DALLASFED ROUNDUP

Federal Reserve Bank of Dallas October 1983

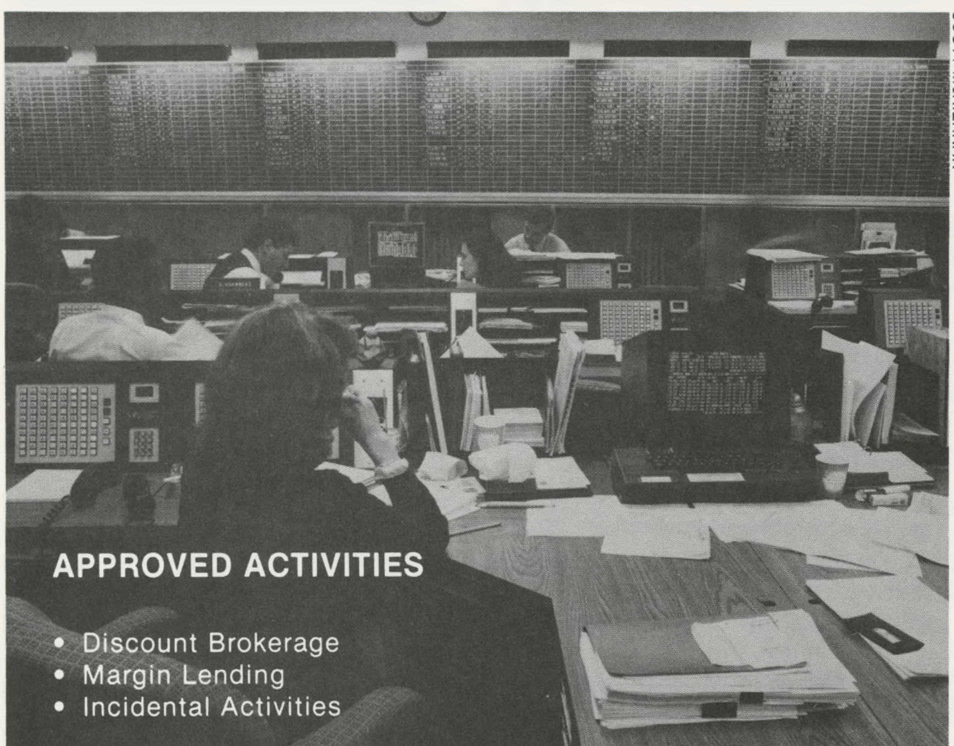
Brokerage Services Approved by Board

Discount securities brokerage services and securities credit lending were added to the list of nonbanking activities in which a bank holding company may engage effective September 9. The Federal Reserve Board of Governors recently adopted a final amendment to its Regulation Y—which concerns bank holding company formations, acquisitions of additional banks, and approved nonbanking activities—to specify these services as generally permissible activities.

The Board stated that brokerage activities are to be restricted to buying and selling securities as an agent for the accounts of customers. Securities underwriting and the provision of investment advice are not included. In addition, margin lending on securities is to be conducted by a nonbank subsidiary of the holding company. Incidental activities to the newly approved services—such as custodial services, furnishing individual retirement accounts, and cash management services—also were approved by the Board.

The amendment to Regulation Y codifies a previous position taken by the Board of Governors in approving, on January 7, 1983, the acquisition by BankAmerica Corporation of Charles Schwab Corporation. In that action, the Board found Schwab's activities (retail discount securities brokerage, securities credit lending, and certain incidental activities) to be closely related to banking for purposes of the Bank Holding Company Act. This act controls the expansion of bank holding companies and generally limits certain types of nonbanking activities. The Board also found that banks already were providing securities brokerage services to a certain extent and that Schwab's margin lending activities were similar to margin lending activities already offered by banks.

Subsequent to the Board's approval of the BankAmerica/Schwab application, the Securities Industry Association requested a judicial review of the order. The U.S. Second Circuit Court of Appeals upheld the Board's order and found that the proposed activities were not prohibited by provisions of the Glass-Steagall Act. This act, also referred to as the Banking Act of 1933, generally separated commercial from investment banking.



SCOTT McKIERNAN

Nighttime Deadline Opened to All ACH Items

Automated clearinghouse (ACH) operations have been modified by the Board of Governors to permit all types of ACH items to be deposited at a nighttime deposit deadline. The new service, available October 6, 1983, will be subject to the interim fee schedule accompanying this article.

Originators of ACH payments will receive additional processing time as well as improved funds availability for their deposits under the new arrangements. In addition, the night cycle can be used to accomodate payments that normally would be processed during the day, but have been delayed due to operational problems.

Use of the nighttime deposit deadline previously had been restricted to cash concentration debits only. These debits are used by businesses to transfer balances held at various financial institutions to one central institution to accumulate funds for investment or other purposes.

The current ACH fees were implemented on December 29, 1982, and were set to recover 40 percent of the total costs of providing commercial ACH services. A new ACH fee schedule based on a 60 percent recovery rate, as required by the Board's announced phase-out of ACH incentive pricing, currently is being developed. Since immediate expansion of the night cycle is desired by users of the ACH service, the interim fee schedule in effect is based on the current 40 percent recovery rate. These interim fees will be in effect until new ACH fees, based on the 60 percent recovery rate, are implemented.

Interim Fee Schedule
Per Item Surcharge
to Originators

Debits*	5¢
Next-day settlement credits	2¢
Two-day settlement credits	0¢

* This surcharge will not be assessed for debits, other than cash concentration debits, originated by financial institutions located in the Cleveland and Richmond Federal Reserve Districts.

Interest Rate Recording To Change October 3

The Dallas Fed's 24-hour telephone recorded message service—which currently announces interest rate ceilings for 91-day, 26-week, and 1½-year "small saver" certificates of deposit—will change effective October 3 to coincide with the scheduled deregulation of interest rates. After that date, the message will continue to announce the current week's three-month and six-month Treasury bill rates, the 1½- and 2½-year yield curve rates, and the Federal Reserve discount rate. The 1½- and 2½-year yield curve rates are given for informational purposes only.

Numbers used to access the recording are: (214) 651-6177, Dallas; (214) 263-1093, Dallas/Ft. Worth metro; (800) 442-7390, Texas WATS; and (800) 527-9208, Eleventh District WATS.

Subsidy Change

On September 29, the subsidy cap on Eleventh District institutions' cash transportation fees increased from $175 to $400 in the second phase of a program to adjust the subsidized portion of the Dallas Fed's cash transportation fee toward full cost recovery this year. The Fed will absorb costs in excess of these caps for the remainder of 1983.

Revisions Adjust Insider Loan Limits

On October 11, the Federal Reserve Board will implement revisions to Regulation O, eliminating specific dollar limitations on loans by a state member bank to executive officers for home mortgages, education of officers' children and other purposes. Regulation O deals with credit to certain bank insiders such as executive officers, principal shareholders and their related interests.

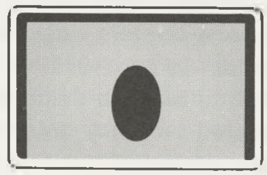
The amendments to Regulation O also specify that a state member bank may lend to an executive officer, for purposes other than home mortgages or education, up to $25,000 or 2.5 percent of its capital and unimpaired surplus, whichever is greater, with an overall limit of $100,000. Prior approval of a state member bank's board of directors is required for insider loans that, in addition to other such loans, exceed $25,000 or five percent of the bank's capital and surplus. The total loans to an insider may not exceed the limit of credit that may be extended to any one borrower—15 percent of the bank's capital and surplus for loans not fully collateralized and an additional 10 percent of the bank's capital and surplus for loans that are fully collateralized. Finally, prior approval from the bank's board of directors is required for all insider loans totaling in excess of $500,000.

The revisions to Regulation O comply with amendments to the Federal Reserve Act by the Garn-St Germain Depository Institutions Act of 1982. Other federal bank regulatory agencies are in the process of revising their rules.

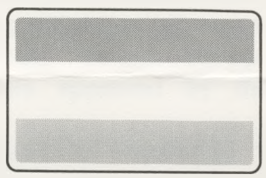
Board Study Examines Impact of Credit Cards

A recently released study by the Federal Reserve Board of Governors concerning credit card use in the United States indicates that approximately 70 percent of American households have at least one credit card. According to the study, almost 600 million credit card accounts existed in the United States in December 1982 and outstanding balances on credit card accounts totaled more than $75 billion.

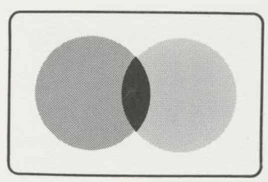
The credit card study—which was required of the Board by the Cash Discount Act of 1981—examines the impact of credit cards on the costs that merchants and creditors incur, on the volume of retail sales, and on the pricing of goods sold by retailers. Highlights of the study follow.



Credit card transactions cost more than cash or check transactions for most retailers. Credit cards typically add about two to three percent of the purchase amount to a retailer's costs. For most retailers, the cost of check transactions appears to be less than the cost of credit card transactions, and either about the same or more than for cash. According to a survey conducted during the study, large retailers are more likely than small retailers to rate both checks and credit card transactions as more costly than cash.

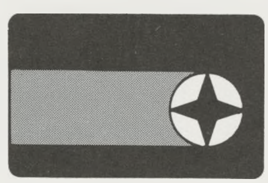


The higher cost is not offset by higher retail sales volume. There is little evidence that credit cards promote impulse purchases. A survey of households found that many unplanned purchases are conducted with cash and that many of the unplanned purchases made by credit card would have occurred even without access to the credit card.



The higher cost is reflected in the level of prices, so to some extent cash buyers subsidize credit card users by paying identical prices.

However, the need to cover credit-related costs likely would boost the price of an item by less than one percent—given that only 15 percent of sales are transacted by third-party credit cards according to the study.



Recognizing that this single price scheme results in a subsidy for credit card purchases, the study identified two ways to minimize that subsidy. The study first recommended the removal of artificial limits imposed by governmental units on finance charges and other user fees that are designed to recover credit card costs directly from users. Second, the study recommended the creation of a two-tier price structure by setting a credit card price (higher than the previous single price) and then discounting the cash price to a level below the single price.

The Board's study found that 25 percent of gasoline dealers already are offering cash discounts, but only six percent of other types of retailers are participating in a two-tier structure. However, 40 percent of retailers surveyed thought cash discounts were a good idea.

Improved Currency Quality Sensor Developed

An improved quality sensor is being installed in all Federal Reserve high-speed currency verification equipment currently used for the examination of currency and the destruction of unfit currency. The new sensor is a better detector of soiled notes and notes unacceptable for recirculation. This device will cause notes with certain defects and those with transparent tape to be destroyed and will provide financial institutions with a more consistent quality of currency. This is of particular importance for the operation of automated teller machines which often require a high quality of currency to work efficiently.

High-speed machines

High-speed machines have been used at the Dallas Fed since 1978. These machines count, sort and strap currency. They also detect counterfeit notes and mixed denominations. Finally, the machines check a note's fitness for recirculation and destroy the note if it is "unfit." The introduction of high-speed verification equipment throughout the Federal Reserve System in the 1970s has helped process the millions of dollars that pass through each Fed office every day.

Initial testing

Initial testing of the high-speed machines for the entire Federal Reserve System was conducted at the Dallas Fed in 1975. A pilot program was initiated to demonstrate that circulated currency could be processed accurately at a high rate of speed. Prior to installation of the high-speed equipment, manually operated Federal Bill Counters were used. These machines were operated by one person who had to determine by sight and touch a bill's fitness and whether it was a counterfeit. A good operator could process around 40,000 notes per day on these machines. Today, it is possible for a team of three people to process up to 72,000 notes per hour on the high-speed equipment.

In an effort to improve the efficiency of the examination of used currency, the Reserve Banks have installed 111 high-speed machines at 35 locations throughout the country. The purchase and installation of the new quality sensors culminates a two-year research and development effort by the Federal Reserve System to develop an improved currency quality sensor. Installation of the sensor will begin in October and will be completed by March 1984.

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 Public Affairs Department.

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