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Discount Window Services

Eligibility for Federal Reserve Bank credit on a short-term basis at the "discount window" remains an attractive feature of Federal Reserve membership. It is one which banks use today much as they did when the System was founded in 1913, and it is used for the same basic reason: to adequately accommodate the financial needs of commerce, industry, and agriculture in the bank's community.

HELPS MEET UNEXPECTED SITUATIONS

While Federal Reserve credit is not usually available for periods of longer than 90 days and is not to be used as a substitute for capital, it can be utilized to help member banks meet appropriate unusual or unexpected situations, an important advantage as a potential resource.

Loans are made at each of the four Eighth District offices. If a bank's request is received by 3 p.m. any business day, credit is extended the same day, unless otherwise requested. Loans are automatically repaid on the maturity date — the member bank's reserve account is charged for the principal amount borrowed plus accrued interest. Loans may also be prepaid partially or in full.

THREE TYPES OF CREDIT

Three basic types of credit are available. "Adjustment credit," usually maturing in 1-15 days (subject to renewal), is intended to meet a bank's temporary need for funds as a result of sudden deposit withdrawals or increases in loan demand. The "seasonal borrowing privilege," available to qualifying banks with deposits of up to \$500 million, assists member banks which need additional funds for longer periods in meeting regular and recurring needs for funds resulting from a combination of expected patterns and movements in loans and deposits. "Other" credit is extended in unusual or emergency situations that result from national, regional, or local difficulties.

INTEREST RATES

The interest rate charged on loans at the discount window is specified in the current Supplement to Federal Reserve Bank of St. Louis Operating Letter 7. If the rate is changed while the loan is outstanding, the new rate will be applicable for the period after the effective date of change.

For more information about Federal Reserve Bank credit, consult Regulation A and Operating Letter 7 — or contact: Harold E. Slingerland (St. Louis); Michael T. Moriarty (Little Rock); James E. Conrad (Louisville); or A. C. Cremerius, Jr. (Memphis).

Consumer Information Available

The growing popularity of the Federal Reserve Bank of St. Louis' new Consumer Advisory Service has resulted in visits to 82 Eighth District banks (24 state banks, 58 national banks) since the program was initiated in March, 1977.

At the request of any District member bank, a Federal Reserve representative familiar with the many new consumer regulations will visit the particular institution to check the bank's policies, procedures, and forms relating to consumer credit protection laws and regulations. The representative will also be glad to discuss any aspect of the consumer regulations with officers and staff members.

Federal Reserve officials report considerable favorable follow-up correspondence from member banks utilizing the service, which represents a new approach in the Federal Reserve's efforts to aid member banks in complying with consumer regulations. The complexity of consumer credit regulations and laws has grown extensively since enactment of the Fair Housing Act of 1968. Of particular interest to many of the banks visited through the program is Regulation Z (Truth in Lending).

To arrange a Consumer Advisory Visit, contact the Consumer Affairs Section, Bank Supervision and Regulation Department, at the Federal Reserve Bank of St. Louis (phone 1-800-325-7517, ext. 8436).

"Truth In Lending" Actions

Amendments to Regulation Z which are intended to simplify compliance with the Truth in Lending Act were adopted recently by the Federal Reserve Board.

One amendment permits certain irregular payment amounts and periods to be considered "regular" for the purposes of calculating the annual percentage rate on consumer credit transactions, particularly graduated-payment mortgages. Transactions payable monthly with a term of at least 10 years may be arranged with an irregular initial period of 62 days or less and still be considered a "regular" period, and the resulting payment irregularities may be disregarded.

COMPLETE REPAYMENT SCHEDULE REQUIRED

The withdrawal of a proposed Regulation Z interpretation revision has led to another amendment, stipulating that disclosure of a complete indebtedness repayment schedule must be made on the reverse of the disclosure document or on a separate accompanying sheet. Proposed abbreviated payment schedules will not be permitted.

The Board of Governors has proposed for comment an interpretation of Regulation Z providing that an interest reduction on a time deposit used to secure a loan should be disclosed for Truth-in-Lending purposes. It is intended to clarify finance charge disclosures when state law fixes a maximum interest rate. Where such a maximum rate is set, an interest loss could result because federal law requires interest on a loan secured by a time deposit to be at least 1 percent more than the interest a customer receives on that time deposit.

BHC Check Verification Proposal

Comments were requested by mid-August on a proposed amendment to Regulation Y ("Bank Holding Companies") which would make check verification an activity permissible for bank holding company subsidiaries.

The proposed change was circulated by the Federal Reserve Board of Governors following receipt of an application from a Florida bank holding company which proposed that it engage, through a subsidiary, in providing check verification services to subscribing merchants. The merchants would accept certain personal checks written by customers in payment for goods and services. If an authorized check is subsequently dishonored, the subsidiary would buy it back from the merchant.

The Board is thus considering amending Regulation Y to permit all bank holding companies to offer such services by adding check verification to the list of activities determined to be permissible for bank holding companies.

Fair Debt Collection Practices Act

The "Fair Debt Collection Practices Act," which went into effect in March, prohibits abusive and deceptive practices by businesses that regularly collect defaulted consumer debts for other creditors. Commercial banks that make collections under reciprocal agreements are among those affected by this Act.

The Act exempts debts incurred for business or agricultural purposes. "Consumer debt" is defined as that incurred by an individual primarily for personal, family, or household purposes.

Banks with common ownership or common corporate control may collect defaulted debts for each other without being subject to the Act. However, if a bank regularly collects defaulted debts owed non-affiliated creditors, it becomes subject to the Act for those debts as well as for defaulted debts it collects for its affiliates.

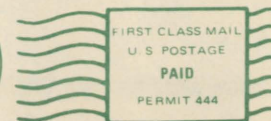
Banks may collect defaulted debts for other creditors in isolated instances without coming under the Act. Although an "isolated instance" is not precisely defined, various criteria are set forth to be considered for examination to determine if a bank regularly collects third-party debts, including the amount of time the bank devotes to such activity.

The Act sets forth specific prohibitions concerning collection abuse and harassment, false and misleading representation, and other unfair practices. It also specifies civil liability for those failing to comply.

A fact sheet regarding the Fair Debt Collection Practices Act has been circulated to Eighth District state member banks.

New Member Bank

The Citizens National Bank of Columbus, Mississippi, opened for business on July 24, 1978, as a member of the Federal Reserve System. The new bank, opening with capital of \$625,000 and surplus of \$625,000, is served by the Memphis Branch of the Federal Reserve Bank of St. Louis. Its officers are: Fred L. Beard, Chairman; William Aston Covington, President; and Ronald L. Good, Vice President and Cashier.



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Carol Thaxton

FIRST CLASS MAIL

The **Fed Letter** is published bi-monthly by the Federal Reserve Bank of St. Louis to help Eighth Federal Reserve District bankers keep informed on topics of importance to the banking industry. The Federal Reserve Bank of St. Louis is solely responsible for the contents of **The Fed Letter**. The publication does not necessarily represent the official or unofficial views of the Board of Governors of the Federal Reserve System.

Federal Reserve Film Available

Federal Reserve Bank operations are outlined in a new film, "The Fed - Our Central Bank," which is currently being distributed through the Federal Reserve Banks. The 19-minute documentary, produced by the Board of Governors, provides a behind-the-scenes look at how the Fed stimulates economic growth and jobs by managing money and credit, clearing checks, circulating coins and currency, supervising banks, and administering consumer credit laws.

The new film is available for showings by banks, schools, and other interested organizations at no charge. Arrangements for obtaining use of "The Fed - Our Central Bank" may be made through Bank Relations at the Federal Reserve Bank of St. Louis head office or through the Bank's branches in Little Rock, Louisville, or Memphis.

Amendments To Regulations D & M

Recently announced amendments to Regulations D and M make it more attractive for member banks to borrow funds in the Eurodollar market. The action reduces from 4 percent to zero the reserve requirement on foreign borrowings of member banks from their foreign branches and other foreign banks. The 1 percent reserve ratio on foreign branch loans to U. S. borrowers was also reduced to zero.

This reduction in reserve requirements is designed to encourage member banks to substitute Eurodollar borrowings for domestic borrowings as a source of funds, thereby reducing downward pressure on the international value of the dollar. In taking this action, the Board reemphasized the importance of U. S. banks complying with its previous requests not to solicit or encourage deposits by U. S. residents at their foreign branches unless the deposits serve a definite international purpose.

Member banks are still required to submit reports on their Eurodollar borrowings despite the reserve requirement change so that the Board can continue timely monitoring of Eurodollar borrowings.