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"Remote Disbursements" Criticized

The practice of "remote disbursement" — arrangements between a bank and a customer designed to delay check payment — has been criticized by the Federal Reserve Board, which has established a series of measures aimed at discouraging such abuse of the check collection system.

The Board's announced plans include closer scrutiny by bank examiners of settlement procedures between banks and their customers. The Board will also investigate the need, desirability, and feasibility of regulatory or legislative moves to 1) designate remote disbursement as an unfair banking and business practice; and 2) change the FR credit availability schedule for remotely disbursed checks or to require final payment for settlement within normal collection times, including limitations on use of depository transfer checks. In addition, the Board announced implementation of a late deposit "package sort" option for check clearance at all Reserve offices to make it possible for banks to accelerate collection of checks drawn on remotely located collection points. Plans also call for continued direct communication between Board members or Reserve Bank Presidents and the chief executives of banks or bank holding companies believed to be offering remote disbursement services.

Among the perceived disadvantages of remote disbursement is the exposure of both the bank and the recipients of remotely disbursed payments to unexpected risks of loss during the deliberately prolonged clearing time. Consumers and small businesses, perhaps not in a position to negotiate better payment terms, may be denied prompt access to funds due them, the Board noted. If the customer's funds at the remote disbursing bank are not sufficient to cover the customer's checks, unsafe or unsound banking practices could result, with unsecured extensions of credit by a small bank, for example, possibly exceeding the legal limit for lending to any one customer.

In announcing its planned actions, the Board called on the nation's banks to join in the effort to eliminate remote disbursement practices intended to extend float. The Board urged banks to provide the cash management services needed by their customers through payment methods that facilitate prompt funds availability to payment recipients and that protect banks from unnecessary risk.

Simplified Reports Of Condition, Income

Simplified "Reports of Condition and Income" have been adopted by the Federal Reserve Board of Governors for optional use by state member banks with total assets of less than \$100 million.

The revised report forms require 40 percent fewer reporting items for eligible banks over a year's time, when compared to the long-used standard form. Eligible banks may continue to use the standard form, if they wish. The revised small-bank reports are essentially the same for all three Federal bank supervisors, except for an additional reporting schedule adopted by the Comptroller of the Currency and the FDIC.

The Reports of Income and Condition are the basic financial reports required semi-annually or quarterly of all Federally insured banks by their Federal bank regulators. The new reporting requirements were adopted substantially unchanged from proposals made in October which received widespread favorable comment.

The report simplification involves elimination of numerous specific items from separate reporting, particularly details of loans and deposits. It reduces reporting frequency from semi-annual to annual of whole sections or certain items in the Report of Income. And it broadens tests of significance to exempt certain items from explicit listing. Items have been added to both the simplified and standard reports for NOW and ATS accounts, and for money-market certificates of deposit.

The revised reports have been in use since December 31, 1978. About 85 percent of state member banks qualify to use the new simplified form.

Uniform "Truth in Lending" Enforcement

The Federal Reserve and the other Federal agencies that regulate Federally-insured financial institutions have adopted uniform guidelines for the enforcement of the Truth in Lending Law and its implementing regulations after reviewing 300 comments on proposed guidelines.

The guidelines, viewed by the agencies as minimum enforcement standards, apply specifically to violations in other than open-end transactions. Violations of disclosure requirements in open-end transactions, such as use of a credit card, will be treated on a case-by-case basis but be subject to the same general treatment.

The uniform guidelines call for reimbursement to individuals for overcharges of \$1 or more, or for smaller overcharges that are part of a consistent pattern of violation or result from gross negligence or willful violations of the Act, which was written in 1968. Corrective action is required for all violations under the scope of the guidelines on outstanding loans consummated since October 28, 1974, and on terminated loans consummated within two years of the examination in which the violation was noted.

Violations cited in the guidelines include those involving improper disclosure of annual percentage rates or finance charges; improper disclosure of credit life, accident, health, or loss-of-income insurance; special disclosure violations; and non-finance charge violations. Methods of adjustment, reimbursement procedure, and disclosure to the customer of the reason for corrective action are also outlined in the joint notice of enforcement policy, which has been incorporated into the Federal Reserve's Regulation Z.

EFT Regulations Proposed

Two regulations limiting liability for the unauthorized use of Electronic Fund Transfer (EFT) cards as well as their unsolicited issuance are scheduled for implementation by the Federal Reserve on February 8.

Provisions of the rules, formulated in accordance with the Electronic Fund Transfer Act, will be set forth in a new Regulation E. "E" formerly identified a regulation dealing with the "Purchase of Warrants" which was rescinded last November.

The initial EFT rules proposed by the Board for comment through January 29 would:

1. stipulate that the consumer's liability for unauthorized use of a lost or stolen EFT/credit card would be determined by what kind of transaction was made, and not by the nature of the card. Unauthorized credit transaction liability would basically be limited to \$50, while debit transaction liability would be \$50 if the card's loss or theft was reported within two business days of the discovery it was missing. Higher liabilities would apply under certain circumstances.

2. prohibit the unsolicited issuance of EFT cards, except under specified conditions.

The Board of Governors has also proposed that a transition rule be placed in effect for the period between February, 1979, and the May, 1980, effective date of other provisions of the EFT Act. The transition rules would mandate disclosures by EFT card issuers during the interim period of procedures for reporting lost or stolen cards, any charges for the transfer service, circumstances under which the issuing institution would disclose information regarding the customer's account to others, types of EFT transactions that can be made, and customer liability for unauthorized card use. Disclosures would also be required of contract terms between consumer and card issuer regarding provision (or lack of provision) for stop-payment on prearranged transfers, records of EFT transactions, error resolution procedures, and the financial institution's liability for failure to make EFT transfers.

Early-Withdrawal Penalties Eased

Two recent actions by the Federal Reserve Board of Governors regarding Regulation Q affect the early-withdrawal penalty for time deposits at member banks.

An amendment to Regulation Q was adopted modifying the early-withdrawal penalty which had been imposed when funds were withdrawn prior to maturity from notice accounts or from time deposit agreements providing that subsequent deposits to the account extend or reset the term of all funds on deposit. The amendment reduces the minimum early-withdrawal penalty period for such accounts to not more than the maturity or notice period specified for the deposit. The action is expected to benefit particularly long-term Individual Retirement Accounts and Keogh Plan retirement accounts.

An interpretation was also issued concerning the treatment of interest earned on time deposits. A depositor is now permitted to withdraw interest earned on a time deposit at any time before maturity without penalty, regardless of the bank's method of compounding or crediting interest to the depositor's account.



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Two "Credit" Brochures Issued

● The complexities of "credit" are spelled out in a new "Consumer Handbook To Credit Protection Laws" recently published by the Federal Reserve Board of Governors.

The 46-page booklet, the latest in a series of consumer education publications, explains consumer rights under the major credit protection laws and how borrowers can use these rights while shopping for credit, applying for it, maintaining credit standing, and submitting complaints about possible abuses.

● Consumers can obtain specific information on one especially popular credit vehicle – the credit card – in a separate brochure now available from the Board of Governors. "If You Use A Credit Card" defines procedures for reporting lost or stolen cards, emphasizes the importance of prompt credit card account payment, and explains the method of calculating finance charges.

Copies of both publications may be obtained from the Bank Relations and Public Information Department of the St. Louis Fed.

Reg. Y Amendments Adopted

Bank holding company operations are affected by two recently adopted Board amendments to Federal Reserve Regulation Y.

One of the two amendments (which do not apply to banking activities) permits notice of intention by bank holding companies (BHCs) to engage in nonbank activities in the United States or abroad to be published in the Federal Register, rather than in local newspapers. BHCs must file with the appropriate Reserve Bank a statement of the geographic scope of the proposed activity, and this scope may not be enlarged without a further application.

In a second amendment, the Board added language to Regulation Y permitting domestic BHCs and their domestic nonbank subsidiaries to conduct previously approved nonbanking activities abroad 45 days after informing the appropriate Reserve Bank of their intentions. The amendment clarifies and formalizes procedures already in use.