

FEDERAL RESERVE BANK  
OF CLEVELAND



**Collection:** Paul A. Volcker Papers  
**Call Number:** MC279

**Box 27**

**Preferred Citation:** Federal Reserve Bank: Cleveland, 1980-1985; Paul A. Volcker Papers, Box 27; Public Policy Papers, Department of Rare Books and Special Collections, Princeton University Library

**Find it online:** <http://findingaids.princeton.edu/collections/MC279/c179> and <https://fraser.stlouisfed.org/archival/5297>

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

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

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

### Copyright

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

### Policy on Digitized Collections

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

Inquiries about this material can be directed to:

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

## FEDERAL RESERVE BANK OF CLEVELAND

TO: Paul

He likes your good work!  
And so do we!

Karen

DATE April 12, 1985

FROM: KAREN N. HORN

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

1985 APR 16 PM 2:48

RECEIVED  
OFFICE OF THE CHAIRMAN





KAREN M. HORNE  
PRESIDENT

APR 15 9 54 AM '85

FEDERAL RESERVE BANK  
OF CLEVELAND

April 12, 1985

# Heritage

## Savings Bank

Federal Reserve Bank  
of Cleveland  
P.O. Box 6387  
Cleveland, OH 44101

Attention: Karen Horne  
President

Re: Heritage Savings Bank

Dear President Horne:

The Heritage Savings Bank, formerly of the Ohio Guarantee Fund, has just passed through a very difficult time but has now been accepted for Federal Insurance. During this time we have been audited by the Federal Reserve Bank of Cleveland, FDIC and the Federal Home Loan Bank.

During these processes it was obvious that the Federal Reserve Bank was the leader, knew what it wanted to establish, and wanted to proceed as quickly as possible to reach its objectives.

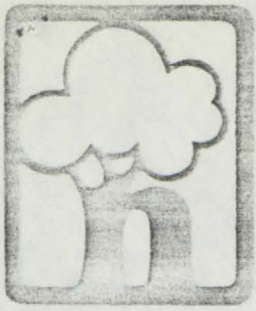
The Heritage Savings Bank wants to thank, Paul Volcker, Chairman of the Federal Reserve Bank for his quick analysis of the Ohio situation, and specifically for leading in cutting red tape and time limits, to allow those innocent and qualified institutions to become federally insured without disastrous loss of customers.

The Heritage Savings Bank Board of Directors was amazed at how quickly we obtained insurance coverage and believe it was specifically because of the Federal Reserve Bank and its Chairman Paul Volcker, that this occurred.

Copies: Mr. Hendricks; Mr. Adams, Mr. Davis  
Chairman Volcker ✓  
Mr. Piskos

3316 Glenmore Avenue • Cincinnati, Ohio 45211 • Telephone: 481-2481





# Heritage

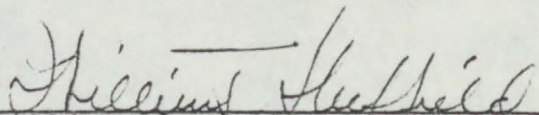
Savings Bank

April 12, 1985  
Page 2.

We want to personally thank you for your involvement and concern and further want to compliment you on your excellent staff. James Piskos is an extremely talented examiner and handler of people. The Federal Reserve is fortunate to have a man of his ability on its team.

We trust you will understand that the Heritage Savings Bank is deeply appreciative of the Federal Reserve Bank and its handling of this complete problem.

Respectfully submitted,

  
\_\_\_\_\_  
William T. Sheffield, President  
Heritage Savings Bank

WTS:mw

cc:

U.S. Senator John Glenn  
U.S. Senator Howard Metzenbaum  
U.S. Representative Willis D. Gradison, Jr.  
U.S. Representative Thomas A. Luken  
U.S. Representative Thomas N. Kindness



FEDERAL RESERVE BANK  
OF CLEVELAND

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
1985 FEB 28 PM 2:15

RECEIVED  
OFFICE OF THE  
CLEVELAND, OHIO 44101  
AREA CODE 216-579-2113

KAREN N. HORN  
PRESIDENT

February 27, 1985

Mr. William M. Isaac, Chairman  
Federal Deposit Insurance Corporation  
550 Seventeenth Street, N.W.  
Washington, D. C. 20429

Dear Bill:

I received your February 12 letter regarding our recent examiners conference and was sorry to hear of the strong personal distress and disappointment that it caused you. I am also sorry to have to say that I believe your distress was probably unnecessary, inasmuch as it appears to me that you have misinterpreted the remarks attributed to Dr. Leslie P. Anderson. While it is never possible to undo the past, I hope I can convince you of this and relieve any remaining discomfort you may have concerning this matter.

First, a word about the conference in question. Each year in January or early February we bring our examiners in from the field for a week of meetings and presentations on current topics of interest to the examination staff. The meetings are private, intended exclusively to benefit our examiners, and attended only by our staff. We work very hard to obtain speakers who are highly regarded in their fields, and this year felt fortunate to present a distinguished array that included Commodore Grace Hopper of the United States Navy, John G. McCoy, chairman of the executive committee of the Banc One Corporation, Governor Martha R. Seger, and Dr. Leslie P. Anderson, professor of banking and finance at the University of Tennessee. Dr. Anderson is a well-known authority in this field, having formerly been director of the A.B.A.'s Resident Schools and associate director of the Stonier School of Banking at Rutgers University. He is currently the co-director of, and teaches extensively in, the Business of Banking School sponsored by the Operations and Automation Division of the A.B.A.

Dr. Anderson was asked to speak about the research he has done on the rise and fall of the Butcher empire, a subject which several of my staff had recently heard him address at a conference in Chicago. Dr. Anderson spoke to our examiners for about three hours. He devoted the bulk of his time to



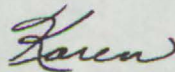
February 27, 1985

describing in detail how the Butchers assembled and then misused their financial organization. Only a small portion of his presentation covered the supervision of the organization by the banking agencies and, almost as an afterthought, Dr. Anderson mentioned that as part of the many interesting and ironic threads that run throughout this story, were the personal and business relationships that the Butchers attempted to cultivate with prominent individuals, naming among others your former employer in Louisville. Dr. Anderson assumed that this in turn led the Butchers to support your appointment to the F.D.I.C. It is our staff's recollection that Dr. Anderson was careful to state that this did not appear to affect your judgment in any way while the supervisory process was ongoing nor did he draw any inferences from this. Although Dr. Anderson did make a few critical statements about the amount of time it took both the Tennessee and F.D.I.C. examiners to discover the abuses in the banks, these statements were questioned by our examiners who, drawing upon their own experiences, indicated to Dr. Anderson that such observations could be perhaps naive or reasonable mainly in hindsight. Our examiners further stated that to the extent these points were valid, they applied more significantly to the directors and outside auditors of the Butcher banks.

In sum, we were quite pleased with Dr. Anderson's presentation, and while we might quarrel with several of his observations, nevertheless believed his remarks to be informative, thoughtful and balanced. I am unable to reconcile my understanding of his address with the characterization contained in your letter. I sincerely regret, nonetheless, the obvious pain this unfortunate misunderstanding has caused you. I hope this explanation satisfactorily resolves this matter, as I would not want to in any way undermine the excellent relationship that I believe this Reserve Bank has with the F.D.I.C. Indeed, while it might appear somewhat incongruous here, I would like to take this opportunity to express my pleasure and appreciation to you for the excellent regional directors in Columbus that you have given us to work with during my tenure, beginning with Sandra Waldrop through the current director, Jerald Adams. I could not ask for more professional people with whom to work.

Please do not hesitate to get in touch if I can be of further assistance.

Sincerely,



Karen N. Horn  
President

Copies: Chairman Volcker ✓  
Governor Seger





FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, D.C. 20429

*Mr Roberts?*  
*What is it?*

OFFICE OF THE CHAIRMAN

February 12, 1985

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
1985 FEB 14 PM 2:13  
RECEIVED  
OFFICE OF THE CHAIRMAN

Ms. Karen N. Horn, President  
Federal Reserve Bank of Cleveland  
Post Office Box 6387  
Cleveland, Ohio 44101

*Ms Horn  
replied to Mr Isaac  
directly,  
SN*

Dear Karen:

I was distressed to learn that at a recent conference sponsored by the Federal Reserve Bank of Cleveland, a Professor Anderson asserted that the FDIC did not get on top of the problems at UAB because I was politically beholden to the Butchers and somehow interfered with the supervisory process. Not only is such an assertion completely baseless, it is highly offensive and even slanderous.

I am disappointed that the Federal Reserve Bank of Cleveland did not exercise more care in its selection of program participants, and I am equally disappointed that once Professor Anderson made his remarks no one from the Reserve Bank intervened to challenge his wild accusations.

I am not sure that anything can be done at this point to right this wrong, but I did want to express in the strongest possible terms my concern.

Sincerely,

William M. Isaac  
Chairman

cc: Mr. Anderson

✓ bcc: Honorable Paul A. Volcker



File

---

Paul A. Volcker

Mr Roberts  
Begin "exploring" some  
ideas!

PAV



February 27, 1984

Mrs. Karen N. Horn  
President  
Federal Reserve Bank  
of Cleveland  
Cleveland, Ohio 44101

Dear Karen:

I appreciate your thoughtful letter  
on the problem of "small bank" contact.  
We will explore some options.

Sincerely,

PAV:ccm  
#328

*to  
Steve  
Roberts*

*Want to talk to Robert about this*

FEDERAL RESERVE BANK  
OF CLEVELAND  
1984 FEB 22 AM 11:52

#328

KAREN N. HORN  
PRESIDENT

RECEIVED  
OFFICE OF THE CHAIRMAN

CLEVELAND, OHIO 44101  
AREA CODE 216-579-2113

February 21, 1984

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

Dear Paul:

I would like to bring an issue which concerns me to your attention. The issue involves the Federal Advisory Council and a feeling of exclusion that may be developing among the smaller banks in Ohio and probably elsewhere as well.

A growing number of smaller bankers question the ability of a Federal Advisory Council, made up of large banks, to provide input on their problems and concerns. The small banks are also sensitive to the confidentiality of the FAC meetings and fully aware of the existence of a Thrift Advisory Council at the Board of Governors.

One suggested remedy for this would be to seek small bank membership in the Federal Advisory Council as it is presently constituted. I do not believe this would be a productive avenue because it would dilute the effectiveness of the Council. It would, moreover, in my view, not be very effective in bringing the concerns of smaller banks to the attention of the Board of Governors. In addressing these concerns, I wonder if it might be useful for the Board of Governors to consider the formation of a Federal Advisory Council for small banks. Such an action would severely crowd the already-busy calendar there at the Board. However, the ability of the smaller banks to voice their concerns directly would make smaller financial institutions believe that they had more direct input into our decisions. I, for one, believe that result may be important enough to warrant some costs.

In closing, I would add that this issue may come up at the March meetings of the IBAA.

Sincerely,

Karen N. Horn

*Dear Karen,  
Appreciate your thoughtful letter on the problem of small bank contact. We will explore some options.  
hurry,*









BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
FEDERAL RESERVE BANK  
OF CLEVELAND  
1982 APR 16 AM 9:21

WILLIS J. WINN  
PRESIDENT

RECEIVED  
OFFICE OF THE CHAIRMAN

April 13, 1982

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

Dear Paul:

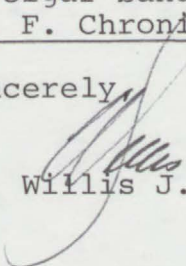
Your worry about the national debt pales in comparison to my concerns about my personal indebtedness to you and your associates. Moreover, I see little hope of closing the gap short of congressional action or my role as an unpaid consultant at unbelievable rates.

I have many pleasant memories of my Fed experiences and the plaque from the Governors which will be placed on my den wall will provide a constant reminder of my friends and their continuing struggle to find answers to the monetary puzzle.

As an outsider, you can be assured I will continue to follow both policy and structural developments with the keenest interest. I am most appreciative of the ceremony at the Board last month as well as your participation in the hoopla in Cleveland. These were above and beyond the call of duty.

My family joins me in expressing our gratitude for your role in these ceremonial occasions--and my son is husbanding his cigar band for the business editor of the S. F. Chronicle.

Sincerely,

  
Willis J. Winn

*Orig. to Mr. Hart  
cc Neal Soss*

FEDERAL RESERVE BANK  
OF CLEVELAND

1982 FEB -1 11:41

WILLIS J. WINN  
PRESIDENT

January 28, 1982

#191

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

Dear Paul:

Over the past few months I've sensed a rapidly growing dissatisfaction in the financial community with respect to some of the Federal Reserve supervisory activities. I am confident that you are well aware of these problems. While a certain amount of tension is inherent in any regulatory effort, I believe this problem currently exceeds normal ranges of tolerance. I am especially concerned with an issue or two which has arisen in our enforcement of the provisions of the Community Reinvestment Act. As you know, the Fourth District has experienced a large number of protests under the CRA. It may well be that experience has made me overly sensitive, but I believe that our procedures and actions under the CRA have become a special concern to the banks in the Fourth District.

The inherent nature of our current protest process all but insures unsatisfactory results. First, there is some considerable difference between our periodic examinations of banks and the intense scrutiny and analysis which follows a protest. In some instances I have observed banks with questionable CRA records make unrealistic promises and commitments to community groups to avoid protests. Other institutions, often with better CRA records, have chosen to resist this type of pressure, and endure a protest. Needless to say, the reward for a good CRA record, and a responsible response to irresponsible community pressure, is lengthy delay under our procedures and an orchestrated barrage of unfavorable publicity. I'm bothered by the terms one might use to describe what some banks have done to avoid falling into an extended regulatory process. Overall, the situation is not one which promotes equity among banks or respect for the regulatory process.

A great deal of work and effort has gone into improving System procedures in handling CRA procedures. Based on our experience here in Cleveland, I believe that significant improvements have been made. Our first protest, in 1979,



January 28, 1982

took ten months to dispose of, while for our most recent one the processing time was reduced to five months. Obviously there is still room for improvement. I am especially troubled by what I consider to be either an inability or an unwillingness to decide early in the process that a protest is without merit, even when the record strongly suggests that is the case. In my view, this problem is highlighted by our handling of a protested application by the First National Cincinnati Corporation. The Protestant made numerous allegations against the CRA record and lending activities of the applicant's lead bank. The applicant, aware of the delays associated with previous CRA protests, chose to establish its record and responded to the protest in a most comprehensive manner within ten days of being informed of the protest. I would note that only one month earlier the bank's CRA and consumer affairs activities had received a rating of "1" and a management commendation from the National Bank examiner. Throughout the protest the applicant displayed a very constructive attitude in its dealings with the Protestant and Reserve Bank personnel.

At the conclusion of an extensive analysis of the entire range of issues raised in the protest, it was determined that Protestant's allegations were not supported by the facts. As a result, the application was returned to delegated status and the order approving the application was issued by the Cleveland Bank. Yet the total processing time for this application consumed almost five months and expended most of the ninety-one day statutory period allowed after the complete record had been assembled. Despite the extra effort and considerable expense committed by the applicant to respond swiftly to this protest, we were unable to reward it with a decision much more rapidly than the maximum permitted by law. What concerns me is if situations of this sort continue to occur, I will be able to offer the banks in this District little encouragement that prompt efforts on their part in CRA protests will yield any faster results from the Federal Reserve.

I fully appreciate the need for a careful evaluation and a thorough response to allegations in a CRA protest. Once a protest has been determined to have substance, it may be very difficult to shorten the time required to deal thoroughly with the issues. But I would urge that the Board, through its Committee on Consumer Affairs, explore possibilities for further expediting our decision making process generally.

As the attached chronology of our recent case indicates, there are several steps in the process here in Cleveland and there at the Board, which might be speeded up. In addition,



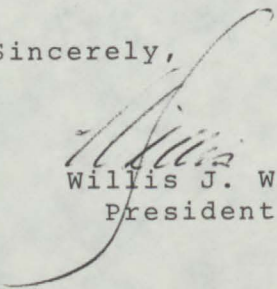
January 28, 1982

I would urge that the Board Committee on Consumer Affairs attempt to formulate some rules or guidelines to enable a window through which protests can escape and be handled more expeditiously without grinding through the whole process, if and as soon as it can reasonably be determined that they are without merit or substance. Such a step might well entail greater risks of questionable decisions. I would urge, however, that adverse reaction from lengthy delay in handling nonsubstantive protests mandates a change in our procedures.

I realize how difficult a task this will be. A glance at the chronology of the case at issue clearly illustrates the extent of the difficulty. The protest document in this case was well written, the issues raised were serious, and the documentation lengthy. Consequently, response by the applicant to the charges, and analysis by both the Cleveland and the Board staff were needed to assess substance. The Cleveland analysis was not completed until November 25 but there was a basis for believing that the protest was not substantive by October 20. It may rightly be argued that this was not yet adequate basis for dismissing the protest. The existence of a formal step in the procedures, forcing such a decision, however, might well have resulted in more information at an earlier date. Obviously, each protest is to some degree unique. In several instances these might be a basis for opening the escape window very early in the process. In others, such as our recent case, the window might have been useful midway through the process.

I'm really concerned, Paul, that this may be building up to the same type of reaction that led Congress to impose the ninety-one day BHC statutory rule in 1970. I'm not opposed to the rule but to the processing delays which led to its existence. If we do not clean up our act someone else will do it for us. As you know, I believe that a transfer of the regulatory responsibility from the Fed would seriously harm our ability to perform some of our other functions. For it is our regulatory role that yields us with the ability to influence bank performance and behavior and to influence the future character of the financial structure.

Sincerely,



Willis J. Winn  
President

Attachment



Chronology of CRA Protest Against the Application of  
First National Cincinnati Corporation to Acquire  
The Second National Bank of Hamilton, Hamilton, Ohio

1981

August 5 Y-2 Application of First National Cincinnati Corporation (Applicant) to acquire The Second National Bank of Hamilton is filed at the FRB of Cleveland.

August 27 Y-2 Application is accepted for processing.

September 8 CRA protest is filed by the Cincinnati Reinvestment Project (Protestant).

September 15\* Preliminary discussions of issues concluded that fuller analysis of issues was required.

September 23 Extensive response to CRA protest is filed by Applicant.

October 5 Comment period expired.

October 20 Private meeting is held at the Cincinnati Branch of the FRB of Cleveland between representatives of Applicant, Protestant and the FRB of Cleveland.

October 26 Letter requesting additional information is sent to Applicant by FRB of Cleveland.

November 6 Applicant's response to our letter of October 26 is sent to FRB of Cleveland. (This was the final submission entered into the record).

November 25 Research Department memorandum analyzing the protest is sent to the Board.

December 15 Package containing Research Bank and Board memoranda is sent to the Legal Division.

December 30 Internal target date for drafting of Board order by the Legal Division.

January 20 Receipt of draft order from the Legal Division of the Board.

January 21 Notification of order by the Cleveland FRB of the ruling to concerned parties.

\*Approximate date

March 12, 1982

Mr. Willis J. Winn, President  
Federal Reserve Bank of Cleveland  
P.O. Box 6387  
Cleveland, Ohio 44101

Dear Willis:

Thank you for your recent letter expressing concern over the System's effectiveness in the timely handling of protested applications generally, and in particular, a recent application by First National Cincinnati Corporation. As you know, I share your concern about the importance of timely processing of all applications, including those that are protested on the basis of Community Reinvestment Act considerations.

In December 1980, largely in response to the experience gained in processing CRA protested applications in the Fourth District, the Board adopted new procedures to be used in the processing of all protested applications. The new procedures were specifically designed to enable the System to evaluate the substance of a protest and, where warranted, proceed on a shorter processing schedule more in line with the merits of the application. At the same time, it was intended that the procedures would provide a mechanism that would assure protestants as well as applicants fair and consistent treatment.

The First National Cincinnati case was the first application where the new procedures came into play. Because of this, Board Legal staff believed it necessary to proceed carefully in drafting the order in order to avoid challenge by the protestant. As a result, processing of that application took longer than anticipated by the new procedure.

As an indication that the new procedures offer opportunity for considerable progress in these types of cases, the System has since processed at least two similarly protested cases where the protests were found to be non-substantive, within a much shorter time period.

Notwithstanding our efforts in this area, I am fully supportive of your suggestion to attempt further improvements in our processing procedures. Because of the coordination responsibilities assigned to the Division of Banking Supervision and Regulation in the processing of applications, I have asked the Division to undertake a review of the procedure now in effect



Mr. Willis J. Winn

2.

in light of our experience to see if additional changes are necessary or desirable. The Division will conduct this review in conjunction with staff of other interested Board Divisions and appropriate Reserve Bank personnel.

Sincerely,

**PAUL**

DEK:gp  
Log #191

FEDERAL RESERVE BANK  
OF CLEVELAND

1002500 1 28 1982

WILLIS J WINN  
PRESIDENT

January 28, 1982

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

#191

Dear Paul:

Over the past few months I've sensed a rapidly growing dissatisfaction in the financial community with respect to some of the Federal Reserve supervisory activities. I am confident that you are well aware of these problems. While a certain amount of tension is inherent in any regulatory effort, I believe this problem currently exceeds normal ranges of tolerance. I am especially concerned with an issue or two which has arisen in our enforcement of the provisions of the Community Reinvestment Act. As you know, the Fourth District has experienced a large number of protests under the CRA. It may well be that experience has made me overly sensitive, but I believe that our procedures and actions under the CRA have become a special concern to the banks in the Fourth District.

The inherent nature of our current protest process all but insures unsatisfactory results. First, there is some considerable difference between our periodic examinations of banks and the intense scrutiny and analysis which follows a protest. In some instances I have observed banks with questionable CRA records make unrealistic promises and commitments to community groups to avoid protests. Other institutions, often with better CRA records, have chosen to resist this type of pressure, and endure a protest. Needless to say, the reward for a good CRA record, and a responsible response to irresponsible community pressure, is lengthy delay under our procedures and an orchestrated barrage of unfavorable publicity. I'm bothered by the terms one might use to describe what some banks have done to avoid falling into an extended regulatory process. Overall, the situation is not one which promotes equity among banks or respect for the regulatory process.

A great deal of work and effort has gone into improving System procedures in handling CRA procedures. Based on our experience here in Cleveland, I believe that significant improvements have been made. Our first protest, in 1979,

FEB 03 1982

Received C&CA  
Log No.  
Date Ack.  
Date Out

CS-20076



took ten months to dispose of, while for our most recent one the processing time was reduced to five months. Obviously there is still room for improvement. I am especially troubled by what I consider to be either an inability or an unwillingness to decide early in the process that a protest is without merit, even when the record strongly suggests that is the case. In my view, this problem is highlighted by our handling of a protested application by the First National Cincinnati Corporation. The Protestant made numerous allegations against the CRA record and lending activities of the applicant's lead bank. The applicant, aware of the delays associated with previous CRA protests, chose to establish its record and responded to the protest in a most comprehensive manner within ten days of being informed of the protest. I would note that only one month earlier the bank's CRA and consumer affairs activities had received a rating of "1" and a management commendation from the National Bank examiner. Throughout the protest the applicant displayed a very constructive attitude in its dealings with the Protestant and Reserve Bank personnel.

At the conclusion of an extensive analysis of the entire range of issues raised in the protest, it was determined that Protestant's allegations were not supported by the facts. As a result, the application was returned to delegated status and the order approving the application was issued by the Cleveland Bank. Yet the total processing time for this application consumed almost five months and expended most of the ninety-one day statutory period allowed after the complete record had been assembled. Despite the extra effort and considerable expense committed by the applicant to respond swiftly to this protest, we were unable to reward it with a decision much more rapidly than the maximum permitted by law. What concerns me is if situations of this sort continue to occur, I will be able to offer the banks in this District little encouragement that prompt efforts on their part in CRA protests will yield any faster results from the Federal Reserve.

I fully appreciate the need for a careful evaluation and a thorough response to allegations in a CRA protest. Once a protest has been determined to have substance, it may be very difficult to shorten the time required to deal thoroughly with the issues. But I would urge that the Board, through its Committee on Consumer Affairs, explore possibilities for further expediting our decision making process generally.

As the attached chronology of our recent case indicates, there are several steps in the process here in Cleveland and there at the Board, which might be speeded up. In addition,



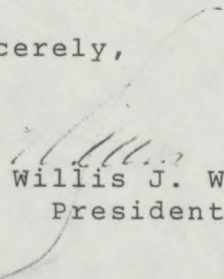
January 28, 1982

I would urge that the Board Committee on Consumer Affairs attempt to formulate some rules or guidelines to enable a window through which protests can escape and be handled more expeditiously without grinding through the whole process, if and as soon as it can reasonably be determined that they are without merit or substance. Such a step might well entail greater risks of questionable decisions. I would urge, however, that adverse reaction from lengthy delay in handling nonsubstantive protests mandates a change in our procedures.

I realize how difficult a task this will be. A glance at the chronology of the case at issue clearly illustrates the extent of the difficulty. The protest document in this case was well written, the issues raised were serious, and the documentation lengthy. Consequently, response by the applicant to the charges, and analysis by both the Cleveland and the Board staff were needed to assess substance. The Cleveland analysis was not completed until November 25 but there was a basis for believing that the protest was not substantive by October 20. It may rightly be argued that this was not yet adequate basis for dismissing the protest. The existence of a formal step in the procedures, forcing such a decision, however, might well have resulted in more information at an earlier date. Obviously, each protest is to some degree unique. In several instances these might be a basis for opening the escape window very early in the process. In others, such as our recent case, the window might have been useful midway through the process.

I'm really concerned, Paul, that this may be building up to the same type of reaction that led Congress to impose the ninety-one day BHC statutory rule in 1970. I'm not opposed to the rule but to the processing delays which led to its existence. If we do not clean up our act someone else will do it for us. As you know, I believe that a transfer of the regulatory responsibility from the Fed would seriously harm our ability to perform some of our other functions. For it is our regulatory role that yields us with the ability to influence bank performance and behavior and to influence the future character of the financial structure.

Sincerely,

  
Willis J. Winn  
President

Attachment



Chronology of CRA Protest Against the Application of  
First National Cincinnati Corporation to Acquire  
The Second National Bank of Hamilton, Hamilton, Ohio

1981

August 5 Y-2 Application of First National Cincinnati Corporation (Applicant) to acquire The Second National Bank of Hamilton is filed at the FRB of Cleveland.

August 27 Y-2 Application is accepted for processing.

September 8 CRA protest is filed by the Cincinnati Reinvestment Project (Protestant).

September 15\* Preliminary discussions of issues concluded that fuller analysis of issues was required.

September 23 Extensive response to CRA protest is filed by Applicant.

October 5 Comment period expired.

October 20 Private meeting is held at the Cincinnati Branch of the FRB of Cleveland between representatives of Applicant, Protestant and the FRB of Cleveland.

October 26 Letter requesting additional information is sent to Applicant by FRB of Cleveland.

November 6 Applicant's response to our letter of October 26 is sent to FRB of Cleveland. (This was the final submission entered into the record).

November 25 Research Department memorandum analyzing the protest is sent to the Board.

December 15 Package containing Research Bank and Board memoranda is sent to the Legal Division.

December 30 Internal target date for drafting of Board order by the Legal Division.

January 20 Receipt of draft order from the Legal Division of the Board.

January 21 Notification of order by the Cleveland FRB of the ruling to concerned parties.

\*Approximate date

FEDERAL RESERVE BANK  
OF CLEVELAND

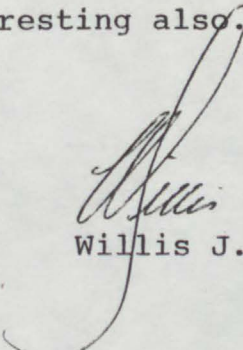
WILLIS J. WINN  
PRESIDENT

October 28, 1981

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
1981 NOV -2 AM 9:38  
RECEIVED  
OFFICE OF THE CHAIRMAN

TO: Federal Open Market Committee

I realize there are many differences of opinion on the issues involved in a contemporaneous reserve accounting mechanism. I found the attached paper interesting. It provides few final answers, but in the spirit of contributing to the discussion, I thought you might find it interesting also.



Willis J. Winn

Attachment



# Federal Reserve Bank of Cleveland

## Research Department

To: Mr. Willis J. Winn

Date: October 26, 1981

From: William T. Gavin

Subject: Issues Regarding Reserve Accounting Regulations

### I. Introduction and Recommendations

Several different proposals to change reserve requirement regulations recently have circulated in the System. Rather than making another proposal, this memo discusses two issues which the Research staff at Cleveland sees as central to reserve accounting reform. The first issue is the length of the maintenance period. Intra-monthly volatility of the money stock suggests that a longer reserve period is desirable because four weeks or a month seems to be the minimum time period in which to obtain a reliable measure of the money supply. The second issue concerns staggered reserve maintenance periods and its effect on financial markets. Special cases can be developed in which destabilizing speculation occurs in the federal funds market under a staggered regime. However, a more general case, including the concepts of efficient financial markets and risk-averse profit-maximizing banks suggests that staggering reserve settlement days may offer an effective means of dampening volatility in interest rates while simplifying monetary control procedures.

### II. The Length of the Reserve Settlement Period

Theoretical Considerations. There is no reason to make the reserve settlement period shorter than the average payments cycle. Consider one household which is paid bi-weekly, with income deposited in



a transactions account on the first day. Suppose the demand deposit balance falls in a random way throughout the period until it reaches zero on the last day. For this example also assume there is no currency. If the economy were made up of households identical to this one and all firms have sophisticated cash management programs, then a one-week aggregate measuring the money stock would generally overstate the underlying equilibrium money stock in the first week and understate it in the second week. If the central bank were to set weekly targets for the money supply based on a long-run equilibrium value, seasonal adjustment would be necessary in order to supply reserves in a bi-weekly cycle that mimicked the average payments cycle.

If the weekly seasonal factors were predictable there would be no problem. But if the seasonal factors changed in an unpredictable way, then institutions would be induced to intermediate the repeated discrepancies between the demand for reserves, derived from the deposit cycle, and the supply of reserves implied by the error-prone "targeting" cycle. Therefore, whether the central bank should adopt a weekly reserve maintenance period when the average payments cycle is longer than a week depends on how confidently the weekly seasonal adjustment factors can be predicted.

As this simple example suggests, it is important for short frequency seasonal adjustment factors to be predictable when the reserve accounting period is shorter than the average payment cycle. If the seasonal factors are in error, the Federal Reserve will be forcing markets to adjust to an incorrect supply of reserves. One way to avoid the possibility of costly "targeting" errors is to lengthen the reserve accounting period to the minimum predictable average payments cycle.



How long is the minimum predictable average payments cycle? Two weeks, as suggested in the policy group's proposal; monthly, as suggested in the Morgan Guaranty proposal; or perhaps some other length. The pattern of the seasonal factors for 1981 suggests that payment cycles are interwoven at all measured frequencies, weekly, monthly, quarterly, and annual.

Another consideration is relevant to choosing the appropriate length of the accounting period. The period chosen should be consistent with the time frame appropriate for close monetary control. Research within the Federal Reserve System clearly allows us to reject money control within the week for both operational and theoretical considerations.\* The point here is not to review the issues revolving around the temporal framework for monetary control; it is to emphasize that almost no one argues that the money supply should be closely controlled in a period shorter than one month.\*\* While there still would be a chance of "targeting" errors if reserves were controlled on a monthly basis the errors probably would be much smaller than with a weekly control period because empirical evidence gives us more confidence in the stability of monthly seasonal factors than in the weekly factors.

Empirical Evidence. Evidence presented in the Federal Reserve Staff Study, New Monetary Control Procedures, combined with the weekly seasonal adjustment factors published in the H.6 release on May 1, 1981 suggests that the aggregate average payments period is more accurately represented by the month rather than by the week.

---

\* For example, see Axilrod and Lindsey (1981), p. 248 and the papers by David Lindsey, et al, and David Pierce in Vol. II of the Federal Reserve Staff Study. Even Karl Brunner (1973), pp. 530-31 explicitly argues that the appropriate time frame for targeting the money supply exceeds one month.

\*\* There are exceptions of course. First, there are those willing to make radical institutional changes such as those suggested by Robert Laurent (1981). Second, there are those who see the need for close week-to-week control solely as a method of getting longer run control.



Some evidence can be found in measures of variation in the monetary aggregates shown in Charts 3, 4, 6, and 8 of the paper by David Lindsey and others in Volume II of the Federal Reserve Staff Study. Even after seasonal adjustment the variability in weekly aggregates is several times greater than that found in monthly aggregates. The charts are reproduced in Appendix A for your convenience.

A second source of evidence can be found in the seasonal adjustment factors published annually in the H.6 release. The size of the adjustments within a month suggests not only that the System sees an intra-monthly pattern, but that it is often quite large and to some extent predictable. The uncertainty surrounding the seasonal factor is discussed in a memo to the FOMC dated January 21, 1981 from Messrs. Ettin and Lindsey on the subject of publishing weekly seasonally adjusted monetary aggregates. Table 3 on page 5 of that memo showing the size of seasonal factor revisions is reproduced in the Appendix (A-5). The authors state that the annual revisions in weekly seasonal adjustment factors are much larger than the revisions in monthly factors leading them to suggest "...that the weekly seasonally adjusted monetary aggregates are highly volatile, difficult to interpret, and potentially misleading. Most observers have suggested that the minimum interval over which the seasonally adjusted money figures supply meaningful information about the underlying trend of money growth is at least a month, and probably longer" (p.7).

Two obstacles have stood in the way of moving to a monthly reserve accounting period. One is the desire to update information weekly. But there is no reason why weekly reporting could not be maintained with monthly reserve accounting. The other is a fear that the banking system as a whole will accumulate larger aggregate errors if the reserve accounting period is lengthened. These larger errors would require larger



interest rate variation and/or less control over monthly total reserves. Staggering reserve maintenance periods within the month has been suggested as a remedy for the second issue.

### III. Staggered Reserve Accounting

Staggered reserve maintenance periods would facilitate monetary control and increase the individual bank's ability to absorb short-run transitory financial shocks. The fear of large errors accumulating over a monthly reserve accounting period can be overcome if the accounting periods are staggered in a system of four-week reserve periods with one quarter of the depository institutions settling each week. The Federal Reserve could continue to collect weekly data and, in fact, could even continue to have a two-week lag between the deposit calculation and reserve maintenance periods. The length of the lag between reporting and maintaining reserves will affect the elasticity of the total reserve demand curve. The longer the lag, the more inelastic the demand curve.

Staggered reserve periods would simplify monetary control procedures; staggering would also not diminish, and perhaps improve monetary control over time periods longer than a week. The policy group's proposal cites the Trepeda-Lindsey paper (1979) as evidence that staggered reserve periods would lessen monetary control and possibly induce destabilizing speculation by banks in the federal funds market.

Trepeda-Lindsey Paper. The paper by Trepeda-Lindsey (1979) offers five reasons for rejecting staggered reserve maintenance periods. The first three reasons (pages 2-3) apply under the federal funds targeting regime and therefore are not relevant to current proposals. The fifth reason is the unequal treatment of banks under a five-day staggering with weekly maintenance periods; again, not relevant to current proposals.



Therefore, the applicable criticism is in (4) pages 3-4. Simply stated, it is that staggering could impair monetary control. First, they say that the adjustment process will change and that staggering reserve periods will diminish the predictability of the response of monetary aggregates to a policy-induced change in nonborrowed reserves. Second, they present a simple model of staggering in which speculation by banks leads to oscillations in bank deposits in response to a policy-induced change in reserves.

Monetary Control. To analyze the effect that staggering reserve periods will have on the impact of monetary policy, it is important to identify which impacts are desired and which are incidental. It is likely that short-term security markets will not "move" in response to policy as they do in a non-staggered regime, but it is argued here that the reaction to policy in the short-term security market today is an over-reaction made necessary by the inability of banks to adjust assets other than short-term securities on short notice. The impact of monetary policy on bank lending will not necessarily be delayed under a staggered regime.

To see why this is so, imagine that each individual bank seeks a fairly stable ratio of short-term securities to loans and that it is more costly for a bank to change its lending plans in a few days than it is for it to change its holdings of securities. If banks are in a non-staggered reserve maintenance system with contemporaneous reserve accounting; a shortage of reserves in the aggregate would force banks to sell short-term securities to the non-bank public and cause yields on securities to rise relative to loan rates. In following periods a bank would reduce loans and buy back some of the securities. But if banks faced staggered settlement days, there would be no need for some of the



trading in the short-term securities because settling banks could trade reserves with non-settling banks. Yields on securities would not have to rise relative to yields on loans. The needless turnover in securities markets and the associated interest rate movement may not be necessary to achieve an immediate impact for monetary policy. As this simple example suggests, an immediate impact of monetary policy on loan markets could be achieved without "churning" by banks in security markets if reserve maintenance periods were staggered among banks.

Staggering reserve maintenance periods would perform much the same role that the discount window serves today in moderating short-run volatility of interest rates in securities markets. However, with staggered reserves, the reserve-targeting process would no longer be complicated by an erratic or unreliable linkage between changes in borrowed reserves, money market interest rates, and money growth.

Staggered settlement days would allow the Federal Reserve to end most adjustment lending at the discount window. Only if a bank had special problems that prevented access to the inter-bank market would the Federal Reserve still be the source of reserve adjustment credit. Seasonal and extended credit facilities would not have to change in any way. The removal of the discount window from the control mechanism would enable the Federal Reserve to set attainable targets for total reserves.

The Model. The model which implies that staggering will lead to oscillations and an uncertain adjustment to policy is described in the appendix to the Trepeda-Lindsey paper. This model does not take account of changes in relative interest rates and transactions in the federal funds market. When they are included, the oscillations may disappear. To quote: "Several factors, including federal funds transactions



and interest rate movements, could make the response of deposits to a policy-induced change in nonborrowed reserves as stable under SRA (staggered reserve accounting) as under CRA (common reserve accounting). Nevertheless, SRA would make the time path of deposits after a policy change more heavily dependent on bank's chosen methods of adjustment, which might be difficult to predict" (p. A-21).

#### IV. Staggering and Destabilizing Speculation

Others have also suggested that banks in a staggered regime may react to erroneous information in a way that leads to destabilizing speculation in the federal funds market. This legitimate concern arises because exogeneous Federal Reserve operations and unpredictable changes in other factors supplying reserves are important elements in the federal funds market. Incorrect interpretation of Fed operations and other factors may lead banks to act in a way that will move the money supply away from the desired target and set up unavoidable fluctuations in interest rates.

Several factors suggest that this is an unlikely scenario. The first is that in a monthly reserve maintenance period one day's error in other factors supplying reserves is much less significant than in a weekly maintenance period. Second, the Federal Reserve would be operating with a total reserve target which may decrease uncertainty about Federal Reserve operations. Third, banks would suffer losses if they behaved in a destabilizing way. Concern about destabilizing speculation diminishes as financial markets are more efficient and as individual banks are more risk-averse. Finally, the Federal Reserve has many options available to protect against this undesirable speculation, including fuller disclosure of aggregate target information, temporarily imposing minimum



daily reserve requirements, and enforcing a wide "collar" on the funds rate. And, if all else fails, the discount window is always available for special situations, perhaps at a penalty rate to put a limit on the size of possible fluctuations.

Destabilizing speculation is a possibility under a staggered regime, but so too is stabilizing speculation. Such speculation would increase the responsiveness of the money supply to deviations from target and would smooth the variability in the short-term cost of funds. It simply is not clear why rational profit maximizing bank behavior would be more likely to produce destabilizing rather than stabilizing speculation.

#### V. Conclusion

The demand for money is more likely to be stable over a period longer than a week. Weekly variations in money demand are a source of uncertainty and error in our current operating regime. Expanding the reserve accounting period to a four-week period would average out much of that variation, while staggering reserve settlement days will make it possible for the banking system to dampen even more of it. Staggering over a period as long as four weeks has the advantage of broadening the range of assets that can be adjusted because a bank can revise its lending plans as well as its security portfolio. If banks adjust a wider range of assets, monetary policy can have a broader and more direct impact on the economy. The money market has evolved partly to help banks adjust reserves within the weekly settlement period. To some extent this market (and the costs associated with it) exists because banks now must make adjustments within such short time constraints.

Criticism of staggering has centered around "loss of control" of the money supply in the short run. Contemporaneous reserve accounting without staggering would also face this criticism because the discount window and carryover will allow leakages of reserves. The criticism is only understandable if close week-to-week control over the money supply is the policy objective. It is not relevant unless one is willing to adopt an institutional structure that rigidly ties total reserves to the targeted monetary aggregate.

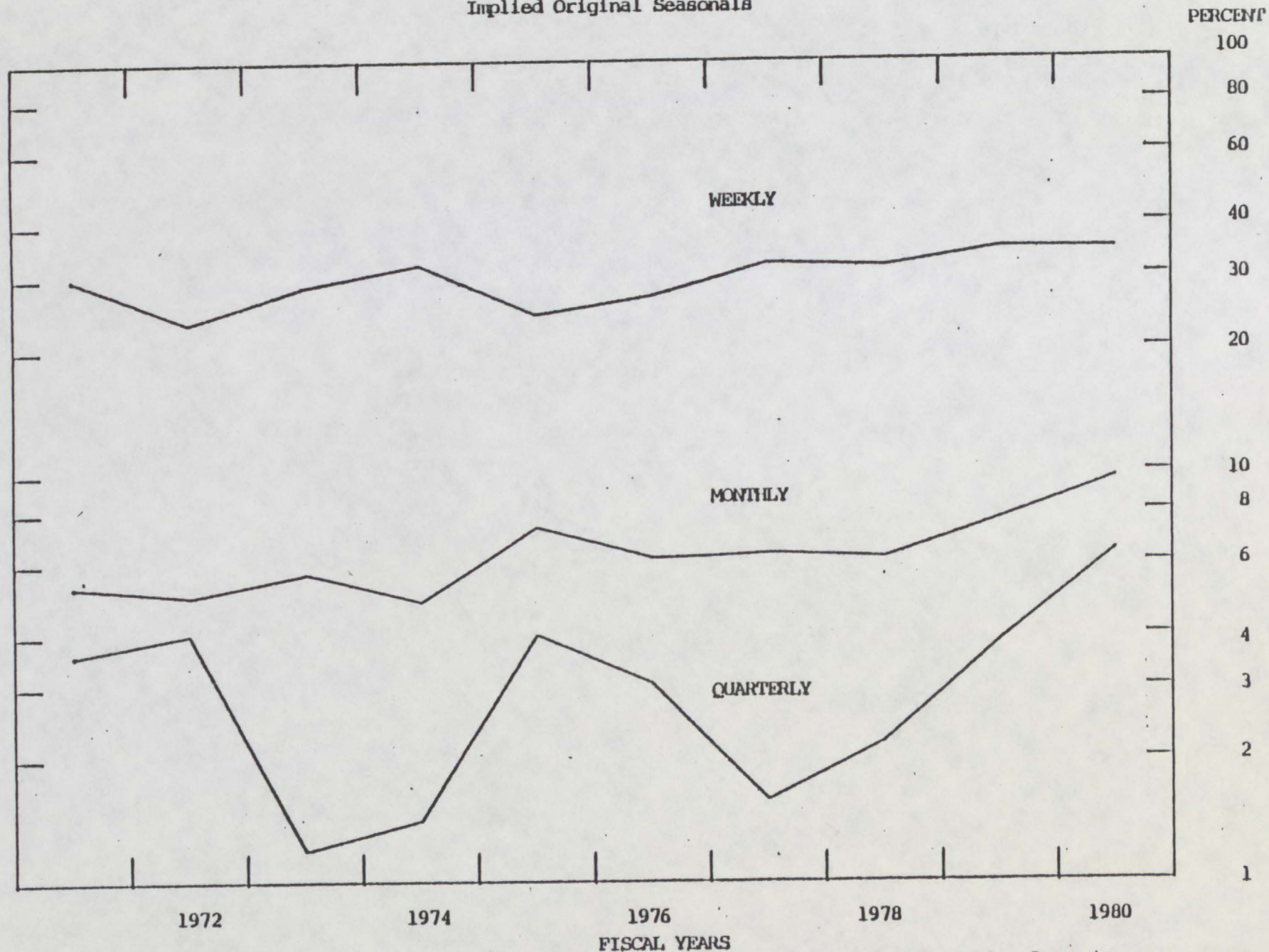


### References

1. Axilrod, S.H., and Lindsey, D.E., 1981. Federal Reserve Implementation of Monetary Policy: Analytical Foundation of the New Approach. AER Vol 71, number 2 (May 1981). 246-52.
2. Brunner, K. 1973. A diagrammatic exposition of the money supply process. Schweizerische Zeitschrift für Volkswirtschaft und Statistik, Dec., 481-533.
3. Laurent, R.D., Reserve Requirements, Deposit Insurance, and Monetary Control. JMCB, Vol XIII, No. 3 (August 1981), 314-24.
4. Trepeda, W. and Lindsey, D.E. "The Reuss Proposal to Stagger Reserve Accounting Periods" Federal Reserve Board, Division of Research and Statistics, April 25, 1979, Mimeo.

ANNUALIZED GROWTH RATES OF M-1B  
STANDARD DEVIATIONS

Implied Original Seasonals

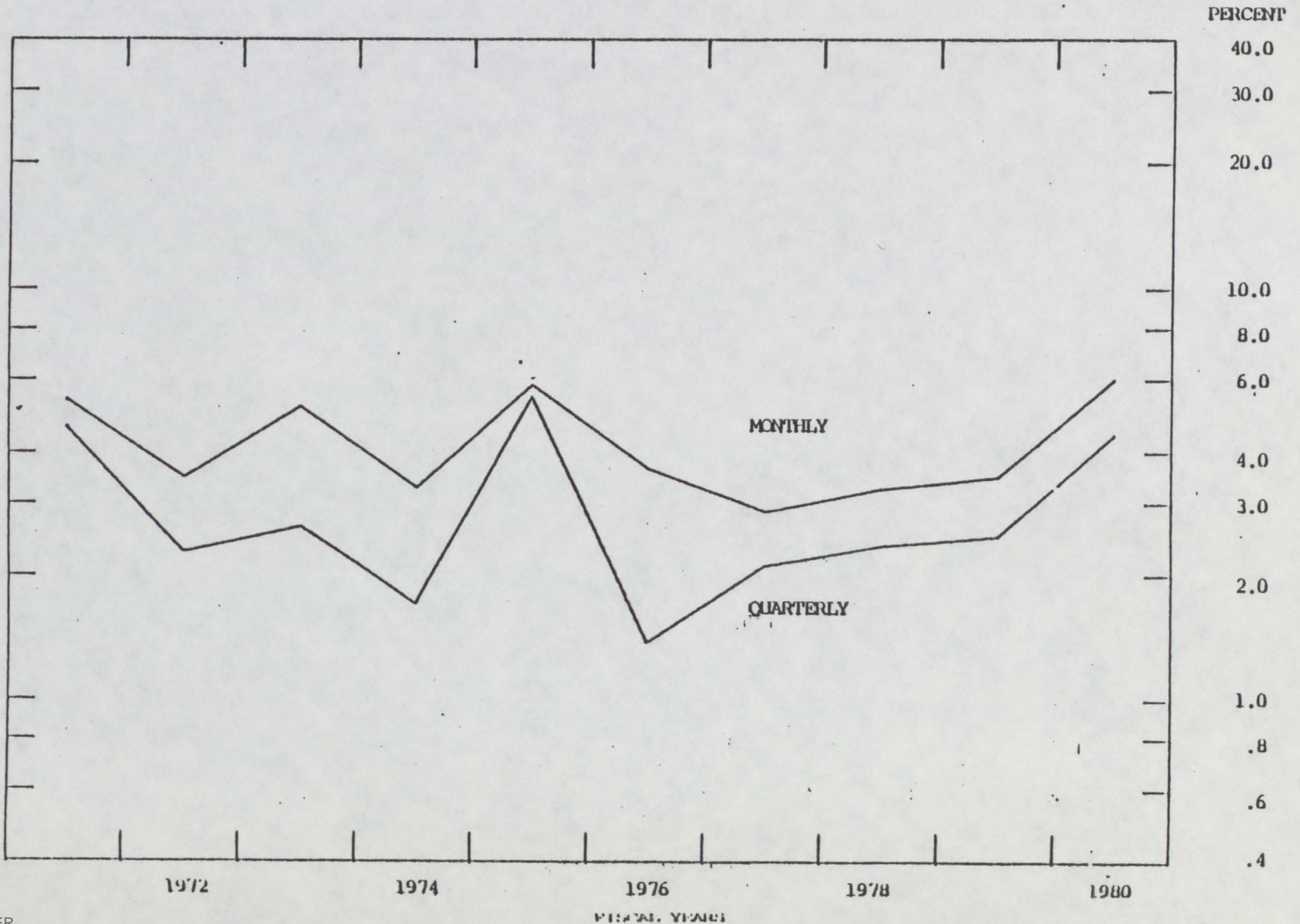


SOURCE: David Lindsey and Others. Monetary Control Experience Under the New Operating Procedures, in Federal Reserve Staff Study: Vol II. New Monetary Control Procedures, February 1981.



ANNUALIZED GROWTH RATES OF M-2  
STANDARD DEVIATIONS

Implied Original Seasonals



ANNUALIZED GROWTH RATES OF TOTAL RESERVES  
STANDARD DEVIATIONS

Implied Original Seasonals

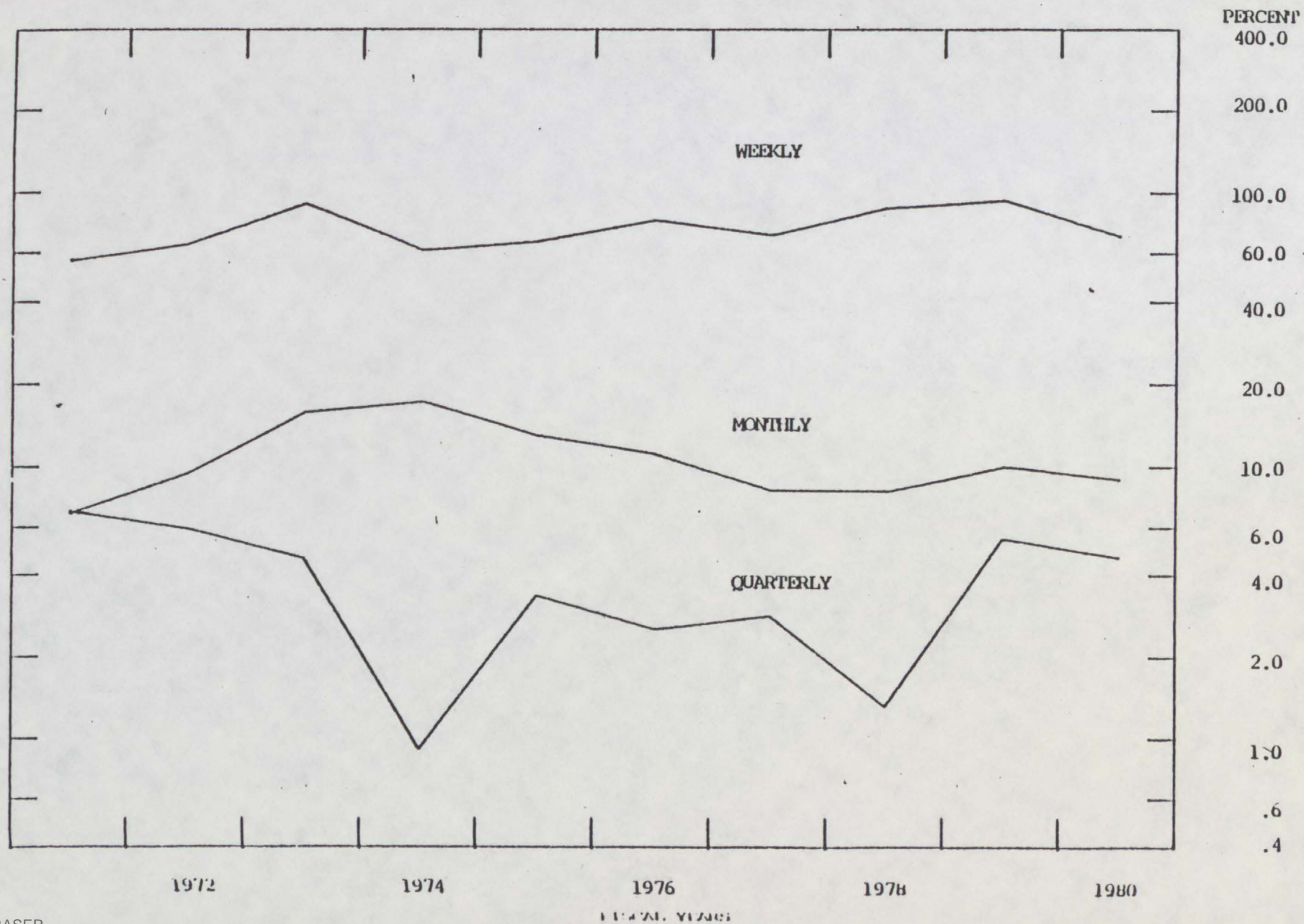
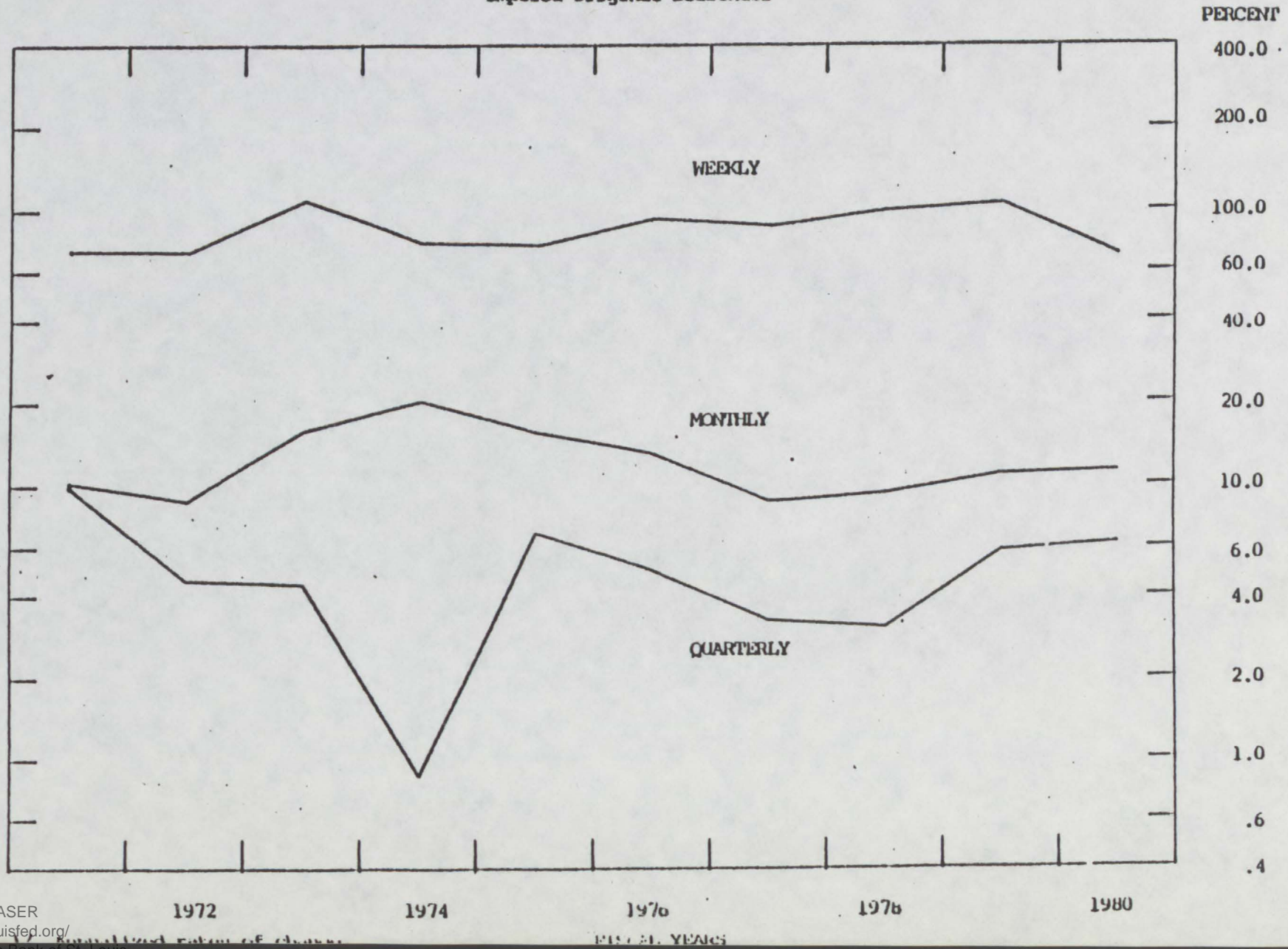




CHART 8

M-1B TOTAL RESERVE MULTIPLIERS<sup>1/</sup>  
STANDARD DEVIATIONS

Implied Original Seasonals



**Table 3**  
**Comparison of Week-to-Week Changes in Seasonally Adjusted M-1**  
**After Successing to Annual Seasonal Factor Revisions**

	Average Absolute Change Week-to- Week <u>(Bils. of</u>	Largest Week-to- Week Change <u>Dollars)</u>	Number Changes of \$1.0 Billion or More	Number Changes of \$2.0 Billion or More	Number of Consecutive Week-to-Week Changes of Opposite Sign
Originally published during year 1976	1.3	5.2	15	6	24
1976 data after sea- sonal revision in:					
1977	1.1	4.4	13	8	30
1978	0.5	2.8	3	1	16
1979	0.5	2.7	4	1	13
Originally published during year 1977	1.4	5.3	20	7	34
1977 data after sea- sonal revision in:					
1978	0.5	3.0	8	1	16
1979	0.5	2.1	6	1	10
Originally published during year 1978	1.5	5.9	17	12	25
1978 data after sea- sonal revision in 1979	0.9	4.0	14	5	21
Originally published during year 1979	1.5	7.1	20	8	34
M-1A originally published during year 1980	1.9	9.7	18	10	31

Source:

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 21, 1981

To Federal Open Market Committee

Subject: Publications of Weekly Seasonally

From Messrs. Ettin and Lindsey

Adjusted Monetary Aggregates Data



March 25, 1981

Mr. Willis J. Winn  
President  
Federal Reserve Bank of Cleveland  
Cleveland, Ohio 44101

Dear Willis:

As you are probably aware, we have now published figures (in a footnote to the attached H.6 release of March 13) that will enable the public to compute an "adjusted" measure of the narrow money supply for the months of January and February. This is pretty much in line with the second suggestion in your recent letter. We intend to continue making the information needed for the adjusted series available on a monthly basis.

We will no doubt have the opportunity to explain the basis for the adjustment in the natural course, perhaps in our mid-year Humphrey-Hawkins report. I would have some doubt about a special Bulletin article for that purpose.

Sincerely,

Attachment

#711  
SHA/pjd

FEDERAL RESERVE BANK  
OF CLEVELAND

WILLIS J. WINN  
PRESIDENT

March 5, 1981

# 711

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

Dear Paul:

In discussing the 1981 money target ranges, I have become troubled by the difficulty which the public is having in interpreting both the target ranges and the actual money statistics as we release them and the suspicion people seem to hold about our motives and actions. Obviously, the basic difficulty stems from the deposit shifts occasioned by the introduction of NOW accounts. The shifts cause uncertainty in the mind of the public regarding both the consistency of our 1981 ranges with past target ranges and the consistency of the actual published money numbers with those ranges.

Much of this uncertainty is inevitable, but it seems to me that we might reduce it somewhat by providing, on a regular basis, additional information that would be useful to the public in interpreting both the money supply data and its relation to our target ranges. There are several possible approaches which we might consider.

- (1) We could release two sets of money data weekly in the H.6 release. One would be the existing actual data for M-1A and M-1B and other checkables; the second would be adjusted M-1A and M-1B data. There are two difficulties with this. One is that our adjustment does not change weekly; it probably is superfluous to report adjusted weekly data as long as the adjustment basis is known. I would be hesitant about this approach because it might unduly dignify the weekly money statistics. Weekly release of two sets of money data might reinforce rather than de-emphasize the importance of weekly money numbers.
- (2) We could release a monthly figure giving the actual and the adjusted money figures when data for the month become available. This would have the advantage of de-emphasizing weekly numbers and of more closely coinciding with the changes which we will be making in our adjustment factor over the course of the year.



March 5, 1981

One might argue that release of adjusted money numbers may draw too much attention to the adjustment, which is by necessity tenuous, based as it might be on qualitative information. My own feeling is that the public will come to recognize this anyway, and, we would better avert future criticism by providing the information and explaining our procedures.

- (3) Instead of providing the actual and adjusted data, and an explanation of the adjustment factor and changes in it, on a regular monthly basis, we might incorporate this information in the Policy Record. This might help us avoid publishing adjusted money data but my own guess is that we will eventually be forced to provide it anyway. The FOMC is scheduled to meet eight times in 1981, and I believe that using the Record as the vehicle would leave the public in the dark longer than is desirable. Consequently, I would prefer to see a monthly series of adjusted data published on a normal basis.
- (4) A fourth possibility is to provide periodic announcements of changes in the adjustment at the time the System makes the change. This would not dignify the tenuous adjustment assumption by actually publishing adjusted data. Nor would it delay provision of information to the public. The announcement could be contained in a footnote in the H.6 release which would be unchanged from week to week unless the System changed its adjustment assumption, in which case the footnote would change.

The announcements of changes in the basis for the adjustment would, however, draw attention to the change and prompt suspicion that the change was being made to justify policy.

Consequently, it seems to me that the second avenue, incorporating the adjustments in a regular monthly release, along with both the actual and adjusted M-1A and M-1B figures might be the best approach to build more confidence in us and in the interpretation of the money supply statistics and monetary policy objectives of the Federal Reserve. This approach would be forthcoming and it would serve to diminish future criticism of monetary policy.

In addition, I believe it would also be useful to explain fully the basis for the adjustment--perhaps in a bulletin article during the year. Actual data measuring the deposit

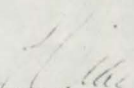
Mr. Paul A. Volcker

-3-

March 5, 1981

shifts will never be available. Some will undoubtedly greet the adjustment with skepticism and seek other information to confirm that the adjustment is being used to increase or to decrease M-1A or M-1B growth by assertion rather than by action. I fear that there will be ample grounds for the critics of monetary policy over the next couple of years. One way to minimize suspicion and skepticism is to be as open as possible about the adjustments, the procedures and the basis for the adjustment.

Sincerely,

  
Willis J. Winn  
President



PITTSBURGH BRANCH  
FEDERAL RESERVE BANK  
OF CLEVELAND

ROBERT D. DUGGAN  
SENIOR VICE PRESIDENT

PITTSBURGH, PA. 15230  
AREA CODE 412-261-7806

October 14, 1980

To: All Staff Members

In the last few days, I have heard many false rumors circulating throughout the Bank and I would like to take the time to respond to them FACTUALLY.

When the Union gets in, they'll be able to get me more money!

AFGE cannot bargain for wages for the Federal employees it represents and it cannot bargain for wages for employees of the Federal Reserve Bank. The "Policy on Unionization and Collective Bargaining for the Federal Reserve Banks", Section 269.5(b) states, "A Bank, through appropriate officials, shall have the obligation to meet at reasonable times with representatives of a recognized labor organization to negotiate with respect to personnel policy and practices and matters affecting general working conditions, but not with respect to such areas of discretion and policy as the purposes and functions of the Bank, the compensation of and hours worked by employees of the Bank, its budget, its retirement system or any life, health or accident insurance, its organization and assignment of personnel and of work to a particular job, or the technology of performing its work." While it will be the Bank's policy to continue ensuring that its employees are paid fairly, it is also important to understand that the Bank must and will adhere to the Policy which prohibits negotiations of wages, hours, and benefits with any labor organization.

When the Union gets in, it will change the law which prohibits negotiation on wages.

AFGE has been in existence and representing Federal employees since 1932. Executive Order 10988, upon which the Federal Reserve Bank policy is based, was written in 1962 and AFGE has not been successful in obtaining the right to negotiate wages for over 600,000 Federal employees it represents. While this has obviously been a goal of AFGE, Carl K. Sadler, who recently ran a strong race for AFGE's presidency said "the

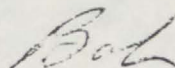
To: All Employees

October 14, 1980

Union leadership has lost its clout on Capitol Hill and sold out to the administration". Your supervisor has a copy of the "Washington-Post" article in which Mr. Sadler is quoted.

It is important to remember that the Union can promise anything, but only the Bank can guarantee improvements in wages, hours, and working conditions.

Sincerely,



Robert D. Duggan



# Removal Notice



---

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

## Citation Information

**Document Type:** Newspaper article

**Number of Pages Removed:** 1

**Citations:** Causey, Mike. "The Federal Diary: AFGE Candidates All Oppose Carter." *Washington Post*, August 27, 1980.

PITTSBURGH BRANCH  
FEDERAL RESERVE BANK  
OF CLEVELAND

ROBERT D. DUGGAN  
SENIOR VICE PRESIDENT

PITTSBURGH, PA. 15230  
AREA CODE 412-261-7806

October 22, 1980

To: All Staff Members

Recently, the union has stated that AFGE local union dues will be decided later, but that most locals have decided on \$4.00 to \$5.00 per pay period. I am not sure if that figure includes the National "per capita tax" or not, but the National "tax" is a maximum of \$5.65 per month. Just using a conservative figure of \$5.00 per pay period means that it would cost a member at the Bank \$130 per year of after-tax dollars.

I have had several employees ask recently precisely what AFGE would do with their money if they were to join the union. To help answer that question I have obtained from the Federal Government AFGE's 1979 financial report. This report gives you an idea how your dues and assessment money may be spent.

The following are some specific examples of how the millions were collected and spent:

Collected:	\$10,429,027	- Dues and fees taken from employee paychecks
	<u>77,679</u>	- Assessments
Spent:	7,102,363	- Salaries and Expenses for AFGE employees
	1,840,987	- Office and Administrative expense
	87,604	- Organizing grants to locals

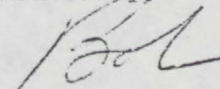
How much did AFGE spend on behalf of individual members? NOTHING! Your supervisor has a copy of AFGE's Annual Report -- please review it to see for yourself where the money was spent.

I think it is important to remember that the union is a business and it survives by collection of dues, fees, and assessments. Some questions that come to mind are:

- What is the union's interest in the Bank?
- Are the dues going to increase? How much?
- What am I getting in return for my money?
- How much control do I have over how my money is spent?

I don't have the necessary information to respond to the above questions, but perhaps the union representative can provide the answers. I strongly believe we have accomplished a lot by recognizing our problems and resolving them. I hope we can continue working together without an outside third party because I believe our management team can do a better job of representing your interests and at no additional cost to you.

Sincerely,



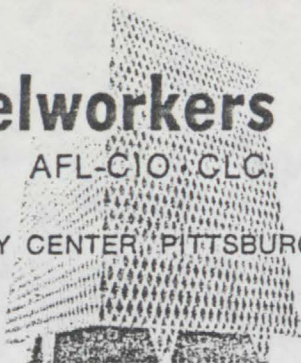
Robert D. Duggan



# United Steelworkers of America

AFL-CIO-CLC

FIVE GATEWAY CENTER, PITTSBURGH, PA. 15222



Lloyd McBride  
International President

November 10, 1980

NOV 13 8 38 AM '80  
FEDERAL RESERVE BANK  
OF CLEVELAND  
R. THOMAS KING  
VICE PRESIDENT

TO ALL EMPLOYEES OF THE FEDERAL RESERVE BANK IN PITTSBURGH, PA.:

I have been advised that the Federal Reserve Bank, Pittsburgh Branch, has launched an anti-union campaign in an effort to dissuade bank employees from voting for the American Federation of Government Employees. Further, I have been informed that the bank is utilizing the services of Modern Management, Inc., for counseling in its campaign to prevent a majority vote for the union.

I am dismayed to learn of the Federal Reserve Pittsburgh Branch's anti-union strategies, particularly the use of Modern Management, an organization known widely for its denegation and misrepresentation of unions. A casual analysis of the letters you have received from Robert D. Duggan reveals a single theme: he and others of management want to dissuade you from exercising your legal right to have an effective voice in the development of the terms of your own employment.

American workers have the right and the compelling need to join together as a union in the interest of their mutual well-being. And these rights are not to be impeded by the interference of management nor the sly innuendo of professional union busters.

I urge each of you to vote for the AFGE on November 13. It is an excellent union with a long history of responsible, effective leadership. The union will be of valuable service to you. Otherwise, management would not be trying to control the way you vote. Vote to help one another. Vote union.

Sincerely yours,

President  
United Steelworkers of America

Director, Federal Reserve  
Bank of Cleveland





FEDERAL RESERVE BANK  
OF CLEVELAND

November 12, 1980

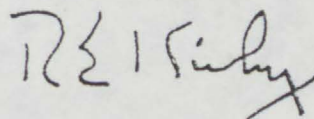
To: All Staff Members

I have reviewed the letter recently distributed by AFGE, which was signed by Lloyd McBride, President of the United Steelworkers of America, and one of nine directors of the Federal Reserve Bank of Cleveland. I want to emphasize to you that Mr. McBride's personal point of view on unionization is not shared by the rest of the Board of Directors, or the management of the Cleveland Bank. It is our position that the best way for employees and management to solve problems is to openly communicate and resolve differences without the interference of a third party.

I was additionally surprised to see where Mr. McBride's letter implies he only recently became aware of the Bank's decision to seek outside assistance. On February 14, 1980, the Board, along with Mr. McBride, had an opportunity to review the process of communication to be utilized during AFGE's unionization effort, which included the hiring of Modern Management Methods and Reed Smith Shaw & McClay. The Board's conclusion was that it was in the employees best interest to receive factual information from the Bank about the union issue, which would help employees make an informed choice. The Board is very supportive of Pittsburgh's management team in supplying you with these facts.

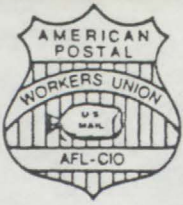
I want to ensure you we are committed to treating our employees fairly and equitably, and we do not feel a union is necessary. I do hope you vote Thursday or Friday, and I do hope you vote NO!

Sincerely,



Robert E. Kirby  
Chairman  
Board of Directors  
Federal Reserve Bank of Cleveland





# Pittsburgh Metro Area Postal Workers Union

AFL-CIO

400 RENSHAW BUILDING • 217 NINTH STREET

PITTSBURGH, PA 15222

Phone 281-1518



NOV 14 8 31 AM '80  
R. THOMAS KING  
VICE PRESIDENT  
FEDERAL RESERVE BANK  
OF CLEVELAND

November 12, 1980

TO ALL EMPLOYEES OF THE FEDERAL RESERVE BANK IN PITTSBURGH, PENNSYLVANIA

We in the Pittsburgh Metro Area Postal Workers Union have been following your organizing efforts with great interest.

We have offered the use of our office to your AFGE Organizing Committee throughout the campaign, and weekly meetings were held there.

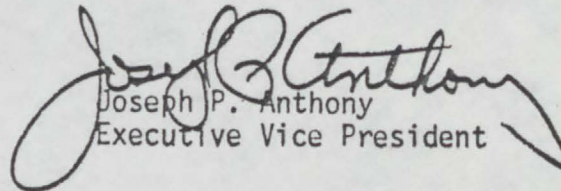
As fellow public sector employees, we have followed your progress in attempting to organize the Pittsburgh Branch of the Federal Reserve Bank.

We are also aware that management of the Federal Reserve Pittsburgh Branch has used every trick in the book to stop you from joining a labor Union, because it is in their best interest to have a Union-free work place.

I urge each of you to vote for AFGE on November 13 and 14, 1980. It is an excellent Union with a long history of service to its members.

It is also fitting that the first Federal Reserve Bank in the nation to vote in favor of Union representation should be here in Pittsburgh, a city with great Union history.

Remember, join in the struggle for decent wages and human rights by voting for AFGE on November 13 and 14, 1980.

  
Joseph P. Anthony  
Executive Vice President

JPA/jas



PITTSBURGH BRANCH  
FEDERAL RESERVE BANK  
OF CLEVELAND

ROBERT D. DUGGAN  
SENIOR VICE PRESIDENT

November 13, 1980

PITTSBURGH, PA 15200  
AREA CODE 412-267-8006  
NOV 14 8 31 AM '80  
THOMAS KING  
VICE PRESIDENT  
FEDERAL RESERVE BANK  
OF CLEVELAND

To: All Staff Members

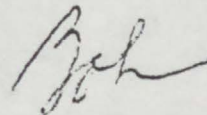
As you prepare to vote in the election this evening and Friday, and we begin to wind down from one of the most hectic periods of my working life, I would like to thank each of you for taking so much time to listen and read the information which you have received.

I'm sure we all realize that neither the Bank nor the union can promise to solve all of your concerns and problems. However, if the Bank wins the election and you are not satisfied with the way things go over the next year, you have the right to bring back any union. I can assure you that none of the management people want to endure this experience again and that the lessons learned this year will help us to be more effective in recognizing and resolving problems throughout the Bank.

There is no question we have problems, but we have made progress without an outside party. I want to continue to work together -- not as adversaries -- but by cooperating with each other to solve existing and future concerns.

Thanks again for your time and patience!

Sincerely,



Robert D. Duggan



# Removal Notice



---

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

## Citation Information

**Document Type:** Newspaper article

**Number of Pages Removed:** 1

**Citations:** Moody, John P. "Fed Employees Begin Voting on Unionization." *Pittsburgh Post-Gazette*, November 14, 1980.