DALLASFED ROUNDUP

Federal Reserve Bank of Dallas November 1982

Reagan Signs Landmark Banking Law

On October 15, President Reagan signed into law an act some financial industry personnel have termed the most important institutional legislation in the last 50 years.

Known as the Garn-St. Germain Depository Institutions Act of 1982, the legislation gives banks and savings and loans the opportunity to offer a money market deposit account that is "directly equivalent to and competitive with money market mutual funds." The account, which will be set up by the DIDC by December 15, has no interest rate ceiling and no minimum balance specified in the legislation. Congress has suggested, however, that the minimum balance be no more than $5,000. Since the account will be insured up to $100,000, industry personnel feel this will help them compete effectively with money market mutual funds which are not insured.

The account is not a "transaction account" and will not be subject to transaction account reserve requirements, even though no minimum maturity is required, and even though up to three preauthorized or automatic transfers and three third-party transfers are allowed per month.

Other major provisions of the new legislation allow federally-chartered savings and loans to offer commercial lending in amounts up to 10 percent of their assets after 1983, expand nonresidential real estate lending up to 40 percent of their assets, and authorize investments in consumer loans up to 30 percent of their assets.

The act also states that interest rate differentials between banks and savings and loans must be eliminated by January 1, 1984.

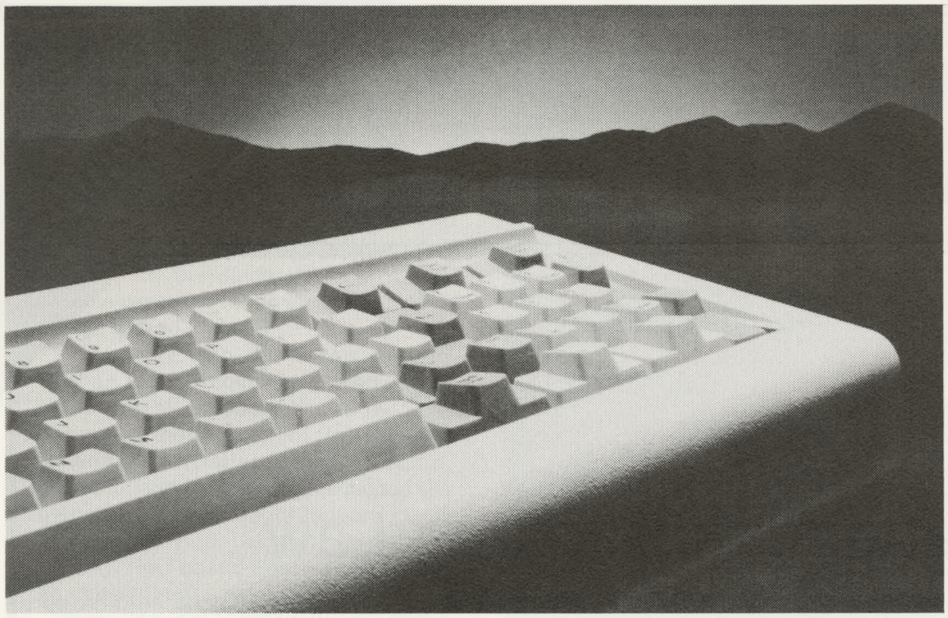
A major section of the Garn Act addresses emergency acquisition provisions to aid troubled financial institutions. The FDIC is empowered by the law to arrange loans to, purchase securities of, assume the liabilities of, and make contributions to any insured bank experiencing severe financial troubles. Provisions regarding mergers of troubled financial institutions across state lines are also outlined.

Another aspect of the act allows financial institutions to issue net worth certificates backed by either the FDIC or FSLIC if the net worth of the institution falls below three percent of assets. To qualify for this aid, an institution must have 20 percent of its loan portfolio in residential mortgages.

The act also permits financial institutions to offer NOW accounts and share draft accounts to state and local governments, prohibits insurance activities at bank holding companies that were not already engaged in that service by May 1, 1982, and makes numerous changes to the Federal Credit Union Act.

MAJOR BANKING LEGISLATION SINCE 1900

FEDERAL RESERVE ACT (1913)	*Established the Federal Reserve System*
McFADDEN ACT (1927)	*Prohibited branching across state lines*
BANKING ACT OF 1933 (GLASS-STEAGALL ACT)	*Prohibited paying interest on demand deposits and established the FDIC*
BANK HOLDING COMPANY ACT (1956)	*Regulated formation and expansion of new bank holding companies*
BANK MERGER ACT (1966)	*Established merger guidelines*
AMENDMENTS TO BANK HOLDING COMPANY ACT (1970)	*Regulated one-bank holding companies*
MONETARY CONTROL ACT (1980)	*Established uniform reserves and initiated deregulation*



The personal computer has been the most popular option of the RESPONSE program.

Now Available Returns

A new publication entitled *Now Available* is being sent out to those currently on the *Roundup* mailing list. The publication was formerly a section of *Voice*, which was published by the Dallas Fed through December 1981. *Now Available* offers a convenient way to order selected important circulars, speeches, pamphlets, and reports. The quarterly publication is designed so that an individual can check off any publication desired and mail the entire page back to the Dallas Fed for handling.

RESPONSE Participation Increases

Participation in the Dallas Fed's RESPONSE communications network has increased steadily since its introduction in the spring of this year. Financial institutions have been especially interested in the personal computer, one of the three options which provide a direct link between institutions and the Federal Reserve Communications System (FRCS-80) for such services as sending and receiving funds transfers, receiving reserve statement information, and transferring securities.

As of October 12, 1982, financial institutions on-line with the Dallas Fed through personal computers totaled 71 and letters of commitment had been received from 68 others. By the end of 1982, a total of 115 financial institutions are expected to be on-line, with 300 more to be added in 1983.

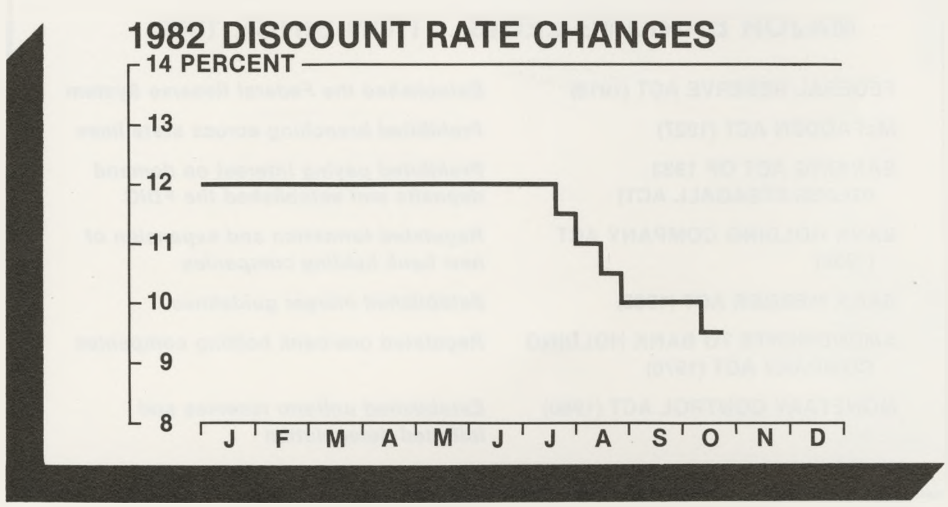
Training sessions are conducted weekly to instruct users on the personal computer's operation. As participation in the program accelerates, the number of sessions will be increased to meet the demand.

Use of the personal computer in conjunction with the RESPONSE network has helped the Dallas Fed serve the needs of smaller institutions, including many which recently became associated with the Fed as a result of the Monetary Control Act of 1980.

Future applications for the RESPONSE network include currency and coin ordering, notification of large return items, and advices of Treasury tax and loan, ACH, net settlement, and noncash collection activity. These services will help the Dallas Fed continue to provide reliable and secure services to financial institutions in the Eleventh Federal Reserve District.

Rate Declines

When the basic discount rate at the Federal Reserve Bank of Dallas was lowered October 12, it was the fifth half-point reduction experienced this year. The 9.5 percent rate is the lowest the figure has been in over three years and reflects the declining trend in short-term interest rates. Prior to the October reduction, the discount rate (the interest rate the Fed charges financial institutions for borrowing funds) was lowered once in July and three times in August.



Reserve Requirements Undergoing Change

The Monetary Control Act, a landmark piece of banking legislation signed into law on March 31, 1980, set into motion widespread reserve requirement changes for the nation's financial institutions as well as the Federal Reserve.

Reserves are the percentage of customer deposits which a financial institution must set aside in an account under the Federal Reserve's control. Even before the Federal Reserve System was established, the idea of banks holding reserves was initiated by legislators as a means of protecting bank liquidity. Today, however, reserves are used primarily to allow the Federal Reserve to control the money supply in pursuit of its basic economic policy goals.

Reserves provide a known and controllable base through which the reserve-supplying and reserve-absorbing actions of the Fed can affect the supply of money and credit. By increasing or decreasing the amount of funds available to institutions to meet their reserve requirements, and by setting reserve requirement percentages, the Fed can influence the amount of funds available for expansion of the money supply through loans, investments and deposits.

But until implementation of the Monetary Control Act, nonmember institutions could hold state reserves and reserves imposed by other industry regulators in various locations outside of the Fed's control. Therefore, the Fed did not have a large enough base of institutions with which to conduct monetary policy and effectively influence the monetary aggregates.

The Monetary Control Act alleviated the Fed's monetary control problem by requiring all types of depository institutions to report deposits and hold reserves with the Fed. These institutions include commercial banks, savings banks, savings and loan associations, credit unions, and industrial banks which have certain types of deposits.

The act requires reserves on three basic categories of deposits: transaction accounts, which are checking accounts, NOW accounts, and other accounts subject to drafts or transfers; certain types of time deposits, which are accounts with a stated time to maturity; and eurocurrency liabilities, which are deposits arising from foreign transactions.

In general, the new reserve requirement structure is less complicated than the old structure, and the new reserve ratios are lower than those previously in effect because there are now more institutions holding reserves with the Fed. Both the old and new reserve requirement percentages are summarized in the table accompanying this article.

The largest institutions, those with $15 million or more total deposits, report and maintain reserves with the Fed weekly. Medium-sized institutions, those member banks with less than $15 million total deposits and those nonmember institutions with $2 million to less than $15 million total deposits, report and maintain reserves quarterly. The smallest nonmember institutions, those with less than $2 million total deposits, currently do not have to report or maintain reserves with the Fed. Reserve requirements can be satisfied either by vault cash or by deposits held at the Fed.

The new reserve requirement structure created by the Monetary Control Act is being phased in over a number of years to lessen the impact on those institutions which had not held reserves with the Fed. Nonmember institutions will complete a gradual phase-in of the amount of reserves they hold in 1987. The already-existing member banks will complete the phase-in process by 1984. New institutions phase in their reserves over a two-year period from the date they open for business.

RESERVE REQUIREMENTS
BEFORE AND AFTER THE MONETARY CONTROL ACT

Type of deposit, and deposit interval in millions of dollars	Member Bank requirements before implementation of the Monetary Control Act (percent of deposits)	Type of deposit, and deposit interval	Depository institution requirements after implementation of the Monetary Control Act (percent of deposits)
Net demand		*Net transaction accounts*	
0-2	7	\$0-\$26 million	3
2-10	9½	Over \$26 million	12
10-100	11¾		
100-400	12¾	*Nonpersonal time deposits*	
Over 400	16¼	By original maturity	
		Less than 3½ years	3
Time and savings		3½ years or more	0
Savings	3		
		Eurocurrency liabilities	
Time		All types	3
0-5, by maturity			
30-179 days	3		
180 days to 4 years	2½		
4 years or more	1		
Over 5, by maturity			
30-179 days	6		
180 days to 4 years	2½		
4 years or more	1		

New Procedure

The Federal Reserve Board announced October 5 final approval of a change from lagged to contemporaneous reserve accounting for depository institutions holding reserves with the Fed. This new method will involve posting reserves two days after a two-week reserve computation period instead of posting the reserves two weeks after a one-week computation period. The new accounting method will become effective February 2, 1984 only for those institutions reporting deposits on a weekly basis and only for transaction account liabilities.

Holidays Announced

The Federal Reserve Bank of Dallas has announced its 1983 holiday schedule. The table accompanying this article lists the dates the head office and the branches in the Eleventh District will be closed.

To comply with the Texas statutes relating to bank holidays, should July 4, November 11, or December 25 fall on a Saturday, the offices of the Federal Reserve in Dallas, San Antonio, Houston, and El Paso will be closed the preceding Friday. Should January 1, July 4, November 11, or December 25 fall on a Sunday, the Federal Reserve offices will be closed the following Monday.

Since January 1, 1983 falls on a Saturday, no holiday will be observed on Friday, December 31, 1982 in accordance with Texas statutes.

1983

HOLIDAY SCHEDULE

February 21	**Presidents' Day**
May 30	**Memorial Day**
July 4	**Independence Day**
September 5	**Labor Day**
October 10	**Columbus Day**
November 11	**Veterans Day**
November 24	**Thanksgiving Day**
December 26	**Christmas Day**

Roundup is published monthly by the Federal Reserve Bank of Dallas and its Branches at El Paso, Houston, and San Antonio. Additional copies of most issues and subscription information are available from the Department of Communications, Financial and Community Affairs.

FEDERAL RESERVE BANK OF DALLAS
STATION K
DALLAS, TEXAS 75222
ADDRESS CORRECTION REQUESTED