
The Fed Letter

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New Rulemaking Procedures Adopted

The quality and understandability of Federal Reserve regulations are expected to be enhanced by a series of new procedures recently announced by the Federal Reserve Board.

The procedures will include earlier involvement in regulation preparation by the public and by designated Board members. A regulatory analysis will also be prepared, prior to proposals for rulemaking, to describe the actual need for and purposes of the proposed new regulation or revision, and indicate why the chosen course of action is the best of possible alternatives. The analysis will also spell out potential economic impact and compliance burdens, as well as any new records or reporting that would be required.

Each Board rule will be reviewed at least once every five years under the new procedure. The Board also plans to publish every six months a descriptive agenda of regulations under development or review, and of the status of regulatory development projects already announced.

The Board will adopt expedited procedures where delays resulting from the new lengthier rulemaking process would not be necessary or in the public interest.

The new procedures do not apply to the formulation of monetary policy or to amendments of regulations required to implement monetary policy decisions of the Board or the Federal Open Market Committee. They represent the latest step in a comprehensive review by the Fed of all of its rules and regulations and the procedures through which the regulations are prepared and amended.

"Anthony Dollar" To Debut In July

A new \$1 coin bearing the likeness of Susan B. Anthony, noted suffragette, will be placed in circulation through the Federal Reserve Banks starting the first week in July.

More than a half-billion of the new copper-and-nickel coins will be struck at mints in Philadelphia, Denver, and San Francisco, succeeding the Eisenhower dollar which was first struck in 1971. The reverse of the Anthony dollar bears an American eagle, and both sides are framed by an 11-sided, raised inner border to aid recognition by the blind.

The new coins are expected to result in substantial savings to the Treasury and the Federal Reserve because coined dollars remain in circulation for about 15 years while paper dollars last only 18 months.

Certain Management Interlocks Prohibited

Certain interlocking relationships of management officials among non-affiliated depository institutions, including bank holding companies and savings-and-loan companies, are now prohibited under the new Depository Institution Management Interlocks Act (Title II of the Financial Institutions Regulatory & Interest Rate Control Act of 1978).

The Act, which became effective March 10, is identical (except for technical variations) for all five issuing agencies which supervise federally insured depository institutions. It also specifies four exemptions which may be made by the regulators where competition is not present and where public benefits would outweigh competitive factors.

Under the provisions of the Act, except for institutions with assets of less than \$20 million, a management official of a depository institution or depository holding company is prohibited from serving as a management official of a nonaffiliated depository institution or holding company with an office in the same standard metropolitan statistical area. Regardless of the size of the institutions, a management official may not serve two unaffiliated institutions if they have offices in the same town or contiguous or adjacent towns. Interlocking management is prohibited, regardless of geographical location, if one depository institution or holding company has assets exceeding \$1 billion and the unaffiliated institution has assets exceeding \$500 million.

Exemptions from the Act may be made in instances where experienced management is required on a temporary basis to aid financial institutions in low-income areas and to broaden management opportunities available to minorities and women, as well as to new institutions and to existing institutions in a deteriorating condition. The agencies would also be able to grant exceptions to credit unions sponsored by depository institutions or depository holding companies primarily to serve the employees of the sponsoring institution or its affiliates on the basis that no competition would exist in these circumstances.

New Money-Market Certificate Rules

The compounding of interest during the 26-week term of non-negotiable time deposits of \$10,000 or more is now prohibited by an amendment to Regulation Q which became effective March 15.

The action was taken in connection with a joint announcement by the Federal regulators of banks and thrift institutions of a change in the rules under which financial institutions issue the six-month "Money-Market Certificates" (MMCs).

Advertising for the 26-week Money-Market Certificates must now include a clear and conspicuous notice that Federal regulations prohibit compounding of interest during the term of the deposit. Institutions may advertise an annual effective rate of interest for MMCs based upon reinvestment after six months of both principal and interest, if the ads fully comply with previously issued guidelines.

In addition, the one-quarter-point differential on Money-Market Certificates between thrift institutions and commercial banks has been eliminated when the weekly "ceiling" rate is 9 percent or higher. The full differential will be in effect when the ceiling rate is 8-3/4 percent or less. When the six-month bill rate is between 8-3/4 and 9 percent, thrift

institutions may pay a maximum 9 percent while commercial banks may pay up to the actual discount rate for six-month bills.

The amendments do not impose a maximum interest rate on MMCs. The weekly rate is still tied to the yield of six-month Treasury bills.

Equal Credit Opportunity Non-Compliance

Improved examination techniques and additional staff training were cited as key reasons for a substantial increase in the discovery of non-compliance with the Equal Credit Opportunity Act among financial institutions in 1978. Federal agencies responsible for the Act's enforcement received relatively few direct consumer complaints, however.

In its annual report to Congress on the ECOA, the Federal Reserve noted that preliminary National Credit Union Administration results showed that 63% of the examined CUs were not in compliance – more than double the 1977 figure – while FDIC examinations showed an increase in apparent bank violations to 51.3% from 26.6%. The Comptroller of the Currency found violations in 89 percent of the national banks it examined, while the Fed found 78 percent of state banks in its system were not in full compliance. The Federal Home Loan Bank Board reported that 53% of the S&Ls it examined had violations.

The areas that produced the most violations concerned noncomplying application forms, the taking of prohibited information, and the requiring of prohibited cosigners.

The Federal Reserve estimated that it cost the federal agencies (excluding the Securities & Exchange Commission and Interstate Commerce Commission) a total of \$7.6 million last year alone to enforce the ECOA and the Fair Housing Act.

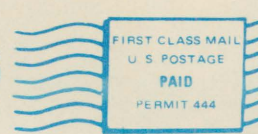
Shorter Flood Insurance Waiting Period

The waiting period between application for flood insurance under the National Flood Insurance Program and the actual effective date of that insurance has been amended through a Federal Insurance Administration regulation.

Before the new ruling's October 30, 1978, implementation, there was a 15-day waiting period between application and effective coverage after the initial 30 days of community eligibility for flood insurance in both emergency and regular programs. Because the former rule tended to delay and disrupt conventional, VA, and FHA mortgage closings by lenders trying to comply with the program's legal requirements, the new ruling stipulates:

–During the initial 30-day period, where there is no waiting period or change of ownership to insurable property involved, the effective date and time of new, added, or increased flood insurance coverage is 12:01 a.m. the day after application and premium payment. Where there is a waiting period, the application date is counted as the first day in that waiting period.

– After the initial 30-day eligibility period, the effective date and time for new insurance is 12:01 a.m. the fifth calendar day after application and premium payment. Changes to existing policies, however, are effective the day after application and premium payment.



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Reg. Y Amended To Implement New Bank Act

Regulation Y has been amended and re-titled by the Federal Reserve Board to implement the Change in Bank Control Act of 1978 (Title VI of the Financial Institutions Regulatory & Interest Rate Control Act of 1978). The amendments formalize principal parts of a policy statement issued by the Board and also specify changes in the Rules Regarding Delegation of Authority.

The changes took effect on March 10 (the effective date of the Change in Bank Control Act), but the Board has invited public comment through April 6 for possible use in preparing future amendments.

Now titled "Bank Holding Companies and Change in Bank Control," Regulation Y has been amended to specify transactions that come within coverage of the Act. It outlines general compliance procedures, summarizes the principal Act provisions and exemptions, and defines the procedures the Board will follow in carrying out the Act.

The new Act requires persons acquiring control of a State member bank or a bank holding company to file 60 days' advance written notice with the Board, which can disapprove such proposed control changes. Changes in control due to acquisitions by bank holding companies and changes in control of insured banks resulting from mergers, consolidations, or similar transactions are not covered by the Act, because they are already subject to regulatory approval under other laws.

The regulation delegates authority to the Federal Reserve Banks to permit proposed acquisitions where there has been no objection, to extend the time (normally 60 days) the Board may take to consider proposals, to determine whether notices provide all necessary information, and to settle disputes regarding the need to file advance notice by a person proposing to acquire less than 25 percent of a bank holding company or State member bank.

The regulation does not exempt from notice requirements proposed acquisitions of control of foreign-based bank holding companies whose assets and revenues are primarily in the United States. The Board particularly requests comment on this aspect of the regulation.