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Some Economic Policy Issues

Excerpts from an address by

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Board of Governors of the Federal Reserve System
Washington, D.C.

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Economic recovery to date has been quite satisfactory. Growth in real GNP since the cyclical low in early 1975 has averaged about 5½ percent per annum, which is somewhat better than the average experience of earlier postwar recoveries. Industrial production has risen 25 percent—also better than average—and total employment is up very sharply by past standards. Moreover, the expansion this time has been relatively well balanced, with few signs of speculation in inventories or other markets that could cause trouble later on. Even where there have been lagging sectors, such as business investment and multi-family housing, recent trends have been in a strengthening direction, promising sustenance for the economic expansion in the months to come.

Despite this record, there has been widespread dissatisfaction with the nation's economic performance over the three-year period. This is so because, by two major tests of an optimal performance—unemployment and prices—the economic record has left much to be desired. The unemployment rate started the recovery at 9 percent, the highest rate since the 1930's. Although it has declined over these past three years to a little over 6 percent currently, this remains a high figure by comparison with earlier postwar recoveries. In 1973, for example, unemployment was below 5 percent, while in the latter 1960's it averaged below 4 percent. As for inflation, the recent record—if anything—is even worse. So far in the recovery the consumer price index has risen, on average, at about a 6-percent annual rate. In the earlier stages of the previous recovery—during 1971 and 1972—the rate of price increase was about 4 percent. And in the early 1960's the advance in consumer prices was held to an annual rate of only about 1½ percent.

The shortfall in these indicators of the health of our economy (sometimes the rate of unemployment and the inflation rate are added together to give an economic discomfort index) creates a major dilem-

ma in the formulation of national economic policy. If economic stimulus is provided—in the form of easier monetary conditions and larger governmental deficit financing—in an effort to speed up the recovery and reduce unemployment, the danger is that the inflation problem will be exacerbated through the provision of excess liquidity and spending power. On the other hand, if monetary policy is kept in a more restrictive posture and governmental deficits are cut back in an effort to check the inflation, the likelihood is that total spending will be reduced and the subsequent adjustment in output and employment will boost the unemployment rate once again.

Obviously, this is the material from which political economics is made. Depending on one's prejudices and priorities, the degree of emphasis given to reduction of unemployment or to containment of inflation may differ markedly. Those who are most concerned about the social cost of unemployment and lost output will urge maximum feasible stimulation until these objectives are achieved. Though the bill has been substantially revised from last year's version, that seems to me the basic thrust of the Humphrey-Hawkins bill now wending its way through Congress. Those who are most concerned about the disruptive and eroding effects of inflation—on savings, investment incentives, the value of the dollar, and ultimately the stability of the economy—will emphasize the imperative of containing and reducing the rate of inflation. This, as you know, is the typical view of most financial market participants. It may be argued that the economy will be better off structurally in the long run if the necessary monetary discipline is imposed, but everyone recognizes that there is likely to be a most disagreeable transition before that long-run condition is achieved.

The main problem facing aggregate economic policy, I believe, is that too much is being asked of it. I see no way that macro policy measures can achieve the twin goals of low unemployment and reasonable price stability, given the environment of social, institutional, and political constraints in which the economy now functions. The most that can be done, in my view, is to seek a reasonable balance between the two objectives, shifting emphasis to the reduction of unemployment when that is the growing problem and to the containment of inflation when that appears to be growing worse. This compromise arrangement satisfies no one, and it will probably mean that the discomfort index will remain relatively high. But it is a realistic view of what is possible, I believe, when the forces adding both to unemployment and to persisting inflation are as strong and diverse as they have become in recent years.

To illustrate, I would argue that there are four separable reasons, both for higher than normal unemployment and for higher than normal inflation, that have strongly been in evidence in the workings of our economy. Only one of these reasons, again in the case of both unemployment and inflation, is directly responsive to aggregate economic policy decisions. I would categorize these forces as follows.

For higher than normal unemployment:

- The first cause is recession or inadequate economic growth. This was the principal source of the very high unemployment rates reached in early 1975, and it may be influenced directly by the conduct of monetary and fiscal policy. But it has been a waning problem, since the economy has shown a good and relatively well balanced recovery from the recession and that recovery has generated a record number of job opportunities. We still have some slack remaining—in terms of available workers and productive resources—but the economy has moved sufficiently toward its potential that much faster growth rates than the 4 to 5 percent generally forecast for this year would risk an upward momentum that could overshoot our optimal operating rate objectives.
- Second is the exceptionally rapid labor force growth we have experienced in recent years. This fast growth reflects many factors, including the effects of inflation on real family income, the increasing desire of women to have productive jobs outside the home, and the coming-of-age of all the children born in the immediate postwar years. In the last 10 years, the labor force has grown 23 percent while the population has increased only 9 percent, but in the previous decade labor force and population grew about equally, by 16 percent. Labor force expansion over the 1967-77 decade featured a 42-percent increase in the number of teenagers looking for work and a 40-percent increase in the number of adult women. Now I do not mean to imply that our society should not be expected over time to provide jobs for all those willing and able to work, but the task of generating that many more jobs—19 million in the past decade, as against 11 million in the previous one—has taxed growth in our resources and tended to pro-

duce higher residual unemployment rates. Actually, the acceleration in civilian employment opportunities has been most impressive—16 million from 1967 to 1977, as against 10 million in the previous decade—but it has not been sufficient to keep the unemployment rate from rising.

• A third cause of unemployment is the mismatch of jobs and people. This problem, I believe, has been a growing one, partly because of the higher skills required by a technologically advancing society and partly because of geographical shifts in population and job opportunities—broadly from north to south, and also from central city to suburbs. In the case of unproved workers, such as unskilled teenagers, moreover, the problem has been aggravated by increases in the minimum wage. Such increases have tended to mean that the marginally productive job seekers have become unemployable on a commercial basis at the going wage.

• The fourth factor that may have added to the recorded unemployment rate is the improvement that has occurred in socially mandated benefits for the unemployed—larger unemployment checks for longer periods, food stamps, and welfare. It stands to reason that the availability of such income supplements enhances the ability of unemployed workers to shop in a more leisurely and extended way for new jobs thought to be suitable. The result, therefore, is a somewhat higher observed rate of unemployment.

Now for four distinct and separable causes of inflation:

• First is the generation, from time to time, of excessive overall demands for goods and services relative to the economy's capacity to produce them. This results in traditional demand-pull inflation and can be a powerful inflationary force—as during the Vietnam War and in the early 1970's when the whole world was in economic boom. I do not believe, however, that excess demand is currently a significant problem. We have unused capacity in virtually all lines of activity and employable people who have not yet found jobs. Accordingly, there are at present only a few isolated instances of shortages of materials or unusual employee skills. As the economy approaches nearer to the limits of our optimal output capacity, it is the job of aggregate economic policy to restrain the additional growth of demand so that it remains within our gradually growing capacity potential. Once that point has been reached, under present conditions, the permissable rate of growth in the United States is probably in the 3½- to 4-percent range.

• The second source of inflation in today's environment is the price-wage-price cycle. Compensation rates for employees are increasing at about an 8½-percent annual rate, on average, while productivity is growing by about 2½ percent per annum. Somebody has to pay for that extra 6 percentage points of income gain, since it cannot be absorbed by business or taken from profits, and so the practical effect is that there is a basic cost-push inflation trend amounting to about 6 percent per year. No one really gains from this situation, but the cycle is very difficult to break into because it is self-reinforcing. Last year's price increases provide the rationale for the size of this year's wage demands, which when granted induce in turn a continuation of the 6-percent inflation rate. Aggregate measures—such as monetary policy—can deal with the problem only very indirectly, by making market prospects uncertain enough so that employers will resist a continuation of the wage increases—because they may not be able to obtain the higher prices for their products—or employees will not demand them for fear that their jobs thereby will be put in jeopardy. That process, which has its maximum influence during recessions, seems to have grown weaker over time and, in any event, is a very harsh corrective for business and labor to tolerate.

• A third source of inflationary bias in the economy stems from the growing efforts of all sectors in our society to keep ahead of the inflation. It seems to me that almost all institutional arrangements in the economy are becoming geared to inflationary solutions to income distribution problems. Thus, minimum wage laws are escalated to keep pace with inflation, social security and some other retirement benefits are indexed to the cost of living, and public employees are given comparability increases without regard to productivity or value of output. Business policies, labor contract bargaining, and government programs are all set in terms of augmenting money income to maintain purchasing power, rather than attempting to achieve similar results in real terms by reducing costs and, hence, price pressures. In part, too, the problem is social as well as economic. With better communications and rising material aspirations, all segments of the economy have become less and less willing to lag behind in the income parade. This means, as a simple arithmetic proposition,

that the lower end of the frequency distribution of income gains is cut off, so that the average increase is raised. In short, losers from inflation tend increasingly to be protected, while those who profit—except for taxation—keep their gains. The result must necessarily be a more inflationary outcome for the economy as a whole.

• The fourth and final potential source of inflation that I would bring to your attention is our growing exposure to periodic or persistent shortages of basic raw materials, including food. These may be the result of unfavorable weather—as with coffee—or of a long-term tendency for consumption to outstrip new production—as with oil and other convenient energy sources. But the effect of shortages is almost always to push up sharply prices of the affected commodity, which in turn will add to the overall rate of price increase unless compensated for by lower prices elsewhere. Given the defenses that suppliers of goods and services have erected, the possibility of offsetting declines of this sort has grown more remote with the passage of time.

As the recovery of the economy has progressed over the past three years, the problem of unemployment has gradually receded. Some further reduction in the unemployment rate is likely as the economy continues to expand, but I seriously doubt that there is sufficient room remaining for expansion at above trend rates to reduce unemployment to the levels sought as a desirable social objective—that is, to the neighborhood of 4 percent or below. For that to be achieved will require a major effort in specific programs designed to make the unemployed more employable, to put the jobless in touch with the available jobs, and to generate employer interest in taking on marginal workers—perhaps on some kind of subsidized basis that makes this economically attractive.

While the overall unemployment problem has tended to subside with economic recovery, that of a continuing high rate of inflation has remained unchecked and may currently be gaining added strength. To some degree, this is a corollary of the advancing business cycle, but it also has reflected the failure to make progress in checking the intensity of the price-wage-price spiral and our special problems with energy and the declining international value of the dollar. Again it seems to me that specific programs are required that will address the structural and social sources of inflation one by one.

The question remains as to what macroeconomic policy, including monetary policy, can do to help correct our inflationary condition? It seems obvious to me that policymakers must give very important weight to resisting any new step-up in inflationary pressures. The threat that this could occur is pervasive, and with a public that is now sensitized to inflation, any significant and sustained acceleration in the rate of price increase would surely lead to decisions—and defenses—that could be seriously destablizing. In this environment, it is particularly important that monetary policy avoid providing excessive financial liquidity, which could be used later on to fund inflationary increases in demand.

But it is equally obvious, I believe, that policymakers must be very cautious in efforts to squeeze down on the rate of inflation through broad fiscal and monetary measures. To attempt to force deflation by substantially cutting down on the growth in money and credit, or by curtailing Federal fiscal programs ahead of the economy's ability to take up the slack, runs the grave risk of curbing the growth of spending by a good deal more than the moderation in inflationary pressures likely to be achieved over any bearable time period. It is the modern analog of pushing on the string. If the other end of that string is embedded in deep-seated social and economic inflationary behavior patterns, as I believe it to be, then the slack that is produced will be in the economy and not in prices.

To make meaningful progress in reducing the basic inflation rate, I believe, requires a change in public priorities and a comprehensive attack on the root causes of inflation, item by item and program by program. It calls for an all-out war on inflation by business, labor, and consumer groups as well as by Government. I therefore welcome the new initiatives announced Tuesday by the President to attempt to curb some of the specific sources of inflation I have enumerated, and I hope and trust that this program will have the voluntary support of the entire business and labor community. The Federal Reserve, through appropriate monetary policies, can play a part in the long and painful process that faces us in unwinding the inflation. But it cannot do the job alone.

Fed Processes 90 Percent of Bank Holding Company Applications Within 90 Days

In 1977 the Federal Reserve System met, for the first time, a goal former Chairman Arthur Burns set in 1971 to process 90 percent of its bank holding company applications within 90 days. Of the 1,173 bank holding company applications considered in 1977, 90.1 percent were processed within 90 days.

Bank holding company applications are sent first to the Federal Reserve Bank in the applicant's district. If further information is needed, the application is returned with a request for the additional data. After all the necessary information is received, a letter is sent to the applicant stating that the application has been received for processing. The Federal Reserve System has 90 days from this time to meet the goal set by Burns. Although additional information may still be needed or other delays may occur, the tabulation of the 90-day period begins when the application is received for processing.

Initial processing of the application is completed by the Reserve Bank, which is generally required to send its recommendation on the application to the Board of Governors within 23 days. In 1977 the Federal Reserve Bank of Dallas sent 54 memorandums on bank holding company applications to the Board. Of these, 52—or 96 percent—were sent within the goal of 23 days. The recommendations are reviewed at the Board, and a final decision is made.

In certain cases, final approval of the application can be made by the Reserve Bank. The number of these delegated-authority applications has increased in recent years. In 1977 the Federal Reserve Bank of Dallas approved 15 applications under delegated authority. Nationwide, 69 percent of the domestic cases decided in 1977 were handled, under delegated authority, by the Reserve banks.

Fed Takes Steps to Improve EFT

The Federal Reserve Board has agreed to establish, in cooperation with the National Automated Clearing House Association (NACHA), an interregional automated clearinghouse system and, separately, to provide a net settlement service for funds transferred through BankWire II, a privately operated wire network.

Both of the new services were announced for comment in December 1977 and received favorable response.

Currently, automated clearinghouses (ACH's) can transfer electronic funds locally; with the implementation of the new interregional system, they will be able to transfer funds nationwide. The transfer net will enable some 9,000 banks and 1,000 thrift institutions that are members of NACHA to exchange electronic payments.

The feasibility of the interregional exchange has been demonstrated in two recent tests. One involves the ongoing Treasury program for direct deposit of recurring Federal payments, and the other was a pilot test in which ten ACH's in six Federal Reserve districts participated. The Federal Reserve Bank of Dallas and the SouthWestern Automated Clearing House Association were involved in the pilot.

The first live entries in the pilot were sent on February 28, 1977. By November 30, 1977, entries were averaging a monthly volume of 45,000 items for a dollar value of $4 million. The interregional volume in March 1978 was 65,000 items, valued at over $8.7 million. The number of corporate participants increased from 14 in February 1977 to 54 by the end of November. The pilot was evaluated in December 1977 and considered a success. The nationwide exchange was found to be technically and operationally feasible, and expansion was recommended.

Because the expansion involves the interaction of 32 ACH organizations, NACHA, and the 37 Federal Reserve offices (12 head offices and 25 branches) in providing settlement and/or delivery services, an Interregional Expansion Work Group was formed to be responsible for the implementation of the new service. The group consists of three representatives from the Federal Reserve and three from NACHA. Donald Jackson of the Federal Reserve Bank of Dallas is one of the three Fed representatives.

The ACH's and Federal Reserve offices involved in the pilot plan to continue operations, and new participants will be added. The implementation for Reserve districts and ACH's not involved in the pilot will begin in May and be completed by the end of the year. All ACH's are currently scheduled to begin interdistrict transfers by September 1978.

To assist those linking into the system, as well as strengthen current participants, NACHA and the Federal Reserve are designing training programs, the former for financial institutions and the latter for ACH operators.

Under NACHA's program, orientation sessions for local ACH training personnel were held in April and May. Immediately thereafter, each ACH will conduct training sessions for its member financial institutions, which, in turn, are responsible for training their officers, tellers, and operations personnel.

The Federal Reserve's training program will be given to each ACH operator approximately six weeks prior to live operation.

Separately, the Fed has also agreed to use its facilities to help member banks settle funds that are transferred on BankWire II, a privately owned communications network. Member banks will be able to settle these transfers through their reserve accounts at the Federal Reserve Bank. Under the terms of the arrangement with BankWire, member banks will appoint BankWire as their agent for this purpose.

Eleventh District Represented on Consumer Advisory Council

Four members of the Board of Governors' Consumer Advisory Council are from the Eleventh Federal Reserve District. They are:

- R. C. Morgan, El Paso, President of the Government Employees Credit Union of El Paso
- Reece A. Overcash, Dallas, President and Chief Operating Officer of Associates Corporation of North America
- E. G. Schuhart, Dalhart, Farmer and Rancher
- James E. Sutton, Dallas, Secretary and Corporate Counsel of Chilton Corporation

The Council was established by Congress, at the suggestion of the Board, in 1976. It consists of 28 members from all parts of the nation and includes a broad representation of consumer and creditor interests. The Council meets four times a year with the Board of Governors to advise the Board on the Federal Reserve's responsibilities in the field of consumer credit protection law.

The chairman of the Council is Mrs. Leonor K. Sullivan, a former member of Congress from Missouri and a principal author of the Truth in Lending Act. The vice chairman is Dr. William D. Warren, Dean of the School of Law, University of California at Los Angeles.

Insurance Role of Bank Holding Companies to Be Curtailed

The U.S. Court of Appeals for the Fifth Circuit ruled in June 1976 that current Federal Reserve regulations on insurance sales by bank holding companies were too broad. Accordingly, the Board has proposed a revision in Regulation Y. The proposal would allow bank holding companies to act as agents in selling any insurance to their banking subsidiaries or any insurance directly related to an extension of credit or provision of some other financial service. It would prohibit bank holding companies from selling insurance to themselves or to their nonbank subsidiaries and from selling "convenience" insurance, defined as any type of insurance provided for the customer's convenience.

The court also directed the Board to reconsider the provision of Regulation Y that authorizes bank holding companies or their subsidiaries to sell any insurance in a community with no more than 5,000 population. The Board will reconsider this matter soon.

The Surprising Variety of Checking Account Prices

By Dale Osborne and Jeanne Wendel

The Research Department of the Federal Reserve Bank of Dallas is engaged in a long-term study of competition in commercial banking. Although the study addresses conceptual and technical issues of interest mainly to professional economists and regulatory authorities, from time to time it turns up information of use to bankers and consumers of banking services. Our recent survey of checking account plans and prices at 113 banks in 23 Texas towns, designed primarily to test the view that these prices are monopolistic in all but a relative handful of towns,[1] has uncovered information of value to the general public. We herewith report the results. It is the first report of actual checking account prices, as opposed to proxies for them, to be published anywhere.[2]

The prices differ considerably from town to town and, with one or two exceptions, from bank to bank within a town. A typical depositor, who probably writes about 20 checks per month, could expect to pay a price of $1.81 per month if he chose one of the sample banks at random; but depending on where he lives, he could pay as little as 32 cents and as much as $3.56. Moreover, prices tend to be more variable in the towns where their average is higher, so the depositor has much to gain from shopping.

Several possible reasons for the price differences come immediately to mind. Some banks face more competition than others. Some are more efficient. Some must pay higher wages. Some offer better services, whether related to checking accounts or other parts of the banking business. Some are rather new and must offer lower prices in order to attract deposits. These and other factors interact in complex ways to present quite a challenge to the student of banking. Here our concern is not with explaining the variety of prices but with demonstrating it.

NOTE: We gratefully acknowledge the assistance and cooperation of the bankers in Amarillo, Beaumont, Beeville, Brownsville, Galveston, Harlingen, Laredo, Longview, Lubbock, Lufkin, Marshall, Midland, Orange, Port Arthur, San Angelo, Sulphur Springs, Temple, Tyler, Vernon, Victoria, Waco, Waxahachie, and Wichita Falls.

Computing Prices

The price of the checking account service at a given bank is, by definition, the minimum amount the depositor must pay for it. If a bank offers two checking account plans, charging 10 cents per

1. See Arnold A. Heggestad and John J. Mingo, "The Competitive Condition of U.S. Banking Markets and the Impact of Structural Reform," *Journal of Finance* 32 (June 1977): 649-61.
2. See this Bank's May 1977 *Review* for a description and criticism of various proxies for checking account prices used in banking research. The criticism extends to the proxy used by Heggestad and Mingo, "Competitive Condition of U.S. Banking Markets and Impact of Structural Reform," whose findings must therefore be reexamined. That will be done in a separate publication, which will shortly be available from this Bank on request.

Table 1

MONTHLY SERVICE CHARGES ON REGULAR ACCOUNTS AT THREE SAMPLE BANKS

Unused balance	Necessary implicit cost	Fixed service charge	Number of free checks	Charge per additional check
Bank 1				
Less than $400...	0	$2.00	20	$.06
$400 to $499.....	$2.00	1.50	20	.06
$500 to $599.....	2.50	1.00	20	.06
$600 or more.....	3.00	0	Unlimited	—
Bank 2				
Less than $100...	0	3.00	Unlimited	—
$100 to $299.....	.50	2.00	Unlimited	—
$300 to $499.....	1.50	1.00	Unlimited	—
$500 or more.....	2.50	0	Unlimited	—
Bank 3				
Less than $100...	0	1.99	0	.0975
$100 or more.....	.50	0	49	.05

check in one plan and 15 cents per check in the other, the bank's price is 10 cents per check. Actually, the depositor's cost per check usually varies with the number of checks he writes, and in different ways in different plans. It usually happens, therefore, that the cheapest plan for him depends on the number of checks he writes. A plan that is cheapest for depositors who write 10 checks per month might not be cheapest for those who write 20. It follows that the price per check, being the depositor's lowest necessary cost, varies with the number of checks. Instead of a simple thing called "the" price of a checking account or of processing a check, banks have price *schedules*.

Three examples will illustrate the derivation of these schedules from the account plans.

Bank 1. This bank offers two kinds of personal checking accounts to the general public. For the "special" account it charges $2.25 for 200 blank checks and 10 cents for each check processed, imposing no unused-balance requirements and levying no fixed monthly fee. For the "regular" account it also charges $2.25 for 200 blank checks but imposes a variable processing and service charge, as shown in Table 1 (ignore for the moment the column headed "Necessary implicit cost"). Thus a depositor whose balance falls below $400 is charged $2.00 plus 6 cents for every check beyond 20.

The service charge is, of course, only the explicit part of the depositor's total cost for a regular account. The implicit part, the interest forgone by keeping a positive unused balance in the account, equals the unusued balance times the monthly rate of interest on investments comparable in risk and liquidity to the checking account. In all our calculations we take this rate of interest to be one-half of 1 percent per month. We assume, therefore, that each $100 of unused balance implicitly costs the depositor 50 cents per month.

The "Necessary implict cost" shown in Table 1 corresponds to the lowest unused balance associated with the specifiied explicit charges. Thus an unused balance of, say, $200 has no advantage over one of zero, which incurs no implicit cost; hence there is no necessary implicit cost to be added to the explicit charges associated with the lowest balance category.

It is clear from the table that the cheapest way to write 20 checks per month at Bank 1 is to keep no unused balance, paying the $2.00 service charge on the regular account or the equivalent 10 cents per check for the special account. (A positive unused balance costs more implicitly than it saves explicitly.) Hence Bank 1's price for 20 checks per month is $2.00.

The prices differ considerably from town to town and, with one or two exceptions, from bank to bank within a town. Moreover, prices tend to be more variable in the towns where their average is higher, so the depositor has much to gain from shopping.

The cheapest way to write fewer than 20 checks per month is by using the special account and paying 10 cents per check. Hence, when n is less than 20, the price for n checks is $\$0.10n$ per month.[3]

To write more than 20 checks per month, it is cheaper to use the regular account, keeping no unused balance if the checks number fewer than 37 and $600 if they number more. With no unused balance, the monthly cost of n checks is

$$\$2.00 + \$0.06(n - 20),$$

consisting of the service charge plus the processing charge for all checks beyond 20. With the $600 unused balance, the monthly cost is simply the implicit $3.00, and this is less than the preceding amount when n is greater than 36.

The schedule of minimum costs at Bank 1—in other words, Bank 1's price schedule—is as follows:

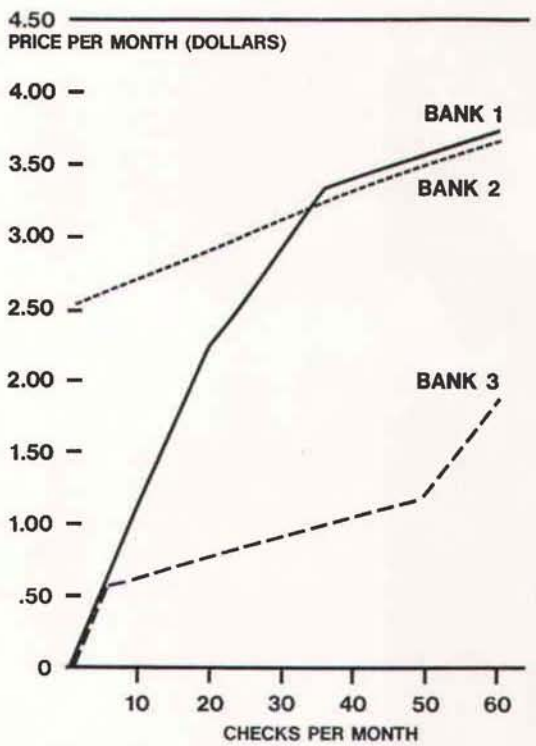
Number of checks (n)	*Price per month*
Less than 21.....	$\$0.10n$
21 to 36.....	$\$2.00 + \$0.06(n - 20)$
37 or more.....	$3.00

This price schedule is plotted in Chart 1.[4]

Only a small part of the price schedule is relevant to a given depositor. A person who writes

Chart 1

Three Illustrative Price Schedules for Checks



3. The cost of blank checks, being the same for both regular and special accounts at this bank, does not affect the depositor's cost calculation. Accordingly, we ignore it in our exposition. It is included, however, in Chart 1.

between 20 and 30 checks per month, for example, has no reason to learn the prices associated with fewer than 20 or more than 30.

Few depositors know exactly how many checks they will write in a month. This uncertainty may lead a depositor to keep an unused balance that, at the end of the month, proves to be too large or too small for cost minimization. His uncertainty is the amount of the service he will wish to buy, not in the price he will pay for a given amount. The price is definite.

A depositor may elect to keep a larger unused balance than the one that minimizes his checking cost. Then he receives a storage service on the excess and implicitly pays for it by forgoing the interest on the excess. But the storage service is different from the checking account service and is not considered here.

Bank 2. Bank 2 offers no special account to the general public. Charges for its regular account are shown in Table 1. This bank charges $3.75 for 200 blank checks, or about 1.9 cents apiece.

Here the optimal unused balance does not depend on the number of checks written. Adding the necessary implicit cost for the unused balance to the explicit service charge, we see that the smallest total is $2.50, achieved with an unused balance of $100, $300, or $500. Hence Bank 2's price schedule is

$$\$2.50 + \$0.019n$$

per month for n checks, where the second term is the blank-check charge. This schedule is also plotted in Chart 1.

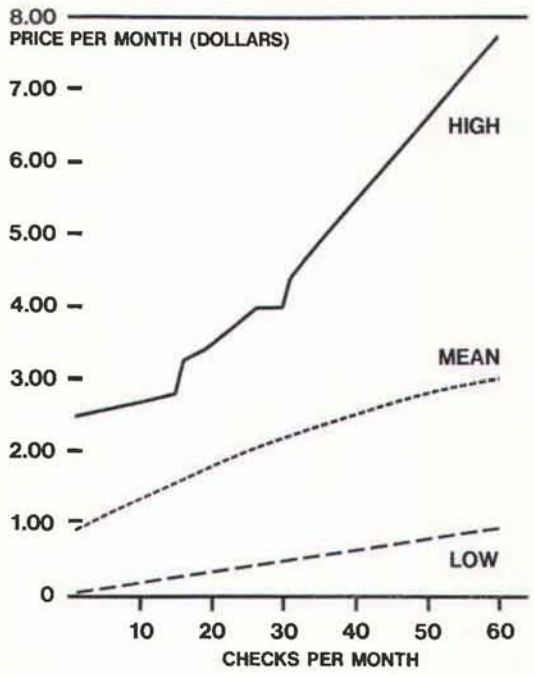
Bank 3. This bank offers a special account, for which it charges 10 cents for each check processed, and a regular account. Blank checks cost the same for both accounts, 1.36 cents apiece. Monthly service charges for the regular account are shown in Table 1.

Clearly, it is never cheapest to use the regular account with an unused balance smaller than $100. Hence the depositor's choice is between the regular account with $100 unused balance and the special account.

For a depositor writing fewer than five checks a month, the special account is cheaper (his 10-cent-per-check processing charge is less than the

Chart 2

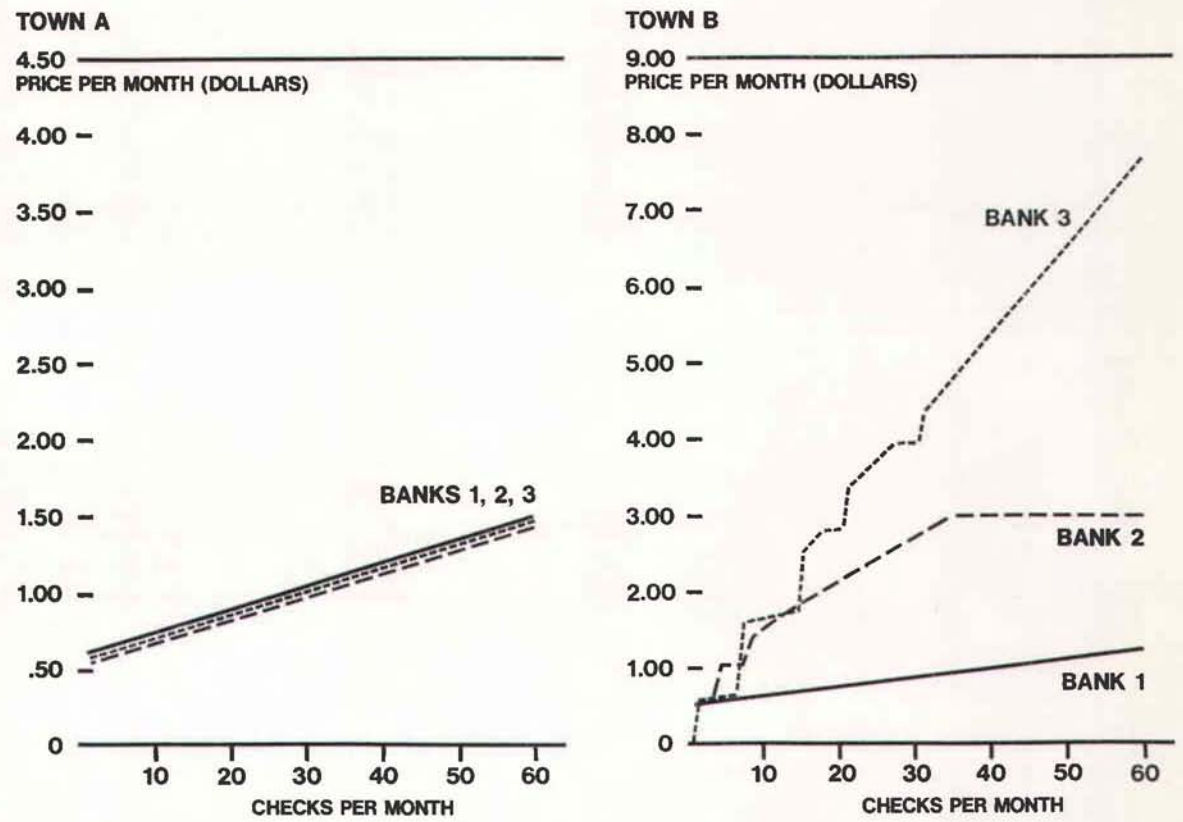
High, Low, and Mean Prices of Checks for the Entire Sample of Banks



4. The plotted price schedule for this and all other banks in our study is higher than the tabulated figures by the cost of blank checks.

Chart 3

Price schedules differ greatly from town to town



50-cent implicit cost on the $100 balance). For a depositor writing five checks per month, the accounts are equivalent. For one writing more than five, the regular account (with $100 balance) is cheaper. Hence Bank 3's price schedule is:

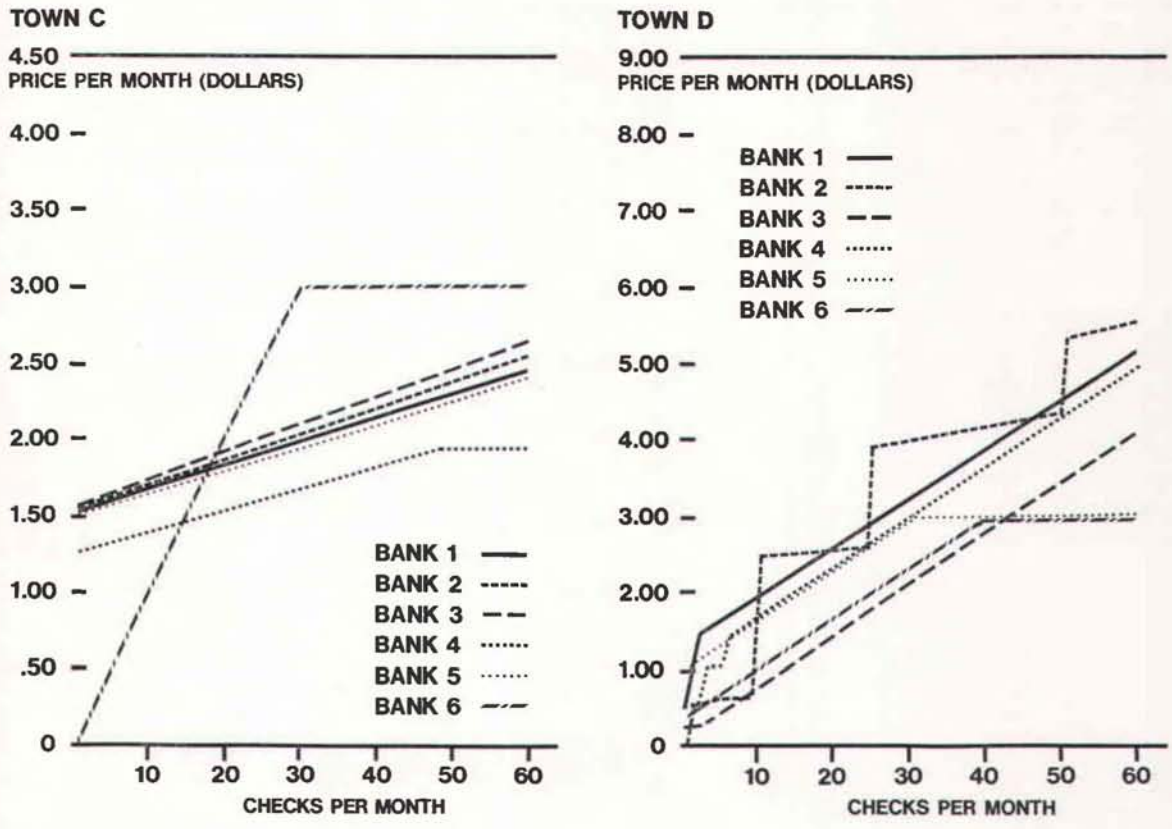
Number of checks (n)	*Price per month*
Less than 6.....	$0.10n
6 to 49.....	$0.50
50 or more.....	$0.50 + $0.05(n − 49)

This schedule is also plotted in Chart 1.

All three price schedules exhibit monthly prices rising with the monthly number of checks (though not uniformly). In this respect they are typical of our sample, as all but 4 of the 113 schedules exhibit similar behavior. Each of the four atypical schedules, all horizontal, shows a monthly price independent of the monthly number of checks. All four banks involved offer checking free of explicit service charges to depositors who keep a certain minimum balance (not the same at all four banks), and it happens that the depositor minimizes his monthly cost by keeping this balance irrespective of the number of checks he writes.[5]

The shapes of the schedules in Chart 1 illustrate the three basic ways in which monthly price rises with the number of checks. Bank 1's schedule, *concave* to the horizontal axis, shows price rising at a decreasing rate with the number of checks (though, like all the schedules in the survey, it has linear segments within which price rises at a con-

5. At one bank this balance is $200; at two banks, $300; at one, $400.



stant rate). This is a common kind of schedule. Equally common is the kind represented by Bank 2's schedule, the linearity of which shows price rising at a constant rate with the number of checks. Bank 3's schedule is the only one in our sample to be *convex* to the horizontal axis, showing price rising at an increasing rate with the number of checks.

The shape of a bank's price schedule tends, under competitive conditions, to reflect the shape of its cost schedule—the schedule that relates processing costs to the number of checks processed. Since processing cost increases at a decreasing rate with the number of checks, the cost schedule is concave to the horizontal axis. However, price does not have to fully cover processing cost, because the bank can lend depositors' idle funds at interest. This fact allows the price schedule to take a different shape than the cost schedule and explains the existence of nonconcave price schedules. In our sample of 113 banks, 54 have linear price schedules; 54, concave; 4, horizontal; and 1, convex (though, as noted above, all have linear segments).

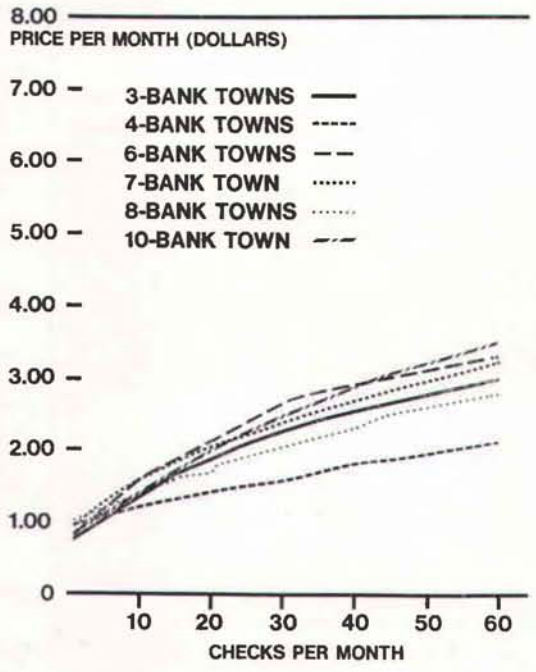
Variety of checking account prices

Banks 1, 2, and 3 are in the same town. Their markedly different prices thus give some idea of the great variety of checking account prices. This variety is even greater, of course, in the larger sample of banks.

In Chart 2 the price schedule marked "Mean" shows the simple arithmetic mean price in the entire sample as a function of account activity.

Chart 4

Average price is unrelated to the number of banks in a town



Thus, on average, the sample banks charge (implicitly and explicitly) $1.37 per month for processing 10 checks, $1.81 for processing 20, $2.19 for 30, and $2.45 for 40. (All figures include the charge for blank checks.) On a per-check basis, the figures are 13.7 cents for processing 10 checks, 9.0 cents for 20, 7.3 cents for 30, and 6.1 cents for 40. If the chart were extended out to 100 checks per month, it would show an average price of $3.73 per month, equivalent to 3.7 cents per check.

Equally interesting are the high and low prices and the ranges between them. Thus, for writing 10 checks per month, one could pay as much as $2.69 or as little as 16 cents; for 20, as much as $3.56 or as little as 32 cents; for 30, $4.03 or 48 cents. The range between high and low prices increases with the number of checks. A person writing 100 checks per month could pay as much as $12.42 or as little as $1.00!

Further illustrating the great variety of prices, Chart 3 plots the schedules of all the banks in four towns. Towns A and B have three banks apiece, but their prices are markedly different. In Town A the three price schedules actually coincide, and at a very low level relative to the entire sample.[6] In Town B the schedules could hardly differ from each other more. Note particularly how much cheaper Bank 1 is for depositors who write 10 checks or more per month.[7]

Differing less sharply than in Towns A and B, but nevertheless considerably, are the prices in Towns C and D, each with six banks. As Chart 3 shows, prices in Town C are both more homogeneous and lower (on average) than in Town D.

Questionable influence of the number of banks

Some theories of banking competition imply that prices will be lower in towns that have more banks: the more numerous the banks, the more intense the competition between them and the lower, therefore, will be their prices. Our study provides no support for such theories.

Our sample encompasses the banks of 23 towns. Eight towns have 3 banks, six have 4 banks, four have 6, one has 7, three have 8, and one has 10. Chart 4 plots average prices against account activ-

6. Only one other town in our sample has coincident price schedules; it has four banks.
7. This is a very young bank that, like most such banks, is trying to attract deposits by offering low prices.

ity for towns with particular numbers of banks. It shows no clear correlation between the number of banks in a town and the average prices there. The 10-bank town is one of the most expensive for check writers. The three 8-bank towns are among the least expensive. On average, the least expensive by a considerable margin are the 4-bank towns. Evidently, checking account prices in a town bear no simple relation to the number of banks it has.

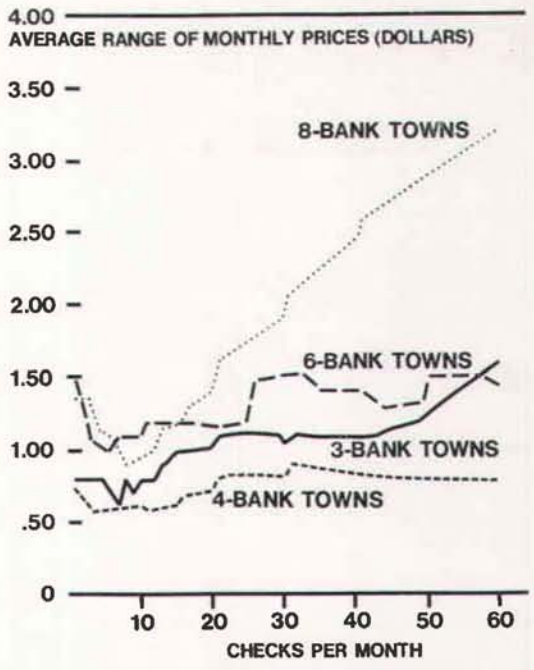
The range between high and low prices increases with the number of checks. A person writing 100 checks per month could pay as much as $12.42 or as little as $1.00!

The averages plotted in Chart 4 conceal much variation. Chart 5 shows the average *range* of prices—highest minus lowest—in 3-, 4-, 6-, and 8-bank towns. (Each group contains 24 banks.) The range is greatest, on average, in the 8-bank towns for all levels of account activity except 7 to 15 checks per month; for these levels the range is greatest in the 6-bank towns. On the whole, the price range tends to narrow as the banks become fewer. This agrees with a prediction of some theories of banking competition that prices will be less diverse where the banks are fewer: facing an easier information-processing task, depositors can more easily discover the cheaper banks and, by patronizing them, force the expensive banks to lower their prices and thus reduce the range. Perhaps there is something to this view.

Another measure of variability is variance, the average squared deviation from the mean. The variance increases with the range of prices and with any tendency prices have to fall near the ends of the range rather than the center. The variance tells essentially the same story about price variability that the range does.

Chart 5

Average range of prices tends to be greater the more numerous the banks



Correlations between mean and variability

We computed the correlation coefficients between town means and variances at three points on the price schedules—at 12, 24, and 36 checks per month.[8] At 12 checks per month, the correlation coefficient is .22; at 24, it is .33; at 36, .32. These positive coefficients indicate that prices tend to be higher in those towns where they are more vari-

able, just as in the comparisons between Towns A and B and between Towns C and D. But since the coefficients are considerably less than +1 (their maximum possible value), they indicate that the tendency is rather weak.[9]

Nevertheless, it is significant that the coefficients are not negative. They would be negative if, as is believed in certain quarters, bankers collusively fixed prices. Collusive price-fixing would imply negative correlation coefficients because it would cause the high-price towns to have less variable prices. A collusive agreement to fix high prices must also produce identical or near identical prices; otherwise, it is hard to see wherein the agreement lies. Hence the tendency of prices to be highly variable in the towns where their average is high indicates an absence of collusion. Reinforcing this indication is the extremely low average of prices in those towns where they are identical or nearly so. If the relatively uniform prices resulted from collusion, they would be higher; the fact that they are so low indicates that they result from vigorous competition. The evidence casts doubt on the view, strongly held by many students of banking, that bankers price in collusion.

8. The correlation coefficient, ranging from –1 to +1 in value, is a measure of the tendency of two variables to vary in similar or dissimilar ways. Its value is –1 if the variables vary in a strictly opposite manner, 0 if the variables vary independently of each other, and +1 if the variables move together.

9. None of the correlation coefficients is significantly different from zero at the 5-percent level. However, combining the data for 12, 24, and 36 checks per month, we get a correlation coefficient of .36, which is significantly different from zero at the 1-percent level.

New state member bank

First Bank & Trust Company, Dawson, Texas, located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, was admitted April 17, 1978, as a member of the Federal Reserve System. The bank was formerly the First National Bank of Dawson, Dawson, Texas, and converted to a state charter on that date. The bank has a capital structure of $376,000, consisting of capital stock of $75,000, surplus of $125,000, and undivided profits and reserves of $176,000. The officers are: C. M. Newton, Jr., Chairman of the Board and President; J. Newton Barron, Assistant Vice President; H. D. Coleman, Cashier; and Mary Freeland, Assistant Cashier.

New national member banks

Overton Park National Bank, Fort Worth, Texas, a newly organized institution located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, opened for business May 11, 1978, as a member of the Federal Reserve System. The new member bank opened with capital of $640,000 and surplus of $640,000. The officers are: Cass O. Edwards, II, Chairman of the Board; David L. Tapp, President; Lou Lunday, Vice President and Cashier; and Ben B. Boothe, Vice President.

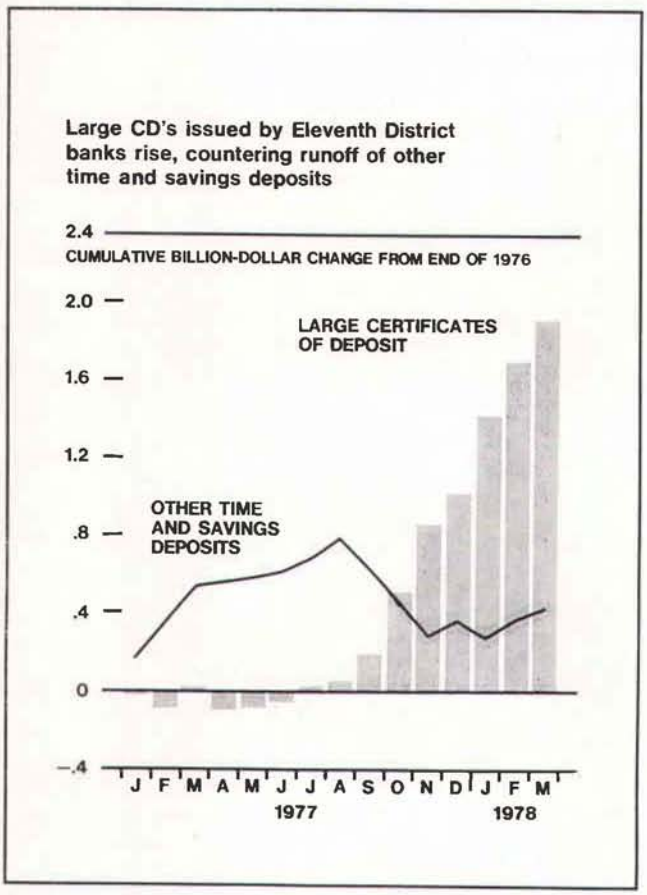
Lake Worth National Bank, Fort Worth, Texas, a newly organized institution located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, opened for business May 12, 1978, as a member of the Federal Reserve System. The new member bank opened with capital of $500,000 and surplus of $500,000. The officers are: Berniece Harrell, Chairman of the Board; Robert R. Cleveland, President; and Nick P. Griffin, Vice President and Cashier.

New nonmember banks

Citizens State Bank, Roma, Texas, a newly organized insured nonmember bank located in the territory served by the San Antonio Branch of the Federal Reserve Bank of Dallas, opened for business May 15, 1978.

Ingram State Bank, Ingram, Texas, a newly organized insured nonmember bank located in the territory served by the San Antonio Branch of the Federal Reserve Bank of Dallas, opened for business May 1, 1978.

Large Time Deposits Up Sharply at District Banks



Large commercial banks in the Eleventh Federal Reserve District have sharply boosted their time deposits in denominations of $100,000 or more (large CD's) since last July. In the eight-month period, July through March, large CD's rose nearly $1.9 billion at these banks to a total of $6.2 billion. The rapid growth reflected aggressive bidding by banks for these funds to accommodate sharp growth in loans. Other time and savings deposits declined during this period, and demand deposits grew slowly. This is a fairly typical pattern for both loans and deposits when the economy is well into a period of sustained expansion.

The recent growth in large CD's reverses the downtrend of the prior 2½ years. The volume of large CD's outstanding at District banks fell quite steadily from early 1975 to mid-1977, as short-term interest rates declined sharply and the growth of "passbook" savings deposits outpaced the moderate demand for loans. In addition, demand deposits and time deposits other than large CD's expanded moderately. From the end of 1974 to mid-1976, total loans at large District banks rose only 3 percent. Businesses, in particular, made little demand for short-term bank credit. Interest rates on long-term borrowings in the capital market declined, and some corporations reduced their debt to banks with funds obtained from bond and equity issues. And in 1976, a sharp increase in corporate profits allowed businesses to finance a larger portion of their operations with internally generated funds.

Although demand for bank loans began to pick up substantially in the last half of 1976, large District banks did not need to bid aggressively for large CD's. Savings inflows were in record volume as many customers reinvested maturing CD's in savings deposits. Rates paid on regular savings deposits generally exceeded the rates offered on new CD's.

This situation was relatively short lived, as credit demand picked up sharply. With a growing budget deficit, the Federal Government borrowed more than $65 billion from the public in 1977. The major portion of that financing centered on the issuance of short- or intermediate-term notes and bonds. Moreover, business demand for external funds to finance inventories and capital expansion rose substantially, and businesses returned increasingly to the short-term market—and commercial banks in particular—for those growing financing needs.

The increasing demand for credit soon caused growth in the nation's money supply to exceed the target levels of monetary policy, and the Federal Reserve began to allow short-term interest rates to rise in the second quarter of 1977. By August, most short-term rates—including rates on large CD's—once again substantially exceeded the maximum rate banks were allowed to pay on savings deposits. Inflows of savings deposits slowed and soon turned to outflows as depositors began reinvesting their savings deposits in large CD's, which were yielding higher returns. From July 1977 to March 1978, savings deposits at large District banks declined $303 million. At the same time, total loans increased 15 percent, or more than $1.9 billion.

By the fourth quarter of 1977, maximum rates on small-denomination time deposits with maturities less than four years were below rates on market instruments of comparable maturities. In this environment, time deposits—other than large CD's—at large District banks grew only slightly in the last quarter of 1977 and the first quarter of this year. The continued competitiveness of small time deposits maturing in more than four years probably kept those deposits from declining also.

With the net outflow of savings and small-denomination time deposits, large District banks found it necessary to seek alternative sources of funds to accommodate the sharp increase in loan demand. While banks acquired sizable volumes of funds from such nondeposit sources as the Federal funds market, they relied most heavily on the issuance of large CD's.

The ceiling rates that commercial banks are permitted to pay on time and savings deposits of less than $100,000 are established by the Federal Reserve Board and the Federal Deposit Insurance Corporation and could be raised if this were deemed desirable. Similar regulations for savings and loan associations are established by the Federal Home Loan Bank Board. In addition, ceiling rates that mutual savings banks may pay on deposits are set by the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, or various state legislatures—depending on the banks' membership.

An increase in the ceiling rates at this time would require cooperation among those regulators, with close attention given to maintaining the legal competitive balance between commercial banks and savings and loan associations and mutual savings banks. Raising ceilings could have the beneficial effect of avoiding an artificial restriction on the flow of funds into housing and other areas served by these lending institutions and would lessen the degree of discrimination against the small saver whose funds are of insufficient size to invest in large CD's or similar short-term securities.

The Federal Reserve System, in conjunction with the Federal Home Loan Bank Board, made across-the-board increases in the ceilings twice in the past decade—in 1973 and 1970—in response to rising money market interest rates. In each instance, however, interest rates on alternative investments rose almost equally as fast, so there was very little observable impact on deposit inflows. Savings deposits at large District banks declined

MAXIMUM INTEREST RATES PAYABLE ON TIME AND SAVINGS DEPOSITS AT INSURED U.S. COMMERCIAL BANKS

(In effect March 31, 1978)

Type and maturity of deposit	Percent per annum
Savings deposits	5
Time deposits other than large CD's[1]	
30 to 89 days	5
90 days to 1 year	5½
1 to 2½ years	6
2½ to 4 years	6½
4 to 6 years	7¼
6 years or more	7½
Governmental units (all maturities)	7¾
Individual retirement accounts	7¾

1. Maximum rates on time deposits in denominations of $100,000 or more were suspended in mid-1973.
SOURCE: Board of Governors, Federal Reserve System.

in both 1973 and 1970; inflows of small-denomination time deposits also fell in 1973 and rose only slightly in 1970.

The buildup in large CD's at District banks is likely to continue throughout the year, assuming demands for short-term credit—particularly by businesses and the Federal Government—remain strong and maintain upward pressure on short-term interest rates. Moreover, as recent downward pressure on the value of the dollar in foreign exchange markets has begun to diminish, there has tended to be less of a net flow of dollars to foreign central banks. If this continues, these central banks will be placing smaller amounts of their international reserve funds in the U.S. credit market, resulting in further upward pressure on interest rates. With the strong likelihood that money market rates will remain above ceiling rates on savings deposits and most time deposits under $100,000, District banks will continue to bid aggressively for large CD's this year.

Mary G. Grandstaff

Consumer Pamphlets Available

Pamphlets describing major aspects of the Equal Credit Opportunity Act as it affects various borrowers are available without charge from the Federal Reserve Bank of Dallas. The act forbids discrimination in credit transactions on the basis of sex or marital status, race, color, religion, national origin, age, or receipt of income from public assistance programs.

The series includes pamphlets on:

- The Equal Credit Opportunity Act and Age
- The Equal Credit Opportunity Act and Credit Rights in Housing
- The Equal Credit Opportunity Act and Incidental Creditors
- The Equal Credit Opportunity Act and Women
- Fair Credit Billing
- If You Borrow to Buy Stock
- What Truth in Lending Means to You

Copies of the pamphlets may be obtained from the Bank and Public Information Department, (214) 651-6267.

Fed Approves Automatic Transfer Proposal

The Federal Reserve Board approved, on May 1, a proposal to permit banks and their customers to arrange automatic transfers of funds from personal savings accounts to checking accounts. Member banks may offer the new service beginning November 1, 1978.

The Board acted after extensive review of the record number of comments—1,380—received on the proposal, which was published in early February. The total number of respondents was fairly equally divided, with 52 percent favoring the proposal and 48 percent opposing it.

The amendment to Regulation Q allows individual customers of member banks to make arrangements, in advance, to transfer funds automatically from savings accounts to checking accounts to cover overdrafts or to ensure the maintenance of a minimum balance in the checking account.

The automatic transfer service will be available only to individuals and will be entirely voluntary for both the bank and the customer.

No penalty, such as forfeiture of interest or payment of a service charge, will be required for automatic transfers. Under the proposal as published in February, if automatic transfers were made, the depositor would have been required to forfeit a minimum amount equal to the interest actually earned during the previous 30 days on the amount transferred. Many of the banks that wrote to the Board opposed this aspect of the proposal because of complex operational problems. Banks may, of course, choose to establish fees, minimum size of transfers, or other terms for the automatic transfer service.

Banks will have until November 1, 1978, to prepare for an orderly introduction of the service. A number of banks that wrote to the Board were concerned about the proposed 60-day deferral from the date of adoption to implementation. These banks reported that a longer period was needed to make the necessary changes in computer programs and other procedures and practices.

Surprisingly, of the 1,380 comments received on the proposal, the largest number, 517, came from individuals. Many of the letters were handwritten, and almost all were in favor of the proposal. Consumers see the plan as potentially providing an attractive, convenient bank service. The large response from individuals was unusual. Most banking regulations published by the Board for comment generate very little consumer response.

The next largest number of comments, 382, came from commercial banks and bank holding companies, with a majority endorsing the proposal. All comments received from the savings and loan industry, 370, opposed it. The other 111 letters came from members of Congress, trade groups and associations, mutual savings banks, credit unions, Federal Reserve banks, government agencies, and others.

From the four states of the Eleventh District (this Federal Reserve District includes Texas and parts of Louisiana, New Mexico, and Oklahoma), 120 comments were received, with 57 percent opposing the proposal. These comments were received from 43 commercial banks and bank holding companies, 63 percent opposed; 35 individuals, 97 percent in favor; 34 savings and loan associations, all opposed; 5 members of Congress, all opposed; 1 trade group, opposed; the Federal Reserve Bank of Dallas, in favor; and 1 "other," in favor.

Many of those opposed to the plan, both in the Eleventh District states and in the nation as a whole, said that it violates the prohibition against payment of interest on demand deposits. However, the Board said that the key distinction between demand deposits and savings deposits is preserved. This distinction is that a bank must reserve the right to at least 30 days' notice prior to withdrawal of a savings deposit. Participating banks are required to disclose this fact prominently and call it to the attention of depositors.

Community Reinvestment Act Hearing Held at the Fed

A public hearing on the implementation of the Community Reinvestment Act was held at the Federal Reserve Bank of Dallas March 27, 1978. Representatives of the Federal Reserve Board, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board heard the views of 18 witnesses on how to interpret and administer the act.

The Community Reinvestment Act, part of the Housing and Community Development Act signed into law October 12, 1977, requires the four Federal regulators to encourage bank and thrift institutions that they supervise "to help meet the credit needs of the local communities in which they are chartered." When examining an institution within its jurisdiction, the regulator must "assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods" and "take that record into account in its evaluation of any application by the institution for a charter, deposit insurance, branch or other deposit facility, office relocation, merger, or acquisition of bank or savings institution shares."

The act is written in general terms. Key phrases such as "credit needs," "entire community," "neighborhoods," and "take into account" are not defined. The hearing was held to aid the regulators in interpreting these terms and other aspects of the act and shaping regulations to implement it.

Opinions of the witnesses varied greatly, as indicated by the following brief excerpts from the testimony.

Among the comments of those who viewed the legislation favorably were the following:

"[We] believe that Congress has taken a couple of steps in the right direction by passing the Community Reinvestment Act."

"I would be glad to see a federal regulation concerning the disparity of lending based on the area of the city in which parcels of real estate are located. I pray though, that in the enforcement of the regulation judicious interpretation and use are given it."

However, not everyone approved of the act, as shown in these comments:

"The Community Reinvestment Act of 1977 is unwarranted and dangerous legislation, and should be repealed. It is a step toward credit allocation, a movement that will result in dire consequences for both the public and the financial community."

"It is probably too much to hope for, but in the long run the public might be better served if the Community Reinvestment Act could be repealed."

Witnesses' suggestions and comments on the interpretation of the act and development of regulations to implement it included the following:

"I would suggest that regulations be developed that give the banker freedom to provide the credit needs of his community according to his particular situation. If he doesn't serve his community, some other financial institution will if the business is profitable. If there is no profit to be made, the bank should not be required by regulation to make the loans."

"Each individual bank must determine its bank marketing area, credit-worthy lending needs, and the type of lending that it is capable of handling. A bank may not have the strength or ability to handle every credit-worthy need."

"The legislative history makes it clear that financial institutions are to be left to the exercise of their best judgment in making loans to the pool of credit worthy applicants in their area or credit market."

"Each lender should set its own credit-worthy standards as it best knows the standards for its territory."

"The final regulations should be careful to preserve the right of each individual lending institution to make its own decision regarding a proposed extension of credit, based on its evaluation of an application, utilizing its own nondiscriminatory standards of credit worthiness and its assessment of the current credit market."

"Community organizations such as ACORN [Association of Community Organizations for Reform Now] should be consulted regularly along with local governments to get information about the actual credit needs of a community."

"We think in the present environment extensive and complicated regulations are unwise and unnecessary. The agencies must have freedom in which to examine and evaluate based on each institution's circumstances and the variable needs of the community in which it is located. A single set of standards to be applied 'across the board' is obviously not feasible."

"The regulations should be flexible to meet the various situations which will present themselves and more importantly be easily understandable."

"I think regulations which are adopted in terms of guidelines rather than parameters will be more useful."

"At the sacrifice of some certainty, we urge you to consider an extremely simple approach to the writing of these regulations."

"While there has been much complaint about the vagueness of the statute, I think that vagueness could be at least interpreted to mean that the regulators also should avoid being totally precise in this area due to the vagaries which are involved."

"The regulations should be written as a general guide to examiners rather than as extensive and burdensome rules that could strangle the efforts of the great majority who attempt to serve their 'communities' well."

"The regulations should be 'customized' for each institution."

"Congress anticipated that no single financial institution would be expected to meet all of the credit needs of the community but rather only encourage to *help* meet such credit needs. The CRA regulations should recognize this and be broad enough so that banks would not be forced into a savings and loan or credit union mold or the latter forced into a bank mold."

"I think it is impossible to accurately measure the credit needs of any community by one definition or one set of criteria."

"A standard or definition that is quite appropriate for one situation produces wholly unacceptable results when applied to other situations."

"We believe circumstances require a broad definition of the 'entire community' where a lending institution does business. This definition should include the entire area where a lending institution makes a significant volume of loans, but it should also include all other areas which are within the same distance from the institution as *any*

area where a significant volume of loans are made. This is an important step to avoid the possibility that lenders might try to 'gerry-mander' their lending areas."

"Regulators should allow financial institutions to define for themselves the term community and must allow them the right to select the mix of financial services to be offered that community."

"In my view, the definition of community is most likely better defined for financial institutions by themselves than by financial regulators."

"CRA is not a credit allocation statute. . . . This view is clearly stated in the following language in the Senate Banking Committee report on the CRA provision: '. . . the Committee rejects the assertion that this Title allocates credit.' "

"The legislative history of the Act clearly reflects that Congress rejected all attempts to impose any form of credit allocation or to add to the recordkeeping and reporting requirements now imposed on financial institutions."

"Heed the Senate Banking Committee report which concluded the regulatory agencies already have sufficient data available to carry out the intent of the Act without requiring additional paper work."

"Congress did not intend that the Community Reinvestment Act be made a source of additional recordkeeping or reporting by banks. Further support for this view may be gathered from the Report of the Senate Committee on the Housing and Community Development Act. Senate Report No. 95-175 states: 'The question of whether the bill will increase the regulatory burden on financial institutions was thoroughly considered by the Committee. The Committee believes that the regulatory agencies already have sufficient data available to carry out the intent of this Act without requiring additional red tape.' "

Now the Federal regulators must try to incorporate these suggestions and the suggestions received at similar hearings held across the country into workable regulations. These regulations must capture the intent of Congress, be operationally manageable, avoid burdensome recordkeeping, and leave the responsibility for decisions on creditworthiness clearly in the hands of lenders.