Spring 2000

CENTRAL Banker
NEWS AND VIEWS FOR EIGHTH DISTRICT BANKERS
SPRING ISSUE

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Putting the Gramm-Leach-Bliley Act to Work

Immediately following the passage of the Gramm-Leach-Bliley Act (GLB) in early November, the Board of Governors and other banking agencies began the considerable task of drafting regulations to implement the legislation. Public comments on the proposed regulations, especially those from financial institutions, are a critical part of this process.

New Financial Powers

On Jan. 19, the Board issued interim amendments to Regulation Y that address how bank holding companies may exercise the new financial powers authorized by GLB. The interim rule establishes a simple process by which a bank holding company can certify itself as a "financial holding company" (FHC) and engage in a broader range of financial businesses. The Board has published changes to Regulation H that establish a similar process to enable state member banks to operate financial subsidiaries.

The Board has also worked with the U.S. Treasury to define the scope of the merchant banking authority. On March 17, it issued an interim rule that implements the merchant banking provisions of GLB. The rule would prohibit the FHC from participating in the day-to-day management of the companies it invests in, limit the term of most investments to 10 years and cap total investments at the lesser of Tier 1 capital or $6 billion. The Board and Treasury have also issued a proposed rule that would require FHCs to deduct 50 percent of such investments from Tier 1 capital. Comments on these rules are due May 22.

In addition, the Board has issued an interim rule amending Regulation Y that lists the financial businesses permissible for financial holding companies under GLB and establishes procedures for engaging in these activities. The rule also outlines a process for asking the Board to add other activities to the list. Comments are due May 12.

Consumer Privacy

On Feb. 22, the Board and other federal agencies proposed a new Regulation P, Privacy of Consumer Financial Information. One of the most difficult issues in implementing the consumer privacy provisions of GLB is defining the term "nonpublic personal information" and determining the scope of the exemption for "publicly available information." The agencies sought comment on the proposed definitions of these terms, how financial institutions will comply with the notice and opt-out requirements, and ways in which the regulation can be clarified. They are currently working together to amend the regulation as necessary.

Community Reinvestment Act Sunshine

Implementing GLB's CRA agreement "sunshine" provision is also a complex task. The Board and other banking agencies will issue a proposed rule for comment in the near future. They will seek comments on what types of agreements should be covered by the public disclosure requirements, what information should be contained in the required disclosures and annual reports, and, perhaps, how compliance with the sunshine requirements should be enforced.

Transactions with Financial Affiliates

Bringing down the walls between commercial banking, investment banking and insurance underwriting increases the importance of sections 23A & B of the Federal Reserve Act ("Relations with Affiliates" and "Restrictions on Transactions with Affiliates," respectively). GLB extends sections 23A & B to regulate transactions between banks and their own financial subsidiaries. The Board will soon publish a proposed regulation to address such transactions and formalize many of its existing interpretations of Section 23A.

On March 10, the Board approved an interim rule that applies sections 23A & B to extensions of intraday credit and to derivative transactions. Comments on this rule are due May 12.

The Board welcomes your comments on all proposals. Full text and up-to-date information regarding Federal Reserve Board actions is available through the Board's web site: http://www.federalreserve.gov/newsevents/default.htm.

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Feditorial: Y2K: A Post-Mortem

William Poole

After much anticipation, it seems that the "Millennium Bug" generated more buzz than bite. With the exception of a few minor glitches, the country made a remarkably smooth transition into the Year 2000. Nevertheless, some have questioned whether the time and money spent in preparation for Y2K—particularly by the banking industry—were really necessary.

I have no doubt that the outcome was well worth the expense and effort. After years of preparation, which included numerous tests of internal systems and services provided by outside vendors, both the Fed and financial institutions were able to report that they were ready for Y2K. Your hard work helped achieve our primary goals: to maintain consumer confidence in the banking industry, and, in turn, to keep cash demand at a minimum.

Here at the Fed, as I'm sure is true in your organization, we are beginning to realize additional returns on our Y2K investments. As a result of contingency planning, we now have more comprehensive documentation of our automated systems, product inventories and procedures. We also have developed new project management tools and strategies that will help us track progress and manage risks in future ventures.

There are intangible benefits, as well. The Y2K experience afforded us a unique opportunity to strengthen working relationships with other financial institution regulators and our customers. United by a common mission, the regulatory agencies demonstrated an unprecedented willingness to collaborate and share information. And through increased contact with you, our customers, we have improved existing lines of communication. We are committed to preserving this spirit of cooperation.

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https://www.stlouisfed.org/publications/central-banker/spring-2000/fomc-statements-focus-on-assessment-of-economic-risks

FOMC Statements Focus on Assessment of Economic Risks

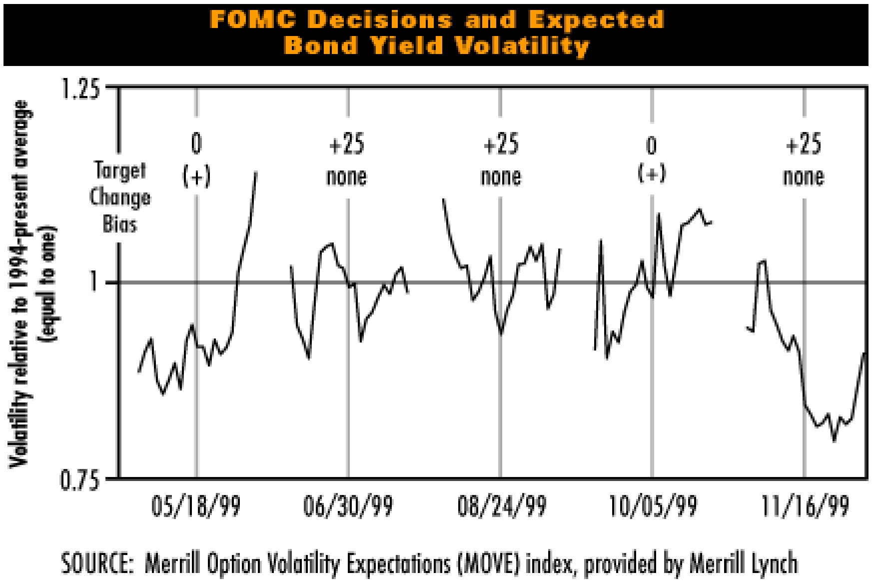
Michael J. Dueker

From the 1980s into the early 1990s, many of the adjustments that the Federal Open Market Committee (FOMC) made to its target for the federal funds rate took place between regularly scheduled meetings. Accordingly, the FOMC adopted language in the directives it issued at meetings to indicate possible policy moves before the next meeting. Since 1992, however, policy moves between meetings have been the exception, as all but two changes in the federal funds target rate occurred at FOMC meetings.

Despite the reduced reliance on intermeeting target changes, the FOMC did not update the language in its policy directive until February 2000, even though it began immediately releasing its policy leanings to the public in May 1999. On Jan. 19, 2000, the FOMC announced that it would begin using new language in the statements made public after its meetings to provide an "assessment of the risks to satisfactory economic performance." The committee now indicates if risks are tilted toward either "heightened inflation pressures" or "general economic weakness."

More broadly, however, the FOMC has adopted new language to place increased emphasis on the long-run goals of monetary policy—stable prices and sustainable economic growth—and less emphasis on the likelihood of an increase or decrease in the fed funds target rate in the near term. On several occasions in 1999, the FOMC found that financial markets showed exaggerated responses to any new data thought to point to higher interest rates if the committee had announced a directive biased toward tightening. One way to see the effect of the announced directives on financial market volatility since May 1999 is to look at expected bond yield volatility as measured in options prices for Treasury bonds. The bond market provides evidence about this question, because uncertainty about the future course of short-term interest rates—such as the federal funds rate—will also be reflected in uncertainty about the future behavior of bond yields.

The accompanying chart shows an index of bond market volatility (the Merrill Option Volatility Expectations Index) for 10 business days before and after each FOMC meeting from May 1999 to November 1999.[1] At the top of the chart, the change in the federal funds target rate and the FOMC's bias are noted for each meeting (+ for a bias toward future tightening and—for a bias toward easing). In this period, bond market uncertainty tended to increase when the FOMC announced a bias toward future tightening. With the new disclosure language, Federal Reserve policy-makers intend to establish a forum for clearly communicating their appraisal of possible threats to the attainment of long-run goals, without putting financial markets on a hair trigger concerning shifts in the likely course of interest rates. At the conclusion of the meeting on Feb. 2, 2000, the FOMC first employed the new language and announced that the risk of heightened inflation pressures predominated in that current "trends could foster inflationary imbalances." Following its meeting on March 21, 2000, the FOMC reiterated concern about the possible emergence of "inflation imbalances that would undermine the economy's record economic expansion."



Endnotes

1. Data for December 1999 are omitted because market perceptions of diminishing Y2K risks dominated any market response to the FOMC's neutral policy stance. [back to text]

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Fed Steps up Plans to Deliver Financial Services via the Web

In response to customer feedback, the Federal Reserve announced that it will accelerate its efforts to develop FedLine® services for the Internet. The decision was made after last year's National Customer Satisfaction Survey, which revealed a need to enhance the delivery of financial services using web-based technology.

FedLine software currently uses a DOS-based operating system. Later this year, however, the Fed will begin transferring current customers to both the new FedLine software designed for the Microsoft Windows NT® Workstation and to FedLine for the Web. FedLine for the Web uses off-the-shelf browser software to access a secure web site that offers FedLine services, such as cash, check imaging, statistical reporting, savings bonds and check adjustments (availability of each service will differ among Fed offices).

Delivering FedLine services through a web environment presents several advantages. Web-based applications are easy to use, secure and convenient—any computer that is loaded with browser software and an Internet connection can access such services. FedLine for the Web also incorporates significantly enhanced features and functions compared with the current software.

Reserve Banks are conducting pilot programs for delivering these web-based services with financial institutions across the country. Look for details on the implementation of FedLine for the Web later this year. For more information, visit the Federal Reserve Financial Services web site, www.frbservices.org, or contact your local FedLine support area.

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https://www.stlouisfed.org/publications/central-banker/spring-2000/fed-develops-resource-guide-for-mcp-project

Fed Develops Resource Guide for MCP Project

Purchasing a home is a complex process by nature. Along the way, a prospective home-buyer may face obstacles that can impede the purchase of a home.

The Mortgage Credit Partnership (MCP) project is designed to broaden home ownership opportunities by assembling representatives of the insurance, real estate, appraisal and lending industries. Together, these professionals examine the home buying process in their area to identify where barriers exist and recommend remedies. The ultimate goal is to ensure fair and consistent treatment, regardless of race, gender or ethnicity.

The St. Louis Fed's Community Affairs Department has prepared an *MCP Resource Guide* based on the experiences of the seven cities that have conducted an MCP project: Boston, Chicago, Cleveland, Cincinnati, New York, San Francisco and St. Louis. The free guide outlines a step-by-step process for duplicating the MCP model—from how to develop a project plan and recruit industry professionals, to guidance on forming task groups and implementing recommendations. The guide also contains project checklists, sample letters and invitations and suggested meeting formats.

To order the *MCP Resource Guide*, call Diana Zahner at (314) 444-8761. For more information about leading or participating in a Mortgage Credit Partnership, contact Glenda Wilson at (314) 444-8317.

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Direct Payment Campaign Expands Again

Once again, the St. Louis Fed will partner with financial institutions and utility companies in the St. Louis area to increase participation in the Joint Utility Direct Payment Program, a campaign that encourages customers to use direct payment for their utility bills.

The Fed coordinates participation in the program and produces a standard enrollment form listing all participating utilities. Institutions can order these forms to distribute as inserts in their customers' monthly statements. Consumers using the single form can sign up to make direct payments to multiple utility companies. Last year, eight utility companies in Missouri and Illinois and nearly 30 financial institutions participated in the program. A total of 2,860 consumers registered for the service.

"Our direct payment program offers our customers great convenience and reduces our payment processing costs," says Steven T. Lux, assistant treasurer and manager of Treasury Technology Services at Ameren Corp. in St. Louis. "It's a service our customers have embraced enthusiastically."

In March, the Fed will begin approaching utility companies in Little Rock, Louisville and Memphis in hopes of expanding the program to the Branch cities. New enrollment forms for the St. Louis program will be available this summer.

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Regional Roundup

Nine Appointed Members of District Boards of Directors

The Federal Reserve Bank of St. Louis has announced several changes to its board of directors and the boards of directors at each of its branches. The following individuals will serve three-year terms:

St. Louis Board

Lunsford W. Bridges, president and CEO of Metropolitan National Bank, Little Rock, Ark.

Joseph E. Gliessner Jr., executive director of New Directions Housing Corp., Louisville, Ky.

Louisville Board

Larry E. Dunigan, chairman and CEO of Holiday Management Corp., Evansville, Ind.

Edwin K. Page, vice president of external affairs for AP Technoglass Co., Elizabethtown, Ky.

Little Rock Board

Raymond E. Skelton,* CEO of Mercantile Bank of Arkansas, N.A., Little Rock, Ark.

Everett Tucker III, partner in Moses Nosari Tucker Real Estate, Little Rock, Ark.

Ross M. Whipple, chairman of Summit Bank, Arkadelphia, Ark.

Memphis Board

James A. England, chairman, president and CEO of Decatur County Bank, Decaturville, Tenn.

John C. Kelley Jr., president of business financial services for First Tennessee Bank, Memphis, Tenn.

**Skelton will fill the remaining portion of a three-year term ending Dec. 31, 2000.*

M. Dean Keyes Appointed to Consumer Advisory Council

The Federal Reserve Board has appointed St. Louisan M. Dean Keyes to a three-year term on its Consumer Advisory Council. The council advises the Board on the exercise of its responsibilities under the Consumer Credit Protection Act and on other matters related to consumer financial services.

Keyes is a senior vice president and Director of Corporate Community Reinvestment Act Initiatives for Mercantile Bancorporation Inc. and participates on the boards of organizations that serve to promote affordable housing, safe streets, racial equality, jobs and economic development.

Discount Rate Changes Now on St. Louis Web Site

Changes in the Eighth District discount rate are now announced on the home page of the St. Louis Fed's Internet site (www.stlouisfed.org) under the heading, "What's New." These announcements will appear on the home page for five business days following a rate change. Current and historical discount and seasonal credit rates are also available online through the FRED data base at http://research.stlouisfed.org/fred2/.

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https://www.stlouisfed.org/publications/central-banker/spring-2000/fedfacts

FedFacts

Fed Enhances Electronic Data Reporting

The Fed has added new features to its Internet Electronic Submission (IESUB) web site. Depository institutions now can load data for the FR 2900 "Report of Transaction Accounts, Other Deposits and Vault Cash" from their spreadsheet files directly to the web page.

This change eliminates the need to re-enter the information. Institutions can also add specific remarks about the data submission or give feedback about the web site.

To sign up for Internet reporting or learn more about the enhancements, contact Robin Miller at (314) 444-8554, or by e-mail at robin.miller@stls.frb.org.

Revised Services Directory Available

The recently revised *Directory of the Federal Reserve Bank of St. Louis* is now available. This publication gives an up-to-date listing of frequently contacted departments, staff members and phone numbers at all Eighth District offices. To order copies of the directory, call Tracie Mueller at (314) 444-8810.

New Online Community Affairs Resources

Two new System web sites offer quick access to a variety of community development information.

The **Consumer and Economic Development Research and Information Center (CEDRIC)** provides information related to consumer, community and economic development issues nationwide. CEDRIC also offers links to regional resources, such as research articles, working papers, data sources and Fed publications.

CEDRIC: www.chicagofed.org/region/community-development/cedric/index

1st Source, developed by the Kansas City Fed, connects users with resources for financing affordable housing, business development, community infrastructure and agribusiness. Based on project information provided by the user, 1st Source locates grant and loan programs and other resources. If a program looks promising, users can contact the agency through the Internet link, telephone number or address listed.

www.federalreserveconsumerhelp.gov/