

The original documents are located in Box B1, folder “American Bankers Association (7)” of the Arthur F. Burns Papers at the Gerald R. Ford Presidential Library.

Copyright Notice

The copyright law of the United States (Title 17, United States Code) governs the making of photocopies or other reproductions of copyrighted material. Gerald R. Ford donated to the United States of America his copyrights in all of his unpublished writings in National Archives collections. Works prepared by U.S. Government employees as part of their official duties are in the public domain. The copyrights to materials written by other individuals or organizations are presumed to remain with them. If you think any of the information displayed in the PDF is subject to a valid copyright claim, please contact the Gerald R. Ford Presidential Library.

WILLIS ALEXANDER

Date 4-29-75

Dr. Burns -

This telegram was
delivered to each member
of Congress this morning.

Willis



THE AMERICAN BANKERS ASSOCIATION



April 28, 1975

Please send following text to all members of U.S. House of Representatives and all members of United States Senate:

Frankly, we are concerned. The confidence so necessary for economic recovery and the resulting job creation we all seek requires a commitment by the Congress to a return to budgetary balance when the nation's level of economic activity recovers. This commitment would provide assurance that expenditure priorities will be achieved within the limitations of revenues available.

Thoughtful Americans were heartened when the 93rd Congress passed the Congressional Budget and Impoundment Control Act. It provided reassuring evidence that the Congress recognized the need for improving its procedures for dealing with federal revenues and expenditures. The Act made it possible for the Congress to take an annual look at the total amount of federal revenues and expenditures for each fiscal year rather than considering each appropriation separately with little thought as to the final total cost. And even more significantly, the Act raised the prospect of a longer range commitment to balancing expenditures with revenues.

While last year's rampant inflation was the result of several causes, many monetary theorists have identified the federal deficits in 15 of the last 16 years as the major driving force behind the inflationary trend toward excessive monetary expansion over the past decade. Your constituents no doubt have communicated their concern with repeated budget deficits. We feel the American public is gravely concerned that the current discussion of federal revenue and expenditure estimates for the FY 1976 seems to center solely on the size of the deficit which can be "safely" financed.



Similarly, financial markets have begun to react negatively to the borrowing needs forecast by the huge deficit. To frame this discussion solely in terms of a deficit which can be accommodated by the market implies that the only limit upon expenditure should be the ability to borrow.

It is rather widely recognized that sufficiently accommodative monetary policy can in a given period make possible financing a very large deficit. The risks of rekindling the inflationary spiral as this policy gradually works its way through the economic system are equally well known -- and equally feared.

Moreover, it is impossible to predict precisely how large a deficit for FY 1976 can be accommodated without crowding out private sector credit demands or unacceptably raising interest rates, because there are so many variables.

What then do we propose?

We urge that the spending ceilings currently under discussion be further reduced to lower the expected deficit. Such action will have a positive psychological effect and will minimize the potentially disruptive market impact. We believe a target spending ceiling of \$350 billion should be approved. In the absence of increased revenues this would result in a deficit of no more than \$55 billion for fiscal year 1976.

This action coupled with an expressed commitment to a balanced budget when economic activity recovers will provide the necessary credibility for the budget reform program the Congress is implementing and the Nation so desperately needs.

George L. Whyel
President, American Bankers Association
Vice Chairman of the Board
Genesee Merchants Bank and Trust Co.
Flint, Michigan



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1975 APR 30 AM 9:50
RECEIVED
OFFICE OF THE CHAIRMAN

Similarly, financial markets have begun to react to the borrowing needs forecast by the huge deficit. To finance the deficit solely in terms of a deficit which can be accommodated by the market implies that the only limit upon expenditures should be the ability to borrow. It is rather widely recognized that sufficiently accommodative monetary

policy can in a given period make possible financing a very large deficit. The risks of retarding the inflationary spiral as this policy gradually works its way through the economic system are equally well known -- and equally feared.

Moreover, it is impossible to predict precisely how large a deficit for FY 1976 can be accommodated without crowding out private sector credit demands or unacceptably raising interest rates, because there are so many variables.

What then do we propose?

We urge that the spending ceilings currently under discussion be further reduced to lower the expected deficit. Such action will have a positive psychological effect and will minimize the potentially disruptive market impact. We believe a target spending ceiling of \$350 billion should be approved. In the absence of increased revenues this would result in a

deficit of no more than \$35 billion for fiscal year 1976.

This action coupled with an expressed commitment to a balanced budget when economic activity recovers will provide the necessary credibility for the budget reform program the Congress is implementing and the Nation so desperately needs.

George L. Wykel
President, American Bankers Association
Vice Chairman of the Board
Commerce Merchants Bank and Trust Co.
Milwaukee, Wisconsin



Catherine



CHAIRMAN OF THE BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

May 5, 1975

Mr. Willis Alexander
Executive Vice President
American Bankers Association
1120 Connecticut Avenue, N.W.
Washington, D. C. 20036

Dear Mr. Alexander:

Your letter of April 17 and the accompanying copy of Mr. Lowrie's letter to Chairman Bomar reflect your Association's concern over the competitive effects of recent actions of the Federal Home Loan Bank Board. As a means of reestablishing a competitive balance, you urge the Board and the other bank regulators to remove the present interest rate differential on time and savings deposits. In addition, you request action to prescribe uniform interest rate ceilings for Individual Retirement Accounts and to remove the long-standing prohibition against commercial bank acceptance of corporate savings accounts.

The Board recently rescinded its long-standing prohibition on telephone withdrawals from savings deposits and issued for comment proposed amendments to Regulation Q that would permit preauthorized withdrawals from savings deposits. The Board's staff is currently engaged in a review of the recent Individual Retirement Account legislation in order to assist the Board in considering whether changes in its regulations are appropriate to implement the purposes of this legislation and to facilitate the offering of these accounts by member banks. In addition, in response to recent requests, the staff is also reviewing the legal and policy issues relevant to the removal of the long-standing prohibition against corporate savings accounts. Numerous comments on these issues have been received by the Board in recent months, including your Association's letters of September 27, 1974 and March 18, 1975.

The Board and the other Federal financial regulatory agencies recently reviewed interest rate differentials among commercial banks and thrift institutions during consideration of the status of public unit deposits. As you know, in November 1974, interest rate differentials



Mr. Willis Alexander

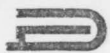
-2-

were removed on time deposits of governmental units. It is expected that the appropriateness of maintaining interest rate differentials will again be discussed by the agencies during their consideration of possible regulatory amendments relating to Individual Retirement Accounts.

Sincerely yours,

Arthur F. Burns





AMERICAN BANKERS ASSOCIATION 1120 CONNECTICUT AVENUE, N. W., WASHINGTON, D. C. 20036

EXECUTIVE VICE PRESIDENT

WILLIS W. ALEXANDER
202/467-4211

April 17, 1975

The Honorable Arthur F. Burns
Chairman
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

Dear Chairman Burns:

Attached is a copy of our letter addressed to Chairman Bomar of the Federal Home Loan Bank Board documenting our judgment that the Board's actions in significantly expanding the powers and authorities of savings and loan associations is contrary to the goal of balanced financial reform and not in the public interest.

The cumulative effect of the Federal Home Loan Bank Board's grants of expanded powers capped now by this week's decision by the Board to permit expanded entry into the consumer loan market (including unsecured lending authority) and the granting of unrestricted third-party payment powers virtually eliminates, in the consumers' perception, the remaining substantive differences between banks and savings and loan associations.

Our Association continues to believe that the proper approach for effecting such far reaching changes in powers of competing depository institutions is through congressional consideration of comprehensive reform. We understand that the Federal Reserve Board subscribes to this approach. The Financial Institutions Act offers this prospect. Desirable as this is in principle, reality forces the recognition that these changes in the powers of financial institutions are being conferred by regulatory fiat.

The existence of interest rate differentials between banks and thrift institutions on the rates they pay savers has long discriminated against bank savers. Continuance of rate differentials is becoming increasingly inequitable due to the changes in the relationship of powers between thrift institutions and banks. As a matter of public policy, this inequity to the consumer is indefensible. We urge you to join with the other bank regulators, and hopefully Chairman Bomar, in eliminating this unfair competitive disparity.





In the interim, while these discussions are under way, we request affirmative action on the matters of prescribing uniform interest ceilings for Individual Retirement Accounts, as outlined in our letter of March 18, 1975, and the removal of the archaic prohibition against commercial bank acceptance of corporate savings accounts, as raised with the Board in our letter of September 27, 1974.

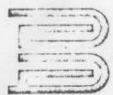
Swift correction of these disparities would be an encouraging sign that the Board recognizes the competitive significance of the Federal Home Loan Bank Board's actions.

Sincerely yours,

Willis W. Alexander
Executive Vice President

cc: The Honorable George W. Mitchell
The Honorable Henry C. Wallich
The Honorable John E. Sheehan
The Honorable Robert C. Holland
The Honorable Jeffrey M. Bucher
The Honorable Philip E. Coldwell
Mr. Theodore E. Allison





AMERICAN BANKERS ASSOCIATION 1120 CONNECTICUT AVENUE, N.W., WASHINGTON, D.C. 20036

GOVERNMENT RELATIONS

EXECUTIVE DIRECTOR
GERALD M. LOWRIE
202/467-4097

April 17, 1975

The Honorable Thomas R. Bomar
Chairman
Federal Home Loan Bank Board
320 First Street, N.W.
Washington, D. C. 20552

Dear Chairman Bomar:

The April 14 decision of the Federal Home Loan Bank Board to issue regulations authorizing savings and loan associations, regulated by the Board, to enter on a much-expanded basis -- the consumer lending market through service corporations and multiple savings and loan holding companies, coupled with the decision by the Board to allow unrestricted third-party transfer powers to the same institutions, has, in our judgment, finally and completely eroded any meaningful or significant differences between savings and loan associations and banks as these institutions are perceived and understood by the consumer.

The significant expansion in the consumer service powers of savings and loan associations recently granted by the Board are, of course, a matter of record. Such powers range from expansion of savings and loan lending authority into unsecured consumer loans, mobile home financing, home appliance financing, etc., to enhancement of deposit accounts through regulations authorizing travelers' convenience withdrawals, negotiable certificates of deposit, and service as trustees of pension funds.

Even as we are expressing these views on your April 14 decision, our Association is in the process of formulating a response to an invitation by your Board to comment on proposals which would further expand the powers of federal associations to make unsecured loans. Here again is still further evidence of the erosion of any justifiable reason for maintaining any differences between institutions you regulate and those represented by our Association.

On a number of occasions, our Association has suggested to the Board that the proper vehicle for effecting major changes in the relative powers or responsibilities of competing depository institutions is through congressional passage of comprehensive reform such as proposed in the Financial Institutions Act. The Board's decision to circumvent congressional consideration of financial reform by implementing through unilateral action, those changes suggested

by the Act that are most beneficial for savings and loan associations, is a decision that is not in the long term best interest of the American public or the depository institutions chartered to serve the public.

Notwithstanding the view of this Association that the route the Board is pursuing is contrary to the overall public interest, in light of the Board's recent actions, we wish to suggest that the Board consider a companion action that we feel would promote and serve the public's right for equity and fairness.

More specifically, we suggest that your Board actively support the elimination of the discriminatory interest differential now imposed on commercial banks in the maximum rates they are permitted to pay their savers, as opposed to the higher rates institutions under your supervision may pay their savers.

The historical reason for your Board's support of the maintenance of differentials has been that savings and loan associations lack the full range of consumer services offered by banks, and therefore need a rate advantage in order to remain competitive in attracting savers to their institutions as opposed to commercial banks.

Your actions on Monday of this week completely and finally invalidate this argument which has, over the years, been used to justify and excuse the continuance of interest rate differentials. Bank savers, however, continue to be unfairly disadvantaged because the regulators involved -- your Board as well as the federal banking agencies -- have not confronted old theories with new facts. We suggest that failure to correct this abuse and denial of the rights and privileges of bank savings customers would be a gross injustice.

We urge you, as the principal regulator behind the disruption of competitive balance among financial institutions to now exert your recognized leadership in the broader public interest -- savings depositors in all financial institutions -- rather than maintaining a narrow interest focused only on those institutions you regulate. We urge you to support, if not initiate, the removal of one of the few remaining relics of difference between banks and savings and loan institutions as perceived by most consumers -- interest rate differentials -- and allow the bank customer the fairness of treatment he has long been denied in attempting to obtain the maximum allowable rate of return on funds deposited in federally regulated financial institutions.

We look forward to your favorable consideration of our recommendation.

Sincerely,

Gerald M. Lowrie

Gerald M. Lowrie
Executive Director
Government Relations



AMERICAN
BANKERS
ASSOCIATION

1120 Connecticut Avenue, N.W.
Washington, D.C.
20036



FEDERAL
AGENCY
RELATIONS

FEDERAL ADMINISTRATIVE COUNSEL
John J. Gill
202/467-4204

August 18, 1975

Mrs. Catherine Mallardi
Secretary to Chairman Burns
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

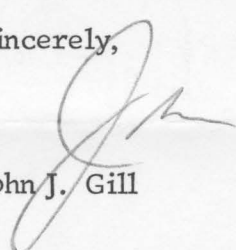
Dear Mrs. Mallardi:

There is enclosed for your information a copy of the agenda for the next meeting of the Government Borrowing Committee. Please call to Chairman Burns' attention that the Committee will be meeting in our offices at 1120 Connecticut Avenue, N.W. The Bender Building has another entrance on L Street, near 18th Street. Our Board Room is on the 7th Floor.

The Committee will look forward, as usual, to meeting with Chairman Burns at 4:00 p.m. on Tuesday, October 21, 1975.

I am also enclosing for Chairman Burns' information a list of the members of the Government Borrowing Committee.

Sincerely,


John J. Gill



AGENDA
GOVERNMENT BORROWING COMMITTEE
American Bankers Association
October 20, 21, & 22, 1975

Monday, October 20

6:00 p. m.	1/	Reception and Dinner International Club of Washington Wadsworth Room
------------	----	--

Tuesday, October 21

9:15 a. m.	2/	Committee meeting in Board Room (7th Floor) American Bankers Association 1120 Connecticut Avenue, N. W.
10:00 a. m.	3/	Committee to review slides in Room 2304 Treasury Building (15th Street Entrance)
11:00 a. m.	4/	Committee to meet with Undersecretary for Monetary Affairs, Mr. Ed Yeo, in Room 4426, Treasury Building, for backgrounding
12:30 p. m.	2/	Luncheon ABA Board Room
2:30 p. m.	2/	Committee to assemble in the ABA Board Room. Chairman Burns (Federal Reserve Board) will meet with the Committee at 4:00 p. m.
6:00 p. m.	1/	Reception and Dinner International Club of Washington Mediterranean Room

Wednesday, October 22

8:45 a. m.	4/	Committee to report its recommendations to Secretary Simon and the Treasury Financing Group in Room 4426 of the Treasury Building
------------	----	---

- 1/ 1800 K Street, N. W. (approximately a 2 block walk from The Mayflower Hotel).
- 2/ This location is on Connecticut Avenue across from The Mayflower Hotel.
- 3/ Treasury will use the regular projection room on the second floor in the S. W. corner corner of the building (corner facing the Mall and the White House).
- 4/ 4th floor Conference Room on west side of building near center elevators opposite White House.



GOVERNMENT BORROWING COMMITTEE

Chairman: Robert M. Surdam
Chairman and Chief Executive Officer
National Bank of Detroit
RPA Box 116
Detroit, Michigan 48232

Andrew Benedict
Chairman of the Board
First American National Bank
P. O. Box 1351
Nashville, Tennessee 37237

Henry G. Blanchard
Chairman of the Board
Commercial National Bank of Kansas City
P. O. Box 1400
Kansas City, Kansas 66117

Alfred Brittain III
President
Bankers Trust Company
P.O. Box 318, Church Street Station
New York, New York 10015

Robert E. Bryans
Vice Chairman of the Board
Walker Bank & Trust Company
P. O. Box 1169
Salt Lake City, Utah 84142

Willard C. Butcher
President
The Chase Manhattan Bank, N.A.
One Chase Manhattan Plaza
New York, New York 10015

A. W. Clausen
President and Chief Executive Officer
Bank of America, N.T. & S.A.
P.O. Box 37000
San Francisco, California 94137

Richard P. Cooley
President and Chief Executive Officer
Wells Fargo Bank, N. A.
P.O. Box 44000
San Francisco, California 94144

Gaylord Freeman
Chairman of the Board
The First National Bank
P.O. Box A
Chicago, Illinois 60670

Gabriel Hauge
Chairman of the Board
Manufacturers Hanover Trust
350 Park Avenue
New York, New York 10022

William M. Jenkins
Chairman
Seattle-First National Bank
P.O. Box 3586
Seattle, Washington 98124

Ben F. Love
Chairman and Chief Executive Officer
Texas Commerce Bank, N. A.
P. O. Box 2558
Houston, Texas 77001

C. Coleman McGehee
Chairman and Chief Executive Officer
First and Merchants National Bank
P. O. Box 27025
Richmond, Virginia 23261

Bruce M. Rockwell
President
Colorado National Bank of Denver
P.O. Box 5168, Terminal Annex Station
Denver, Colorado 81217

Ellmore C. Patterson
Chairman of the Board
Morgan Guaranty Trust Company
23 Wall Street
New York, New York 10015

John H. Perkins
President
Continental Illinois National Bank and Trust Co.
231 South LaSalle Street
Chicago, Illinois 60693

Howard C. Petersen
Chairman of the Board
The Fidelity Bank
Broad and Walnut Streets
Philadelphia, Pennsylvania 19109



Government Borrowing Committee

D. Thomas Trigg
Chairman and Chief Executive Officer
National Shawmut Bank of Boston
P.O. Box 2176
Boston, Massachusetts 02106

ADVISORY MEMBERS

D. Dean Kaylor
Senior Vice President
National Bank of Detroit
P.O. Box 1041A
Detroit, Michigan 48232

Donald C. Miller
Executive Vice President
Continental Illinois National Bank & Trust Co.
231 South LaSalle Street
Chicago, Illinois 60693

Leland S. Prussia
Executive Vice President and Cashier
Bank of America, N.T. & S.A.
P.O. Box 37000
San Francisco, California 94137

James R. Sheridan
Senior Vice President
North Carolina National Bank
P.O. Box 120
Charlotte, North Carolina 28201

EX OFFICIO

Willis W. Alexander
Executive Vice President
The American Bankers Association
1120 Connecticut Avenue, N.W.
Washington, D. C. 20036

J. Rex Duwe
President and Chairman
The Farmers State Bank
P.O. Box 305
Lucas, Kansas 67648
(President-Elect, ABA)

W. Jarvis Moody
President
American Security & Trust Company
15th and Pennsylvania Ave. N.W.
Washington, D. C. 20013
(Chairman, ABA Savings Bonds Committee)

Ex Officio

Rex J. Morthland
Chairman of the Board
The Peoples Bank and Trust Company of Selma
P.O. Box 799
Selma, Alabama 36701
(Past President, ABA)

George L. Whyel
Vice Chairman of the Board
Genesee Merchants Bank & Trust Company
One East First Street
Flint, Michigan 48502
(President, ABA)

ABA Staff:

Hampton A. Rabon
Consultant (202-467-4200)

John J. Gill
Director (202-467-4204)

Lawrence Banyas
Economic Consultant (202-467-4382)

Gerald M. Lowrie, Executive Director
Government Relations (202-467-4097)

William F. Ford, Executive Director
Research and Planning (202-467-4018)

July 1975





THE AMERICAN BANKERS ASSOCIATION 1120 CONNECTICUT AVENUE, N. W., WASHINGTON, D. C. 20036

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1975 OCT -6 AM 10:38

RECEIVED
OFFICE OF THE CHAIRMAN

WILLIS W. ALEXANDER
EXECUTIVE VICE PRESIDENT

October 3, 1975

Dear Dr. Burns:

You are cordially invited to a reception honoring our new President, J. Rex Duwe, of Lucas, Kansas, on Tuesday evening, October 21, from 5:30 P.M. to 7:30 P.M., at the Decatur House, Jackson Place and H Streets, N.W., Washington (LaFayette Square entrance).

Please telephone your response to Miss Murray or Miss McGowan at 467-4212.

Sincerely,

Willis Alexander

The Honorable Arthur F. Burns
Chairman
Board of Governors of the
Federal Reserve System
Federal Reserve Board
Washington, D. C. 20551



yes —

no —

if & with - A22

Called 10/7/75 CM
Test. "yes"

October 28, 1975

Chairman Burns

Request of American Bankers
Association relating to new call
report forms

John D. Hawke, Jr.

ACTION REQUESTED: Approval of the attached letter (Attachment A) responding to a request from the American Bankers Association (Attachment B) asking for additional time to comment on the new form of "call" report being proposed by the Board and the other banking agencies. The ABA also asks that the Board abandon any effort to make these new forms effective as of December 31, 1975.

DISCUSSION: On October 1, 1975, the Board, the FDIC and the Comptroller of the Currency published for comment a new proposed form of "call" report. The proposal covers both a "universal" report of income and condition that would be filed by all banks, as well as certain detailed supplemental schedules to be filed only by large banks.

The Board's release stated that comments would be received until November 1, 1975. This reflects the Board's decision that the new form should be made effective as of December 31, 1975. The ABA contends that this does not allow them sufficient time to formulate comments on the proposal, and has asked that the comment period be extended for an additional 30 days.

The attached letter reiterates the Board's objective of having the forms effective as of year end, and rejects the request for an extension of the comment period. The draft suggests the possibility, however, that certain of the detailed supplemental schedules to be required from large banks may be deferred. In addition, the draft indicates that the Board will consider comments from the ABA after November 1, so long as they are received prior to the final adoption of the new forms.

Governor Mitchell and Mr. Sigel participated in the preparation of this draft.

Attachments



October 28, 1975

Mr. Gerald M. Lowrie
Executive Director
Government Relations
American Bankers Association
1120 Connecticut Avenue, N. W.
Washington, D. C. 20036

Dear Mr. Lowrie:

I am writing in response to your letter of October 20, 1975, requesting an extension, until November 30, 1975, of the date for submitting comments on the revised forms for income and condition reports being proposed by the Board of Governors and the other Federal banking agencies. You also request that the Board not attempt to make the new forms effective for the 1975 year-end reports.

The new report forms are the result of joint efforts by the banking agencies to resolve difficult questions of disclosure relating to the condition and operations of banks. The Board believes that it is important to afford some certainty with respect to these disclosure questions at the earliest possible time. For that reason the Board decided to have the new forms adopted in time to be used for the December 31, 1975, call. In order to achieve this objective, the Board found it necessary to provide that comments be submitted by November 1. While we want to continue to strive to meet the present schedule, I can assure you that the Board will consider any comments the Association may submit, even after November 1, so long as they are received before the Board takes action.

The Board recognizes that certain of the detailed schedules that are being proposed for large banks, as supplements to the "universal" income and condition reports, may present reporting banks with immediate problems of information retrieval. While we do not at present believe it is necessary to delay the adoption of the "universal" income and condition report forms, we would give serious



Mr. Gerald M. Lowrie

-2-

consideration to any suggestions that the American Bankers Association, or its members, may have with respect to the filing date or the effective date of certain of the large bank supplemental schedules.

Sincerely yours,

(Signed)

Arthur F. Burns

JDH:red



C. Burns

AMERICAN
BANKERS
ASSOCIATION

1120 Connecticut Avenue, N.W.
Washington, D.C.
20036



FEDERAL
AGENCY
RELATIONS

FEDERAL ADMINISTRATIVE COUNSEL
John J. Gill
202/467-4204

December 16, 1975

Burns

Mrs. Catherine Mallardi
Secretary to Chairman Burns
Board of Governors of the
Federal Reserve System
Washington, D. C. 20051

Dear Mrs. Mallardi:

There is enclosed for your information a copy of the agenda for the next meeting of the Government Borrowing Committee. Please call to Chairman Burns' attention that the Committee will be meeting in our offices at 1120 Connecticut Avenue, N.W. The Bender Building has another entrance on L Street, near 18th Street. Our Board Room is on the 7th Floor.

The Committee will look forward, as usual, to meeting with Chairman Burns at 3:30 p.m. on Monday, January 26, 1976.

I am also enclosing for Chairman Burns' information a list of the members of the Government Borrowing Committee.

Sincerely,

John J. Gill
John J. Gill



AGENDA
GOVERNMENT BORROWING COMMITTEE
American Bankers Association
January 26, 1976

7:30 a. m.	Committee Meeting (7th Floor Board Room) Continental Breakfast American Bankers Association 1120 Connecticut Avenue, N. W.
8:00 a. m.	Committee to review slides Treasury Building 15th and Pennsylvania Avenues, N. W.
8:45 a. m.	Committee briefing Treasury Building 15th and Pennsylvania Avenues, N. W.
12:00 p. m.	Luncheon ABA Board Room
5:00 p. m.	Committee to report its recommendations to Secretary Simon and the Treasury Financing Group Treasury Building 15th and Pennsylvania Avenues, N. W.



1975-1976 GOVERNMENT BORROWING COMMITTEE ROSTER

Chairman:

✓ Willard C. Butcher
President
The Chase Manhattan Bank, N. A.
One Chase Manhattan Plaza
New York, NY 10015

✓ A. Robert Abboud
Deputy Chairman of the Board
The First National Bank of Chicago
One First National Plaza
Chicago, IL 60670

Andrew Benedict
Chairman of the Board
First American National Bank
Post Office Box 1351
Nashville, TN 37237

✓ Henry G. Blanchard
Chairman of the Board
Commercial National Bank of Kansas City
Post Office Box 1400
Kansas City, KS 66117

Guy W. Botts
Chairman of the Board
Barnett Bank of Jacksonville, N. A.
Post Office Box West Bay Station
Jacksonville, FL 32203

✓ Alfred Brittain, III
President
Bankers Trust Company
Post Office Box 318
Church Street Station
New York, NY 10015

William A. Carpenter
President
Whitney National Bank of New Orleans
Post Office Box 61260
New Orleans, LA 70161

✓ A. W. Clausen
President and Chief Executive Officer
Bank of America, NT. & S. A.
Post Office Box 37000
San Francisco, CA 94137

✓ Richard P. Cooley
President and Chief Executive Officer
Wells Fargo Bank, N. A.
Post Office Box 44000
San Francisco, CA 94144

✓ Gabriel Hauge
Chairman of the Board
Manufacturers Hanover Trust
350 Park Avenue
New York, NY 10022

✓ William M. Jenkins
Chairman
Seattle-First National Bank
Post Office Box 3586
Seattle, WA 98124

D. Dean Kaylor (Advisory Member)
Senior Vice President
National Bank of Detroit
Post Office Box 1041A
Detroit, MI 48232

✓ Ben F. Love
Chairman and Chief Executive Officer
Texas Commerce Bank, N. A.
Post Office Box 2558
Houston, TX 77001

✓ C. Coleman McGehee
Chairman and Chief Executive Officer
First and Merchants National Bank
Post Office Box 27025
Richmond, VA 23261

✓ Donald C. Miller (Advisory Member)
Executive Vice President
Continental Illinois National Bank & Trust Company
231 South LaSalle Street
Chicago, IL 60693



✓ Ellmore C. Patterson
Chairman of the Board
Morgan Guaranty Trust Company
23 Wall Street
New York, NY 10015

✓ John H. Perkins
President
Continental Illinois National Bank & Trust Company
231 South LaSalle Street
Chicago, IL 60693

✓ Howard C. Petersen
Chairman of the Board
The Fidelity Bank
Broad and Walnut Streets
Philadelphia, PA 19109

✓ Leland S. Prussia (Advisory Member)
Executive Vice President and Cashier
Bank of America N. T. & S. A.
Post Office Box 37000
San Francisco, CA 94137

Bruce M. Rockwell
President
Colorado National Bank of Denver
Post Office Box 5168
Terminal Annex Station
Denver, CO 81217

James R. Sheridan (Advisory Member)
Senior Vice President
North Carolina National Bank
Post Office Box 120
Charlotte, NC 28255

D. Thomas Trigg
Chairman and Chief Executive Officer
National Shawmut Bank of Boston
Post Office Box 2176
Boston, MA 02106

EX OFFICIO MEMBERS

Willis W. Alexander
Executive Vice President
American Bankers Association
1120 Connecticut Avenue, N. W.
Washington, DC 20036

Hovey S. Dabney
President and Chairman of the Board
National Bank and Trust Company
Post Office Box 711
Charlottesville, VA 22902
(Chairman, ABA Savings Bond Committee)

J. Rex Duwe
President and Chairman
The Farmers State Bank
Post Office Box 305
Lucas, KS 67648
(President, ABA)

W. Liddon McPeters
President
The Security Bank
Post Office Box 1439
Corinth, MS 38834
(President-Elect, ABA)

George L. Whyel
Vice Chairman of the Board
Genesee Merchants Bank & Trust Company
One East First Street
Flint, MI 48502
(Past President, ABA)



AMERICAN
BANKERS
ASSOCIATION

1120 Connecticut Avenue, N.W.
Washington, D.C.
20036



*For Mr. Hollander
attention*

FEDERAL ADMINISTRATIVE COUNSEL
John J. Gill
202/467-4204

February 26, 1976

Mrs. Catherine Mallardi
Secretary to Chairman Burns
Board of Governors of the
Federal Reserve System
20th and Constitution Avenue, N.W.
Washington, D. C. 20551

Dear Mrs. Mallardi:

There is enclosed for your information a copy of the agenda for the next meeting of the Government Borrowing Committee. Please call to Chairman Burns' attention ~~that~~ the Committee will be meeting in our offices at 1120 Connecticut Avenue, N.W. The Bender Building also has an entrance on L Street, near 18th Street. Our Board Room is on the 7th Floor.

The Committee will look forward, as usual, to meeting with Chairman Burns at 4:00 p.m. on Tuesday, April 27, 1976.

³³⁰
I am also enclosing for Chairman Burns' information a roster of the members of the Government Borrowing Committee.

Sincerely,


John J. Gill



GOVERNMENT BORROWING COMMITTEE
AMERICAN BANKERS ASSOCIATION
April 26-28, 1976

AGENDA

Monday, April 26

6:00 p.m. Reception and Dinner
Wadsworth Room
International Club of Washington

Tuesday, April 27

9:00 a.m. Business Meeting
ABA Board Room

10:00 a.m. Slide Presentation
Treasury Building

11:00 a.m. Briefing Session
Treasury Building

12:30 p. m. Luncheon
ABA Board Room

4:00 p.m. Briefing Session with Chairman Burns
Board of Governors of the Federal Reserve System
ABA Board Room

6:00 p.m. Reception and Dinner
Mediterranean Room
International Club of Washington

Wednesday, April 28

9:45 a.m. Presentation of Committee Report
Treasury Building

International Club - 1800 K Street, N.W.; Washington - L Street entrance

ABA Board Room - 1120 Connecticut Avenue, N.W., Washington - 7th Floor

Treasury Building - 15th and Pennsylvania Avenue, N.W., Washington
Rooms to be announced at the meeting



1975-1976 GOVERNMENT BORROWING COMMITTEE ROSTER

Chairman: ✓ Willard C. Butcher
President
The Chase Manhattan Bank, N.A.
One Chase Manhattan Plaza
New York, NY 10015

✓ A. Robert Abboud
Chairman of the Board
The First National Bank of Chicago
One First National Plaza
Chicago, IL 60670

✓ Andrew Benedict
Chairman of the Board
First American National Bank
Post Office Box 1351
Nashville, TN 37237

✓ Henry G. Blanchard
Chairman of the Board
Commercial National Bank of Kansas City
Post Office Box 1400
Kansas City, KS 66117

Guy W. Botts
Chairman of the Board
Barnett Bank of Jacksonville, N.A.
Post Office Box West Bay Station
Jacksonville, FL 32203

William A. Carpenter
President
Whitney National Bank of New Orleans
Post Office Box 61260
New Orleans, LA 70161

✓ A. W. Clausen
President and Chief Executive Officer
Bank of America, N.T. & S.A.
Post Office Box 37000
San Francisco, CA 94137

✓ Richard P. Cooley
President and Chief Executive Officer
Wells Fargo Bank, N.A.
Post Office Box 44000
San Francisco, CA 94144

✓ William B. Eagleson, Jr.
Chairman of the Board and President
Girard Bank
Girard Plaza
Philadelphia, PA 19101

D. Dean Kaylor (Advisory Member)
Senior Vice President
National Bank of Detroit
Post Office Box 1041A
Detroit, MI 48232

✓ Ben F. Love
Chairman and Chief Executive Officer
Texas Commerce Bank, N.A.
Post Office Box 2558
Houston, TX 77001

✓ C. Coleman McGehee
Chairman and Chief Executive Officer
First and Merchants National Bank
Post Office Box 27025
Richmond, VA 23261

✓ Donald C. Miller (Advisory Member)
Executive Vice President
Continental Illinois National Bank and
Trust Company
231 South LaSalle Street
Chicago, IL 60693

✓ Philip H. Nason
Chairman of the Board
The First National Bank of St. Paul
332 Minnesota Street
St. Paul, MN 55101

✓ Ellmore C. Patterson
Chairman of the Board
Morgan Guaranty Trust Company
23 Wall Street
New York, NY 10015

✓ John H. Perkins
President
Continental Illinois National Bank and
Trust Company
231 South LaSalle Street
Chicago, IL 60693

✓ Howard C. Petersen
Chairman of the Board
The Fidelity Bank
Broad and Walnut Streets
Philadelphia, PA 19109



Leland S. Prussia (Advisory Member)
Executive Vice President and Cashier
Bank of America, N.T. & S.A.
Post Office Box 37000
San Francisco, CA 94137

✓ Bruce M. Rockwell
President
Colorado National Bank of Denver
Post Office Box 5168
Terminal Annex Station
Denver, CO 81217

James R. Sheridan (Advisory Member)
Senior Vice President
North Carolina National Bank
Post Office Box 120
Charlotte, NC 28255

✓ D. Thomas Trigg
Chairman and Chief Executive Officer
National Shawmut Bank of Boston
Post Office Box 2176
Boston, MA 02106

✓ Thomas R. Wilcox
Chairman of the Board
Crocker National Bank
Post Office Box 38000
San Francisco, CA 94138

ABA STAFF

John J. Gill, Federal Administrative Counsel
(202) 467-4200

Lawrence Banyas, Senior Consultant
(202) 467-4382

Gerald M. Lowrie, Executive Director
Government Relations (202) 467-4097

EX OFFICIO MEMBERS

✓ Willis W. Alexander
Executive Vice President
American Bankers Association
1120 Connecticut Avenue, N.W.
Washington, D. C. 20036

Hovey S. Dabney
President and Chairman of the Board
National Bank and Trust Company
Post Office Box 711
Charlottesville, VA 22902
(Chairman, Savings Bond Committee)

✓ J. Rex Duwe
President and Chairman
The Farmers State Bank
Post Office Box 305
Lucas, KS 67648
(President, ABA)

✓ W. Liddon McPeters
President
The Security Bank
Post Office Box 1439
Corinth, MS 38834
(President-Elect, ABA)

✓ George L. Whyel
Vice Chairman of the Board
Genesee Merchants Bank & Trust Company
One East First Street
Flint, MI 48502
(Past President, ABA)



AMERICAN
BANKERS
ASSOCIATION

1120 Connecticut Avenue, N.W.
Washington, D.C.
20036



FEDERAL
AGENCY
RELATIONS

FEDERAL ADMINISTRATIVE COUNSEL
John J. Gill
202/467-4204

June 25, 1976

Mrs. Catherine Mallardi
Secretary to Chairman Burns
Board of Governors of the
Federal Reserve System
20th & Constitution Avenue, N.W.
Washington, DC 20551

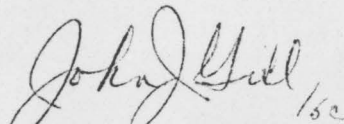
Dear Mrs. Mallardi:

There is enclosed for your information a copy of the agenda for the next meeting of the Government Borrowing Committee. Please call to Chairman Burns' attention that the Committee will be meeting in our offices at 1120 Connecticut Avenue, N.W. The Bender Building also has an entrance on L Street, near 18th Street. Our Board Room is on the 7th floor.

The Committee will look forward, as usual, to meeting with Chairman Burns at 3:30 p.m. on Tuesday, July 27, 1976.

I am also enclosing for Chairman Burns' information, a roster of the members of the Government Borrowing Committee.

Sincerely,


John J. Gill

JJG:pl

Enclosure



Handwritten notes:
Dw.
attended
for
HFB
7/27/76
bm

GOVERNMENT BORROWING COMMITTEE
AMERICAN BANKERS ASSOCIATION

JULY 26-27, 1976

REVISED AGENDA

Monday, July 26, 1976

6:00 p.m.

Reception and Dinner
Wadsworth
International Club

Tuesday, July 27, 1976

8:30 a.m.

Business Meeting
ABA Board Room

9:00 a.m.

Slide Presentation
Room to be announced
Treasury Building

10:00 a.m.

Briefing Session
Room to be announced
Treasury Building

12:30 p.m.

Luncheon
ABA Board Room

5:00 p.m.

Presentation of Committee Report
Room to be announced
Treasury Building

International Club - 1800 K Street, NW, Washington, DC, L Street
entrance

ABA Board Room - 1120 Connecticut Avenue, NW, Washington, DC,
7th Floor

Main Treasury Building - 15th Street & Pennsylvania Avenue, NW
Washington, DC - rooms to be announced at a later time



1975-1976 GOVERNMENT BORROWING COMMITTEE ROSTER

Chairman: Willard C. Butcher
President
The Chase Manhattan Bank, N.A.
One Chase Manhattan Plaza
New York, NY 10015

A. Robert Abboud
Chairman of the Board
The First National Bank of Chicago
One First National Plaza
Chicago, IL 60670

William B. Eagleson, Jr.
Chairman of the Board & President
Girard Bank
Girard Plaza
Philadelphia, PA 19101

Andrew Benedict
Chairman of the Board
First American National Bank
P. O. Box 1351
Nashville, TN 37237

D. Dean Kaylor (Advisory Member)
Senior Vice President
National Bank of Detroit
P. O. Box 1041A
Detroit, MI 48232

Henry G. Blanchard
Chairman of the Board
Commercial National Bank of Kansas City
P. O. Box 1400
Kansas City, KS 66117

Ben F. Love
Chairman & Chief Executive Officer
Texas Commerce Bank, N.A.
P. O. Box 2558
Houston, TX 77001

Guy W. Botts
Chairman of the Board
Barnett Bank of Jacksonville, N.A.
P. O. Box West Bay Station
Jacksonville, FL 32203

C. Coleman McGehee
Chairman & Chief Executive Officer
First & Merchants National Bank
P. O. Box 27025
Richmond, VA 23261

William A. Carpenter
President
Whitney National Bank of New Orleans
P. O. Box 61260
New Orleans, LA 70161

Donald C. Miller (Advisory Member)
Executive Vice President
Continental Illinois National
Bank & Trust Company
231 South LaSalle Street
Chicago, IL 60693

A. W. Clausen
President & Chief Executive Officer
Bank of America, N.T. & S.A.
P. O. Box 37000
San Francisco, CA 94137

Philip H. Nason
Chairman of the Board
The First National Bank of St. Paul
332 Minnesota Street
St. Paul, MN 55101

James H. Higgins
Chairman
Mellon Bank, N.A.
Mellon Square
Pittsburgh, PA 15230

Ellmore C. Patterson
Chairman of the Board
Morgan Guaranty Trust Company
23 Wall Street
New York, NY 10015



John H. Perkins
President
Continental Illinois National
Bank & Trust Company
231 South LaSalle Street
Chicago, IL 60693

Howard C. Petersen
Chairman of the Board
The Fidelity Bank
Broad & Walnut Streets
Philadelphia, PA 19109

Leland S. Prussia (Advisory Member)
Executive Vice President & Cashier
Bank of America, N.T. & S.A.
P. O. Box 37000
San Francisco, CA 94137

Bruce M. Rockwell
President
Colorado National Bank of Denver
P. O. Box 5168
Terminal Annex Station
Denver, CO 81217

James R. Sheridan (Advisory Member)
Senior Vice President
North Carolina National Bank
P. O. Box 120
Charlotte, NC 28255

D. Thomas Trigg
Chairman & Chief Executive Officer
National Shawmut Bank of Boston
P. O. Box 2176
Boston, MA 02106

Thomas R. Wilcox
Chairman of the Board
Crocker National Bank
P. O. Box 38000
San Francisco, CA 94138

ABA Staff

John J. Gill, Federal Administrative
Counsel
202-467-4200

Lawrence Banyas, Senior Consultant
202-467-4382

Gerald M. Lowrie, Executive Director
Government Relations
202-467-4097

Ex Officio Members

Willis W. Alexander
Executive Vice President
American Bankers Association
1120 Connecticut Avenue, NW
Washington, DC 20036

Hovey S. Dabney
President & Chairman of the Board
National Bank & Trust Company
P. O. Box 711
Charlottesville, VA 22902
(Chairman, Savings Bond Committee)

J. Rex Duwe
President & Chairman
The Farmers State Bank
P. O. Box 305
Lucas, KS 67648
(President, ABA)

W. Liddon McPeters
President
The Security Bank
P. O. Box 1439
Corinth, MS 38834
(President-Elect, ABA)

George L. Whyel
Vice Chairman of the Board
Genesee Merchants Banks & Trust
Company
One East First Street
Flint, MI 48502
(Past President, ABA)



**AMERICAN
BANKERS
ASSOCIATION**

1120 Connecticut Avenue, N.W.
Washington, D.C.
20036



**FEDERAL
AGENCY
RELATIONS**

FEDERAL ADMINISTRATIVE COUNSEL
John J. Gill
202/467-4204

December 20, 1976

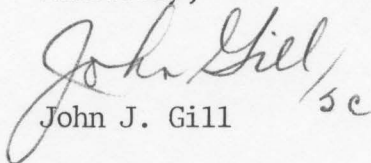
Mrs. Catherine Mallardi
Administrative Assistant
to Chairman Burns
Board of Governors of the
Federal Reserve System
20th Street & Constitution Avenue, N. W.
Washington, D. C. 20551

Dear Mrs. Mallardi:

Enclosed for your information is a copy of the agenda for the next meeting of the Government Borrowing Committee. Please call to Chairman Burns' attention that the Committee will be meeting in our offices at 1120 Connecticut Avenue, N. W. The Bender Building also has an entrance on L Street, near 18th Street. Our Board Room is on the 7th Floor.

The Committee will look forward to meeting with Chairman Burns, as usual, at 3:30 p.m. on Tuesday, January 25, 1977.

Sincerely,


John J. Gill

JJG:bc
Encl.



GOVERNMENT BORROWING COMMITTEE
AMERICAN BANKERS ASSOCIATION

JANUARY 24-25, 1977

AGENDA

Monday, January 24, 1977

6:00 p.m.

Reception and Dinner
Conference Room
International Club

Tuesday, January 25, 1977

8:30 a.m.

Business Meeting
ABA Board Room

9:00 a.m.

Slide Presentation
Projection Room, #2334
Treasury Building

10:00 a.m.

Briefing Session
Room 4426
Treasury Building

12:30 p.m.

Luncheon
ABA Board Room

3:30 p.m.

Committee Briefing with
Chairman Burns of the
Federal Reserve System
ABA Board Room

5:00 p.m.

Presentation of Committee Report
Room 4426
Treasury Building

International Club -- 1800 K Street, N. W., Washington, D. C., L Street entrance

ABA Board Room -- 1120 Connecticut Ave., N. W., Washington, D. C., 7th Floor

Main Treasury Building -- 15th Street & Pennsylvania Avenue, N.W., Washington, D. C.



AMERICAN
BANKERS
ASSOCIATION

1120 Connecticut Avenue, N.W.,
Washington, D.C.
20036

22

February 14, 1977

EXECUTIVE VICE PRESIDENT

Willis W. Alexander
202/467-4211

The Honorable Arthur F. Burns
Chairman
Board of Governors of the
Federal Reserve System
Federal Reserve Building
Washington, D.C. 20551

Presidential Ballroom
153

Dear Dr. Burns:

Our officers join me in extending an invitation for you to address 350 banking leaders assembled at the Capitol Hilton here in Washington on Thursday afternoon, February 24 at 2:30 P.M. It would be particularly appropriate if you could deal with the various elements of change proposed by the Federal Reserve Staff Study recently forwarded to the Congress. A talk of approximately thirty minutes duration with an opportunity for questions for fifteen minutes would be ideal, if it is compatible with your inclination and time schedule.

A word about this group is, I think, appropriate. It includes ABA's 88-member Government Relations Council (the group with primary responsibility for our legislative posture), ABA's Board of Directors, ABA's 150-member Governing Council (bankers elected by their peers from the states) and finally, the President and staff executive of each of the fifty state bankers associations. It should be noted that more than half of the bankers assembled are from community banks.

The purpose of this meeting is to seek a consensus on the various elements of change in the powers and regulation of America's financial institutions, which will place the American Bankers Association in a position to help manage this change in the public interest. This is a lofty goal but to seek less for banking and its customers would be unfair to America's banks.

I hope this gives you a feel for the importance of this meeting and the objective we have established. Your discussion of the realities of today's environment with these banking leaders is most important.

Senator McIntyre will open this meeting with a luncheon address and we plan in addition to the subjects raised by the Federal Reserve Staff Study, to consider the issues posed by the National Commission on Electronic Fund Transfers preliminary report to the Congress, as well as the credit unions' quest for expanded powers.

We all believe, Dr. Burns, that your presence at this meeting would significantly affect its outcome. We look forward to hearing that you will accept this invitation.

Sincerely,

Willis



RECEIVED
OFFICE OF THE CHAIRMAN
1977 FEB 14 PM 2:30
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

*Called
2/15/77
acc.*

2/22/77



Outline for Talk by Chairman Burns
on February 24 before ABA Government Relations Committee

I. Our financial system has been moving toward payment of interest on transactions balances. Process has accelerated in recent years in large part through pressures originating with thrift institutions and states. } 4

A. Milestones in this process were:

1. September 1970--S&L's permitted to make preauthorized non-negotiable transfers from savings accounts for household-related expenditures.
2. June and September 1972--State-chartered mutual savings banks first in Massachusetts and then in New Hampshire began offering NOW accounts. - *check along w.h. interest*
3. January 1974--Congress authorized all depository institutions in Massachusetts and New Hampshire (except credit unions) to offer NOW accounts.
4. January 1974--First customer bank communication terminals installed in supermarkets by an S&L, permitting use of savings account to pay for merchandise.
5. Early 1974 on--Money market funds became more important; in many cases shareholders can write checks against accounts.
6. August 1974--Credit union share drafts permitted (similar to NOW accounts).



2
↑
1) Higher interest in demand
drafts
2) money
banks -
deposits
disfranchised

7. November 1974--Commercial banks authorized to accept savings deposits from state and local governments (matching authority at thrifts).
8. April 1975--Telephone transfer from savings accounts to demand deposits authorized for commercial banks (matching similar authority for thrift institutions).
9. April 1975--S&L's given authority to make preauthorized third party non-negotiable transfers for any purpose.
10. September 1975--Similar authority granted to banks. *for savings all NS*
11. November 1975--Banks authorized to offer savings accounts to businesses, up to \$150,000 per customer per bank.
12. February 1976--Federal legislation authorizing NOW accounts in remainder of New England *Lyndon about N.Y. NJ + Pa*

N)
B. Banks have also competed by offering checking and other services below cost; thus pay implicit interest on demand deposits.

X *write down*
some stuff
C. Movement toward explicit interest on transactions balances has eroded old distinctions between demand and other deposits, altered competitive relationship among institutions--more so in some regions of the country than in others--and appears to be gaining momentum. In practice, irreversible.

II. We have an opportunity to guide the evolution of the monetary system, rather than to continue with piece-meal, costly, and inequitable process by which interest is coming to be paid on demand balances. Our thinking is going along the following line.



A. Extend NOW accounts nationwide.

1. Logical extension of recent innovations and developments.
2. Limit only to households (rather than households and nonprofit as in New England).
3. Have lower reserve requirement than demand deposits, thus easing cost burden.

B. Establish an interest rate ceiling--with no differential between banks and other institutions--on NOW accounts (as well as Credit Union share drafts).

1. Needed to moderate transitional pressures on financial system.
2. Because of highly sensitive role of demand and other transactions deposits in monetary policy, Federal Reserve best given authority over ceiling rate, in consultation with other interested agencies.
3. Ceiling should be somewhat lower than the 5 per cent that currently prevails in New England.

C. Provide for a one or two year delay in the effective date for nationwide NOW accounts following enactment.

1. Moderate transitional pressures by enabling banks to plan more effectively such adjustments as may be necessary in service charges on checks, fees for other banking services, marketing strategy, computer programs.



2. Provide states with ample time to make complementary regulatory or legislative changes.

4
D. Apply reserve requirements set by the Federal Reserve to transactions balances at all institutions.

1. Extends System reserve requirements to demand deposits and NOW accounts at nonmember commercial banks, mutual savings banks, S&L's, and credit unions.
2. Promotes competitive balance.
3. Helps assure effective implementation of monetary policy.)

5
E. Permit interest to be paid on all required reserve balances maintained at Federal Reserve Banks, with the interest rate to be established by the Board.

- b
1. Reduce competitive disadvantage of member banks.
 - a. Erosion in membership is potentially serious problem for soundness of banking system.
 - b. In the absence of universal reserve requirements, membership loss threatens effectiveness of monetary policy.

- a
2. Helps offset cost of interest on transactions balances (though would pay interest on all reserves of member banks, whether held against demand or time and savings deposits).
 3. Must consider level of interest rate on reserves carefully in relation to impact on Treasury revenue, needs of small and large banks, and pricing policy for Federal Reserve services.

c)

F. Lower ranges within which reserve requirements can be adjusted and eliminate distinction between reserve city and other banks.



1. Permit us overtime to undo excessively complicated graduated reserve requirement on demand deposits (with average level of requirements substantially reduced as move toward more uniform requirement by deposit size).
2. Permit lower requirements on time and savings deposits, particularly those not closely involved in transactions.

III. I am not asking for your approval of this program at this time.

I am only asking that you do not jump to conclusions.

- A. We are sensitive to potential effects on bank costs and profitability, and therefore on the ability of banks to continue financing our nation's economic growth.
- B. But believe that we have balanced program that will minimize transitional costs of inevitable movement toward payment of interest on a broader range of deposits.
- C. Would welcome your suggestions and comments on these difficult and complex issues.

my own thinking
but ^{perhaps} further into the future -
also in Lyons

Ward misner
store 244

AMERICAN
BANKERS
ASSOCIATION

1120 Connecticut Avenue, N.W.
Washington, D.C.
20036



FEDERAL
AGENCY
RELATIONS

FEDERAL ADMINISTRATIVE COUNSEL
John J. Gill
202/467-4204

March 16, 1977

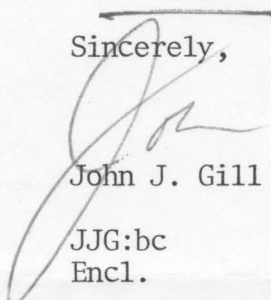
Mrs. Catherine Mallardi
Administrative Assistant
to Chairman Burns
Board of Governors of the
Federal Reserve System
20th Street & Constitution Avenue, N.W.
Washington, D. C. 20551

Dear Mrs. Mallardi:

Enclosed for your information is a copy of the agenda for the next meeting of the Government Borrowing Committee. Please call to Chairman Burns' attention that the Committee will be meeting in the Board Room on the 7th Floor of our offices at 1120 Connecticut Ave., N.W.

The Committee will look forward to meeting with Chairman Burns, as usual, at 3:30 p.m. on Tuesday, April 26, 1977.

Sincerely,


John J. Gill

JJG:bc
Encl.



GOVERNMENT BORROWING COMMITTEE
AMERICAN BANKERS ASSOCIATION

April 25-26, 1977

AGENDA

Monday, April 25, 1977

6:30 p.m.

Reception and Dinner
Conference Room
International Club

Tuesday, April 26, 1977

8:30 a.m.

Business Meeting
ABA Board Room

9:00 a.m.

Slide Presentation
Treasury Building
(room to be announced)

10:00 a.m.

Briefing Session
Treasury Building
(room to be announced)

12:30 p.m.

Luncheon
ABA Board Room

3:30 p.m.

Committee Briefing with
Chairman Burns of the
Federal Reserve System
ABA Board Room

5:00 p.m.

Presentation of Committee Report
Treasury Building
(room to be announced)

International Club -- 1800 K Street, N.W., Washington, D.C., L Street entrance

ABA Board Room -- 1120 Connecticut Ave., N.W., Washington, D.C., 7th Floor

Main Treasury Building -- 15th Street & Pennsylvania Ave., N.W., Washington, D.C.



1

EXCERPT FROM
REPORT OF GOVERNMENT RELATIONS COMMITTEE
ASSOCIATION OF RESERVE CITY BANKERS
APRIL 4, 1977



At its meeting yesterday, the Committee dealt principally with the question of interest on demand deposits.

The first question addressed by the Committee was the probability of legislation. The consensus was that payment of interest on demand deposits as such is inevitable in the long run; that proposals to provide for the payment of such interest are almost certain to be introduced in the Congress in the near future; that the most likely form of the proposed legislation is that set forth by Federal Reserve Board Chairman Burns on various recent occasions (and confirmed at Saturday evening's session); and that while the "package" advanced by Chairman Burns should not be assumed to be certain of passage, the Committee should proceed to consider each specific element of that package in order to identify, and form conclusions on, those which are likely to be of special concern to members of the Association.

(continued)

The import of the Committee's decision to proceed in this fashion did not reflect a formal approval, or disapproval, of the payment of interest on demand deposits, or of the package anticipated from the Federal Reserve. Rather, it reflected the pragmatic conclusion that to defer consideration, or to contemplate outright opposition to the strong trends now underway, would preclude the Association from playing the role it should in shaping the policy of the American Bankers Association and the course of future legislation.

The Committee focussed its attention on five key elements of the legislative proposal anticipated from the Federal Reserve Board. The remainder of my report, therefore, will present the views of the Committee on each of these items.

FIRST -- "NOW" accounts will be proposed for all depository institutions, including credit unions, with access to such accounts limited to "households".

The Committee recognized that the NOW account--a savings account against which checks can be drawn--is in reality a special form of payment of interest on demand deposits, and in itself is likely to be considered a transitional step toward the payment of interest, eventually, on all demand accounts. A minority of the Committee endorsed the idea of paying interest on all regular checking accounts rather than devising a new instrument (i. e. the NOW) to accomplish the same purpose. However, a majority of the Committee agreed with the view that, if demand deposit interest were to become a reality, the first and most probable step would be via the NOW account. This conclusion by the Committee constituted neither approval or disapproval of the concept of the NOW account, on which opinion was mixed but generally unfavorable, but rather acceptance of the idea that the NOW constituted the most likely transitional step.

The Committee was further of the view that NOW accounts should be the only interest-bearing transactional account in any depository institution.

SECOND -- The anticipated legislation will include a provision for establishing a uniform ceiling rate on all NOW accounts offered by all depository institutions, at a level below that of the present passbook rate ceiling.

There was strong feeling among the members of the Committee that deposit interest ceilings are not conducive to a free market. Some members of the Committee suggested that a ceiling set considerably below the current passbook ceiling of 5% would hamper the ability of commercial banks to compete with thrift institutions, particularly so long as the latter institutions retained the right to offer passbook savings at a 5 1/4% ceiling. However, the Committee also concluded that the politics of the issue were almost certain to dictate inclusion of the regulation of NOW interest rates, largely because of pressure from smaller banks.

(continued)

After lengthy discussion of the rate ceiling question, the Committee concluded:

1. That it should reaffirm the traditional position of opposition to interest ceilings;
2. Recognizing the concern of some parties that NOW interest regulation is needed, the Federal Reserve should have authority to apply ceilings on NOW account interest rates;
3. That if such ceilings are established, they should be uniform for all depository institutions, regardless of type or size; and
4. That all deposit interest ceilings--on NOW accounts and on all other savings and time accounts--should be removed not later than five years from date of passage of the legislation.

THIRD -- The anticipated bill on NOW account legislation will provide for a delay of one or two years (Chairman Burns mentioned "two years" at his dinner speech) before the provisions become effective.

The Committee concluded that the interests of commercial banks would be best served if the phase-in period could be held to one year. The reasons for this are:

1. One year should be sufficient time for banks to prepare for NOW accounts;
2. A longer period may give certain depository institutions an undue competitive edge with respect to some instruments, such as the offering of share-drafts by credit unions; and
3. A lengthy delay would penalize some New England commercial banks--unless additional special legislation were enacted--since they are already offering NOW accounts and thus need immediately the regulatory safeguards anticipated in the new legislation.

FOURTH -- It is expected that the Federal Reserve Board's proposal will ask that reserve requirements be applied to all transactional balances in all depository institutions, that such requirements be established solely by the Federal Reserve, and that the reserve balances be lodged in Federal Reserve Banks.

(continued)



The Committee recognized that full control of the nation's deposit reserve base is a long-time and important goal of the Federal Reserve Board and many of the members were sympathetic to this objective. However, the Committee concluded that the inclusion of the kind of provision described by Chairman Burns would arouse exceedingly strong opposition from non-member commercial banks, as well as from many thrift institutions, and that such opposition would in all likelihood be fatal to Chairman Burns' desire to assure an orderly transition to payment of interest on demand deposits.

Accordingly, by unanimous vote, the Committee concluded that:

1. Provision should be made in the proposed legislation that reserves be required against NOW accounts as distinguished from all transactional balances, and that the percentage requirements be uniform for all depository institutions offering such accounts; and
2. Reserves against NOW accounts should be lodged with the Federal Reserve by Federal Reserve member banks, and should be lodged with the Federal Reserve or with member banks of the Federal Reserve System by all other depository institutions, at their option.



The question of how the level of reserves should be established, or by whom, was not discussed at sufficient length to result in formal action by the Committee, but the consensus view was that the uniform percentage requirement, whatever it may be, would most appropriately be determined by the Federal Reserve Board.

FIFTH -- The anticipated legislation is expected to contain authorization for the Federal Reserve to pay interest on required reserves.

The Committee recognized that the question of reserve interest is closely related to the matter of a possible future unbundling of Federal Reserve services performed for member banks, and the establishment of explicit charges for such services. However, because of time constraints and, more importantly, because the Committee wished to consider interest on reserves as an independent question, it was decided to forego discussion of "unbundling" at this time.

Some members of the Committee favored payment of interest on reserves, noting that this may be the only opportunity for Congressional approval of such payments. Other members of the Committee felt that, to the extent that the proposal was intended to assist bankers to bear the anticipated heavy transitional costs of interest on demand deposits, a better solution was a reduction of reserve requirements. Proponents of this view argued that the present structure of reserve requirements was archaic and inequitable; and, moreover, that if interest were paid on reserve balances (in lieu of fundamental reform of the present structure

(continued)

of reserve requirements), commercial banks were opening themselves up to possible adverse legislation in the future, such as various asset allocation schemes.

While the Committee did not take a formal vote on this issue, the consensus view favored reform of the reserve requirement structure, through lower and more equitable requirements, rather than the payment of interest on reserves. In forming this conclusion, the Committee was cognizant of the fact that payment of interest on reserves is important to the Federal Reserve in its efforts to deal with its membership problem.

That concluded the Committee's deliberations on this matter and it is intended that its views be carried to the upcoming meeting of the ABA Government Relations Council to assist in forming an industry position on these proposals.

Respectfully submitted,

Gordon T. Wallis
Chairman



This document
went out of
existence after

(2)

April 27, 1977

WORKING DRAFT

The Floor Discussion -

Consensus Statement by Government Relations Council

FOR USE AT ABA BANKING LEADERSHIP MEETING ONLY

During its February meeting the Government Relations Council concluded that the industry and the public would be best served by a willingness on the part of the ABA to work constructively toward development of a proposal which would: 1) address a number of competitive inequities affecting our customers; 2) provide the option of making consumer savings accounts more useful; and 3) make membership in the Federal Reserve System less burdensome.

It was stipulated in February that any acceptable proposal should meet all of our criteria for determining policy, with strong emphasis on ensuring that all well-managed banks, regardless of size, would be able to continue to serve their customers profitably and effectively.

The Council and ABA staff have been pursuing the goals set forward in the February meeting. We have made progress toward gaining acceptance of some of our ideas by the Federal Reserve Board as it prepares legislation to be introduced very soon. For instance, the Fed has shown a willingness to address the competitive inequities created by the credit union share draft "experiment," as well as the gross inequity of the interest rate differential, which creates a competitive imbalance and thus limits the consumer's choice in the marketplace. Its action on IRA and Keogh accounts is testimony to this point.

The Council's conclusion as a result of this meeting is that we should continue to pursue banking's goal of achieving equitable treatment of its customers relative to those of other financial institutions. To that end, we support legislation providing banks and other depository institutions the option of offering consumers a "checkable savings account" (we want to use a term customers will understand, rather than "NOW," a lawyers' phrase) provided it meets the requirements outlined in the attachment.

Nationwide NOW accounts would not be an unmitigated blessing for all consumers, however. There could be some who would be disadvantaged. A full, public examination of the impact of nationwide NOW accounts on consumers should therefore be a part of any legislative consideration of NOW accounts.

The Council further concluded that linking legislation authorizing the Federal Reserve to pay interest on the required reserves of member banks to the so-called "NOW account" proposal is premature. We recognize the membership problem of the Fed and want to contribute to its solution. However, a decision on how to reduce the burden of Fed membership should not be made until the Fed has stated its proposals relative to "unbundling" the pricing of its services to members and nonmembers, followed by study and debate of the total question of how to ease Fed membership burdens.

The Council, therefore, would not support legislation on this issue until the recommended steps are taken. The Fed's preliminary proposals may stand the test of detailed scrutiny, but the hazards of premature action are great.



*Mr. Chairman - The ABA decided
it would not be appropriate to
carry this forward into the Mc Peters
release -*

(Attachment)

An acceptable plan for "checkable savings" (NOW accounts) which could be offered by depository institutions as an optional service:

- Such an account would be the only interest-bearing transaction account permitted for all banks, thrifts and credit unions.
- Parity of interest rate ceilings and reserve requirements must be established for institutions which offer such accounts (including credit unions). Rates and reserve requirements would be set by the Federal Reserve System.
- No class of Fed "membership" or affiliation would be compulsory.
- Reserves of nonmember banks on NOW accounts may be held at any correspondent bank.
- Uniform reserves on NOW accounts offered by other depository institutions would be held by the Federal Reserve or other depositories by agreement with the Fed.
- The statutory rate differential must be removed from the Interest Rate Control Act.
- The rate differential must be removed by action of the regulators from all classes of savings accounts for any institution which elects to offer consumer transaction accounts.
- The National Credit Union Administrator would become a member of the Interagency Coordinating Committee, which would impose a discipline of rate ceilings upon credit unions similar to that which exists for other types of financial institutions.
- The Fed should provide banks the additional option of offering pre-authorized transfers from savings to checking accounts.
- The "checkable savings" account must be limited to customers who meet the strict definition of a household account. (The Connecticut law stipulates that only a "natural person" may hold such an account. This, for example, excludes professional and farm business accounts.) This law is a potential model for the language to be used.
- A one-year preparation or transition period must be allowed between enactment and implementation of the law.
- The New England banks, however, would immediately gain the parities stipulated in this legislation upon its enactment. That is, the legislation would take effect immediately in the six New England states.
- The public interest requires that effective regulation and examination be applied to all financial institutions offering transaction account services.

#



3

May 2, 1977

To: Board of Governors

From: Ken Guenther

Subject: President McPeters' Statement
Outlining the ABA's Decision
on Nationwide NOW Accounts-
Interest on Reserve Balances
Legislative Initiative

President McPeters' press release is attached.





April 29, 1977

Statement

By W. Liddon McPeters
President
American Bankers Association

Last February, ABA's first Banking Leadership Meeting decided to preserve its options to work toward development of a legislative proposal which would: remove a number of inequities, including those which deprive bank customers of a competitive rate of interest on their savings; allow banks the option of making consumer savings accounts more useful; and make membership in the Federal Reserve System less burdensome.

Yesterday, the same group of banking industry leaders met again and decided that the questions of greatest concern to them all boil down to fair treatment for bank customers and banks. Bankers want their customers to be able to receive the same rates of interest available at other institutions. Bankers also want to avoid imposing on their customers the added costs of unequal reserve requirements, service restrictions, regulation and taxation. While we have been encouraged by the recent action of the Fed and the FDIC allowing banks parity with other financial institutions in the rate ceilings on Individual Retirement Accounts and Keogh Accounts, gross inequities in the treatment of bank customers and banks remain.

The participants in the Banking Leadership Meeting directed the ABA to make an all-out effort, on behalf of bank customers, to obtain full competitive equity with thrift institutions. They further directed that as a part of this effort, ABA should support legislation which would give banks and other depository institutions the option of offering consumers the opportunity to write checks on a new type of savings account. (Lawyers call this a NOW account; we prefer to allow another name for this consumer service to evolve, one which consumers can better understand.)

(// While recognizing that a clear link exists between this proposal and the proposal to allow the Fed to pay interest on required reserves it holds, we believe that neither part of the package should be acted upon before more detailed expression and discussion of the second proposal have taken place and a resolution has been reached. Our concern is to preserve the dynamic balance between the Fed's ability to implement monetary policy and the dual banking system's innovative strength.

Our primary goal is to achieve parity for bank customers and banks, and our willingness to support legislation allowing this new type of account and to participate in the search for a way to make Fed membership less onerous for banks is dependent upon the achievement of that objective.

(more)



The participants in the Banking Leadership Meeting therefore spelled out the basic elements of an acceptable legislative and regulatory plan which would first achieve parity and then allow financial institutions to offer this new type of account as an optional service to their customers. Those elements are:

- Parity of interest rate ceilings, reserve requirements and treatment of reserves on such new accounts must be established for the benefit of customers of all institutions which offer such accounts.
- The statutory interest rate differential must be removed from the Interest Rate Control Act. The advantage of the rate differential must be removed by regulatory action from all classes of savings accounts for any institution which elects to offer check-like accounts. The National Credit Union Administrator must become a member of the Interagency Coordinating Committee; thus, the same rate ceilings which exist for other types of financial institutions would apply to credit unions.
- The new type of account must be the only interest-bearing transaction account permitted for all banks, thrifts and credit unions -- or for any other institutions which now or in the future offer such accounts. The new account would be an alternative to, and not a replacement for, conventional checking and savings accounts. This would apply also to any interest-bearing accounts on which demand-type withdrawals via electronic terminals are permitted.
- Reserves on this type of account at banks which are not Fed members could be held at any correspondent bank. Uniform reserves on those accounts offered by depository institutions other than banks would be held by the Fed or by other depositories by agreement with the Fed. No class of Fed membership or affiliation would be compulsory for any financial institution.
- The new type of account must be limited to customers who meet the strict definition of a household account. (The Connecticut NOW account law stipulates that only a "natural person" may hold such an account. This, for example, excludes professional and farm business accounts. This law is a potential model for the language to be used.)
- A one-year preparation or transition period must be allowed between enactment and implementation of the law. In the six New England states, however, the law would take effect immediately, giving banks in those states the parity provided in the legislation.
- Full, effective regulation and examination must be applied to all financial institutions offering this new type of account. The public interest demands this.
- The Fed and the FDIC should provide banks the additional option of offering pre-authorized transfers from savings to checking accounts.

We believe that this proposal meets all of ABA's criteria for policy-setting. Particularly, it ensures that all well-managed banks, regardless of size, would be able to continue to serve their customers profitably and effectively.

#

te to Editors: Attending this year's second Banking Leadership Meeting were the leaders of 150 state bankers associations and of most of the other banking trade associations, as well as the ABA's Board of Directors, Governing Council, Government Relations Council, Communications Council, Education Policy and Development Council and Economic Advisory Committee.)

May 3, 1977

Catherine:

Helen McAnulty from ABA called with the list of names who will be attending a meeting tomorrow at 5 p.m. with Dr. Burns.

1. Tom C. Frost, Jr. (Tom)
Chairman
Frost National Bank
San Antonio, Texas
2. Richard D. Hill (Dick)
Chairman
The First National Bank of Boston
3. Gilbert F. Bradley (Gil)
Chairman
The Valley National Bank
Phoenix, Arizona
4. Thomas I. Storrs (Tom)
Chairman of Executive Committee
North Carolina National Bank
Charlotte, North Carolina
5. Ronald A. Terry (Ron)
Chairman of the Board
The First Tennessee Banks
Memphis, Tennessee
6. Stuart A. Lewis (Stu)
Director, Government Relations
Association of Reserve City Bankers
Washington, D. C.
7. W. Liddon McPeters (Liddon)
President, ABA also
President
The Security Bank
Corinth, Mississippi

OVER



May 3, 1977

Catherine:

Staff Members

Ellen McNulty from ABA called with the list of names who

8. Willis W. Alexander
Executive Vice President
ABA

9. Gerald M. Lowrie (Gerry)
Executive Director, Government Relations
ABA

Protest National Bank
San Antonio, Texas

2. Richard D. Hill (Dick)
Chairman
The First National Bank of Boston

3. Gilbert F. Bradley (Gil)
Chairman
The Valley National Bank
Phoenix, Arizona

4. Thomas I. Storms (Tom)
Chairman of Executive Committee
North Carolina National Bank
Charlotte, North Carolina

5. Ronald A. Terry (Ron)
Chairman of the Board
The First Tennessee Bank
Memphis, Tennessee

6. Stuart A. Lewis (Stu)
Director, Government Relations
Association of Reserve City Bankers
Washington, D. C.

7. W. Liddon McPeterson (Liddon)
President, ABA also
President
The Security Bank
Corinth, Mississippi



OVER

May 4, 1977

Mr. Chairman:

Bits and Pieces Which May be Useful for 5:00 P.M.
Meeting with Reserve City Bankers and ABA

A. Stu Lewis (Washington representative) of the Reserve City Bankers called to say that the group meeting with you will seek reassurance re the political viability of the proposal to pay interest on reserve balances. They fear that it cannot be sold politically and that it will leave the banks open to political attack.

I told Stu that the political battle that seems to be shaping up is not over the principle of paying interest on reserve balances; rather over the authority of the Federal Reserve to set the rate of interest, etc. (i.e., the recent Proxmire letter indicating that "Congress would be wise to insist upon a clear and specific understanding of exactly how the authority would be used before considering any legislation."

B. I reviewed my notes from the Greenbriar meeting last night and came across the following:

(1) Jerry Lowrie advises that we not sell NOW accounts as a transition ^{step} looking towards the eventual payment of interest on demand deposits. That this scares small bankers silly.

(2) In Greenbriar Ron Terry stated at the meeting--

"We are after parity--not NOW accounts. If we lose on getting the differential back to the regulators, we go against the legislative package."



Ron Terry and others in public comments--

"We all recognize that many member banks and many State associations oppose what we have decided this morning. We must undertake a massive education process--a massive sales job--otherwise, the position we have adopted will not be transmitted by our members to the Hill."

C. Miscellaneous

Jerry Lowrie--John Hieman, the Comptroller of the Currency Designate, testified in support of the Proxmire Single Bank Regulatory bill. (last year)

Jerry Lowrie--Some member banks are leaving the Fed to get away from the Comptroller of the Currency as a regulator. "Since the departure of Jim Smith, it is an unbelievable mess over there."

K
Ken Guenther



Mr. Chairman-- Re- Meeting with Reserve City Bankers and ABA Officials

For your handy reference, three documents are attached.

(1) The paper that came out of the Phoneix meeting of the Reserve City Bankers which puts forward their concerns with the concept of paying interest on reserve balances.

(2) The consensus statement by the Government Affairs Council which was put forward to the ABA membership at the Greenbriar meeting. Based upon discussions with Govn. Jackson and myself, McPeters and Ron Terry (Chairman of the Government Relations Council) changed this statement to substantially strengthen the linkage between NOW accounts and interest on reserve balances. Note that the original statement flatly stated:

" The Council further concluded that linking legislation authorizing the Federal Reserve to pay interest on the required reserves of member banks to the so-called NOW account proposal is premature!"

(3) The McPeters press release which reflects the new ABA consensus namely:

" While recognizing that a clear link exists between this proposal (nationwide NOW accounts) and the proposal to allow the FED to pay interest on required reserves it holds, we believe that neither part of the package should be acted upon before more detailed expression and discussion of the second proposal have taken place and a resolution has been reached."

Tomorrow then looks ^{to} this detailed expression and discussion which hopefully will lead to support of the linked legislative package.



K
Ken G.

AMERICAN
BANKERS
ASSOCIATION

1120 Connecticut Avenue, N.W.
Washington, D.C.
20036



FEDERAL
AGENCY
RELATIONS

FEDERAL ADMINISTRATIVE COUNSEL
John J. Gill
202/467-4200

June 8, 1977

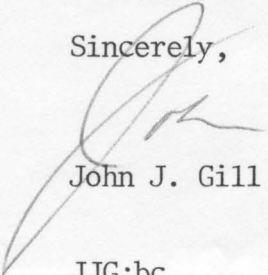
Mrs. Catherine Mallardi
Administrative Assistant
to Chairman Burns
Board of Governors of the
Federal Reserve System
20th Street & Constitution Avenue, N.W.
Washington, D. C. 20551

Dear Mrs. Mallardi:

Enclosed for your information is a copy of the agenda for the next meeting of the Government Borrowing Committee. Please call to Chairman Burns' attention that our Committee will be meeting in the Board Room on the 7th Floor of our offices at 1120 Connecticut Ave., N. W.

The Committee will look forward to meeting with Chairman Burns, as usual, at 3:30 p.m. on Tuesday, July 26, 1977.

Sincerely,


John J. Gill

JJG:bc
Encl.

*Dr. Bandner
attended for
ATB*



GOVERNMENT BORROWING COMMITTEE
AMERICAN BANKERS ASSOCIATION

July 25-26, 1977

AGENDA

Monday, July 25, 1977

6:30 p.m.

Reception and Dinner
Conference Room
International Club

Tuesday, July 26, 1977

8:30 a.m.

Business Meeting
ABA Board Room

9:00 a.m.

Slide Presentation
Room 2334
Treasury Building

10:00 a.m.

Briefing Session
Room 4121
Treasury Building

12:30 p.m.

Luncheon
ABA Board Room

3:30 p.m.

Committee Briefing with
Chairman Burns of the
Federal Reserve System
ABA Board Room

5:00 p.m.

Presentation of Committee Report
Room 4121
Treasury Building

International Club -- 1800 K Street, N.W., Washington, D.C., L Street Entrance

ABA Board Room -- 1120 Connecticut Avenue, N.W., Washington, D.C., 7th Floor

Main Treasury Building -- 15th St. & Pennsylvania Ave., N.W., Washington, D. C.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1977 JUN 13 AM 11:00

RECEIVED
OFFICE OF THE CHAIRMAN

AMERICAN
BANKERS
ASSOCIATION

1120 Connecticut Avenue, N.W.
Washington, D.C.
20036

EXECUTIVE DIRECTOR
GOVERNMENT RELATIONS

Gerald M. Lowrie
202/467-4097

June 9, 1977

Attached for your use and review is the draft of the ABA bill that is now in the hands of the staff of the Senate Banking Committee. It is our expectation that this bill will be introduced at the time the Administration-Fed bill is introduced. I thought you might want an early copy.

Gerald M. Lowrie



SECTION-BY-SECTION SUMMARY OF ABA DRAFT BILL

1. Ceilings and reserve requirements for savings accounts used to pay bills. Federal law now prohibits depository institutions from paying interest on accounts that may be used as checking accounts, except in New England. The first section of the bill lifts this prohibition, allowing institutions throughout the United States to pay interest on accounts from which transfers to third parties may be made, subject to three conditions.

First, the depositor must be an individual. Payments to others must be for his personal purposes, and not for any business or other organization.

Second, interest payments on the account and advertising must comply with rules prescribed by the FRB.

Third, if the institution is a Federal Reserve member bank, a Federally-chartered thrift institution, or a member of a Federal Home Loan Bank, it must maintain reserves against such account in the percentage applied to such accounts by the FRB.

2. Amendments to Federal Reserve Act. Subsection (a) of section 2 authorizes the Federal Reserve Board to fix reserve requirements of not less than 2% nor more than 12% against interest-bearing deposits or accounts from which transfers to third parties may be made. These requirements apply to members of the Federal Reserve System or the Federal Home Loan Bank System, and to Federal credit unions. The statutory range of reserve requirements on other time and savings deposits at Fed member banks (now 3% to 10%) is lowered to not less than 1% nor more than 7%. For demand deposits at Fed member banks, the range (now 10% to 22% in reserve cities and 7% to 14% elsewhere) becomes 5% to 20%. All institutions that offer accounts subject to reserve



requirements must make reports to the Federal Reserve regarding their liabilities on such accounts and the reserves required against them.

Subsection (b) requires members of the Federal Home Loan Bank System and Federal credit unions to hold reserves against their third-party-payment accounts in vault cash or at Federal Reserve Banks (the same as Fed member banks must do), except that Federal Home Loan Bank members may hold their reserves at a Federal Home Loan Bank if it, in turn, holds them as vault cash or at a FRBank.

Subsection (b) also authorizes the Federal Reserve System to pay interest on required reserves it holds for member banks and nonmember thrift institutions. The rate paid will be the same for all institutions, and for all reserve balances, regardless of size. Interest paid in any fiscal year must not exceed 10% of required reserves held at the beginning of the year.

Subsection (c) authorizes the Federal Reserve Board to regulate payment and advertising of interest on third-party-payment accounts at nonmember depository institutions that are subject to rate ceilings. The FRB now has this authority for Fed member banks; the bill transfers rule-making authority over interest-bearing third-party-payment accounts to the FRB from the FDIC (for insured nonmember banks) and the FHLBB (for savings and loan associations) and creates new authority in the FRB and NCUA for insured credit unions. The FRB rules will be enforced by FDIC, FHLBB, and NCUA for institutions under their jurisdictions. If any nonmember institution that is not otherwise subject to Federal rate ceilings accepts third-party-payment accounts, all of its deposits become subject to FRB regulation as to interest and advertising.

Section 19 of the Federal Reserve Act already authorizes the FRB to define terms used in the section and prescribe regulations to prevent



evasions; this authority would also apply to the new provisions regarding third-party-payment accounts that are added by the bill.

3. Amendments to the Federal Deposit Insurance Act. Section 3 transfers from the FDIC to the FRB rule-making authority over payment and advertising of interest on third-party-payment accounts at nonmember insured banks. It also includes the Administrator of the National Credit Union Administration among the officials FDIC must consult before fixing rate ceilings on other deposits.

4. Savings and loan associations. Subsection (a) of section 4 transfers from the Federal Home Loan Bank Board to the FRB rule-making authority over payment and advertising of interest on third-party-payment accounts at savings and loan associations. It also includes the NCU Administrator among the officials the FHLBB must consult before fixing rate ceilings on other accounts.

Subsection (b) authorizes Federal savings and loan associations to allow transfers from savings accounts to third parties, provided rate ceilings, advertising rules, and reserve requirements are complied with.

5. Credit Unions. Section 5 authorizes Federal credit unions to offer interest-bearing third-party-payment accounts and the Administrator of the National Credit Union Administration to prescribe rate ceilings for all accounts at insured credit unions other than third-party-payment accounts (which will be subject to FRB rules). The authority is the same as the FRB, FDIC, and FHLBB have as to interest paid by institutions under their jurisdictions (and so covers advertising about interest, as well). Before setting rate ceilings, the Administrator must consult with the other agencies.

6. Uniform rate ceilings for institutions offering third-party-payment accounts. Section 6 provides that every institution that maintains checking accounts or other accounts from which transfers to third parties may



be made (whether it is a commercial bank or any other kind of institution) shall be subject to the same rate ceilings on all of its time and savings deposits as any other institution that offers such third-party-payment accounts. Ceilings may still differ for different types of deposits (ceilings may be higher for 4-year certificates than for passbook accounts, for example), but for any one type of deposit the same ceiling will apply at all such institutions.

7. Extension of rate ceiling authority. Under present law authority to fix rate ceilings will revert to its pre-1966 form on December 15, 1977. Section 7 of the bill extends this date to December 15, 1980, at which time the new rate ceiling authority for credit unions will also expire.

Subsection (c) repeals the present statutory requirement that rate differentials in effect on December 10, 1975, between commercial banks and thrift institutions must be continued unless they are eliminated or reduced with the approval of both Houses of Congress.

8. Effective dates. To allow time for preparation, the effective date of the bill is delayed for one year in States where NOW accounts are prohibited. But in New England the bill takes effect 60 days after enactment.



A B I L L

To provide for equitable regulation of savings accounts used to make payments to third parties, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsections (a) and (b) of section 2 of Public Law 93-100 (12 U.S.C. 1832(a) and (b)) are amended to read as follows:

"Sec. 2. (a) No depository institution shall allow the owner of any deposit or other account on which interest or dividends are paid to transfer funds from the account (by check, negotiable order of withdrawal, pre-authorization, electronic instruction, or any other means) to third parties unless--

"(1) the account is owned by one or more natural persons and transfers from the account to third parties are made for personal purposes of the owner and not to make payments on behalf of any business or other organization;

"(2) payment and advertisement of interest or dividends on the account comply with applicable provisions of section 19(j) of the Federal Reserve Act; and

"(3) if the institution is a member of the Federal Reserve System, a member of the Federal Home Loan Bank System, or a Federal credit union, reserves against the account are maintained, and reports are made, in accordance with applicable provisions of section 19 of the Federal Reserve Act.

"(b) For the purposes of this section, 'depository institutions' means a bank (including a savings bank or industrial bank), a savings and loan association (including any other type of institution eligible for membership in a Federal Home



Loan Bank), a credit union, or any other institution that accepts deposits or other accounts from which the owner is allowed to make withdrawals on demand or after notice of thirty days or less. The Board of Governors of the Federal Reserve System is authorized for the purposes of this section to define further the terms used in this section."

Sec. 2. (a) The last sentence of subsection (b) of section 19 of the Federal Reserve Act (12 U.S.C. 461) is designated as paragraph (5) and that part of subsection (b) that precedes that sentence is amended to read as follows:

"(b)(1) Every member bank shall maintain reserves against its demand deposits in such average ratio, not less than 5 per centum nor more than 20 per centum, as shall be determined by the Board.

"(2) Every member bank, every member of a Federal Home Loan Bank, and every Federal credit union shall maintain reserves against its savings deposits from which transfers to third parties may be made in such average ratio, not less than 2 per centum nor more than 12 per centum, as shall be determined by the Board.

"(3) Every member bank shall maintain reserves against its time and savings deposits other than those referred to in paragraph (2), in such average ratio, not less than 1 per centum nor more than 7 per centum, as shall be determined by the Board.

"(4) Every depository institution that maintains reserves pursuant to this section shall make reports concerning its deposit liabilities and required reserves at such times and in such manner and form as the Board may require."

(b) Section 19(c) of the Federal Reserve Act (12 U.S.C. 461) is amended to read as follows:



"(c) Reserves held by any depository institution to meet the requirements imposed pursuant to subsection (b) of this section shall be in the form of--

"(1) balances maintained for such purpose by such institution at a Federal Reserve Bank, and

"(2) the currency and coin held by such institution, and

"(3) balances maintained by a depository institution in a Federal Home Loan Bank of which it is a member, if the Federal Home Loan Bank holds such balances in the form of currency and coin or at a Federal Reserve Bank.

Interest may be paid on required reserve balances maintained at Federal Reserve Banks, at a single, uniform rate to be prescribed by the Board, regardless of the size of the balance or the type of institution for which it is held. In determining the rate, the Board shall consider such factors as the effect on the Treasury of the United States, safety and soundness of depository institutions, and competitive balance among depository institutions. The interest paid by all Federal Reserve Banks on such balances in any fiscal year shall not exceed 5 per centum of total required reserve balances maintained at Federal Reserve Banks at the beginning of that fiscal year."

(c) The first sentence of section 19(j) of the Federal Reserve Act (12 U.S.C. 371b) is amended to read as follows: "The Board may from time to time, after consulting with the Board of Directors of the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the Administrator of the National Credit Union Administration, prescribe rules governing the payment and advertisement of--

"(1) interest on time and savings deposits at member banks, and

"(2) interest or dividends on deposits from which transfers to third parties may be made at nonmember institutions that are insured



by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, or the National Credit Union Administration, or are otherwise subject to section 18(g) of the Federal Deposit Insurance Act (12 U.S.C. 1828(g)) or section 5B of the Federal Home Loan Bank Act (12 U.S.C. 1425b), and

"(3) interest or dividends on all deposits at any other nonmember depository institution that allows the owner of any deposit to transfer funds from the deposit to third parties, including limitations on the rates of interest or dividends that may be paid on such deposits."

(d) Section 19(j) of the Federal Reserve Act is further amended by adding at the end thereof the following new sentences: "Compliance by nonmember institutions with rules prescribed under this subsection shall be enforced under--

"(1) section 8 of the Federal Deposit Insurance Act, by the Board of Directors of the Federal Deposit Insurance Corporation, in the case of any institution insured under that Act;

"(2) sections 6(i) and 17 of the Federal Home Loan Bank Act, section 5(d) of the Home Owners Loan Act of 1933, and section 407 of the National Housing Act, by the Federal Home Loan Bank Board (acting directly or through the Federal Savings and Loan Insurance Corporation), in the case of any institution subject to any of those provisions;

"(3) the Federal Credit Union Act, by the Administrator of the National Credit Union Administration, in the case of any institution insured under that Act; and

"(4) section 8 of the Federal Deposit Insurance Act, by the Board of Governors of the Federal Reserve System, in the case of any other nonmember institution.



The authority of the Board to prescribe rules under this subsection does not impair the authority of the Board of Directors of the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, or the Administrator of the National Credit Union Administration to make rules respecting their own procedures in enforcing compliance with such rules. For the purpose of their exercise of power under any Act referred to in this subsection, a violation of any rule prescribed under this subsection shall be deemed to be a violation of a requirement imposed under that Act. In addition to its powers under any such Act, each such agency may exercise, for the purpose of enforcing compliance with any rule prescribed under this subsection, any other authority conferred on it by law."

Sec. 3. The second sentence of section 18(g) of the Federal Deposit Insurance Act (12 U.S.C. 1828(g)) is amended (1) by striking "The" and inserting "Except as otherwise provided in section 19(j) of the Federal Reserve Act, the" and (2) by striking "and the Federal Home Loan Bank Board" and inserting a comma and the following: "the Federal Home Loan Bank Board, and the Administrator of the National Credit Union Administration".

Sec. 4. (a) The first sentence of subsection (a) of section 5B of the Federal Home Loan Bank Act (12 U.S.C. 1425b(a)) is amended (1) by striking "The" and inserting "Except as otherwise provided in section 19(j) of the Federal Reserve Act, the" and (2) by striking "and the Board of Directors of the Federal Deposit Insurance Corporation" and inserting a comma and the following: "the Board of Directors of the Federal Deposit Insurance Corporation, and the Administrator of the National Credit Union Administration".

(b) The last sentence of paragraph (1) of section 5(b) of the Home Owners Loan Act of 1933 (12 U.S.C. 1464(b)(1)) is amended to read as follows: "Transfers to third parties may be made from any savings account on which interest or dividends



are paid provided the requirements of section 2(a) of Public Law 93-100 (12 U.S.C. 1832(a)) are met."

Sec. 5. (a) Paragraph (6) of section 107 of the Federal Credit Union Act, as amended, (12 U.S.C. 1757) is amended by striking the period at the end thereof and inserting in lieu thereof a semicolon and the following: "transfers to third parties may be made from share accounts provided the requirements of section 2(a) of Public Law 93-100, as amended (12 U.S.C. 1832(a)), are met."

(b) Section 201(b) of the Federal Credit Union Act (12 U.S.C. 1781(b)) is amended by redesignating paragraphs (7), (8), and (9) as paragraphs (8), (9), and (10), respectively, and by inserting after paragraph (6) the following new paragraph:

"(7) to comply with rules prescribed by the Board of Governors pursuant to section 19(j) of the Federal Reserve Act and by the Administrator pursuant to section 209 of this Act regarding payment and advertisement of interest and dividends;"

(c) Section 209(a) of the Federal Credit Union Act (12 U.S.C. 1789(a)) is amended by adding at the end thereof the following new sentences: "Such rules may contain provisions governing the payment and advertisement of interest and dividends (including limitations on the rates of interest and dividends that may be paid) on any accounts of any insured credit union other than accounts subject to regulation by the Board of Governors of the Federal Reserve System pursuant to section 19(j) of the Federal Reserve Act. The Administrator may prescribe different rate limitations for different classes of accounts, for accounts of different amounts or with different maturities or subject to different conditions regarding withdrawal or repayment, or according to such other reasonable bases as he deems desirable in the public interest. Before prescribing rules governing payment



and advertisement of interest or dividends, the Administrator shall consult with the Board of Governors of the Federal Reserve System, the Board of Directors of the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board."

Sec. 6. For all institutions that maintain any account (whether interest bearing or not) from which the owner is allowed to make transfers to third parties, limitations on rates of interest and dividends prescribed under section 19(j) of the Federal Reserve Act, section 18(g) of the Federal Deposit Insurance Act, section 5B of the Federal Home Loan Bank Act, and section 209(a) of the Federal Credit Union Act shall be the same. Different rate limitations may be prescribed for different classes of deposits at such institutions, but the limitation for any one class of deposit shall be the same for each such institution, whether it is a commercial bank, a savings and loan association, or another type of institution.

Sec. 7. (a) Effective December 15, 1980--

(1) So much of section 19(j) of the Federal Reserve Act as precedes the third sentence thereof is amended to read as it would without the amendments made by this Act and by section 2(c) of the Act of September 21, 1966 (Public Law 89-597);

(2) the second and third sentences of section 18(g) of the Federal Deposit Insurance Act are amended to read as they would without the amendments made by this Act and by section 3 of the Act of September 21, 1966 (Public Law 89-597);

(3) sections 201(b) and 209(a) of the Federal Credit Union Act are amended to read as they would without the amendments made by this Act;

(4) the last four sentences of section 19(j) of the Federal Reserve Act, as added by this Act, are repealed; and

(5) section 5B of the Federal Home Loan Bank Act is repealed.

(b) Section 7 of the Act of September 21, 1966 (Public Law 89-597) is repealed.



(c) Effective on the date of enactment of this Act, section 102 of Public Law 94-200 (12 U.S.C. 461note) is repealed.

Sec. 8. The first six sections of this Act shall take effect on the last day of the twelfth month that begins after this Act is enacted, except that with respect to institutions in Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont they shall take effect on the sixtieth day that begins after this Act is enacted.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1977 AUG -3 PM 1:07

RECEIVED
OFFICE OF THE CHAIRMAN

AMERICAN
BANKERS
ASSOCIATION

1120 Connecticut Avenue, N.W.,
Washington, D.C.
20036

EXECUTIVE VICE PRESIDENT

Willis W. Alexander
202/467-4211

August 2, 1977

The Honorable Arthur F. Burns
Chairman
Board of Governors of the
Federal Reserve System
Federal Reserve Building
Constitution Avenue, N.W.
Washington, D.C. 20551

Dear Dr. Burns:

We are deeply grateful for your taking the time late Thursday afternoon to visit with the nearly 300 bankers assembled at the Washington Hilton. As is always the case, you were impressive in sharing with them your perspective, and I hope their response and demeanor adequately conveyed to you the high respect in which they hold you.

As the issues involved in these proposals make their way through the labyrinth which is our legislative process, I hope that we may continue to avail ourselves of opportunities in the future for similar dialogues with you and our leadership group.

Sincerely,

Willis Alexander



BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM

1977 NOV 14 PM 10:44



RECEIVED
OFFICE OF THE CHAIRMAN

AMERICAN
BANKERS
ASSOCIATION

1120 Connecticut Avenue, N.W.
Washington, D.C.
20036

ECONOMIC
ADVISORY
COMMITTEE

CHAIRMAN
Leif H. Olsen
Senior Vice President and
Economist
Citibank
399 Park Avenue
New York, New York 10022
212/559-4278
DIRECTOR
P. Michael Laub, Ph.D.
202/467-4021
ASSOCIATE DIRECTOR
Charles F. Hoffman, Ph.D.
202/467-4014

November 10, 1977

The Honorable Arthur F. Burns
Chairman
Board of Governors of the
Federal Reserve System
Washington, D.C. 20551

Dear Arthur:

The American Bankers Association is most interested in continuing a dialogue with the Federal Reserve on the burden of Federal Reserve membership. Bankers are particularly concerned about suggestions to discriminate against particular size classes of banks in the payment of interest on reserves, and the role of the Federal Reserve vis-a-vis the private sector in the provision of payments services. We are certain this will be one of the major issues before Congress next year, and feel that such a dialogue would be useful to both our organizations.

To-
in
Paris

As Chairman of the Association's Economic Advisory Committee, I would be pleased if you could attend a dinner meeting of our Committee on Sunday, December 4. Our Committee is composed of 13 senior economist representing a cross section of leading American bankers. I have attached a list of the members. We plan to include a few guests from the Association's Government Relations Council. While this is a small group, the Advisory Committee's primary responsibility is to advise the Government Relations Council of the ABA on the economic content of public issues affecting the banking industry. For example, we have circulated the Federal Reserve's "The Burden of Federal Reserve Membership, NOW Accounts, and the Payments of Interest Reserves" among members of our Committee for comments. A summary of those comments is also enclosed.

The meeting will begin with cocktails at 6 p.m. in the Danube Room of the International Club at 1800 K Street, N.W., Washington, D.C. Following dinner we would invite you to make whatever comments you would wish about the Federal Reserve's membership problem to be followed by general discussion and questions. We would be pleased to welcome other Governors of the Federal Reserve and/or staff member that you might like to have attend with you if you think it is appropriate.

Called
11/15/77
cm



The Honorable Arthur F. Burns
Page 2
November 10, 1977

Discussions need not be confined to the matter of Federal Reserve membership. We would be prepared to share with you concerns we might have about the general state of the economy, the attitudes of the banking community regarding monetary policy and other subjects which might be of interest to you.

Mike Laub of the ABA staff will call your office in a few days to get your response to this invitation. I hope you will be able to accept.

Best personal wishes.

Sincerely yours,



Leif H. Olsen

LHO:tra



VIEWS OF THE ECONOMIC ADVISORY COMMITTEE & OTHER BANKERS ON THE
FEDERAL RESERVE'S STAFF STUDY, "THE BURDEN OF FEDERAL RESERVE
MEMBERSHIP, NOW ACCOUNTS, & THE PAYMENT OF INTEREST ON RESERVES"

The Economic Advisory Committee is skeptical of the view that reserve requirements are a necessary tool for monetary control. Even if they are, we believe there is still room for a lowering of reserve requirements without any significant diminution in the ability of the Federal Reserve to exercise adequate monetary control. This is an easy and straightforward way of relieving the Federal Reserve's membership burden.

The Federal Reserve Staff Study implicitly assumes, by reason of its research design, that the burden of Federal Reserve membership varies uniformly with size of bank, and, therefore, that measures to relieve this burden can be implemented equitably by giving different amounts of relief to different size classes of banks. While it is true that more and more large banks are withdrawing from the Fed, in general, this assumption is invalid. Product mix, market orientation, and management policies frequently swamp both commonality of size among some banks and extreme size differences among others.

One example of how this assumption led the Federal Reserve Staff astray is in their analysis of ratio of before tax earnings to total assets by size of bank. The study draws an implicit conclusion from the fact that "the differences between member and non-member bank earnings (relative to assets) tend to decline with bank size, as does the rate of attrition" (of Federal Reserve membership). There are several problems with



this conclusion which were not investigated in the Staff Study. For example, before tax income as a measure of profitability involves substantial variability among banks of comparable after-tax earnings because of the varying proportion of tax-free income, such as interest on state and local securities, and depreciation and investment tax credits on leased property. The inclusion of foreign earnings and assets is a further problem. Foreign operations are generally associated with larger banks although the relationship is far from consistent. In any case, large amounts of foreign deposits are not subject to reserve requirements, and, for this type of business, Federal Reserve membership poses few problems. This is hardly a justifiable reason for discriminating against larger banks in relieving the burden that Federal Reserve membership imposes on domestic business. During the years 1974 - 1976 many banks increased provisions for credit losses by amounts which dwarfed the cost of meeting Federal Reserve reserve requirements. Without prejudging the incidence of these increases by bank size or membership status, one must look askance on an analysis which takes no account of them. Finally, any conclusions reached from this study about the relationship between membership burden and size would implicitly apply to banks over \$1 billion in size. Yet, the study admits that the number of non-member banks in this category is so small as to make any conclusions tenuous.



Another part of the study attempts to measure the burden of membership by looking at "the amount of cash in excess of operating requirements that must be held by member banks because of reserve requirements." It attempts to do this by looking at the ratio of vault cash to "total deposits plus Fed funds purchased plus other liabilities for borrowed money." Since larger banks generally make greater use of non-deposit sources of funds, such a ratio creates a false impression that the membership burden is lesser for larger banks. Non-deposit sources of funds generally do not require increments to vault cash, they do not increase required reserves or balances at Federal Reserve banks, they do not affect balances due from domestic banks, and their only effect on demand balances due to other banks is to cause reductions in such balances to the extent that purchases are made from a respondent bank, presumably out of funds that are in excess of balance targets for services provided and which would otherwise be lost as deposits through sale to some other purchaser. The fact that a member bank does or does not conduct a part of its business with non-deposit sources of funds is irrelevant in measuring the burden of maintaining reserves against deposits at the Federal Reserve, as opposed to maintaining reserves against deposits in some other form.

The study makes an attempt to estimate "nonproductive reserves" by size of bank. These estimates suffer from several



defficiencies. For example, it assumes that 56 per cent of balances due to and due from other banks are collected funds, a figure based on a survey of correspondent banks by the Kansas City Federal Reserve Bank. Bankers tell us that this figure varies widely from bank to bank, and also varies significantly over time at any particular bank.

The study makes the rather tenuous assumption that the return on correspondent balances, after the expense of servicing those balances, is about 25 per cent. The Staff Study refers to a Kansas City Federal Reserve Bank study to support the 25 per cent figure. In fact, that study says that "25 per cent is the most common amount" of before-tax profit margin reported by 50 per cent of reporting banks as a factor in analyzing correspondent accounts. Thus, it appears that there is substantial variation in this factor among banks as well.

The Study also makes the erroneous assumption that the entire return on these balances is due to the existence of Federal Reserve facilities. This is simply not true. Correspondent services for which balances are used in compensation cover an array which includes check collection, provision or currency, investment advice, credit analyses, overline participation in credits, foreign exchange and financing, operational analysis and planning, market research, financial planning and reporting, personnel training, and new business referral. A significant portion of check collection activities are carried



on without the use of Federal Reserve facilities. In addition, many of the other activities mentioned above have nothing to do with the existence of Federal Reserve facilities. Since most correspondent services are provided by larger banks, the erroneous attribution of the entire profit from the provision of these services to the existence of Federal Reserve facilities biases the measurement of the burden of Federal Reserve membership against larger banks.

The Staff Study attempts to measure the value of the discount window to member banks. It states that Fed membership reduces the cost of acquiring managed liabilities because "immediate access to the discount window might serve as a form of insurance for suppliers of large time deposits and Fed funds." The measurement of the value of the discount window is based on discussions which indicate that CDs of non-member banks sometimes sell for 5 - 10 basis points above those of member banks. Recent years have revealed no consistent patterns of such a differential for non-member domestic or foreign banks. However, there have been protracted periods in which the CDs of certain member banks have consistently carried higher rates than those of their peer group because of concern with specific credit features of the obligations, including the continued access of the issuer to the market. In such cases Federal Reserve membership and access to the discount window did not provide adequate insurance to offset the worries



of the market. On the other hand, Federal Reserve membership is one of the factors taken into account in the decision as to whether or not to approve a bank for Federal funds lines or CD purchases, but it is only rarely decisive. In the vast majority of cases it would be impossible to place a value on it since it has little weight as compared to factors inherent in the debtor banks.

The value of the discount window privilege in lender of last resort situations is assumed to be reflected only in the interest rate on marketable CDs -- a very tenuous assumption. The value of the seasonal borrowing privilege from the discount window is not considered at all.

In general the value of the discount window privilege is extremely difficult to quantify, yet very important to all member banks. Recent surveys indicate that the discount window privilege is important to member banks of all sizes, with smaller banks (\$0 - \$10 million in deposits) listing it as the pre-dominant advantage of Federal Reserve membership. Yet, such banks typically do not sell CDs in the open market, and, if the implicit assumption of this study were correct, they would receive no value at all from access to the discount window.

The type of adjustment for the value of the discount window used in this paper is highly speculative yet, it is clearly biased against larger banks, given their predominant membership in the Federal Reserve System, and large usage of purchased funds.



ECONOMIC ADVISORY COMMITTEE
1977 - 1978

Chairman

Leif H. Olsen (Leif)
Senior Vice President and Economist
Citibank, N. A.
399 Park Avenue
New York, New York 10022
(212) 559-4278

Members

Eugene A. Birnbaum (Gene)
Vice President and Chief Economist
The First National Bank of Chicago
One First National Plaza
Chicago, Illinois 60670
(312) 732-3770

William G. Colby (Bill)
Senior Vice President and Treasurer
First and Merchants Corporation
P. O. Box 27025
Richmond, Virginia 23261
(804) 788-2246

James R. Gibbs (Jim)
Senior Vice President
Texas Commerce Bank
P. O. Box 2558
Houston, Texas 77001
(713) 236-5483

A. Gilbert Heebner (Gil)
Executive Vice President and Economist
The Philadelphia National Bank
P. O. Box 7618
Philadelphia, Pennsylvania 19101
(215) 629-3803

Walter E. Hoadley (Walter)
Executive Vice President and Chief Economist
Bank of America, NT & SA
P. O. Box 37000
San Francisco, California 94137
(415) 622-6092



Lee J. Nash (Lee)
Senior Vice President
Shawmut Bank of Boston, NA
P. O. Box 2176
Boston, Massachusetts 02106
(617) 292-2613

Robert T. Parry (Bob)
Senior Vice President and Chief Economist
Security Pacific National Bank H8-2
P. O. Box 2097, Terminal Annex
Los Angeles, California 90051
(213) 613-5372

Richard S. Peterson (Dick)
Senior Vice President and Economist
Continental Illinois National Bank and Trust
Company of Chicago
231 South LaSalle Street
Chicago, Illinois 60693
(312) 828-7840

Gordon Pye (Gordon)
Vice President
Irving Trust Company
One Wall Street
New York, New York 10015
(212) 487-6416

Alfred G. Smith (Al)
Senior Vice President
North Carolina National Bank
One NCNB Plaza
Charlotte, North Carolina 28255
(704) 374-5896

Sung Won Son (Sung)
Vice President and Chief Economist
Northwestern National Bank
7th and Marquette Streets
Minneapolis, Minnesota 55480
(612) 372-7498

Thomas D. Thomson (Tom)
Vice President and Chief Economist
Detroit Bank and Trust Company
P. O. Box 59
Detroit, Michigan 48231
(313) 222-3535



AMERICAN
BANKERS
ASSOCIATION

1120 Connecticut Avenue, N.W.
Washington, D.C.
20036



FEDERAL
AGENCY
RELATIONS

FEDERAL ADMINISTRATIVE COUNSEL
John J. Gill
202/467-4200

December 13, 1977

Mrs. Catherine Mallardi
Administrative Assistant
to Chairman Burns
Board of Governors of the
Federal Reserve System
20th Street & Constitution Avenue, N.W.
Washington, D.C. 20551

Dear Mrs. Mallardi:

Enclosed for your information is a copy of the agenda for the next meeting of the Government Borrowing Committee. Please call to Chairman Burns' attention that our Committee will be meeting in the Board Room on the 7th Floor of our offices at 1120 Connecticut Ave., N.W.

The Committee will look forward to meeting with Chairman Burns, as usual, at 3:30 p.m. on Tuesday, January 24, 1978.

Sincerely,



John J. Gill

JJG:dk

Enclosure



GOVERNMENT BORROWING COMMITTEE
AMERICAN BANKERS ASSOCIATION

January 23-24, 1978

AGENDA

Monday, January 23, 1978

6:30 p.m.	Reception and Dinner Conference Room International Club
-----------	---

Tuesday, January 24, 1978

8:30 a.m.	Business Meeting ABA Board Room
9:00 a.m.	Slide Presentation (room to be announced) Treasury Building
10:00 a.m.	Briefing Session (room to be announced) Treasury Building
12:30 p.m.	Luncheon ABA Board Room
3:30 p.m.	Committee Briefing with Chairman Burns of the Federal Reserve System ABA Board Room
5:00 p.m.	Presentation of Committee Report (room to be announced) Treasury Building

International Club -- 1800 K Street, N.W., Washington, D.C., L Street Entrance

ABA Board Room -- 1120 Connecticut Avenue, N.W. Washington, D.C., 7th Floor

Main Treasury Building -- 15th & Pennsylvania Ave., N.W., Washington, D.C.



GOVERNMENT BORROWING COMMITTEE
American Bankers Association

Report to the Secretary of the Treasury
The Honorable W. Michael Blumenthal

Washington, D. C.

January 24, 1978

The Committee once again benefitted from the Treasury Department's briefings and noted the confidence expressed in the economic growth rate for 1978. The Committee recognizes that the large deficits of the past three years and the projected deficits of fiscal 1978 and fiscal 1979 impose a burden on the financial markets. The Committee feels the Treasury should continue its current policies on debt extension and avoid dependence on the short markets whenever possible. The Committee's recommendations are as follows:

1. To refund approximately \$5.0 billion privately held 6-1/4% notes maturing on February 15, 1978 and raise \$2.25 to \$2.75 billion in new cash we recommend the following:
 - a) offer up to \$6.0 billion 7-year 8% notes at par and announce that the Treasury may overallot up to 10 percent of the total amount offered;
 - b) offer \$1.25 billion 27-1/4-year 8-1/4% bonds due May 15, 2005, first callable May 15, 2000, constituting the reopening of an existing issue, at price auction.
2. To finance the remaining \$12.75 to \$13.25 billion of cash needs through March 1978, sell (excluding foreign add-ons):



- a) \$3.5 billion 2-year cycle notes due February 28, 1980 to raise \$1.4 billion new cash;
 - b) \$3.5 billion 2-year cycle notes due March 31, 1980 to raise \$.7 billion new cash;
 - c) \$3.0 billion 4-year cycle notes due March 31, 1982 all new cash.
 - d) Assuming foreign add-ons will raise an average of \$.5 billion through each of the above cycle notes, sell approximately \$6.25 to \$6.75 billion cash management bills with \$2.0 billion to be issued in late February and \$4.25 to \$4.75 to be issued in mid-March, both due in June 1978.
3. To limit the reduction in the operating cash balance to a low point in mid-April of \$2 billion from \$8 billion on March 31 (\$6 billion), sell:
 - a) \$2.5 billion 5-year cycle notes due May 15, 1983, dated early April, all new cash;
 - b) Up to \$4.5 billion short cash management due April 20, 1978.
 4. To retire the \$6.25 to \$6.75 billion of June cash management bills issued in February and March use \$5 billion available for debt paydown and add the \$1.25 to \$1.75 billion remainder to the cycle notes.

This recommendation is a departure from the usual package submitted by this Committee. It is designed to provide a maximum of debt extension at a time when market conditions seem to be appropriate. Looking beyond the first quarter, the combination of accumulating cash needs and the prospect of tighter market conditions suggest a more aggressive debt management posture at this time.

In addition, the Treasury must sooner or later face up to the problem in debt structure resulting from the maturation of its previously successful



note cycle program. This has inevitably occurred as a consequence of continued heavy deficit financing. The above package is one way to deal with this problem in today's market, which we believe is more favorable than at a later date.

We recognize disintermediation will occur to some extent with an 8 percent coupon at subscription, but the 7-year maturity has approximately the same terms as are available in competing thrift instruments. It will thus tend to minimize this process.

Moreover, the reliance on a longer maturity will also act to hold down rates among shorter maturities where the effects of disintermediation would be more pronounced.

Although the subscription technique will tend to increase disintermediation, it will also enable the Treasury to raise a substantially larger amount in an extended maturity. Furthermore, looking to cash needs later in the year, the recommended approach will provide a wider range of future short-term options.

In the long term area, the Committee again opted for the reopening of an outstanding issue at auction in continuation of efforts to establish issues of sufficient size to facilitate trading. The Committee feels that offering new issues with maturities in excess of thirty years would not meet this test.

The obvious alternative to this financing proposal would be the offering of a conventional package consisting of a 3-1/4-year note for \$3.25 billion, a seven year note for \$2.25 billion, and the reopening of the 8-1/4% bonds of 2005 for \$1.25 billion. Our strong preference is for the two-pronged package.

