DALLAS FED ROUNDUP

Federal Reserve Bank of Dallas April 1986 Volume 5, Number 4

Wallace receives Liberty Bell

William H. Wallace, first vice president of the Dallas Fed (left), is presented the Liberty Bell award by John J. Murphy, chairman of the 1986 U.S. Savings Bond campaign.

William H. Wallace, first vice president of the Federal Reserve Bank in Dallas, was presented the U.S. Treasury Department's Liberty Bell award for his effort in initiating the production of the U.S. Savings Bond booklet. Incidentally, the wood base of the bell was taken from one of the oak or cedar beams of the original structure of Independence Hall in Philadelphia.

Wallace suggested the booklet be developed by the Dallas Fed for financial institutions and payroll savings accounts throughout the Eleventh District, as well as across the nation.

In the Dallas area, Wallace has also been instrumental in providing voluntary leadership for the U.S. Savings Bonds promotion among financial institutions. "Employees' payroll deduction for Savings Bonds at the Federal Reserve Bank of Dallas has increased over the past year, from four percent to 35 percent, due to the successful campaign drive conducted by Tyrone Gholson, assistant vice president of the Securities Department and chairman of the Eleventh District's Savings Bond drive," stated Wallace.

Wallace was presented the award by John J. Murphy, Dallas County chairman of the 1986 U.S. Savings Bonds campaign. Murphy is chairman, president and chief executive officer of Dresser Industries, Inc., Dallas.

INSIDE

Board amends Regs D and Q

The Federal Reserve Board issued final amendments to its Regulations D (Reserve Requirements of Depository Institutions) and Q (Interest on Deposits) that preserve the current treatment of money market deposit accounts (MMDAs) and revise minimum penalties for early withdrawal of certain deposits.

In 1980, Congress passed the Depository Institutions Deregulation and Monetary Control Act which called for the orderly phase-out and ultimate elimination of interest rate ceilings on all deposit accounts, except for demand deposits, under the direction of the Depository Institutions Deregulation Committee (DIDC).

Under present law, the DIDC terminated on March 31, 1986, which expired all interest rate ceiling authority, as well as the authority to require early withdrawal penalties under Regulation Q and the explicit mandate to offer MMDAs.

The final amendments to Regulations D and Q adapt to the expiration of DIDC authority. They continue to exempt deposits with the existing withdrawal and transaction features of savings and MMDAs from transaction account reserve requirements and from the prohibition of interest on demand deposits. That is, savings deposits and MMDAs will continue to qualify for the zero or three percent (nonpersonal) time deposit reserve requirement if, for savings deposits, no more than three preauthorized, automatic, or telephone transfers are allowed each month. For MMDAs, no more than six transfers per month are authorized, of which three can be by check, draft or debit card. Holders of both accounts still will be able to make unlimited withdrawals or interaccount transfers by mail, messenger, or in person at the depository institution or at an ATM.

The amendments also remove the $150,000 limitation on business savings accounts, bringing their treatment into line with MMDAs. If either savings deposits or MMDAs held by businesses are authorized to exceed the transfer limitations described above, they may be considered demand deposits on which interest could not be paid because businesses are not eligible to have NOW or ATS accounts.

Certain early withdrawal penalties are retained in the revised Regulation D to help maintain distinctions between transaction accounts and time deposits and between nonpersonal time deposits of different maturities for reserve requirement purposes. Early withdrawal penalties of at least seven days' interest are required on any withdrawal permitted within the first six days after a time deposit is made. This requirement applies to both personal and nonpersonal time deposits. For nonpersonal time deposits with original maturities or notice periods of 18 months or more that allow withdrawal within the first 18 months of the deposit, a one month's interest penalty is required.

The new early withdrawal rules became effective April 1, 1986, for most institutions. Credit unions and other depository institutions not now subject to regulations on early withdrawal penalties will have until January 1, 1987, to begin imposing such penalties on time depsoits opened, renewed, or added to on or after that date.

$80 billion in bonds means many records

When you sign that payroll savings card to invest in U.S. Savings Bonds or to increase your allotment, do you ever wonder how the records on so many bonds...more than $80 billion worth... are ever kept straight?

Behind the bond issuing and redeeming scene are the people in your company, issuing and redemption agents at banks, the Federal Reserve System, and beyond these, the Treasury's Savings Bond Operations Office in Parkersburg, West Virginia.

When the Savings Bond Program first began, all bonds were printed on currency paper stock and the record keeping was done entirely by hand. Many hours were spent recording transactions into giant ledgers nicknamed "sea gulls" because their sprawling pages bore a resemblance to these birds on the wing.

Several minor design changes were made to savings bonds over the years, but it was not until 1957 that currency paper stock was abandoned in favor of a punched tabulating card. This allowed the processing of issue stubs and paid bonds using a "new fangled" invention—the computer.

The latest design change, in 1985, was made to make use of more advanced processing methods. The new look Series EE bonds includes a background design of Independence Hall and portraits of early American patriots. Paper stock is again in use, but bonds now share many characteristics with checks.

The equipment now used to handle the tremendous volume of transactions received daily from Federal Reserve Banks uses optical and magnetic ink character recognition technology in conjunction with high-speed document transport systems.

It handles the old punched card bonds and the new paper bonds. Bond serial number, denomination and series are "captured" from the prepunching in the old card bonds and from optical and magnetic scanning of the new paper bonds. In addition, the front and back of the bonds are microfilmed...all in one pass through the system. Aside from substantial savings to the taxpayer, the new system has opened the way for even faster data search and retrieval functions. Design changes also pave the way for similar processing of issue stubs.

Since the market-based variable rate system was started for bonds in 1982, the volume of records has grown. In fiscal year 1985, bond sales increased 29 percent to a total of $5.03 billion issued in 74 million bonds.

The first months of 1986 have seen the total value of bonds held by Americans rise to $80 billion.

(Reprinted with permission from *Communicator's Quarterly*, Winter 1986, Volume 4, Issue 1.)

Holiday added to 1987 schedule

Martin Luther King, Jr. Day will be observed by the Federal Reserve Bank of Dallas and its branches beginning in 1987. All Federal Reserve offices in the Eleventh District will be closed on the third Monday of January in observance of the birthday of Martin Luther King, Jr.

Financial institutions should consult with their own counsel and state regulators to determine whether applicable local laws will either require or allow the institution to close as well.

A complete list of holidays for 1987 will appear in a fall issue of *Roundup*.

Discount rate reduced

The Federal Reserve Board announced a reduction in the discount rate from 7 percent to 6½ percent on Monday, April 21, 1986. The discount rate is the interest rate that is charged to depository institutions when they borrow from their district Federal Reserve Banks.

Similar action by other important industrial countries and sizable declines in most market interest rates in recent weeks triggered the decision. More broadly, other determining factors were: (1) growth in the various monetary aggregates has been more limited this year; (2) prospects for sustaining improved price performance and continuing restraint on costs have been further enhanced by the recent sharp declines in oil prices; and (3) the economic expansion appears to be proceeding within the nation's growth potential.

In making the change, the Board voted on requests submitted by the Board of Directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas and San Francisco.

Changes over 5-year period

Date	From	To
12-04-81	13%	12%
07-20-82	12%	11.5%
08-02-82	11.5%	11%
08-16-82	11%	10.5%
08-27-82	10.5%	10%
10-12-82	10%	9.5%
11-23-82	9.5%	9%
12-14-82	9%	8.5%
04-09-84	8.5%	9%
11-21-84	9%	8.5%
12-24-84	8.5%	8%
05-20-85	8%	7.5%
03-07-86	7.5%	7%
03-21-86	7%	6.5%

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. Editor: Dione Anteau