FEDERAL RESERVE BANK OF DALLAS

March 11, 1986

Mr. Robert H. Boykin
President
Federal Reserve Bank of Dallas
Dallas, Texas 75222

Dear Bob:

I was glad to read of your success with the Advisory Councils. This is a long labor in the vineyards, but it should help make better wine.

Sincerely,

PAV:ccm

#210

FEDERAL RESERVE BANK
OF DALLAS

ROBERT H. BOYKIN
PRESIDENT

DALLAS, TEXAS 75222

February 20, 1986

#210
86-945

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

Dear Paul:

Attached for your information are summaries of the views expressed at the recent meetings of the Advisory Council of Small Business and Agriculture and the Advisory Council of Financial Institutions. The participation and interest of the councils remain high. Attendance has been excellent and the discussions have been informative. I believe that we are building additional linkages and providing a basis for discussion of particularly regional concerns and other matters affecting economic conditions.

Please let me know if there are any topics you would especially like to have addressed by the Councils.

Best regards.

Sincerely,

Bob

Dear Bob,
I was glad to read of your success with the advisory Councils.
This is a long labor in the vineyard,
but it should help make better wine.
Sincerely,

Attachments

FEDERAL RESERVE BANK
OF DALLAS

ROBERT SMITH, III
VICE PRESIDENT
AND SECRETARY

DALLAS, TEXAS 75222

February 20, 1986

TO MEMBERS OF THE ADVISORY COUNCIL
OF SMALL BUSINESS AND AGRICULTURE:

Attached for your information is a summary of the council's discussion at its last meeting. As you will recall, the date of the next meeting is Tuesday, September 9, 1986.

Sincerely,

BJr

Attachment

Summary Comments
Meeting of the
Advisory Council of Small Business and Agriculture
at the Federal Reserve Bank of Dallas
January 29, 1986

The Council made observations with respect to the following:

Liability Insurance

The Council discussed availability of liability insurance for small business. It was reported that when liability insurance could be obtained, the cost of the insurance was prohibitive to the extent some businesses cannot afford to operate profitably. Recent awards through the judicial process were noted as the primary reasons insurance companies can no longer provide insurance coverage to small businesses at reasonable premium levels. It was noted that for small companies, self-insurance is not practicable and that many businesses are forced to conduct operations without adequate or no insurance.

Moreover, it was reported that the National Small Business Association has indicated that insurance is the number one problem for small business. The Council noted that with more recent events, such as Pennzoil vs Texaco Inc., the problem has erupted throughout business activities in general. The difficulty for banks in securing officer and director insurance was also cited.

The Council said that the situation, should it continue unabated, would erode competitive forces, creating fewer incentives for the production of goods and services which would likely result in diminished potential for economic growth. The Council said that although the difficulties are pervasive throughout business, its severity on small business and agriculture is critical. Stopping short of suggesting additional regulation, the Council concluded that a way should be sought to mitigate the situation such as establishing an Insurer of Last Resort set up under one of the existing Federal agencies. Also discussed was the possibility of limiting to some reasonable criteria the dollar judgments awarded by the courts, although the Council recognized the constitutional questions that are involved. Another suggestion was that in cases with punitive damages, such awards be conveyed to the State which might serve to temper the judgments, since over-zealous attorneys were also noted as being a key element in the overall problem.

Agricultural Credit

The Council discussed the current situation in agriculture as it relates to credit conditions in the industry. On balance, the Council sees a more difficult 1986 than last year, but with a turnaround beginning to emerge in early 1987. The new farm bill should serve to provide more competitiveness of U. S. products in world markets but the effects will not become apparent until 1987. The recent Gramm-Rudman Hollings budget resolution, however, injects a degree of uncertainty into the full implementation of the farm bill and whether or not budget limitations might frustrate efforts toward achievement of competitive commodity prices.

Republic of Mexico

The region continues to be influenced greatly by the clouded uncertainty of the Mexican economy and especially its link with oil prices and interest rates. It was reported that over 80 percent of its export dollar earnings are related to oil. A mood of uncertainty and insecurity dominates the environment of the border economy which has a predominately small business orientation. On the positive side, the twin plant concept and the increased production and favorable prices of coffee are signs that provide some degree of optimism for the border areas.

Other Topics

It was reported that small business managements are being pressed for price reductions for goods and services which have been held level for the past year or more. Also, significant increases in dollar amount and aging of accounts receivables were reported to have become a major problem. Small business growth prospects for 1986 were projected as flat, and it was noted that small business will normally lag a general upturn in business. Council members indicated that extreme caution would be exercised relative to job creation and that business plans generally called for increased efficiency as opposed to adding labor. With respect to agriculture, the situation in general suggested Council members must await producer reactions to the new farm bill and producer experience with all elements of the new legislation as it seeks to bring agriculture into a more balanced position with its markets and credit conditions.

The Council set its next meeting for September 9, 1986, at the Federal Reserve Bank of Dallas.

FEDERAL RESERVE BANK
OF DALLAS

ROBERT SMITH, III
VICE PRESIDENT
AND SECRETARY

DALLAS, TEXAS 75222

February 20, 1986

TO MEMBERS OF THE ADVISORY COUNCIL
OF FINANCIAL INSTITUIONS:

Attached for your information is a summary of the council's discussion at its last meeting. As you will recall, the date of the next meeting is Monday, September 8, 1986.

Sincerely,

Bob

Attachment

Summary Comments
Meeting of the
Advisory Council of Financial Institutions
at the Federal Reserve Bank of Dallas
January 27, 1986

The Council discussed business and banking conditions and reviewed recent national economic trends and regional business activities. The following were especially noted by the Council:

- A banking bill to deal with the nonbank bank issues was considered essential and the Council was of the view that a bill would emerge from Congressional Committees during this session of Congress.

- The agricultural outlook for 1986 was reported to be improved because of the new farm bill which should provide greater price stability. In general, the Council expressed the view that the agricultural situation seems to have stabilized in this region and that cautious optimism has become more prevalent concerning the future of this distressed industry.

- The banking situation was reported within a context of moderate deposit growth and a distinct slowdown in loans, particularly for small and community banks. The large regional banking situation for 1986 was profiled as being a very tough year, both from a competitive standpoint and the challenge to administer the workout situation for nonperforming loans. It was reported that major problem areas have been essentially identified but that correcting the problem will take several years to complete. Funding was also mentioned as an area that would receive major focus during 1986.

- In the Savings and Loan industry, a pronounced slowdown in retail and apartment construction during 1986 was reported. Savings and Loan investment in joint venture activities will be a major element in respect to industry performance, and these investments will receive major attention by industry management. A further reduction in interest rates would impact favorably upon industry earnings.

- In discussing credit union activities, it was noted that credit unions conduct little or no commercial business and that unemployment and weak economic conditions impact this industry most severely. It was reported that consolidation in the industry is accelerating, which is seen by some as counter to the traditional structure concerning credit union expansion and development. Also, taxation remains a major legislative issue.

- The banking situation in Texas was discussed as it relates to interstate banking and the nonbank bank issues. A 15-member committee has been established by the three major industry organizations in Texas with the objective of developing a common purpose prior to the legislative session in 1987. The nature of the committee efforts will be research-oriented in order to develop a consensus on reactions to Regional compacts, branch banking, interstate banking, and other factors impacting upon banking structure. It is considered essential for banking to develop a more realistic structure so that it will be able to adjust to industry needs and address customer convenience issues.

- The Council discussed recent changes in the supervisory approaches to financial institutions. It was noted that such initiatives as additional director involvement, asset quality, prudential rules, and the renewed emphasis on cash flow are favorable developments. It was observed that some relief on accounting treatments for write-offs of problem loans, such as agriculture, may need adjustment or modification in the future. The risk-related capital proposals were noted as a positive development.

- The question of additional assistance by the Federal Reserve in the furtherance of economic education, particularly at the community and secondary educational level, was discussed. The Council endorsed increased emphasis in this area and suggested cooperative efforts with depository institutions when appropriate.

The Council set its next meeting for September 8, 1986, at the Federal Reserve Bank of Dallas.

Kohn

FEDERAL RESERVE BANK
OF DALLAS

#877
85-2834

ROBERT H. BOYKIN
PRESIDENT

DALLAS, TEXAS 75222

June 4, 1985

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1985 JUN -6 AM 9:58
RECEIVED
OFFICE OF THE CHAIRMAN

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

Dear Paul:

The initial meetings of this Bank's two Advisory Councils were conducted on Wednesday and Thursday of last week. Attached for your information is a summary of the views expressed by the Advisory Council of Small Business and Agriculture and the Advisory Council of Financial Institutions.

We were extremely pleased with the interest and seriousness that each Council's members conveyed concerning this assignment. I believe that these Councils will achieve, as we have discussed, a much-improved communication with elements of our economy that we may have overlooked from time to time. Moreover, the feedback to their various constituents and associates will, I believe, serve as a strong support in confirming the System's mission and responsibilities. It was especially gratifying to us to observe the high level of professionalism and expertise represented by the Councils' members. Moreover, in working with various industry groups, we were able to bring aboard the Councils individuals who have been in leadership positions and in active roles within their various businesses.

Paul, our next meeting of the Councils will be in September; and it would appear that two meetings per year will be scheduled, with the possibility of an additional meeting should the need arise. Please let me know if there is anything you would especially like for us to place on the Councils' agendas or any other way that we can better serve the System's needs through the Advisory Council process.

Warmest regards.

Sincerely,

Bob

Enclosures

c: Messrs. Theodore E. Allison
William W. Wiles
Steven M. Roberts

N/R per Don Kohn

per Kathy

Summary Comments
Meeting of the
Advisory Council of Small Business and Agriculture
at the Federal Reserve Bank of Dallas
May 29, 1985

The Council discussed business conditions and the agricultural outlook, and reviewed recent national economic trends and regional business activities. In particular, the Council emphasized the following:

Small Business Issues

"Hidden business costs" were noted as having substantial impact upon the viability of small business profitability and cash flow performance. Although lower inflation and interest rates are especially significant, hidden costs such as employment liability and other kinds of insurance, in addition to employment benefits, are becoming substantial cost factors in the survivability of small business enterprises.

In bank credit negotiations, it was reported that some difficulty is encountered with respect to financing accounts receivable. It was suggested that the banking industry should establish national standards for 60-day and over 60-day receivables so that small business would have a more consistent and reliable credit-source policy relating to receivables.

The border economy between the United States and the Republic of Mexico has made a gradual recovery since the major peso devaluation in 1982. However, both the alien situation and the U. S.-Latin American policy, in general, continue to cloud the prospects for economic development. In addition, manufacturing jobs -- particularly those in the automotive components industry -- continue to be attracted to the less costly labor market of the border area. These operations are structured under the twin-plant concept, where the corporate offices are maintained on the U. S. side of the border with the manufacturing facilities on the Mexican side. Because the Republic of Mexico is the United States' fourth largest importer of U. S. goods and services, future U. S.-Mexican relations will hinge significantly on the following: border policies and their impact on economic development, U. S. policy toward Latin American governments, and the success of maintaining political and economic stability throughout the region.

Agricultural Issues

Comments regarding agriculture were extremely cautious. Evidence of a continuing decline in margins, earnings, and loss of export markets were among the concerns expressed. The situation -- with the possible exception of livestock -- could be described as pervasive, affecting agricultural operating costs, marketing, prices, and production policies. It was noted that expansion of export markets during the 1970s has now been diminished because of trade embargoes, high dollar exchange rates, increased production in competitor export nations, and the ability of nations formerly dependent on U.S. imports to produce sufficient agricultural products to meet domestic demand.

It was reported that 30 to 40 percent of agricultural operating costs are represented by interest costs. With lower inflation and perhaps lower interest rates, this situation could improve rapidly. Of interest was the closer planning with the financial industry and the legislative process being developed to enhance movement of the farm economy toward a more marketing orientation of production. Marketing was cited as perhaps one of the weakest elements of the agricultural industry in the United States over the past 50 years.

The Eleventh Federal Reserve District has experienced less severity in farm foreclosures and bankruptcy. This has been due to land values holding up as compared to their more precipitous fall in some midwestern states. Water resources over the long term also continue to be of major concern to farms and ranches. The livestock situation has remained viable because of less government interference and the ability of producers to more rapidly adjust supply to demand through herd liquidation practices.

The importance of the Small Business Administration's role in the financing of agriculture was discussed as well as the importance of sustaining the Small Business Administration at some appropriate level of activity. The latter was viewed as favorable public policy.

In conclusion, the Council indicated its deep concern that national priorities do not provide for an agricultural or small business policy. The Council was unanimous in its view that enunciation of policy and its objectives in both agriculture and small business could play a constructive role in the attraction of investors and new markets, and would assist in developing the creditability with producers and small business enterprises necessary to sustain efficient operations and enhance growth.

The Council set its next meeting for September 4, 1985 at the Federal Reserve Bank of Dallas.

Summary Comments
Meeting of the
Advisory Council of Financial Institutions
at the Federal Reserve Bank of Dallas
May 30, 1985

The Council discussed business and banking conditions and reviewed recent national economic trends and regional business activities. In particular, the following matters were emphasized:

The Council discussed the high level of commercial and residential construction -- particularly in various metropolitan areas. It was reported that recent regulations affecting the growth of savings and loan institutions would not, however, stem the pace of this construction. There is concern over the high inventory of commercial office space in Dallas, Houston and Austin, although the dollar value of construction contracts -- particularly in Dallas -- has not fallen appreciably in recent weeks.

Council members expressed deep concern regarding the agricultural situation; noting especially the loss of export markets. The restoration of these markets was viewed as being critical to economic recovery in the agricultural industry. The view also was expressed that the agricultural industry, in general, may be suffering from a lack of information credibility with the marketplace, the business industry, and others.

Credit Union representatives reported that the condition of this industry in the Eleventh Federal Reserve District has experienced a good performance record with respect to earnings and deposit growth. Asset problems in the industry were reported as minimal because of the primary reliance on consumer credit investments.

New bank charters -- particularly those in Texas -- also were discussed. It was noted that almost half of all de novo national banks chartered in 1984 were located in Texas. This could create significant earnings difficulties for some banks.

The energy sector was reported to be flat, and, should crude oil drop below $25 per barrel, conditions in banking could become increasingly intense, based on the adverse impact of this price decline. The petrochemical industry on the Gulf Coast was cited as particularly depressed with little anticipation of rapid recovery. This is due to the surplus of oil and, in particular, to the amount of new plants, refining and processing capacity that has been transferred to foreign shores, where higher efficiency and lower labor costs have made these activities more favorable to offshore operations.

It was reported that the financial industry -- particularly depository institutions -- needs to find ways to counter the criticism being levied regarding funds availability and lifeline accounts. In general, the impression that the industry has taken advantage of consumers was thought to be an unfair accusation. It was reported that the vast majority of banks and other financial institutions have been providing available funds and lifeline accounts for many years. The Council was especially concerned that a balanced picture of these key legislative initiatives had not been developed.

In conclusion, the Council expressed its general concern for economic growth throughout the region for the remainder of 1985 and noted especially the uncertainty attached to 1986 business activities. The federal budget deficit and tax reform were cited as also having some effect upon potential business investment and interest rate levels.

The Council set its next meeting for September 9, 1985, at the Federal Reserve Bank of Dallas.

May 3, 1985

Dear Bob:

Thanks for the letter on the Advisory Councils. They sound good, and I hope they will be useful.

Sincerely,

Mr. Robert H. Boykin
President
Federal Reserve Bank of Dallas
Dallas, Texas 75222

PAV:sws

Cc Mershal Kondo

FEDERAL RESERVE BANK
OF DALLAS

ROBERT H. BOYKIN
PRESIDENT

DALLAS, TEXAS 75222

April 30, 1985

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

Dear Paul:

We have completed the organization of our Advisory Councils and will convene the first meetings on May 29 and 30. Each of our Councils will be comprised of twelve members to serve a tenure of three years, making four members of the Council subject to rotation each year. Attached are listings of the individuals who have agreed to serve on each Council.

You may recall that this Bank initiated an Advisory Committee of Financial Institutions in early 1981 to assist in the Monetary Control Act transition process. The Committee has been effective and has especially served our objectives in developing stronger relationships with community bankers and thrifts. Therefore, I decided that an Advisory Council of Financial Institutions to discuss issues relating to banking and business conditions in the broadest sense would continue to have merit for us here in the Eleventh District.

In addition, we have developed a Council of Small Business and Agriculture. Paul, I feel that we have a very strong group of individuals on each council, and in organizing the Council of Small Business and Agriculture a number of the members came highly recommended by various industry organizations which I think will enhance their value to the Council.

We are looking forward to our first meetings, and a public announcement concerning the Councils will be released in a few days.

Sincerely,

Bob

Attachments

Dear Bob
Thanks for the letter on the advisory Councils — ~~As~~ they sound good, & I hope they will be useful.
Paul

FEDERAL RESERVE BANK OF DALLAS
ADVISORY COUNCIL OF FINANCIAL INSTITUTIONS

Name	Affiliation	Term Expires
William E. Brady	President, Denton Savings, P. O. Box 1307, Denton, Texas 76201	1985
Kenneth L. Burgess	Vice Chairman of the Board, First State Bank, P. O. Box 3218, Abilene, Texas 70604	1985
Paul Mitchell	President, Food Industries Credit Union, 333 Lockwood Drive, Houston, Texas 77011	1985
Gary Owen	President, First Federal Savings Bank of New Mexico, P. O. Box 340, Roswell, New Mexico 88201	1985
Ronald Brown	Chairman and Chief Executive Officer, RepublicBank Houston, P. O. Box 299001, Houston, Texas 77299	1986
H. O. Bursum, III	Chief Executive Officer and Executive Vice President, First State Bank, Drawer Z, Socorro, New Mexico 87801	1986
Marvin H. Hancock, Jr.	President and Chief Executive Officer, Capital Bank, P. O. Box 64639, Dallas, Texas 75206	1986
T. D. Wallace	President, Louisiana Credit Union League, 6322 Southcrest Drive, Shreveport, Louisiana 71109	1986
James A. Altick	President and Chief Executive Officer, Central Bank, P. O. Box 4928, Monroe, Louisiana 71211	1987
John H. Dalton	Chairman and Chief Executive Officer, Freedom Capital Corporation, 1802 N.E. Loop 410, Suite 100, San Antonio, Texas 78217	1987
Charles T. Doyle	Chairman and President, Texas Independent Bancshares, P. O. Box 3344, Texas City, Texas 77563	1987
*A. W. Riter, Jr.	Chairman and Chief Executive Officer, InterFirst Bank Tyler, N.A., P. O. Box 2001, Tyler, Texas 75710	1987

* Chairman

Effective April 19, 1985

FEDERAL RESERVE BANK OF DALLAS
ADVISORY COUNCIL OF SMALL BUSINESS AND AGRICULTURE

Name	Affiliation	Term Expires
Robert M. Carter	Farmer, 1503 W. 5th Street, Plainview, Texas 79072	1985
John O. Chapman	Rancher, 3401 D Ocean Drive, Corpus Christi, Texas 78411	1985
Lloyd E. Cline	Farmer, P. O. Box 341, Lamesa, Texas 79331	1985
Sharon Jobe	Chief Financial Officer, TCP Industries, Inc., 1330 Conant, Dallas, Texas 75207	1985
Carolyn Draper	President, 3-D Distribution Systems, Inc., 8008 Cedar Springs, Dallas, Texas 75235	1986
Robert W. Philip	Partner, Arthur Andersen & Company, 1201 Elm Street, Suite 220, Dallas, Texas 75202	1986
Dan Pustejovsky	Farmer, Route 2, Box 128, Hillsboro, Texas 76645	1986
James Washington	President, Focus Communications Group, 711 Elm Street, Dallas, Texas 75202	1986
*J. Wayland Bennett	Charles C. Thompson Professor of Agricultural Finance and Associate Dean, College of Agricultural Sciences, Texas Tech University, P. O. Box 4190, Lubbock, Texas 79409	1987
J. B. Cooper	Farmer, P. O. Box 87, Roscoe, Texas 79545	1987
William P. Stephens	Director, New Mexico Department of Agriculture, Box 3189, Las Cruces, New Mexico 88003	1987
Carlos A. Zuniga	Owner, Laredo Freight Services, Inc., P. O. Box 89, Laredo, Texas 78040	1987

* Chairman

Effective April 19, 1985

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1985 MAY -2 PM 2:13

RECEIVED
OFFICE OF THE CHAIRMAN

#2884

FEDERAL RESERVE BANK
OF DALLAS

ROBERT H. BOYKIN
PRESIDENT

DALLAS, TEXAS 75222

October 1, 1982

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1982 OCT -4 PM 12: 20
RECEIVED
OFFICE OF THE CHAIRMAN

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

Dear Paul:

As you are aware, the Federal Reserve Bank of Dallas established an Advisory Committee of Financial Institutions last year to provide a liaison between our Board of Directors and the financial institutions in the Eleventh Federal Reserve District. This Committee currently has 17 members, composed of representatives from commercial banks, savings and loan associations, and credit unions. I believe you will be interested in hearing some of the comments made by members of the Committee at its recent meeting.

Several members of the Committee indicated concern with what they feel is an excessive reporting burden placed on financial institutions. The Committee members stated that they feel current methods of regulating the industry have proved sufficient and that new reporting requirements resulting from the condition of a few institutions would be unjustified. Several Committee members also stated that current reporting requirements could be simplified to lessen the burden on smaller financial institutions.

Members of the Advisory Committee also expressed concern with the actions of the Depository Institutions Deregulation Committee in implementing a deregulation plan for the industry. Many feel that the DIDC will not be able to meet the March 31, 1986 deadline for elimination of interest rate ceilings at its current rate of action. Committee members seem anxious for the DIDC to establish a level playing field for all financial institutions, however. Many stated that they experience a disadvantage when trying to compete for funds with money market mutual funds and high-yielding assets offered in other markets.

A final topic of dicusssion at the meeting focused on the Federal Reserve's role in the financial services market. Committee members agreed that recent steps taken by the Federal Reserve were consistent with what they feel we should be doing in the marketplace. No objections were raised about the Federal Reserve's efforts to provide services to financial institutions or about our efforts to improve these services. The Committee reaffirmed its view that the Federal Reserve should remain a viable provider of services so that we would always be an alternative for meeting their service needs.

I hope that comments and opinions expressed at this meeting are of interest to you and are of use in evaluating future policies.

Sincerely,

Bob

CONFERENCE OF PRESIDENTS
of the
FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1980 SEP 29 PM 12: 12

TO: Governor Volcker

FROM: Ernest Baughman

RECEIVED
OFFICE OF THE CHAIRMAN

Attached for your information is a copy of a letter regarding System-wide Planning that was sent today to all members of the Conference of Presidents and all the Governors of the Board.

Attachment

September 26, 1980

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

FREDERICK H. SCHULTZ
VICE CHAIRMAN

September 26, 1980

Governor Lyle E. Gramley
Board of Governors of the
Federal Reserve System
Washington, D.C. 20551

Dear Lyle:

The details for the System-wide conference on the key issues facing the Federal Reserve are beginning to take shape. It is hoped that the two-day conference between Board members and the Presidents, with the First Vice Presidents and key staff in attendance, will take place in late February or early March next year.

It is now planned to prepare a paper for a discussion between the Board and the Presidents in late October or early November, 1980. This paper will include:

- background on System planning and communications;
- a profile of the System-wide conference; and
- an agenda of likely issues to be taken up at the conference.

Based on the feedback from the discussion, specific issues will be identified for further development by staff and later submission to a joint agenda committee and ultimately to the conference itself.

It has been recognized that in order to make this conference a success, the issues identified for discussion must originate primarily from each of us. Towards this end, we ask that each of you consult with your First Vice President and key staff and identify the five or so key issues that you think might appropriately be taken up at such a conference. No guidelines have been established at this time for these issues. While a brief statement of background would be helpful on each of your issues, we leave to your judgment the depth of your statements. Also, if you believe that some issues are more important than others, please mention this.

In the interest of time, we ask that you send your issue statements to Mr. Thomas Sloane in New York by October 9, 1980. Your responses will then be synthesized by our combined planning staffs for inclusion in the planning paper.

We look forward to working with you on this very important matter.

Sincerely yours,

Frederick H. Schultz
Vice Chairman

Ernest T. Baughman, Chairman
Conference of Presidents

cc: Chairman Paul A. Volcker
All First Vice Presidents
Ms. Martha T. Sukovich
Mr. Richard K. Rasdall, Jr.

October 7, 1980

Mr. Irving A. Mathews
Chairman of the Board
Federal Reserve Bank of Dallas
Dallas, Texas 75222

Dear Irving:

Thanks for your letter of September 25. The Board of Governors has approved the appointments of Robert H. Boykin as President and William H. Wallace as First Vice President of the Dallas Reserve Bank, both effective January 1, 1981. In addition, the Board has approved annual salaries for Messrs. Boykin and Wallace of [redacted] and [redacted], respectively.

Both appointments are for the unexpired portion of the five-year term ending February 28, 1981.

Sincerely,

TEAllison:red

FEDERAL RESERVE BANK
OF DALLAS

IRVING A. MATHEWS
CHAIRMAN OF THE BOARD

DALLAS, TEXAS 75222

September 25, 1980

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

Dear Mr. Chairman:

In connection with my letter of August 27, 1980, this will confirm my recent conversations with Vice Chairman Schultz.

The Board of Directors of this Bank has appointed Robert H. Boykin, currently serving as First Vice President, as President, effective January 1, 1981, and William H. Wallace, currently serving as Staff Director for Federal Reserve Bank Activities of the Board of Governors, as First Vice President, effective January 1, 1981. The Board of Directors recommends that Mr. Boykin's annual salary be set at [redacted] and that Mr. Wallace's annual salary be set at [redacted]. Both Mr. Boykin and Mr. Wallace have accepted these appointments, and Mr. Wallace has indicated that he is looking forward to joining the Federal Reserve Bank of Dallas as First Vice President.

It is requested that we receive your approval regarding this matter by October 9, 1980 in order that at its next regular meeting our Board may discuss the appropriate timing for the announcement of these changes.

Warmest personal regards.

Sincerely,

Irving

FEDERAL RESERVE BANK
OF DALLAS

ERNEST T. BAUGHMAN
PRESIDENT

DALLAS, TEXAS 75222

May 21, 1980

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

Dear Paul:

Thank you for your letter dated April 18, 1980, and the memorandum to the Board's staff covering the 1980 U. S. Savings Bond Campaign for Federal Employees. The Eleventh District has a history of enthusiastic support of the Annual Savings Bond Campaign and 1980 will be no exception.

Our Personnel Department has already been in contact with the local area manager of the Savings Bond Division of the Department of Treasury and plans are currently being formulated for another successful campaign.

Sincerely yours,

Ernest

Ernest T. Baughman
President

March 7, 1980

Dear Ernie:

The action of the House-Senate Conference Committee suggests that we may have the chance to move in the direction suggested in your letter. Keep your fingers crossed.

Sincerely,

Mr. Ernest T. Baughman
President
Federal Reserve Bank of Dallas
Dallas, Texas 75222

EGC:slw
#429

#429

Who should receive a copy?

- RAILROD
- WITIN

Who should answer?

EMC

Cc Messrs
Axilrod
Winn

FEDERAL RESERVE BANK
OF DALLAS

ERNEST T. BAUGHMAN
PRESIDENT

February 28, 1980

DALLAS, TEXAS 75222

#429

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

Dear Paul:

In light of our new procedure of controlling money through reserves and our continuing interest in the membership issue, I thought I would share my preferences with you on the structure of reserve requirements and a means of equalizing the "burden" of uniform universal reserves.

1) The requirement should apply to all components of the key monetary aggregate targeted for policy purposes, irrespective of where these balances are held (presumably M-1B).

2) The reserve ratio should be the same for all components of the key monetary aggregate, irrespective of where they are held and in what amounts.

3) Insofar as the reserve "burden" varies by component of the key aggregate or amount held in particular institutions, and it were desired to equalize the "burden" the equalizing should be accomplished with varying levels of "interest" payments on the reserve balances, ranging upward from zero payment at the large banks.

If the Board were to change reserve requirements in the near future to help contain the growth in money and credit, I would hope that as a part of the change we could move the structure in the direction suggested in 1) and 2) above.

Sincerely,

Ernest

Ernest T. Baughman
President

Dear Ernest
The action of the House-Senate conference suggests that we may have the chance to move in the direction suggested in your letter. Keep your fingers crossed.
PAV

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1980 FEB 29 PM 2:07
RECEIVED
OFFICE OF THE CHAIRMAN

FEDERAL RESERVE BANK OF DALLAS

OFFICE OF
THE PRESIDENT

4/4/80

Dear Paul -

The attached was passed to me by one of the local business firms.

It may be of some interest to you.

ETB

ETB

Encl.

Baughman

APR 3 1980

ECONOMIC CONSULTANTS

A. Gary Shilling & Company, Inc.

111 BROADWAY, NEW YORK, NY 10006, 212 349-6000

March 26, 1980

EB

To our Clients and Friends:

As indicated in my March 18th letter, we think the guts of Washington's new economic policy was not the disappointing restraints on government spending that were announced, but rather the switch by the Fed from reliance on interest rates to discouraging borrowing to a comprehensive credit allocation program. This program, I noted, systematically closed the credit supply loopholes that were beyond the Fed's control, forced borrowers into the banks, and then put a cap on bank lending. This process, in our view, would rapidly construct credit expansion and precipitate the major recession we have been expecting for some time -- if the growing paralysis in housing didn't touch off the business slump first.

Recently I had the opportunity to discuss the new program with a top source at the Federal Reserve and thought you might be interested in what I learned.

My source agreed that the fiscal restraints announced by the Administration were disappointing. While it is true that balancing the budget in the next fiscal year does hold back spending somewhat and also reduces Treasury borrowing and the resulting pressure on financial markets, restraint in the $13 billion range is peanuts in a $2500 billion economy. The main purpose of the restraint package, however, was to reduce inflationary expectations by convincing the nation that Washington is serious enough about the problem to sacrifice some sacred spending cows. This effort failed because of the Administration's unwillingness to attack the hard spending areas such as Social Security and other transfer programs. Restraints in those areas were discussed but rejected because Republicans indicated that they would use any cuts as a political weapon against the Democrats in this fall's election campaign.

On the monetary side, my source indicated that the Fed has indeed given up on its past approach of constraining the money supply and raising interest rates because it wasn't working, and interest rates were getting to the point that severe distortions were developing in the thrift institutions, small banks, agriculture, and housing. In addition, the Fed felt that they simply had to push too hard on the monetary aggregates that they could control in order to have a meaningful impact on overall credit, much of which was beyond their jurisdiction.

Because of these problems, the Fed definitely has moved to a comprehensive credit allocation program, according to my source. They did not make a dramatic announcement because they didn't want to create a panic situation. Instead, they intend to apply steady, relentless constraint and let the results speak for themselves. Incidentally, due to the lack of a grand announcement, banks, their borrowers, and financial markets in general have only gradually realized what the Fed has done.

My source also confirmed that the Fed has systematically plugged the credit supply loopholes previously available through non-member banks, commercial paper, Euro borrowing, etc., forced the borrowers into the banks, and then limited their lending increases to 9% from December 1979 to December 1980. This 9% limit is "voluntary", but it was clear that the banks know the Fed has all the legal power under the Credit Control Act of 1969 to enforce it and the credit authorities expect complete "cooperation".

The Fed does not feel that a huge bureaucracy is needed to enforce their program since the whole strategy is to limit the growth in loans but let the banks set the priorities. This was repeatedly emphasized. Some banks, of course, will have difficulty since their loans have expanded considerably since December due to both the growth in business activity and also to borrowing in anticipation of controls. The only real exceptions to the 9% limit, however, are agricultural and small business. The Fed has great concern for these areas which are already feeling the credit pinch.

Major corporations have been requested to report monthly on their issuance of commercial paper and their foreign borrowing, but my source indicated that this is only to inform the Fed on where they are getting the money, not to force them to restrain their borrowing. The constraint is instead on the supply side of the credit equation through the banks.

My source indicated that their formal program left one credit availability loophole -- borrowing by U.S. corporations directly or through foreign subsidiaries in the Euromarkets. To plug this the Fed has asked foreign central banks to limit the lending by banks under their control to U.S. corporations or their foreign subsidiaries. Assurance of complete cooperation has been received.

My source admits that inflationary expectations are so far out of control that they had to take these additional actions before seeing the full effects of past credit tightening and high interest rates on the housing market and other areas. The Fed is keenly aware that they grossly underestimated the tremendous nationwide shift early this year away from inflation fears and to the conviction that the economy would not turn down and that inflation in the future would only accelerate. They felt that things were going along well last fall, but then all hell broke loose at the beginning of this year.

This source and others that I have talked to recently in the Fed agree that it will take a major recession to break inflationary expectations. Given the lags with which monetary policy impacts the economy, they realize that such a recession will be well under way before the Federal Reserve could reverse gears. Nevertheless, they agree that they really have no choice but to continue to tighten and to precipitate such a recession because the longer they wait, the more distorted the situation becomes and the worse the eventual recession. Although my sources agree that a major recession is in prospect, they are not as convinced as I am that major financial problems will develop. This, of course, suggests that they are more willing than I might be to continue to tighten because they are less worried about a resulting financial disaster.

This attitude was particularly apparent in discussing the housing outlook. My source looks for housing starts to drop below one million units at annual rates. As a result, the supply of new housing would dry up faster than effective demand is being curtailed by high mortgage rates. This would eliminate the problem we foresee of excessive stocks of unsold housing that could lead to a break in housing prices, a reduction in consumers' real wealth, and, consequently, a decline in their willingness to spend. This source does have a gut feeling, however, that a switch from the current spending spree to a saving spree will occur at some point and will do so overnight.

My source indicated that with the switch to credit allocation, interest rates are less meaningful than they were earlier, and is puzzled over the recent run-up in short-term rates. He indicated, however, that it would still be necessary to hold Federal funds rates to the 11 1/2% to 18% range announced earlier in order to avoid any premature and false signals of credit ease.

Finally, my source was concerned over the prospects of overstimulation if a major recession develops. He pointed out that in this regard, the most dangerous period for monetary policy is in the early, uncertain months of business recovery.

I hope this is helpful in understanding the Federal Reserve's point of view.

Regards,

Gary

A. Gary Shilling

January 23, 1980

Mr. Ernest T. Baughman
President
Federal Reserve Bank of Dallas
Dallas, Texas 75222

Dear Ernie:

Thanks for your recent letter suggesting that the discount window be structured so as to ease the burden of membership. As I am sure you recognize there are many problems in that area. For instance, we have often been criticized by Congress for subsidizing borrowing at the discount window. Secondly, we would have to be sure that any program meshes with our new reserve operating procedures. In any event, I have asked the staff to look closely at your proposal.

I would also note that the prospects for our membership legislation may not be quite as bleak as you appear to suggest. Congressional activity is difficult to predict at best, but there seems to be a reasonable chance of some action this session.

Sincerely,

SHA/pjd
#3046

cc Messrs. Axilrod
Coyne
Corrigan
Wiener

FEDERAL RESERVE BANK
OF DALLAS

ERNEST T. BAUGHMAN
PRESIDENT

DALLAS, TEXAS 75222

December 17, 1979

#3046

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

Dear Paul:

It now appears that there will be at the very least a significant delay in the enactment of legislation to deal meaningfully with the membership problem. Therefore, I suggest we announce a plan to use the discount window to ease the burden of membership.

Essentially, I would envision a plan whereby member banks would be authorized to borrow on an ongoing basis a substantial portion of their required reserves at a nominal rate, substantially under market rates. Credit extended under this plan would not be subject to the current restriction on net federal funds sales which applies to adjustment credit. In effect, a substantial portion of the required reserves would be supplied through the window on terms member banks could not refuse; the member banks would be free to invest the funds so supplied at a substantial rate differential; and the resulting profit to the bank would do much to ameliorate the membership burden.

Additional occasional needs of the member banks for funds, over and above those supplied under the plan, would be met by adjustment or seasonal credit utilizing rates attuned to market conditions and administered in much the same way those two types of credit are currently administered. For example, a member bank might have an entitlement under the plan to, say, 50 percent of its required reserves at a rate of 3 percent. So long as it borrowed only under that entitlement it could be a net seller of federal funds, although the need to collateralize its continuous borrowing would probably cause most of the borrowed reserves to be invested in pledgeable assets. If the member bank subsequently developed a short-term liquidity need, it could obtain adjustment credit, in addition to its authorized borrowing at the nominal rate, at a rate in line with the market, say 12 percent, and under the usual strictures on being a net seller of funds and on the amount, maturity, and frequency.

The advantages of this proposal are:

--It can probably be accomplished under existing law.

--The reserve multiplier would not be increased and would even be reduced if banks were attracted to membership.

--This principle has not, to this point, been publicly opposed by influential members of Congress as interest on reserves has been, and it might for that reason be surfaced as an alternative, nonlegislative solution on which public positions have not yet hardened.

--It has less the appearance of a giveaway to member banks than, say, interest on reserves.

--The reduction of the Treasury's intake is less than under other possible solutions to the membership problem, since the reduction in System earnings through the necessary contraction of open market account is partially offset by interest earned on the funds provided through the window.

Numerous problems would arise about the mechanics of implementing such a plan, once a go-ahead were given in principle, but they probably can be digested.

The statutory requirement of collateral for all credit at the window should not be an insurmountable obstacle. It may be that collateral problems will prevent a small number of member banks from participating fully in the plan, though it would be my intention that the plan be made sufficiently attractive that close to 100-percent participation by member banks should be assumed.

A few legal problems will be created by the concept of a deep rate differential between credit extended under the plan and the remaining credit extended through the window--chiefly adjustment and seasonal. But a brief review suggests that resolution of these issues is possible under present law. Section 13 of the Federal Reserve Act, paragraph 8, authorizes advances to be made "at rates to be established by such Federal Reserve Banks", a provision which prima facie would permit the differential. This assumption gives an arguable legal basis for the plan.

Section 10(b) of the Act, however, creates some difficulty in structuring a rate schedule. For one thing, section 10(b) permits advances against ineligible collateral "at a rate not less than one-half of 1 per centum per annum higher than the highest discount rate". If we allow the use of ineligible collateral under the plan, and that is probably necessary for it to be effectively implemented, that calls for the establishment of the "highest discount rate" somewhere in the vicinity of the low rate for advances under the plan. On the other hand, another portion of 10(b) allows advances on one-to-four family collateral "at a rate equal to the lowest discount rate".

As we thread our way through these various constraints, the outlines of a workable rate structure emerge. The rate for advances under the plan would be set at the lowest level--in the example above, 3 percent. There would be a companion "discount rate" at the same level. This structure would permit eligible collateral and one-to-four family paper to secure advances at the 3-percent rate under the plan. The 10(b) rate for ineligible collateral would be 3½ percent, one-half percent over the "highest discount rate". The half-point differential would probably not discourage unduly the use of ineligible paper, considering the overall level of the 3-3½-percent rate structure, and it preserves the intent of 10(b) that a differential exist between eligible and ineligible paper.

There could then be a rate for advances under adjustment and seasonal credit at the 12-percent level, with higher rates for prolonged and IPC advances as at present. An option which in the circumstances would appear to be legally permissible (but probably inadvisable) would be to lend on both eligible <u>and</u> ineligible collateral at the 12-percent adjustment/seasonal rate. On the other hand, a 12½-percent rate could be established for ineligible collateral to preserve the intent of the 10(b) differential.

It would of course be preferable if the lowest rate under the plan did not have to be referred to as "the discount rate", but we do not see how such a rate structure can be created under present law without making that move. There is a possibility that some members of the public might misread a significant reduction in "the discount rate" as a substantial loosening of monetary policy. To counter that possibility it might be well to develop a new nomenclature for the rates at the same time this plan is implemented. And I would anticipate that the low rates established under the plan--in this example, the 3-3½-percent rates--would not fluctuate often. Rather the higher set of rates would be the vehicle for keeping rates at the window in line with the market.

Another side effect is that a lowering of "the discount rate" will inhibit the right of national banks to charge interest over state usury laws in a tight money situation; this is because 12 U.S.C. 85 sets the national bank ceiling at 1 percent over the discount rate. The problems, however, will affect only a few states and only in extremely tight money situations. I would not view it as sufficient to override the need for the program I am suggesting here.

Finally, it would not be possible to lend on one-to-four family collateral at the 12-percent rate, since 10(b) restricts such paper to the lowest discount rate.

By this letter I would like to propose this idea in principle to see if you and others at the Washington level feel it has any potential for dealing with the membership problem, even on a temporary basis pending more comprehensive legislation. I would assume there are other problems of a technical and legal nature which are not addressed here; and if you feel a proposal of this type should be pursued further, I would like to suggest that more intensive study be given to it. I personally believe that the proposal has merit and should be pursued and that the various legal obstacles addressed above, while troublesome, can probably be surmounted one way or another.

Sincerely,

Ernest

Ernest T. Baughman
President

Chairman Volcker

FEDERAL RESERVE BANK
OF DALLAS

ERNEST T. BAUGHMAN
PRESIDENT

January 21, 1980

DALLAS, TEXAS 75222

#139

TO: Members, Board of Governors
All Federal Reserve Bank Presidents

FROM: Ernest T. Baughman ETB

I recently came across this in a file dated 1969. You may enjoy it.

Enclosure

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