</u> <u>3/</u>	1,521	1,639	1,618	1,517	1,621	1,425	1,442	1,827	1,988
Mobile home shipments <u>I/</u>	N.A.	N.A.	271	273	270	272	311	303	270
New homes sales <u>1/</u>	N.A.	679	718	724	784	697	774	802	830
Median new home sales price	N.A.	64.2	\$63.1	\$62.7	\$60.4	\$61.2	\$60.3	\$59.9	\$56.7
Average new home sales price	N.A.	74.2	\$72.0	\$71.1	\$68.5	\$68.7	\$67.7	\$67.1	\$63.2
Existing home sales <u>1/</u>	N.A.	3,560	3,860	3,760	3,650	3,620	3,710	4,160	3,820
Median existing home sales price	N.A.	\$56.8	\$55.9	\$54.7	\$53.8	\$51.9	\$52.0	\$50.9	\$48.5
Total unsold homes	N.A.	423*	426*	416*	416*	393	408	419	422
Completed	N.A.	93*	90*	89*	94*	97	99	99	83
Under construction	N.A.	257*	252*	246*	240*	231	246	258	252
Not started	N.A.	73*	84*	81*	82*	65	62	62	78
Total unsold homes as ratio to sales <u>2/</u>	N.A.	7.5*	7.3*	7.2*	6.6*	7.1	6.7	6.2	6.1
Completions <u>1/</u>	N.A.	1,871	2,029	2,015	1,957	1,894	1,815	1,888	1,876
1 unit structures	N.A.	1,437	1,347	1,438	1,412	1,376	1,331	1,418	1,341
2-4 units structures	N.A.	132	98	126	142	121	115	121	111
5 or more unit structures	N.A.	402	584	451	403	397	369	351	421
Total units under construction <u>2/</u>	N.A.	1,251	1,244	1,259	1,304	1,344	1,360	1,345	1,296
1 unit structures	N.A.	723	729	740	770	793	812	799	775
2-4 units structures	N.A.	80	79	77	79	84	86	85	78
5 or more unit structures	N.A.	447	436	432	455	447	463	461	442

1/ Seasonally adjusted annual rate

2/ Seasonally adjusted

3/ Revised to reflect expanded number of permit issuing areas

* Based on new survey sample and not comparable to data preceding March, 1979. New sample has a higher level of total unsold homes about 3 percent higher than old sample.

C.—Forward Lending Commitments of FSLIC-Insured Savings and Loan Associations

Attachment E

Year and Month	Outstanding Commitments to Originate or Purchase Mortgages									New Mortgage Commitments Made			Outstanding Commitments for Non-Mortgage Loans and Securities
	Total Amounts (\$ millions)		% Distribution by Type		% Distribution by Expected Disbursement Period					Total Amount (\$ millions)	% Distribution by Type		
	Actual	Seasonally Adjusted	Origination	Purchase	≤ 1 mo.	2-3 mos.	4-6 mos.	7-12 mos.	>12 mos.		Origination	Purchase	
1976													
July	16,122	14,969	83.4	16.6	40.8	27.9	16.1	10.4	4.8	7,481	91.6	8.4	1,667
Aug.	15,605	15,077	82.7	17.3	41.3	26.7	16.5	10.6	4.9	7,363	91.1	8.9	1,761
Sept.	15,289	15,366	82.2	17.8	41.7	27.2	15.6	10.6	4.8	7,161	90.2	9.8	1,727
Oct.	15,163	16,029	82.0	18.0	39.8	28.1	16.0	11.2	5.0	7,007	88.1	11.9	1,795
Nov.	15,310	16,696	80.8	19.2	41.9	26.1	16.4	10.6	5.0	7,115	86.3	13.7	1,928
Dec.	14,683	17,335	80.0	20.0	40.0	26.1	16.4	11.7	5.8	7,051	87.3	12.8	1,990
1977													
Jan.	14,933	17,425	79.1	20.9	38.9	27.2	16.6	12.5	4.7	6,498	83.9	16.1	2,075
Feb.	16,622	17,740	79.6	20.4	40.2	26.7	16.9	11.7	4.5	7,854	85.7	14.3	2,228
Mar.	19,088	18,443	81.8	18.2	41.5	27.9	15.1	10.9	4.6	10,909	89.1	10.9	2,409
Apr.	20,996	19,139	83.7	16.3	41.2	29.3	14.9	10.4	4.2	10,966	91.7	8.3	2,462
May	22,015	19,294	84.3	15.7	42.3	27.3	15.4	10.3	4.6	11,225	91.3	8.7	2,529
June	21,785	19,750	84.1	15.9	41.9	28.4	16.0	9.2	4.4	11,166	91.3	8.7	2,789
July	21,670	20,196	84.3	15.7	41.4	28.2	16.1	10.1	4.2	9,847	90.7	9.3	2,963
Aug.	21,667	20,894	84.3	15.7	41.4	28.0	16.0	10.3	4.3	10,925	91.5	8.5	2,871
Sept.	21,406	21,427	84.4	15.6	41.8	29.0	15.3	9.7	4.1	9,980	91.7	8.3	3,109
Oct.	21,333	22,409	84.2	15.8	40.9	28.9	16.0	10.4	3.8	9,455	91.7	8.3	3,359
Nov.	21,054	22,688	84.2	15.8	41.2	27.8	16.0	11.0	3.9	10,019	92.1	7.9	3,293
Dec.	19,694	23,119	83.1	16.9	39.3	28.7	16.7	11.5	3.9	8,430	90.1	9.9	3,462
1978													
Jan.	19,349	22,630	83.3	16.7	37.6	29.5	16.9	11.9	4.0	7,514	91.8	8.2	3,530
Feb.	20,425	21,845	84.3	15.7	38.7	28.8	16.8	11.7	4.0	8,315	91.7	8.3	3,473
Mar.	22,095	21,431	85.3	14.7	39.0	28.9	16.8	11.3	4.1	11,012	92.5	7.5	4,070
Apr.	23,169	21,178	86.2	13.8	38.5	29.7	16.7	11.3	3.8	10,556	93.4	6.6	4,128
May.	23,704	20,848	86.5	13.5	39.9	28.0	16.8	11.3	4.0	11,179	94.0	6.0	4,138
June	22,711	20,628	86.4	13.6	38.4	28.4	17.3	11.5	4.4	10,220	93.7	6.3	4,310
July	22,188	20,698	86.2	13.9	38.2	28.7	17.3	11.7	4.2	8,921	92.6	7.4	4,201
Aug.	21,849	21,049	85.7	14.3	38.8	28.1	16.7	12.0	4.3	9,923	93.7	6.3	4,118
Sept.	21,457	21,457	85.9	14.1	39.1	28.2	16.4	12.3	4.1	9,094	93.7	6.3	4,122
Oct.	21,316	22,320	86.1	13.9	38.7	27.8	16.6	12.4	4.5	9,582	93.6	6.4	4,287
Nov.	20,565	22,065	86.3	13.7	38.2	27.1	16.9	12.7	5.1	8,633	94.5	5.5	4,243
Dec.	18,769	21,978	85.7	14.3	35.9	26.5	18.0	13.7	5.9	6,929	93.3	6.7	4,056
1979													
Jan.	17,925	20,965	84.6	15.4	33.0	27.9	18.5	14.3	6.2	6,411	89.7	10.3	3,937
Feb.	18,895	20,209	84.6	15.4	34.9	27.2	17.6	14.1	6.2	6,973	91.2	8.8	3,980
Mar.	20,913	20,284	85.9	14.1	36.9	26.9	16.7	13.7	5.8	9,769	93.1	6.9	3,676
Apr.	22,721	20,769	86.6	13.4	36.6	27.3	16.0	13.8	6.2	10,559	93.7	6.3	3,602
May	23,359	20,544	87.3	12.7	37.5	26.8	16.5	13.6	5.7	11,430	95.4	4.6	3,559
June	22,582	20,510	86.3	13.7	35.8	27.1	17.2	13.7	6.2	10,007	93.8	6.2	3,589
July	22,181	20,691	85.4	14.6	35.1	27.0	17.6	13.9	6.3	9,255	92.4	7.6	3,375

D.--Six-Month Money Market Certificates (MMCs) at FSLIC-Insured Savings Associations

(Dollar amounts in millions)

Period	Reported Data for Large Associations*			Estimates for All Insured Associations		
	Outstanding (End of period)		Change During Period	Outstanding (End of period)		Change During Period
	Amount	Percent of Total Savings		Amount	Percent of Total Savings	
1978 - June	2,538	1.5	2,538	5,400	1.3	5,400
July	5,546	3.3	3,008	11,790	2.9	6,390
Aug.	7,091	4.2	1,545	15,080	3.7	3,290
Sept.	9,096	5.4	1,998 <u>a/</u>	19,338	4.7	4,258
Oct.	12,538	7.3	3,463 <u>a/</u>	27,030	6.5	7,692
Nov.	16,289	9.5	3,719 <u>a/</u>	35,610	8.6	8,580
Dec.	19,188	11.0	2,898 <u>a/</u>	42,330	10.0	6,720
1979 - Jan.	25,848	14.6	6,660	57,540	13.5	15,210
Feb.	28,620	16.1	2,745 <u>a/</u>	64,280	15.0	6,740
Mar.	32,343	17.8	3,687 <u>a/</u>	73,214	16.7	8,934
Apr. 10	33,297	18.3	954	75,520	17.2	2,306
20	34,479	19.0	1,182	78,100	17.9	2,580
30	35,083	19.3	604	79,520	18.2	1,420
Month			2,740			6,306
May 10	35,790	19.6	586 <u>a/</u>	80,850 <u>r/</u>	18.5	1,330
20	36,243	19.8	453	81,870 <u>r/</u>	18.7	1,020
31	36,652	20.0	409	82,780 <u>r/</u>	18.9	910
Month			1,448			3,260 <u>r/</u>
June 10	36,857	20.1	205	83,280 <u>r/</u>	18.9	500
20	37,317	20.3	460	84,320 <u>r/</u>	19.2	1,040
30	37,935	20.4	618	85,700 <u>r/</u>	19.2 <u>r/</u>	1,380
Month			1,283			2,920
July 10	38,607 <u>r/</u>	20.7	672 <u>r/</u>	87,340 <u>r/</u>	19.6	1,640 <u>r/</u>
20	39,253	21.0	646 <u>r/</u>	88,810	19.9	1,470
Month						

* 247 associations holding about 41 percent of all savings at FSLIC-insured associations.

a/ - Adjusted for effect of merger.

r/ - Revised.

E.—Estimated Net New Savings Receipts of Insured Associations
(billions of dollars)

Year and Month	1st 10 Days	2nd 10 Days	Remainder of Month	Entire Month
1976-				
Oct.	2.0	0.8	0.4	3.2
Nov.	1.3	0.9	0.2	2.4
Dec.	1.1	0.5	0.7	2.3
1977-				
Jan.	2.6	1.3	1.0	4.9
Feb.	1.8	1.0	0.4	3.2
Mar.	2.0	1.3	0.3	3.6
Apr.	1.5	-0.3	0.7	1.9
May	1.6	1.4	0.4	3.4
June	1.7	0.3	@	2.0
July	2.1	1.1	0.7	3.9
Aug.	1.6	0.8	0.2	2.6
Sept.	1.5	0.3	-0.1	1.7
Oct.	1.7	0.6	@	2.3
Nov.	1.1	0.4	@	1.5
Dec.	0.7	0.1	0.1	0.9
1978-				
Jan.	1.9	0.9	0.1	2.9
Feb.	1.6	0.4	0.1	2.1
Mar.	1.9	0.8	-0.1	2.6
Apr.	0.7	-0.7	0.4	0.4
May	1.2	0.9	@	2.1
June	1.6	@	0.1	1.7
July	1.6	0.9	0.3	2.8
Aug.	1.4	0.7	@	2.1
Sept.	1.2	@	0.4	1.6
Oct.	1.8	1.0	-0.1	2.7
Nov.	1.4	0.5	@	1.9
Dec.	0.9	-0.4	0.2	0.7
1979-				
Jan.	2.8	0.9	0.7	4.4
Feb.	2.0	0.5	0.1	2.6
Mar.	2.2	1.1	-0.2	3.1
Apr.	@	-1.4	-0.1	-1.5
May	1.1	0.7	-0.2	1.6
June	1.3	0.1	0.1	1.5
July	1.1	0.5	-0.3	1.3
August-				
1972	0.8	0.4	0.5	1.7
1973	-0.3	-0.4	-0.5	-1.2
1974	-0.2	-0.4	-0.6	-1.2
1975	1.0	0.2	0.1	1.3
1976	1.1	0.6	0.3	2.0
1977	1.6	0.8	0.2	2.6
1978	1.4	0.7	@	2.1
1979	0.9	-0.1		

@ - Less than \$50 million.

r/ - Revised.

F -- **Sources and Uses of Funds**
(Billions of Dollars)

MOST PROBABLE

MAJOR INTERNAL SOURCES	1977	1978	1979	1978				1979				1980	
				1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Savings	50.2	44.2	38.8	12.4	9.5	11.6	10.7	15.6	7.6	7.3	8.3	14.3	11.0
Loan Repayments	48.5	52.3	48.7	11.3	14.0	14.1	12.9	10.4	13.3	13.0	12.0	11.2	11.5
EXTERNAL SOURCES													
Advances	4.2	12.1	6.7	1.1	3.8	3.8	3.4	-.9	3.1	3.2	1.3	-1.0	1.5
Other Borrowings	4.4	2.8	3.7	.4	1.0	.5	.9	-.5	2.0	1.4	.7	-.2	0
Loan Sales	13.8	15.4	15.4	3.1	3.8	4.0	4.5	3.4	4.0	4.0	4.0	3.6	3.8
MAJOR USES													
Loans Made	102.2	107.3	95.0	22.4	29.2	28.6	27.1	20.1	28.4	25.0	21.5	20.0	25.0
Loans Purchased	14.2	10.9	10.9	2.8	2.7	2.7	2.7	2.7	2.9	2.6	2.7	2.7	2.7
LIQUIDITY RATIO													
(End of Period)	8.5	8.5	8.4	8.9	8.4	8.5	8.5	9.3	8.7	8.5	8.5	9.0	8.5
RETURN ON ASSETS				.81		.83		.68		.65		N.A.	

G.— SAVINGS AND LOAN ASSOCIATION INCOME, EXPENSE, EARNINGS DATA
BY ASSOCIATION SIZE AND FHLB DISTRICT, 1974-78

Association	Net Income To Average Assets	Current Earnings As % of Current Net Worth	Total Asset Yield	Mortgage Yield	Average Cost of Money
United States					
1974	.54	129.03	7.48	7.49	6.13
1975	.47	103.97	7.50	7.69	6.30
1976	.64	152.72	7.85	7.98	6.36
1977	.79	206.43	8.05	8.22	6.41
1978	.83	212.11	8.39	8.47	6.63
Over \$1 Billion					
1974	.56	173.41	7.53	7.49	6.25
1975	.51	123.45	7.57	7.69	6.37
1976	.70	165.77	7.86	7.94	6.40
1977	.90	254.65	8.07	8.22	6.43
1978	.95	259.17	8.46	8.51	6.70
\$500 Million-\$1 Billion					
1974	.46	118.20	7.49	7.50	6.23
1975	.41	75.64	7.51	7.65	6.37
1976	.59	147.67	7.84	7.94	6.38
1977	.74	225.03	8.01	8.17	6.40
1978	.81	213.36	8.35	8.41	6.62
\$250 Million-\$500 Million					
1974	.51	111.60	7.42	7.46	6.12
1975	.45	89.44	7.44	7.66	6.28
1976	.60	157.64	7.80	7.94	6.33
1977	.74	199.96	7.99	8.17	6.37
1978	.80	201.25	8.32	8.41	6.59
\$100 Million-\$250 Million					
1974	.52	105.11	7.45	7.49	6.06
1975	.45	103.09	7.48	7.68	6.26
1976	.61	140.54	7.85	7.98	6.34
1977	.73	180.64	8.05	8.22	6.40
1978	.77	190.13	8.36	8.46	6.59
\$50 Million-\$100 Million					
1974	.59	130.38	7.48	7.52	6.01
1975	.51	112.92	7.52	7.74	6.25
1976	.66	142.97	7.89	8.05	6.36
1977	.77	182.44	8.10	8.29	6.44
1978	.81	192.49	8.40	8.52	6.61
\$25 Million-\$50 Million					
1974	.62	143.05	7.45	7.51	5.95
1975	.52	127.19	7.50	7.76	6.22
1976	.66	154.94	7.90	8.09	6.35
1977	.76	168.65	8.11	8.32	6.43
1978	.78	180.86	8.43	8.57	6.60
\$10 Million-\$25 Million					
1974	.67	148.68	7.42	7.52	5.85
1975	.52	134.01	7.39	7.76	6.13
1976	.69	175.54	7.84	8.09	6.28
1977	.78	181.66	8.11	8.38	6.41
1978	.80	199.67	8.42	8.59	6.56
Under \$10 Million					
1974	.65	126.97	7.35	7.43	5.65
1975	.40	98.80	7.31	7.72	5.92
1976	.52	132.27	7.78	8.07	6.10
1977	.63	152.13	8.07	8.37	6.26
1978	.78	204.02	8.45	8.65	6.47

	Net Income To Average Assets	Current Earnings As % of Current Net Worth	Total Asset Yield	Mortgage Yield	Average Cost of Money
Dist. 1--Boston					
1974	.29	61.10	7.39	7.42	6.04
1975	.22	61.25	7.45	7.66	6.21
1976	.28	77.84	7.72	7.83	6.19
1977	.38	201.17	7.86	8.03	6.20
1978	.43	164.09	8.10	8.19	6.34
Dist. 2--New York					
1974	.47	82.03	6.99	7.17	5.91
1975	.38	72.97	6.87	7.32	6.04
1976	.50	109.70	7.45	7.57	6.09
1977	.56	156.67	7.59	7.76	6.13
1978	.57	183.83	7.86	7.95	6.34
Dist. 3--Pittsburgh					
1974	.53	79.06	7.29	7.33	5.97
1975	.43	102.41	7.32	7.56	6.16
1976	.56	146.53	7.72	7.86	6.25
1977	.68	192.27	7.89	8.07	6.28
1978	.72	208.88	8.18	8.29	6.48
Dist. 4--Atlanta					
1974	.58	102.78	7.52	7.57	6.16
1975	.44	76.96	7.58	7.74	6.35
1976	.60	117.46	7.82	7.95	6.36
1977	.72	176.20	7.97	8.14	6.38
1978	.79	199.23	8.30	8.39	6.59
Dist. 5-- Cincinnati					
1974	.57	248.54	7.43	7.52	6.06
1975	.50	112.70	7.46	7.71	6.23
1976	.61	205.22	7.81	7.98	6.32
1977	.76	282.29	8.03	8.23	6.39
1978	.81	226.24	8.33	8.44	6.58
Dist. 6--Indianapolis					
1974	.59	127.65	7.44	7.50	5.88
1975	.45	76.70	7.45	7.67	6.15
1976	.56	141.56	7.76	7.95	6.22
1977	.64	175.63	7.95	8.19	6.33
1978	.75	189.23	8.28	8.42	6.53
Dist. 7--Chicago					
1974	.42	109.10	7.19	7.28	6.08
1975	.35	91.99	7.27	7.51	6.28
1976	.52	130.99	7.71	7.85	6.37
1977	.64	152.53	7.94	8.12	6.45
1978	.70	177.30	8.28	8.39	6.65

	Net Income To Average Assets	Current Earnings As % of Current Net Worth	Total Asset Yield	Mortgage Yield	Average Cost of Money
Dist. 8--Des Moines		97.71	7.39	7.45	6.12
1974	.48	114.28	7.44	7.66	6.33
1975	.43	131.38	7.86	7.94	6.46
1976	.58	186.68	8.03	8.17	6.50
1977	.71	191.07	8.35	8.41	6.70
1978	.72				
Dist. 9--Little Rock		125.71	7.72	7.66	6.25
1974	.58	110.44	7.74	7.83	6.50
1975	.50	141.55	8.10	8.18	6.59
1976	.70	157.75	8.28	8.39	6.65
1977	.81	177.26	8.60	8.61	6.81
1978	.84				
Dist. 10--Topeka		154.84	7.69	7.62	6.24
1974	.62	92.30	7.69	7.80	6.48
1975	.49	149.35	7.98	8.08	6.55
1976	.65	205.81	8.20	8.33	6.61
1977	.82	237.15	8.54	8.57	6.76
1978	.91				
Dist. 11--San Francisco		309.82	7.76	7.61	6.31
1974	.59	173.37	7.80	7.83	6.39
1975	.60	243.16	8.05	8.14	6.42
1976	.86	325.33	8.30	8.46	6.46
1977	1.08	263.76	8.71	8.76	6.75
1978	1.11				
Dist. 12--Seattle		130.17	7.75	7.72	6.13
1974	.62	151.86	7.82	7.96	6.27
1975	.71	173.36	8.15	8.32	6.32
1976	.86	200.26	8.36	8.57	6.35
1977	1.08	233.91	8.78	8.87	6.63
1978	1.11				

N.B.: DATA FOR 1979 ARE PRELIMINARY AND SUBJECT TO REVISION

H.—Selected Financial Ratios for FSLIC-Insured Associations
(half-year data annualized in percent)

Item	United States	Federal Home Loan Bank District											
		Boston	New York	Pitts- burgh	Atlanta	Cincin- nati	Indian- apolis	Chicago	Des Moines	Little Rock	Topeka	San Francisco	Seattle
Net income/average assets													
1978-II	0.83	0.47	0.57	0.66	0.77	0.82	0.80	0.69	0.72	0.85	0.93	1.11	1.02
1979-I	0.69	0.37	0.37	0.57	0.69	0.70	0.65	0.60	0.64	0.66	0.82	0.92	0.84
Change	-.14	-.10	-.20	-.09	-.08	-.12	-.15	-.09	-.08	-.19	-.11	-.19	-.18
Net worth/savings													
1978-Dec.	6.69	5.93	6.27	7.03	6.17	6.98	6.45	6.27	6.12	6.33	7.21	7.60	7.49
1979-June	6.77	6.00	6.17	7.09	6.20	7.04	6.48	6.30	6.23	6.38	7.28	7.59	7.57
Change	.08	.07	-.10	.06	.03	.06	.03	.03	.11	.05	.07	-.01	.08
Cost of funds													
1978-II	6.79	6.46	6.52	6.67	6.71	6.73	6.65	6.84	6.81	6.93	6.88	6.97	6.82
1979-I	7.23	6.84	6.98	6.97	7.12	7.13	7.11	7.19	7.17	7.43	7.27	7.54	7.30
Change	.44	.38	.46	.30	.41	.40	.46	.35	.36	.50	.39	.57	.48
Cost of savings													
1978-II	6.65	6.31	6.36	6.52	6.61	6.62	6.64	6.71	6.68	6.84	6.75	6.77	6.62
1979-I	7.08	6.70	6.76	6.80	7.01	7.02	7.08	7.04	6.99	7.31	7.16	7.35	7.10
Change	.43	.39	.40	.28	.40	.40	.44	.33	.31	.47	.41	.58	.48
Mortgage portfolio yield													
1978-II	8.54	8.22	7.92	8.35	8.43	8.46	8.52	8.50	8.46	8.69	8.65	8.87	8.96
1979-I	8.70	8.37	8.04	8.46	8.56	8.70	8.67	8.60	8.62	8.88	8.80	9.06	9.12
Change	.16	.15	.12	.11	.13	.24	.15	.10	.16	.19	.15	.19	.16

I.-Bank Board Policies Designed to Stimulate Housing

This paper first discusses the housing and mortgage lending outlook under the current economic scenario and Bank Board policies. It then outlines Bank Board policies designed to stimulate housing and mortgage lending under a sharp falloff in housing activity.

It should be noted briefly that neither the economic recession that we appear to be in now or the projected decline in housing starts should be as serious as in 1974-75. Thus, real GNP declined, respectively, 1.4 and 1.3 percent in 1974 and 1975; while housing starts declined from 2.36 million units in 1972 to 1.16 million units in 1975. The unemployment rate for all occupations rose from 4.5 to 9.0 percent in 1974-75, and from 8.2 to 21.8 percent in the construction industry, more than we currently expect during this recessionary period.

Bank Board's Current Housing Outlook

A reasonable decline in housing activity is fully justified in light of inflationary pressures in the economy, some of which emanated from the housing sector itself. So far the decline in housing activity has been reasonable, in large part because of the authorization of money market certificates tied to the 6-month T-bill rate in June, 1978 and the lack of the overbuilding that occurred in the early 1970s. However, our analysis indicates a high probability that housing starts will decline more sharply. The result will be to aggravate the recession that we now appear to be experiencing and result in housing production well below that implied by demographic needs.

Two factors point to a more significant decline in housing starts during the second half of this year. First is the weaker savings flows generally through S&L's as well as other depository institutions, largely the result of the reduction in the maximum ceiling interest rate on money market certificates and removal of the differential between thrifts and commercial banks on MMCs when the 6-month T-bill rate is 9 percent or higher. This adverse impact on savings flows dates only from April, and there is normally a time lag of 3 to 6 months before this has an adverse impact on housing activity. Second, the economic recession that appears to have begun, combined with continued high rates of inflation, implies a reduction in real consumer income and consumer confidence that will be having an increasingly negative impact on housing sales despite the role of inflationary psychology as a force holding up housing demand.

Based on the above analysis, the Bank Board expects housing starts to total 1.65 million units this year compared to 2.02 million units last year. Housing starts, which averaged a seasonally adjusted annual rate of 1.84 million units in the second quarter, could well decline to 1.45 million units by the fourth quarter. Some recovery in housing starts is possible in early 1980 if we get a significant decline in interest rates before the end of this year, but the high rate of inflation and the continued uncertainty about the U.S. dollar raise questions about how much of a decline in interest rates we can expect. In fact, at the moment, interest rates are on the rise again.

What are the implications of the above for economic policy? In anticipation of a recession persisting perhaps through the end of this year, with a parallel decline in housing starts, the Bank Board has prepared itself to restimulate housing, with due consideration to the impact on inflation. Any major moves toward stimulating housing would be undertaken after appropriate consultation with the Administration and the Federal Reserve Board. Success of such moves will be dependent on consumer demand for housing being responsive to increased mortgage credit availability.

Bank Board Policies to Stimulate Housing Activity

The following actions to stimulate housing and mortgage lending can be taken by the Bank Board without any legislative action:

1. Reduction of liquidity requirements against S&L deposits from the present 6 percent to anywhere down to 4 percent. A reduction in liquidity requirements of 1/2 of 1 percent potentially can release \$2.3 billion in S&L funds for mortgage money although there is no certainty that the full amount would flow into mortgage lending. We estimate that the impact of a reduction in liquidity requirements of 1/2 of 1 percent would be to increase housing starts on an annualized basis by 7 thousand units in the quarter following this action and by 8 thousand units in the subsequent quarter.

Further reductions in liquidity requirements would magnify this expansionary impact. A reduction in liquidity requirements to the minimum statutory 4 percent would add to housing starts by 28 thousand units on an annualized basis in the quarter following this action and 32 thousand units in the subsequent quarter.

- (2) Increasing the availability of advances (loans) to member thrift institutions from the Federal Home Loan Bank System. We presently project an increase in advances of \$3.8 billion during the second half of this year under our current advances policy.

An increase to \$6 billion (rather than \$3.8 billion) during the second half of this year would increase housing starts by 20 thousand units on an annualized basis in the fourth quarter and 22 thousand units in the first quarter of 1980 over what is currently projected. The Bank Board's current financial strategy would permit a timely response should an increase in advances be required.

A more dramatic step to stimulate advances would be for the Bank Board to have ready on a standby basis a specially priced advances program under which advances priced below the cost of funds to the Bank System could be lent to member institutions over a period of 6 months. The impact of a \$3 billion subsidized advances program spread over 6 months, if started in September, would be to increase housing starts by 26 thousand units on an annualized basis in the fourth quarter of this year and by 28 thousand units in the first quarter.

- (3) Raising activity levels of the Federal Home Loan Mortgage Corporation from \$6 billion in mortgage commitments this year to \$7 billion. The Mortgage Corporation is already preparing contingency plans for doing so, which would involve an \$8 billion rate in the second half. If the commitment level were immediately raised to this rate, this would imply additional housing starts of 18 thousand units on an annualized basis in the fourth quarter of this year and 20 thousand units in the first quarter of next year over what is currently projected.

A more dramatic step for the Mortgage Corporation would be to institute a tandem purchase program at a below market interest rate utilizing the Bank Board's borrowing power with the Treasury Department. This was done in 1974. A tandem program of \$3 billion that represented an add-on to the existing commitment level of the Mortgage Corporation and instituted in September would increase housing starts above their projected level by an annualized rate of 26 thousand units in the fourth quarter of this year and 28 thousand units in the first quarter of next year.

- (4) Reexamining Reg. Q ceilings, in particular the maximum rate allowable on the new 4 year savings certificate. Presently, thrifts are permitted to pay 1 percentage point below the interest rate on 4 year U.S. Government securities. The ceiling could be raised by reducing this difference so that savings flows would be stimulated. However, the practicality of this depends upon the financial position of thrifts, which, at the moment, is weaker than recent years.

The above measures can, of course, be used in varying degrees. A substantial use of the above measures to stimulate housing would be contingent upon meaningful evidence of a decrease in mortgage and housing activity. This would be evidenced, for example, by a sharp decline in forward loan commitments of S&Ls and a persistent decline in housing sales.

Attached is the current Bank Board outlook for housing.

Attachment