The original documents are located in Box B1, folder "American Bankers Association (2)" of the Arthur F. Burns Papers at the Gerald R. Ford Presidential Library.

THE AMERICAN BANKERS ASSOCIATION 815 CONNECTICUT AVENUE, N. W., WASHINGTON, D. C. 20006

WILLIS W. ALEXANDER
EXECUTIVE VICE PRESIDENT

May 1, 1970

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

Dear Dr. Burns:

The 1970 A.B.A. Monetary Conference plans are in final form. We are pleased that you will address the meeting at the Monday noon luncheon and hope you will find it an interesting and provocative session.

One significant change has taken place in arrangements. Earlier, we had indicated that only bus transportation was available from Washington at 1:00 p.m. on Sunday, May 17 to The Homestead and returning on Wednesday, May 20. Because of numerous requests we have now augmented our transportation to include charter flights for those who would so desire.

The aircraft to be used are Piedmont Airlines' two engine prop-jet Martin 404s and each will accommodate 44 passengers. We will use as many planes as are necessary to transport participants. For the air transportation, limousines will depart from the Madison Hotel at 1:30 p.m. for Washington National Airport and the one hour flight to Hot Springs. The flights will depart National Airport at 2:00 p.m. with arrival at The Homestead to be shortly after 3:00 p.m. Returning on Wednesday following the Conference, limousines will depart The Homestead at 3:30 p.m., with arrival at Washington National scheduled for 5:30 p.m.

We will be pleased to arrange your transportation from Washington to Hot Springs if we can be of assistance. We realize your schedule is extremely full, and while we would certainly like to have you with us for as long a time as possible, we do understand that your plans are to return to Washington on Monday. We have suggested the above transportation arrangements in the event you may desire to go to Hot Springs on Sunday rather than Monday morning as your secretary has indicated were your preliminary plans. We will look forward to receiving your travel plans when they are formulated.

Enclosed is a preliminary copy of the Conference Program, along with a list of the expected attendees.

THE AMERICAN BANKERS ASSOCIATION

Again, we look forward to your participation in the Seventeenth Monetary Conference. Please let us know if we may be of any further assistance to you.

Sincerely,

William W. Alexander

Encl.

<u>QUESTIONNAIRE #2</u>

To facilitate transportation planning by bus or charter aircraft to and from The Homestead, please complete this questionnaire and return it as soon as possible.

1. ______ My transportation is arranged and I do not desire to utilize either the special charter aircraft or bus transportation.

2. From Washington to Hot Springs on May 17:

   ______ I would like to travel by the charter flight.

   ______ I would like to travel by bus.

3. From Hot Springs to Washington on May 20:

   ______ I would like to travel by the charter flight.

   ______ I would like to travel by bus.

4. This changes my requirements for a reservation at the Madison Hotel before and/or after the Conference as follows:

   ____

   ____

____
(Name)

____
(Organization)

____
(Address)

<u>Please return completed questionnaire to:</u>
Mr. Roy W. Terwilliger
The American Bankers Association
815 Connecticut Avenue N.W.
Washington, D.C. 20006

(Please return one copy of this questionnaire and keep the duplicate for your file).

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C O N F E R E N C E   S C H E D U L E

SUNDAY, MAY 17

12 Noon	Luncheon at the Madison Hotel, Washington
1:00 p.m.	Buses leave the Madison Hotel
1:30 p.m.	Limousines leave the Madison Hotel for Washington National Airport
6:45 p.m.- 7:45 p.m.	Chairman's reception . . . . . . Crystal Room
7:45 p.m.	Dinner . . . . Empire Room
	Business Session for International Banking Conference

MONDAY, MAY 18

9:00 a.m.- 12 Noon	Session I . . . . .Commonwealth Room Coffee break: 10:00 a.m.
12 Noon- 12:30 p.m.	Social half hour . . . . Crystal Room
12:30 p.m.- 1:30 p.m.	Luncheon . . . . Empire Room
2:30 p.m.- 5:00 p.m.	Session II . . . . .Commonwealth Room
	Business Session for International Banking Conference
6:00 p.m.- 7:00 p.m.	Social hour . . . . Crystal Room
7:00 p.m.- 8:00 p.m.	Dinner . . . . Empire Room

C O N F E R E N C E   S C H E D U L E

TUESDAY, MAY 19

9:00 a.m.- 12 Noon	Session III . . . . Commonwealth Room Coffee break: 10:00 a.m.
12 Noon- 12:30 p.m.	Social half hour. . . . . .Crystal Room
12:30 p.m.- 1:30 p.m.	Luncheon. . . . . Empire Room
2:00 p.m.- 4:30 p.m.	Session IV. . . . . Commonwealth Room Business Session for International Banking Conference
6:00 p.m.- 7:00 p.m.	Social hour . . . . .Crystal Room
7:00 p.m.- 8:00 p.m.	Dinner . . . . Empire Room
8:15 p.m.	Session V . . . . Empire Room

WEDNESDAY, MAY 20

9:00 a.m.- 12 Noon	Session VI . . . . Empire Room Coffee break: 10:00 a.m.
12 Noon- 12:30 p.m.	Social half hour . . . . .Crystal Room
12:30 p.m.- 1:30 p.m.	Luncheon . . . . Commonwealth Room
3:00 p.m.	Buses leave The Homestead
3:30 p.m.	Limousines leave The Homestead for the airport

CONFERENCE PROGRAM

Sunday May 17	Welcoming Remarks and Opening Comments
	Nat S. Rogers, President, The American Bankers Association, and President, First City National Bank
	William H. Moore, Chairman of the Monetary Conference, and Chairman, Bankers Trust Company
	BUSINESS SESSION FOR INTERNATIONAL BANKING CONFERENCE

SESSION I	THE BATTLE AGAINST INFLATION
Monday May 18 9:00 a.m. Commonwealth Room	CHAIRMAN: Frederick G. Larkin, Jr., Chairman of the Board, Security Pacific National Bank
	SPEAKERS: Paul W. McCracken, Chairman, Council of Economic Advisers Robert P. Mayo, Director, Bureau of the Budget Charls E. Walker, Under Secretary of the Treasury Andrew F. Brimmer, Member of the Board of Governors of the Federal Reserve System Walter Heller, Professor of Economics, University of Minnesota John Young, Chairman of the Prices and Incomes Commission, Canada

CONFERENCE PROGRAM

Luncheon Monday May 18 12:30 p.m. Empire Room	REMARKS: Arthur F. Burns, Chairman, Board of Governors of the Federal Reserve System
SESSION II Monday May 18 2:30 p.m. Commonwealth Room	THE INTERNATIONAL MONETARY SITUATION CHAIRMAN: Louis Camu, Chairman, Banque de Bruxelles SPEAKERS: J. J. Polak, Economic Counselor, International Monetary Fund Peter B. Kenen, Provost, Columbia University Louis Camu, Chairman, Banque de Bruxelles (speaker to be announced) Wolfgang Schmitz, President, Oesterreichische Nationalbank
5:00 p.m.	BUSINESS SESSION FOR INTERNATIONAL BANKING CONFERENCE

CONFERENCE PROGRAM

SESSION III

Tuesday
May 19
9:00 a.m.

Commonwealth Room

CAN BALANCE OF PAYMENT PROBLEMS
BE SOLVED?

CHAIRMAN:
Emmett G. Solomon, Chairman of the Board, Crocker-Citizens National Bank

SPEAKERS:
Sir Douglas Allen, Permanent Secretary to the Treasury

Guenther Schleiminger, German Executive Director, International Monetary Fund

Andre de Lattre, Deputy Governor, Banque de France

Yusuke Kashiwagi, Vice Minister of Finance for International Affairs, Ministry of Finance, Japan

Paul A. Volcker, Under Secretary of the Treasury for Monetary Affairs

INTERROGATORS:
Helmuth Cammann, General Manager, Bundesverband deutscher Banken

C. F. Karsten, Managing Director, Amsterdam-Rotterdam Bank, N.W.

Jean Richard, Directeur Général Adjoint, Societe General

Sir Eric Roll, K.C.M.G., C.B., Executive Director, S. G. Warburg & Co. Ltd.

F. W. Schulthess, Chairman of the Board, Swiss Credit Bank

Marc Wallenberg, Jr., President, Stockholms Enskilda Bank

CONFERENCE PROGRAM

SESSION IV

Tuesday
May 19
2:00 p.m.

Commonwealth Room

IMPACT OF CREDIT CONTROLS ON
COMMERCIAL BANKS

CHAIRMAN:
Gaylord A. Freeman, Jr., Chairman of the Board and Chief Executive Officer, First National Bank of Chicago

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SPEAKERS:
Donald P. Jacobs, Professor of Finance, Graduate School of Management, Northwestern University

Wesley Lindow, Executive Vice President and Secretary, Irving Trust Company

K. A. Randall, Vice Chairman of the Board, United Virginia Bankshares Inc.

Rex J. Morthland, President, The Peoples Bank and Trust Company

Eric John Newnham Warburton, Vice Chairman, Lloyds Bank Limited

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4:30 p.m. BUSINESS SESSION FOR INTERNATIONAL BANKING CONFERENCE

SESSION V

Tuesday
May 19
8:15 p.m.

Empire Room

UNANSWERED QUESTIONS
(An open session for questions and discussion)

CHAIRMAN:
Roy L. Reierson, Senior Vice President and Chief Economist, Bankers Trust Company

CONFERENCE PROGRAM

SESSION VI	CHALLENGES FACING CENTRAL BANKERS
Wednesday May 20 9:00 a.m. Empire Room	CHAIRMAN: George W. Mitchell, Member, Board of Governors of the Federal Reserve System SPEAKERS: C. Jeremy Morse, Executive Director, Bank of England Andre de Lattre, Deputy Governor, Banque de France Karl Klasen, President, Deutsche Bundesbank Shiro Inoue, Executive Director, The Bank of Japan L. Rasminsky, Governor, Bank of Canada INTERROGATORS: Geoffrey Bell, Assistant to the Chairman, J. Henry Schroder Wagg, Ltd., New York Robert Dhom, General Manager, Commerzbank AG Gabriel Hauge, President, Manufactuers Hanover Trust Company Samuel Schweizer, Chairman of the Board, Swiss Bank Corporation Lars-Erik Thunholm, Chief Managing Director, Skandinaviska Banken

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FAREWELL LUNCHEON	SPEAKER: David M. Kennedy, Secretary of the Treasury
Wednesday May 20 12:30 p.m. Commonwealth Room	

PARTICIPANTS FOR THE 1970 MONETARY CONFERENCE

Willis W. Alexander
Executive Vice President, The American Bankers Association

Sir Douglas Allen KCB
Permanent Secretary, HM Treasury, London

C. B. Andersen
Chief General Manager, Kjøbenhavns Handelsbank, Copenhagen

Thomas R. Atkinson
Deputy Manager, The American Bankers Association

Geoffrey Bell
Assistant to the Chairman, J. Henry Schroder Wagg, Ltd., New York

T. H. Bevan
Vice Chairman, Barclays Bank Limited, London

H. Bizot
Chairman, Banque Nationale de Paris

Carlo Bombieri
Managing Director, Banca Commerciale Italiana, Milan

Andrew F. Brimmer
Member, Board of Governors of the Federal Reserve System

George Brosa
General Manager, Banco Español de Crédito, Madrid

George H. Brown, Jr.
Chairman of the Board, Girard Trust Bank, Philadelphia

Arthur F. Burns
Chairman, Board of Governors of the Federal Reserve System

Helmuth Cammann
General Manager, Bundesverband deutscher Banken

William B. Camp
Comptroller of the Currency

Louis Camu
Chairman, Banque de Bruxelles s.a., Brussels

Maxwell Carlson
President, National Bank of Commerce of Seattle

Edward L. Carpenter
Chairman and Chief Executive, Central National Bank of Cleveland

William A. Carpenter
President, Whitney National Bank of New Orleans

A. W. Clausen
President, Bank of America N.T. & S.A., San Francisco

Fernand J. Collin
Chairman of the Board, Kredietbank N.V., Brussels

Richard P. Cooley
President, Wells Fargo Bank, San Francisco

J. Dewey Daane
Member, Board of Governors of the Federal Reserve System

William L. Day
Chairman, First Pennsylvania Bank, Philadelphia

Charles de Bretteville
Chairman and Chief Executive Officer, The Bank of California, San Francisco

Robert Dhom
General Manager, Commerzbank AG., Frankfurt

A.F.J. Dijkgraaf
Member of the Presidium, Algemene Bank Nederland N.V., Amsterdam

G. Morris Dorrance, Jr.
President, The Philadelphia National Bank

George S. Eccles
President, First Security Bank of Utah N.A., Salt Lake City

Manuel R. Espirito Santo Silva
Chairman, Banco Espirito Santo e Comercial de Lisboa, Lisbon

Eric O. Faulkner
Chairman, Lloyds Bank Limited, London

Alberto Ferrari
Managing Director, Banca Nazionale del Lavoro, Rome

John Fox
Chairman, Mercantile Trust Company, N.A., St. Louis

Gaylord A. Freeman, Jr.
Chairman of the Board, The First National Bank of Chicago

Douglas R. Fuller
President, The Northern Trust Company, Chicago

Merle E. Gilliand
President, Pittsburgh National Bank

Harold V. Gleason
President, Franklin National Bank, New York

Donald M. Graham
Chairman, Continental Illinois National Bank and Trust Company of Chicago

G. Arnold Hart
Chairman and Chief Executive Officer, Bank of Montreal

Gabriel Hauge
President, Manufacturers Hanover Trust Company, New York

Alfred Hayes
President, Federal Reserve Bank of New York

Walter W. Heller
Regents' Professor of Economics, University of Minnesota, Minneapolis

James P. Hickok
Chairman, First National Bank of St. Louis

Richard D. Hill
President, The First National Bank of Boston

Walter E. Hoadley
Executive Vice President and Chief Economist, Bank of America N.T. & S.A., San Francisco

Shiro Inoue
Executive Director, The Bank of Japan, Tokyo

Donald P. Jacobs
Professor of Finance, Graduate School of Management, Northwestern University

William M. Jenkins
Chairman, Seattle-First National Bank

Lewellyn A. Jennings
Chairman of the Board and Chief Executive Officer, The Riggs National Bank of Washington, D.C.

Edwin S. Jones
President, First National Bank in St. Louis

C. F. Karsten
Managing Director, Amsterdam-Rotterdam Bank N.V., Amsterdam

Yusuke Kashiwagi
Vice Minister of Finance for International Affairs, Ministry of Finance, Japan

George J. Kelly
Deputy Manager, The American Bankers Association

Peter B. Kenen
Provost, Columbia University

David M. Kennedy
Secretary of the Treasury

Frederick H. Kingsbury, Jr.
Partner, Brown Brothers Harriman & Co., New York

Karl Klasen
President, Deutche Bundesbank, Frankfurt

Paul Krebs
Assistant General Manager, Deutsche Bank AG., Frankfurt

J. Howard Laeri
Vice Chairman, First National City Bank, New York

Allen T. Lambert
Chairman of the Board and President, The Toronto-Dominion Bank

Frederick G. Larkin, Jr.
Chairman of the Board, Security Pacific National Bank, Los Angeles

Andre de Lattre
Deputy Governor, Banque de France, Paris

Wesley Lindow
Executive Vice President and Secretary, Irving Trust Company, New York

Lawrence H. Martin
Chairman of the Board, The National Shawmut Bank, Boston

Ichiro Matsudaira
Deputy President, The Bank of Tokyo, Ltd.

John A. Mayer
Chairman of the Board, Mellon National Bank and Trust Company, Pittsburgh

Robert P. Mayo
Director, Bureau of the Budget

Paul W. McCracken
Chairman, Council of Economic Advisers

W. Earle McLaughlin
Chairman and President, The Royal Bank of Canada, Montreal

Charles R. McNeill
Director of the Washington Office, The American Bankers Association

Jacques Merlin
Chairman, Credit Commercial de France, Paris

John M. Meyer, Jr.
Chairman of the Board, Morgan Guaranty Trust Company of New York

Derek Mitchell
Economic Minister, British Embassy, Washington

George W. Mitchell
Member, Board of Governors of the Federal Reserve System

William H. Moore
Chairman, Bankers Trust Company, New York

John A. Moorhead
Chairman of the Board, Northwestern National Bank of Minneapolis

C. Jeremy Morse
Executive Director, Bank of England, London

Rex J. Morthland
President, The Peoples Bank and Trust Company, Selma, Alabama

Rokuro Mukasa
Managing Director, The Sumitomo Bank, Ltd., Osaka

William F. Murray
President, Harris Trust and Savings Bank, Chicago

Philip H. Nason
President, The First National Bank of Saint Paul

Mariano Navarro-Rubio
Governor, Banco de España, Madrid

Crocker Nevin
Chairman and President, Marine Midland Grace Trust Company of New York

F. William Nicks
Chairman of the Board and President, The Bank of Nova Scotia, Toronto

Herbert P. Patterson
President, The Chase Manhattan Bank, N.A., New York

Leslie C. Peacock
President, Crocker-Citizens National Bank, San Francisco

Raymond T. Perring
Chairman, Detroit Bank and Trust Company

Howard C. Petersen
Chairman, The Fidelity Bank, Philadelphia

William E. Petersen
President, Irving Trust Company, New York

J. G. Phillips
Governor, Reserve Bank of Australia, Sydney

J. J. Polak
Economic Counsellor, International Monetary Fund

W. Dewey Presley
President, First National Bank in Dallas

Herbert V. Prochnow
Honorary Director and Former President, The First National Bank of Chicago

W. G. Pullen
Chairman, The Chartered Bank, London

K. A. Randall
Vice Chairman of the Board, United Virginia Bankshares, Inc., Richmond

L. Rasminsky
Governor, Bank of Canada, Ottawa

Addison H. Reese
Chairman of Board, North Carolina National Bank, Charlotte

Roy L. Reierson
Senior Vice President and Chief Economist, Bankers Trust Company, New York

Peter Reimpell
Deputy Managing Director, Vorstandsmitglied Der Bayerischen Vereinbank, Munich

William S. Renchard
Chairman, Chemical Bank, New York

Jean Richard
Directeur Général Adjoint, Societe Generale, Paris

Dean E. Richardson
President, Manufacturers National Bank of Detroit

Nat S. Rogers
President, The American Bankers Association, and President, First City National Bank, Houston

Sir Eric Roll, K.C.M.G., C.B.
Executive Director, S. G. Warburg & Co. Ltd., London

Guenther Schleiminger
German Executive Director, International Monetary Fund

Wolfgang Schmitz
Chairman and President, Oesterreichische Nationalbank, Vienna

F. W. Schulthess
Chairman of the Board, Swiss Credit Bank, Zurich

Samuel Schweizer
Chairman of the Board, Swiss Bank Corporation, Basle

Lyman E. Seely
Executive Vice President, First National Bank of Oregon, Portland

Edward D. Smith
Chairman and President, The First National Bank of Atlanta

Emmett G. Solomon
Chairman of the Board, Crocker-Citizens National Bank, San Francisco

Clifford C. Sommer
Vice President, The American Bankers Association, and President, Security Bank and Trust Company, Owatonna, Minnesota

S. O. Sørensen
General Manager, Den Danske Landmansbank, Copenhagen

Beryl W. Sprinkel
Senior Vice President and Economist, Harris Trust and Savings Bank, Chicago

LeRoy B. Staver
President, United States National Bank of Oregon, Portland

A. De V. Stewart-Richardson
Senior Deputy General Manager, Bank of New South Wales, Sydney

Howard J. Stoddard
Chairman, Michigan National Bank, Lansing

Clyde L. Stutts
Treasurer, The American Bankers Association, and President, Union Trust Company, Shelby, North Carolina

Robert M. Surdam
President, National Bank of Detroit

Roy W. Terwilliger
Deputy Manager, The American Bankers Association

Lars-Erik Thunholm
Chief Managing Director, Skandinaviska Banken, Stockholm

Heinrich Treichl
Member of the Managing Board, Creditanstalt-Bankverein, Vienna

Matti Virkkunen
Chief General Manager, Kansallis-Osake-Pankki, Helsinki

Paul A. Volcker
Under Secretary of the Treasury for Monetary Affairs

Harry J. Volk
Chairman, Union Bank, Los Angeles

J. Page R. Wadsworth
Vice Chairman, Canadian Imperial Bank of Commerce, Montreal

Charls E. Walker
Under Secretary of the Treasury

Marc Wallenberg, Jr.
President, Stockholms Enskilda Bank, Stockholm

Eric John Newnham Warburton
Vice Chairman, Lloyds Bank Limited, London

John F. Watlington, Jr.
President, Wachovia Bank and Trust Company N.A., Winston-Salem

Frank Wille
Chairman, Federal Deposit Insurance Corporation, Washington

John H. Wills
Senior Vice President and Chief Economist, The Northern Trust Company, Chicago

Samuel H. Woolley
Chairman, The Bank of New York

Paul I. Wren
Chairman of Board and Chief Executive Officer, Old Colony Trust Company, Boston

Walter B. Wriston
Chairman, First National City Bank, New York

Kenzo Yamamoto
Agent, Fuji Bank, New York Agency

John Young
Chairman, Prices and Incomes Commission of Canada, Ottawa

BH-14

THE AMERICAN BANKERS ASSOCIATION 90 PARK AVENUE, NEW YORK, N. Y. 10016

NAT S. ROGERS
PRESIDENT

FIRST CITY NATIONAL BANK
HOUSTON, TEXAS 77001

May 27, 1970

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

Dear Mr. Chairman:

The American Bankers Association, through the activities of its Agricultural and Rural Affairs Committee, has encouraged rural banks to stay in the forefront as full financial service centers in their communities. A considerable part of this effort has been directed toward a better understanding of the various sources of funds available to banks in rural areas where often seasonal or even longer-term shortages exist.

The tremendous changes that have been occurring in the capital and credit requirements of agriculture have resulted in a widening of the gap between the demand for farm credit and the supply of funds with which the rural banks may meet it. The rate of increase in farm debt during the 60's has been substantially greater than the rate of increase in deposits in rural banks. The loan-to-deposit ratios of these banks have risen steadily to a level where for many the future expansion of loans is impossible if they maintain adequate liquidity positions. Although banking has retained its number one position as a supplier of farm credit, its share of the total outstanding debt has decreased from 28% in 1959 to 26% today.

I therefore applaud the Federal Reserve Board's decision to study the "...agricultural credit problems in capital deficient areas and possibilities for their amelioration through improvements in the marketability of bank agricultural paper", as announced in the March issue of the Federal Reserve Bulletin.

Continued...

In February the A.B.A.'s Agricultural and Rural Affairs Committee, realizing the urgency of this problem, established a subcommittee to deal with the question of sources of funds for rural banks. I feel strongly that the entire banking industry needs to focus attention on this matter. I wish therefore to encourage the Federal Reserve Board to give high priority to its study. In addition I want to offer the A.B.A.'s assistance, especially through its Agricultural and Rural Affairs Committee which is chairmaned by Mr. Edward M. Norman, President of The First National Bank, Clarksville, Tennessee. The Board's Study Committee should feel free to call on Mr. Norman as well as the members of our special subcommittee which includes: Thomas J. Prosser, President, The National Manufacturers Bank, Neenah, Wisconsin, CHAIRMAN; Grant W. Perry, Senior Vice President, First National Bank of Oregon, Portland, Oregon, and; George R. Reid, Senior Vice President, The First National Bank and Trust Company, Stillwater, Oklahoma.

An adequate supply of loanable funds will be one of the critical problems that must be met if rural banks are to remain viable institutions during the 70's. I sincerely believe that the Federal Reserve Board, by initiating this study, has taken an important step to help banks to serve the agricultural credit needs of the Nation.

Sincerely,

Nat S Rogers

NSR:lcc

Nat S. Rogers
President

CC: Hugh Galusha, Jr.
Edward M. Norman
Thomas Prosser

JUN 9 1970

Mr. Nat S. Rogers, President,
The American Bankers Association,
90 Park Avenue,
New York, New York. 10016

Dear Nat:

Chairman Burns has asked me to let you know he appreciates the sentiment conveyed in your letter of May 27 concerning the Federal Reserve announced study of agricultural credit problems. We are glad as well to have the offer of assistance from the ABA's Agricultural and Rural Affairs Committee.

I am passing along your letter to Hugh Galusha, the chairman of the recently established Federal Reserve System committee to pursue the announced study. I have no doubt that one of our committee representatives will be in touch with Mr. Norman in due course.

Yours sincerely,

(Signed) Robert C. Holland

Robert C. Holland,
Secretary of the Board.

cc: Mr. Galusha
bc: Governor Mitchell

Mrs. Mallardi (2)

BH-24

THE AMERICAN BANKERS ASSOCIATION 90 PARK AVENUE, NEW YORK, N. Y. 10016

NAT S. ROGERS
PRESIDENT

FIRST CITY NATIONAL BANK
HOUSTON, TEXAS 77001

May 27, 1970

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

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The tremendous changes that have been occurring in the capital and credit requirements of agriculture have resulted in a widening of the gap between the demand for farm credit and the supply of funds with which the rural banks may meet it. The rate of increase in farm debt during the 60's has been substantially greater than the rate of increase in deposits in rural banks. The loan-to-deposit ratios of these banks have risen steadily to a level where for many the future expansion of loans is impossible if they maintain adequate liquidity positions. Although banking has retained its number one position as a supplier of farm credit, its share of the total outstanding debt has decreased from 28% in 1959 to 26% today.

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Sincerely,

Nat S Rogers

NSR:lcc

Nat S. Rogers
President

CC: Hugh Galusha, Jr.
Edward M. Norman
Thomas Prosser

Mrs. Mallard

June 10, 1970

Dear Willis:

I appreciate your invitation to attend the ABA convention in October, but already my schedule for that period is such that I will have to regretfully decline.

However, Bill Sherrill tells me that he and his wife are planning to attend, and I know they will ably represent the Federal Reserve at the meeting.

My best wishes for a successful convention,

Sincerely yours,

(Signed) Arthur F. Burns

Arthur F. Burns

Mr. Willis W. Alexander
Executive Vice President
The American Bankers Association
90 Park Avenue
New York, New York 10016

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THE AMERICAN BANKERS ASSOCIATION 90 PARK AVENUE, NEW YORK, N.Y. 10016

WILLIS W. ALEXANDER
EXECUTIVE VICE PRESIDENT

June 1, 1970

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

Dear Dr. Burns:

The 96th Annual Convention of The American Bankers Association will be held in Miami Beach, Florida, on October 10-14, 1970. On behalf of the officers of the Association, it is my pleasure to extend you a cordial invitation to attend our convention.

An application for housing accommodations is enclosed for your use. If you plan to be at our convention and need hotel accommodations, please fill out the form promptly and mail it to:

A.B.A. Convention Housing Bureau
Mrs. Edith J. Shapiro, Housing Supervisor
1700 Washington Avenue
Miami Beach, Florida 33139

Please also let me know if you plan to attend in order that later we may arrange to send you a complimentary advance convention registration.

Yours sincerely,

Willis W. Alexander

Enclosures

FR 373

HJ6.1

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date June 6, 1970.

To Mr. Holland

From Catherine Mallardi

Is it necessary for the Chairman to attend this? He'd like to limit his attendance as much as possible.

Attachment

No

[P.S. I assume a reply should be drafted. lg]

THE AMERICAN BANKERS ASSOCIATION

96th ANNUAL CONVENTION

MIAMI BEACH, FLORIDA

OCTOBER 10–14, 1970

APPLICATION FOR HOUSING ACCOMMODATIONS

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

THIS APPLICATION FORM IS FOR YOUR OWN EXCLUSIVE USE.

IF OTHERS FROM YOUR BANK OR OFFICE DESIRE TO APPLY FOR HOTEL ACCOMMODATIONS, THEY SHOULD USE THE REGULAR APPLICATION FORM.

PLEASE FILL OUT THIS APPLICATION FORM COMPLETELY AND MAIL IT TO:

A.B.A. Convention Housing Bureau
Mrs. Edith J. Shapiro, Housing Supervisor
1700 Washington Avenue
Miami Beach, Florida 33139

HOTEL ACCOMMODATIONS DESIRED. (IT IS NECESSARY THAT THREE CHOICES OF HOTELS BE LISTED BELOW.)

CHOICE	HOTEL
1ST	
2ND	
3RD	

TYPE OF ROOM DESIRED (CHECK ONE)

ONE SINGLE BED	1 PERSON	☐
ONE DOUBLE BED	2 PERSONS	☐
TWIN BEDS	2 PERSONS	☐
TWIN STUDIO	2 PERSONS	☐
PARLOR & ONE BEDROOM	2 PERSONS	☐

INDICATE APPROXIMATE RATE $______

IF ACCOMMODATIONS ARE NOT AVAILABLE AT ANY OF THE ABOVE HOTELS, THE HOUSING BUREAU WILL ATTEMPT TO MAKE YOUR RESERVATION AT ANOTHER SUITABLE PLACE.

THERE WILL BE AN INTERVAL OF SEVERAL WEEKS BEFORE YOU WILL RECEIVE A ROOM CONFIRMATION. ROOM NUMBERS CANNOT BE ASSIGNED BY HOTELS UNTIL GUESTS REGISTER ON ARRIVAL.

CONVENTION ADVANCE REGISTRATION INFORMATION WILL BE SENT AUTOMATICALLY TO THOSE WHOSE HOUSING RESERVATIONS HAVE CLEARED THROUGH THE A.B.A. CONVENTION HOUSING BUREAU.

ROOM WILL BE OCCUPIED BY ☐ MYSELF ONLY
☐ MYSELF AND WIFE

ARRIVING ______ (DATE) **HOUR** ______ A. M. / P. M.

LEAVING ______ (DATE)

SIGNATURE ______

THE AMERICAN BANKERS ASSOCIATION

96TH ANNUAL CONVENTION

MIAMI BEACH, FLORIDA • OCTOBER 10-14, 1970

PLEASE ROUTE TO OFFICER RESPONSIBLE FOR APPLYING FOR A.B.A. CONVENTION HOTEL ACCOMMODATIONS.

A.B.A. CONVENTION ANNOUNCEMENT

The 96th Annual Convention of The American Bankers Association will be held in Miami Beach, Florida, October 10-14, 1970. This is your bank's official 1970 convention notification.

HOUSING ACCOMMODATIONS

Enclosed are: A list of convention hotels/motels, a map showing their locations, a schedule of room rates, and an official Application for Housing Accommodations form.

As in previous years, this letter was mailed on a staggered basis, based on post office mail schedules, so that banks in all parts of the country should have received their letters simultaneously. Rooms will be assigned on a priority basis. The basis for this priority will be the date on the post office cancellation stamp on the envelope used by the bank to mail the official Application for Housing Accommodations form. Since the date of the mailing of the application is the controlling factor, this plan gives everyone an "even start." The only exceptions to this priority rule will be in the assignment of rooms to certain officers of the Association, speakers, government officials, and the limitation which will be placed on the number of rooms any bank may have in certain hotels as explained on page 2.

Because of the anticipated large attendance at the convention a "convention headquarters hotel" is not designated.

HOUSING PROCEDURE

To facilitate the processing of your application, it is essential that you fill the form out completely, giving five choices of hotels, rates, time of arrival and departure, and the names of room occupants. Rooms will not be assigned unless the names of the occupants are stated on the form.

We suggest you do not attempt to secure accommodations by asking Miami Beach banks to obtain space for you. Such procedure will not improve your chances. In fact, it might operate in just the opposite manner because of the delay involved in getting the application to the Housing Bureau. The Bureau will honor only an official Application for Housing Accommodations form. Hence, a Miami Beach bank acting as intermediary would only occasion delay. Other banks would be getting priority on rooms requested directly from the Housing Bureau during the period of your correspondence with the Miami Beach bank. It is suggested, therefore, that you send your application directly to the Housing Bureau rather than ask a local bank to try to get housing accommodations for you.

Regardless of any prior request you may have made for housing accommodations to any hotel/motel, to the A.B.A. Convention Housing Bureau, or to The American Bankers Association, assignments will be made only from the official Application for Housing Accommodations forms which have been properly completed.

Please send the Application for Housing Accommodations to:

A.B.A. Convention Housing Bureau
Mrs. Edith J. Shapiro, Housing Supervisor
1700 Washington Avenue
Miami Beach, Florida 33139

Should you later find it necessary to cancel or make any change in your reservation, please notify Mrs. Shapiro immediately. Telephone: (312) 532-5215.

Applications will be processed as rapidly as possible and every effort will be made to assign applicants to the hotel/motel they prefer. However, several weeks will elapse before assignments are made and confirmations mailed.

HOUSING LIMITATIONS IN CERTAIN HOTELS

You will agree that our limited allotment of rooms in certain of the more popular hotels should be spread among as many of our members as possible. This we will try to do. But it is necessary that even those banks which reply early be restricted. Therefore, if sizable numbers of persons are to be registered at the convention from one bank, these persons should not all request housing in the same hotel. It is suggested that someone in the bank send a priority list to Mrs. Shapiro at the time the Application for Housing Accommodations is mailed. This will enable the Housing Bureau to process reservations more efficiently and to assign individuals to various hotels more nearly in accordance with the desires of those individuals.

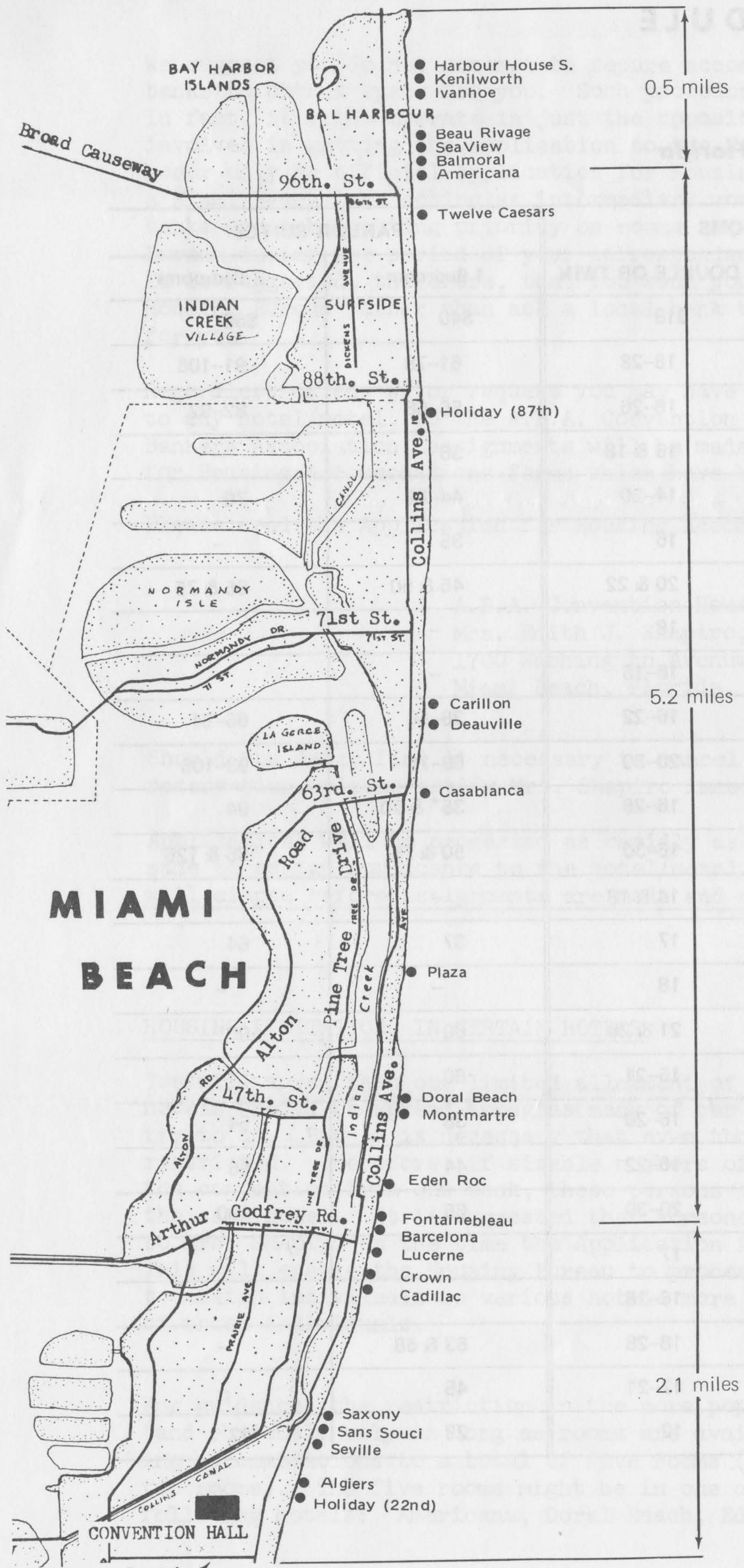
For guidance, the restriction in the more popular hotels will be that any bank (and obviously only as long as rooms are available) will be limited for sleeping accommodations to a total of five rooms (counting a parlor and bedroom as two rooms). The five rooms might be in one or divided among several of the following hotels: Americana, Doral Beach, Eden Roc, Fontainebleau, and Plaza.

ROOM RATE SCHEDULE

96th Annual Convention
The American Bankers Association
October 10-14, 1970, Miami Beach, Florida

HOTEL/MOTEL	BEDROOMS		PARLOR SUITES	
	SINGLE	DOUBLE OR TWIN	1 Bedroom	2 Bedrooms
Algiers	$16	$18	$40	$60
Americana	18--28	18--28	61--78	91--106
Balmoral	18--26	18--26	56--66	82--92
Barcelona	14	16 & 18	36	--
Beau Rivage	14--20	14--20	44--52	70
Cadillac	14	16	35	--
Carillon	16 & 18	20 & 22	45 & 50	65 & 75
Casablanca	15	18	--	--
Crown	15	16--18	--	--
Deauville	16--22	16--22	38--56	66--84
Doral Beach	20--30	20--30	69--75	93--105
Eden Roc	16--26	16--26	35* & 70	94
Fontainebleau	16--30	16--30	50 & 75	85 & 125
Harbour House S.	14 & 18	14 & 18	--	--
Holiday (22nd St.)	15	17	37	64
Holiday (87th St.)	18	18	--	--
Ivanhoe	14	21 & 26	60	90
Kenilworth	15--21	15--21	60	--
Lucerne	14 & 15	16--20	38	54
Montmartre	16--22	16--22	44	66
Plaza	20--30	20--30	65	100
Sans Souci	15	17	--	--
Saxony	15	16--18	--	--
SeaView	18--28	18--28	63 & 68	--
Seville	16 & 18	17--21	45	--
Twelve Caesars	12	12	28	42

*A few Jr. (studio) suites available at $35.



HOTEL/MOTEL ADDRESSES

HOTEL/MOTEL	ADDRESS ON COLLINS AVENUE
Algiers	2555
Americana	9701
Balmoral	9801
Barcelona	4343
Beau Rivage	9955
Cadillac	3925
Carillon	6801
Casablanca	6345
Crown	4041
Deauville	6701
Doral Beach	4833
Eden Roc	4525
Fontainebleau	4441
Harbour House S.	10275
Holiday (22nd St.)	2201
Holiday (87th St.)	8701
Ivanhoe	10175
Kenilworth	10205
Lucerne	4101
Montmartre	4775
Plaza	5445
Sans Souci	3101
Saxony	3201
SeaView	9909
Seville	2901
Twelve Caesars	9449

ADVANCE CONVENTION REGISTRATION

Early in the summer those whose housing reservations have cleared through the A.B.A. Convention Housing Bureau will automatically receive forms and instructions for registering in advance for the convention. All advance registrations must be received prior to September 18 in order for the names to be printed in the registration list.

If it is not necessary for you to process your housing reservation through the A.B.A. Convention Housing Bureau, as would be the case for representatives from banks in the local area, and you desire to have your name appear in the printed registration list, it is suggested that you obtain an advance registration form from:

Advance Registration
The American Bankers Association
90 Park Avenue
New York, N. Y. 10016

All persons (including wives) attending the convention must be registered.

CONVENTION MEETINGS AND ACTIVITIES

Meetings will be held in a number of hotels. So that you may plan your arrival and departure time, as well as arrange for transportation accommodations, the following schedule has been arranged:

Saturday Oct. 10	10 a.m.	Exhibits and Registration Area open.
Sunday Oct. 11	Morning & afternoon	Committee Meetings.
	4:30-6 p.m.	Reception for convention registrants.
Monday Oct. 12	9:30 a.m.	Marketing/Savings Division--General Meeting. State Bank Division--General Meeting. Trust Division--General Meeting.
	2 p.m.	National Bank Division--General Meeting.
	5:30 p.m.	Executive Council--business meeting for 1969-70 Council members.
Tuesday Oct. 13	9:45 a.m.	First General Convention Session.
	2 p.m.	Workshops.
	8:30 p.m.	Entertainment for registrants.
Wednesday Oct. 14	9:45 a.m.	Second General Convention Session.
	12:30 p.m.	(New) Executive Council--meeting and luncheon for 1970-71 Council members.

TRANSPORTATION

The American Bankers Association does not arrange for special trains or planes to and from the convention. This is sometimes done by certain state groups. Therefore, any inquiry you have regarding special trains or planes from your area should be made directly to the managing officer of your state bankers association.

POST-CONVENTION TRIPS AND TOURS

You may receive material from travel agencies, airlines, steamship companies, and others advertising "pre-convention" or "post-convention" trips or tours. The American Bankers Association is not in any way endorsing or sponsoring any convention trips or tours this year. The decision to take such a trip is one for individual determination.

* * * * * * * * * * * * * * *

We hope you will attend the convention in Miami Beach in October, and we urge you to request your housing and make your transportation reservations promptly.

Melvin C. Miller

Melvin C. Miller
Convention Director

2 June 1970

(202) 298-9090
WASHINGTON OFFICE

THE AMERICAN BANKERS ASSOCIATION 815 CONNECTICUT AVENUE, N. W., WASHINGTON, D. C. 20006

FEDERAL ADMINISTRATIVE ADVISER
WILLIAM T. HEFFELFINGER

July 15, 1970

Mrs. Catherine Mallardi
Secretary to Dr. Arthur J. Burns
Board of Governors of the
Federal Reserve System
Washington, D. C. 20250

Dear Mrs. Mallardi:

I am enclosing for the information of Chairman Burns a list showing the members of the Government Borrowing Committee of the A.B.A. Most of these members will be present for the July 28 meeting, although there will be a few absentees.

I am sure the Committee will appreciate the opportunity of discussing the Treasury's financing problems with Chairman Burns as they did for so many years with Chairman Martin. Previous practice has been for the Chairman or Vice Chairman to come over to our offices, Room 1002, at 815 Connecticut Avenue, and meet with the Committee in our Board Room.

Sincerely yours,

W T Heffelfinger

W. T. Heffelfinger

WTH:TB

Enclosure

GOVERNMENT BORROWING COMMITTEE

FREDERICK G. LARKIN, JR.
Chairman of board, Security Pacific National Bank, P. O. Box 2097, Terminal Annex, Los Angeles, California 90054, *Chairman*

WILLIAM T. HEFFELFINGER
Federal administrative adviser and senior deputy manager, A.B.A., Washington Office, *Secretary*

TERM EXPIRING 1970

WILLIAM G. FOULKE
Chairman and chief executive officer, Provident National Bank, P. O. Box 7648, Philadelphia, Pennsylvania 19101

JAMES P. HICKOK
Chairman of board, First National Bank, P. O. Box 267, St. Louis, Missouri 63166

FREDERICK G. LARKIN, JR.
Chairman of board, Security Pacific National Bank, P. O. Box 2097, Terminal Annex, Los Angeles, California 90054

JOHN M. MEYER, JR.
Chairman and chief executive officer, Morgan Guaranty Trust Company, P. O. Box 495, Church Street Station, New York, N. Y. 10015

WILLIAM S. RENCHARD
Chairman, Chemical Bank, New York, N. Y. 10015

EMMETT G. SOLOMON
Chairman and chief executive officer and chairman of executive committee, Crocker-Citizens National Bank, P. O. Box 3066, Rincon Annex, San Francisco, California 94120

TERM EXPIRING 1971

MILLS H. ANDERSON
President, Bank of Carthage, P. O. Drawer 637, Carthage, Missouri 64836

GEORGE S. CRAFT
Chairman of board, Trust Company of Georgia, P. O. Box 4418, Atlanta, Georgia 30302

GEORGE S. ECCLES
President, First Security Bank of Utah, N.A., P. O. Box 390, Salt Lake City, Utah 84110

DAVID ROCKEFELLER
Chairman and chief executive officer, The Chase Manhattan Bank, N.A., P. O. Box 65, Church Street Station, New York, N. Y. 10008

ROBERT V. ROOSA
Partner, Brown Brothers Harriman & Co., 59 Wall Street, New York, N. Y. 10005

KENNETH V. ZWIENER
Chairman of board, Harris Trust and Savings Bank, P. O. Box 755, Chicago, Illinois 60690

TERM EXPIRING 1972

XXXXXXXXXXXXXXX Robert M. Surdam, President and Chief Executive Officer
Chairman, National Bank of Detroit, P. O. Box 116, Detroit, Michigan 48232

THOS. O. COOPER
President, South Des Moines National Bank, P. O. Box 2630, Des Moines, Iowa 50315

GAYLORD A. FREEMAN, JR.
Chairman of board, The First National Bank, P. O. Box A, Chicago, Illinois 60670

RUSS M. JOHNSON
Chairman of board and chief executive officer, Deposit Guaranty National Bank, P. O. Box 1200, Jackson, Mississippi 39205

WILLIAM H. MOORE
Chairman of board, Bankers Trust Company, P. O. Box 318, Church Street Station, New York, N. Y. 10015

WALTER B. WRISTON
President, First National City Bank, 399 Park Avenue, New York, N. Y. 10022

ADVISORY MEMBERS

Charles J. Gable, Jr.
Executive Vice President
First Pennsylvania Bank
P. O. Box 7558
Philadelphia, Pennsylvania 19101

John J. Larkin
Senior Vice President
First National City Bank
55 Wall Street
New York, New York 10015

Donald C. Miller
Senior Vice President
Continental Illinois National Bank
and Trust Company
Lock Box H
Chicago, Illinois 60690

Paul I. Wren
Chairman of Board and Chief
Executive Officer
Old Colony Trust Company
P. O. Box 2016
Boston, Massachusetts 02106

EX OFFICIO

Clifford C. Sommer, President
Security Bank and Trust Company
P. O. Box 467
Owatonna, Minnesota 55060
(Vice President, A.B.A.)

J. Howard Laeri, Vice Chairman
First National City Bank
P. O. Box 161, Grand Central Station
New York, New York 10017
(Past President, A.B.A.)

Douglas R. Smith
Chairman of Board and President
National Savings and Trust Company
Washington, D. C. 20005
(Chairman, A.B.A. Savings Bonds
Committee)

Nat S. Rogers, President
First City National Bank,
P. O. Box 2557
Houston, Texas 77001
(President, A. B. A.)

Willis W. Alexander,
Executive Vice President,
A. B. A.

Dr. Thomas A. Atkinson,
Director, Economic Research Dept.,
American Bankers Association
90 Park Avenue,
New York, N. Y. 10016

AGENDA
GOVERNMENT BORROWING COMMITTEE
THE AMERICAN BANKERS ASSOCIATION
July 28, 1970

Tuesday, July 28, 1970

9:15 a.m.	Committee meets in Board Room of The American Bankers Association 815 Connecticut Avenue, N. W. (Suite 1002)
10:00 a.m.	Committee to review slides in Room 2334 of the Treasury Department 1/
11:00 a.m.	Committee to meet with Under Secretary for Monetary Affairs, Paul Volcker, in Room 4426 of the Treasury Department 1/
12:30 p.m. 1:00 p.m.	Reception - Cabinet Room Lunch - Pan American Room Mayflower Hotel
2:30 p.m.	Committee to reconvene in Board Room of The American Bankers Association
3:45 p.m.	Chairman Burns Federal Reserve Board
5:15 p.m.	Committee to report its recommendations to Secretary Kennedy and the Treasury Financing Group in Room 4426 of the Treasury 1/

1/ Treasury will use the regular projection room on the second floor on Southwest corner of building (corner facing the Mall and the White House). Conference with Under Secretary for Monetary Affairs and report to the Secretary of the Treasury will be held in the fourth floor Conference Room on West side of building near the center elevators opposite the White House.

B/H

THE AMERICAN BANKERS ASSOCIATION 90 PARK AVENUE, NEW YORK, N. Y. 1001

NAT S. ROGER
PRESIDEN

FIRST CITY NATIONAL BAN
HOUSTON, TEXAS 770

July 28, 1970

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

Dear Chairman Burns:

The purpose of this letter is to express the concern of The American Bankers Association with regard to the discriminatory interest rate differentials, as between Federally insured banks and non-federally insured mutual savings banks in Massachusetts. In brief, the problem now confronting all Federally regulated commercial banks in that state is one of competitive unfairness resulting from the interest rate ceilings of 4.5% on regular savings deposits and 5% on 90 day notice accounts currently imposed by the Federal Reserve under Regulation Q (12 C.F.R. 217.7) and parallel Regulation 329.6 (12 C.F.R. 329.6) of the F.D.I.C. while Massachusetts mutual savings banks not under Federal regulation are permitted under state regulation to offer 5.25% and 5.5% on the same types of deposits.

A review of the most recent legislation on the extension of interest rate regulatory authority is in order to place the current Massachusetts situation in proper perspective. Both the Senate and House bills contained language providing for the extension of the Federal interest rate control authority to non-Federally insured financial institutions wherever state officials lacked comparable authority and non-insured savings deposits in the state exceed 20% of the total savings deposits. During the hearings before the Banking and Currency Committees of both Houses of Congress, your agency as well as the F.D.I.C. endorsed this provision. Such support was based, for the most part, on the principle of competitive equality and fairness and on the belief that to permit certain institutions to escape Federal interest rate control would tend to undermine the reasons for such control and also would be a disruptive force against regulated institutions unable to compete. Notwithstanding the objections of the Massachusetts savings banks and the Massachusetts Banking Commissioner, this provision was adopted in both Houses.

Under this authority, the F.D.I.C. can only prevent rate increases on the deposits of these non-Federally insured institutions above 5.5% until July 31, 1970. After that date, the Federal agencies would have complete authority unless a state gave its Banking Commissioner full authority to establish maximum rates in which case it would be exempt from Federal authority.

Massachusetts has now passed legislation authorizing the State Banking Commissioner to control interest rates of these non-Federally insured institutions. The Commissioner has announced her intention of establishing rates of 5.25% on regular savings accounts and 5.5% on notice accounts -- thus creating a differential of 3/4 of 1% more than the rate allowed on savings deposits of commercial banks and 1/2 of 1% more than the rate allowed on commercial bank 90 day notice accounts. This compares to a 1/2 of 1% spread on savings deposits and a 1/4 of 1% spread on 90 day notice accounts generally prevailing in all other states.

The American Bankers Association has long advocated the elimination or narrowing of this rate differential in favor of thrift institutions. Such differential should not exceed 1/2 of 1% and preferably, 1/4 of 1%.

Accordingly, in view of the announced intention of the Massachusetts Bank Commissioner, the American Bankers Association on behalf of our member banks in Massachusetts, both state and national, respectfully requests that the Board review their current interest rate regulations in light of the circumstances now prevailing in Massachusetts and that all Federally insured banks in that state be authorized to pay 4.75% on regular savings accounts and 5.25% on 90 day notice accounts. Such action would thus permit Federally insured commercial banks to compete for savings deposits on the same comparable basis as commercial banks in other states. We firmly believe that such action is imperative for the continued viability of the commercial banking system in Massachusetts and is justified under both the Federal Reserve Act (12 U.S.C. 371(b)) and the Federal Deposit Insurance Act (12 U.S.C. 1828(g)) which both provide in part:

> "...The Board of...may prescribe different rate limitations for different classes of deposits, for deposits of different amounts or with different maturities or subject to different conditions regarding withdrawal or repayment, according to the nature or location of ... banks or their depositors, or according to such other reasonable bases as the Board of ... may deem desirable in the public interest."
> (underscoring added)

Sincerely,

Nat A Rogers

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

August 27, 1970.

Mr. Nat S. Rogers, President
American Bankers Association
815 Connecticut Avenue
Washington, D. C. 20006

Dear Mr. Rogers:

I am responding to your letter of May 25, 1970, requesting the Board to issue a statement of policy in support of the billion-dollar commitment of the banking industry to assist in developing minority business enterprise.

We believe the proposed program of the banking industry is worthwhile and are pleased to see that the Association's undertaking has the needed support of the commercial banks. The problems of the nation's cities and its disadvantaged minorities are areas in which commercial banks can make a most important contribution to progress.

In the Board's judgment, the more loans to disadvantaged minorities the better, provided they are sound. Implicit in this policy is the understanding that banks will furnish guidance and assistance to members of minority groups in connection with their borrowings. However, in examining banks, a loan to a disadvantaged person or firm must be evaluated just as any other loan - that is, on the basis of the ability of the borrower to make timely repayment and his record of performance.

We hope that your program will be successful.

Sincerely yours,

Arthur F. Burns

BH

THE AMERICAN BANKERS ASSOCIATION 90 PARK AVENUE, NEW YORK, N. Y. 10016

NAT S. ROGERS
PRESIDENT

FIRST CITY NATIONAL BANK
HOUSTON, TEXAS 77001

May 25, 1970

Please reply to:
815 Connecticut Avenue, N. W.
Washington, D. C. 20006

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

Dear Doctor Burns:

Earlier this month, The American Bankers Association, through its Urban Affairs Committee, announced the banking industry's intention to achieve a goal of $1 billion in minority business lending. Much of this lending activity will take the form of "soft" loans, for which traditional credit requirements have been relaxed so as to encourage maximum prudent utilization of credit by minority entrepreneurs.

A number of these loans will be written in conjunction with guaranty programs of the Small Business Administration. We are aware that a policy regarding examination of such guaranteed loans was enunciated by the Comptroller of the Currency in a January 3, 1969, memorandum to all examining personnel and the regional administrators of national banks, and by the Federal Deposit Insurance Corporation in a January 24, 1969, memorandum from the Chief, Division of Examination, FDIC, to all FDIC examiners and assistant examiners.

To the best of our knowledge, however, the federal examining agencies have not yet established a policy concerning "soft" minority business loans which do not possess the guaranty of an agency of the Federal Government. We believe such loans are consistent with the Administration's commitment to encourage the development of minority enterprise.

In each case where credit is advanced, the lending bank feels there exists reasonable ability to repay the loan on the basis of terms prescribed. Yet, because of the greater risks involved, such loans cannot be judged by the same standards as the normal business loans banks are accustomed to making.

Several bankers have already expressed concern as to how federal bank examiners will view the marginal credit aspects of these loans. To allay such concerns, and to assure maximum bank participation in fulfilling the expectations of minority enterprise, it would be very helpful if a favorable policy statement regarding the attitude of your organization toward these loans could be issued by your office to the examining staffs and, in turn, passed on to the banks.

If you agree that such a statement of policy in support of the commitment to assist in developing minority business enterprise is desirable, we shall appreciate receiving a copy which can then be disseminated to participating banks.

You may be interested in the enclosed statement concerning the industry's commitment to minority business enterprise.

Sincerely yours,

Nat

Nat S. Rogers

cc: Thomas W. McMahon, Jr.
Chairman, Urban Affairs Committee

Enclosure

STATEMENT BY THOMAS W. McMAHON, JR.
EXECUTIVE VICE PRESIDENT, THE CHASE MANHATTAN BANK, N. A.
CHAIRMAN, URBAN AFFAIRS COMMITTEE OF
THE AMERICAN BANKERS ASSOCIATION

It has been about five years now since the attention of the nation has been sharply focused on the problems of its cities and its disadvantaged minorities. During that period, many solutions have been tried by both the public and private sectors of our society. Some programs have been successful, others were not. It has been a trial-and-error process on a variety of fronts -- such as providing a minimum level of family income, working for physical neighborhood rehabilitation and stimulating economic development.

Many commercial banks have been at the forefront of these attempts to improve the quality of life for the less advantaged. Banks are at the heart of the nation's economic system and their success is inextricably tied to the well-being of the communities they serve.

Indeed, a survey released earlier this month by the A.B.A. Urban Affairs Committee revealed that 81% of the 188 banks responding are firmly committed to policies aimed at improving the cities, reducing poverty, providing equal opportunity for all and fostering an improved quality of life. And most of these banks have undertaken specific programs in these areas.

But it is in the areas most germane to banking -- the lending of money -- that commercial banks can make a most important contribution. During recent years, the banks that have made loans to minority enterprise have learned much about how to maximize the borrower's -- the individual minority entrepreneur's -- chances for success.

We believe that we have come far and are confident enough in our knowledge and our ability to transmit it throughout the industry. Therefore, we -- representing the American commercial banking industry -- have committed ourselves to a goal of $1 billion in loans to minority businesses over the next five years.

The loans we are talking about often involve abnormal risks because the applicants lack the entrepreneurial "know-how" or capital normally required to qualify for bank credit. The loans will be made -- a billion dollars worth -- at normal interest rates.

The term "minority enterprise" is frequently thought of as denoting only very small businesses located in and serving disadvantaged areas of the nation's cities. We have to broaden that definition to include profitable, minority-owned manufacturing, retail and service businesses capable of competing in the economic mainstream.

Granting loans such as these involves far more than merely approving the credit of a customer who walks through the door of the bank and fills out an application. Because the applicants are men and women who often lack the necessary experience and training to go into business on a standard-risk basis, granting these loans requires a significant investment in manpower by the lending banks to provide managerial counseling and assistance. This includes special guidance in such areas as operations, accounting and marketing.

The American Bankers Association is, therefore, adopting a "key cities" approach, identifying a number of major cities -- about fifty -- where the need is greatest. Under the "key cities" program, in each of the cities identified for a sharply focused and localized effort, bankers collectively will be encouraged to organize a bankers committee on urban affairs. It is hoped that because of differences from city to city, this approach will have maximum impact. Local bankers urban affairs committees already exist in New York, Philadelphia, and Chicago.

Another problem area that we've learned about from our experience is that, because of the difficulties involved in starting a business today, which are often compounded for blacks and other minority group members, there is lacking a sizable backlog of loan prospects. Add to that other factors such as inadequate capital and preparation, and it is understandable why there is not greater call for this type of loan. However, we as an industry plan to aggressively seek out potential minority-group entrepreneurs.

The American Bankers Association also feels that it is important at this time to reaffirm the basic principles of its urban involvement. The A. B. A. has therefore adopted an Urban Affairs Policy Statement which reaffirms the commercial banking industry's commitment to an aggressive policy of equal opportunity employment, to local economic development, to better housing, to support of community organizations and to cooperation with federal, state and local efforts to overcome the highly complex and interrelated problems of our cities.

Copies of this policy statement are available for you. I think this is a significant document, for it spells out in no uncertain terms the commitment of commercial banks -- an important segment of the economic fiber of our nation -- to programs to solve some of the important problems facing the nation and its cities, and the people who live and work in them.

In the last five years, we have learned much. We have seen which programs work and which do not. We have identified the vital conditions and ingredients for effective programs. And we have learned that no matter how lofty the intentions of a national headquarters, effective programs can be carried out only with the dedication, the organization and the know-how at the local level.

To encourage local action in a concrete way, we have planned a series of Urban Development Seminars in each of the key cities. Teams of visiting specialists will meet with senior management to convey the rationale and the type of organization necessary for an effective urban affairs program. They will also meet with middle management on a nuts-and-bolts basis, to present the proper program strategy and organization, case studies, information on supportive government programs, relationships with senior management, with the community and with outside organizations, and distribute materials to help them get the job done.

Since banks do not ordinarily segregate their loans by race or by neighborhood, dollar figures for the industry's present commitment are, at best, an approximation. The 90 banks that answered this limited survey's questions relating to lending activities had made more than 21,000 loans totaling almost $100 million to minority businesses during the year ending June 30, 1969 and almost 37,000 loans of $1.3 billion for low-income housing during the same period. Because so few banks were surveyed and loan records have not been maintained on a racial basis, actual outstanding loans for the industry cannot now be ascertained.

The experience of bankers who have been engaged in this type of lending activity thus far has demonstrated that while there are indeed great risks involved, there is also an opportunity for entrepreneurship and profit that frequently makes the risks worthwhile. Moreover, in terms of potential economic impact on the nation's racial and urban problems, they are risks that we as bankers want to take.

I have mentioned some of the problems that we will face in meeting our billion dollar goal. Undoubtedly, we will encounter many more before the goal is met. However, we recognize the importance of the task that we have undertaken and we are confident that we have the strength of commitment, as well as the technical knowledge, to succeed. And I am confident that we will.

And now, ladies and gentlemen, if you have any questions about this program, I shall be happy to try to answer them.

THE AMERICAN BANKERS ASSOCIATION 90 PARK AVENUE, NEW YORK, N.Y. 10016

NAT S. ROGERS
PRESIDENT

FIRST CITY NATIONAL BANK
HOUSTON, TEXAS 77001

September 4, 1970

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

Dear Mr. Chairman:

I had hoped to be able to present this letter in person. However, since the effective date of the Home Loan Bank Board Regulation is September 14 and there is a need for prompt consideration, I am having it delivered today. I hope to have the opportunity to visit with you in person when I am in Washington next week.

Sincerely,

Nat S. Rogers

Nat S. Rogers

Called for appointment
on Friday 9/11/70
yes — no —

THE AMERICAN BANKERS ASSOCIATION 90 PARK AVENUE, NEW YORK, N. Y. 10016

NAT S. ROGERS
PRESIDENT

FIRST CITY NATIONAL BANK
HOUSTON, TEXAS 77001

September 4, 1970

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

Re: Federal Home Loan Bank Board
Regulation 12 C.F.R. 545, 555

Dear Mr. Chairman:

The Federal Home Loan Bank Board has recently adopted amendments to its regulations, effective September 14, which will permit Federal savings and loan associations to honor non-negotiable authorizations by account holders in Federal savings and loan associations for payment to third parties, including direct transfers to the savings account of third parties, periodically or otherwise.

The American Bankers Association along with others protested to the Federal Home Loan Bank Board regarding the issuance of these regulations. Nevertheless, the Board put the regulations into effect a year after their first publication in the Federal Register. The American Bankers Association urges the Federal Reserve Board to use its influence to bring about the withdrawal of these regulations for the following reasons:

(1) The regulations of the Federal Home Loan Bank Board exceed the authority granted in the Housing and Urban Development Act of 1968 to permit "withdrawal of savings accounts upon non-transferable order or authorization." The legislative history makes it clear that this provision was not intended to permit Federal savings and loan associations to accept demand deposits or to establish a new type of payment mechanism which has many of the attributes of checking accounts.

(2) Under these regulations the distinction between demand and savings deposits would be blurred and the effectiveness of the Federal Reserve Board in controlling monetary conditions could be impaired.

Payment of interest on deposit balances available for transfer to third parties will be attractive to private individuals and corporations where this type of deposit is made available. This ability to attract additional deposits will encourage many Federal savings and loan associations to offer this type of payment mechanism. These advantages could reduce the need for demand deposits and could permit Federal savings and loan associations to acquire funds which otherwise would go into demand deposits of commercial banks. Under these circumstances, there would be decreases in commercial bank deposits which are subject to monetary control while at the same time the accounts of savings and loan associations would in effect operate as part of the money supply, but would do so outside the direct control of the Federal Reserve. Thus, the effectiveness of the Federal Reserve in exercising its monetary policy would be frustrated.

(3) The new regulations permitting payment of interest by Federal savings and loan associations on deposits that are essentially demand in character would involve a major change in the payments mechanism and the relationship of financial institutions. We believe that questions of this importance should not be acted upon until the Presidential Commission on Financial Structure and Regulation has had an opportunity to consider the proposal along with other problems involving our financial system.

If, however, the Federal Home Loan Bank Board persists in retaining the regulations with respect to transfer payments, we urge the Federal Reserve Board and the Federal Deposit Insurance Corporation to recognize the inequities which may result and, therefore, to extend comparable authority to commercial banks.

As indicated above, the ability of Federal savings and loan associations to offer payment transfer services from interest-bearing accounts will afford a powerful attraction to the development of new accounts from both individuals and corporations. These associations will be able to develop many arrangements for handling consumer and corporate payments through interest-bearing savings accounts with required reserves (lower than bank reserves) invested in earning assets. Electronic equipment and computer technology may add further impetus to direct transfer arrangements. In order for commercial banks to maintain a fair degree of competitive equality, it is essential that they be permitted to offer comparable services. Moreover, if the commercial banking system and the Federal Reserve are to continue to play the central role in the payments system, it is most important not to encourage the diversion of large volumes of payments and transfers into new channels. If new transfer methods are to be authorized, they should also be available through the existing payments mechanism.

If the regulation is permitted to take effect, The American Bankers Association urges the Federal Reserve Board and the Federal Deposit Insurance Corporation to permit commercial banks to make comparable payments and transfers from interest-bearing savings and time accounts to third parties and to accept corporate deposits in savings accounts.

Sincerely yours,

Nat S. Rogers

Nat S. Rogers

FEDERAL HOME LOAN BANK BOARD

No. 70-94

Date: August 4, 1970

TITLE 12 - BANKS AND BANKING

Chapter V - Federal Home Loan Bank Board

Subchapter C - Federal Savings and Loan System

Part 545 - Operations

Part 555 - Board Rulings

AMENDMENTS RELATING TO SERVICES RENDERED BY FEDERAL SAVINGS AND LOAN ASSOCIATIONS

RESOLVED that, notice and public procedure having been duly afforded (34 F.R. 13481) and all relevant material presented or available having been considered by it, the Federal Home Loan Bank Board, upon the basis of such consideration, determines to amend Parts 545 and 555 of the Rules and Regulations for the Federal Savings and Loan System (12 CFR Parts 545 and 555) for the following purposes:

1. To implement the last sentence of subsection (b)(1) of section 5 of the Home Owners' Loan Act of 1933 as added by Section 1716 of the Housing and Urban Development Act of 1968, Public Law 90-448, 90th Congress, approved August 1, 1968, by providing for the withdrawal or transfer of savings accounts in Federal savings and loan associations upon nontransferable order or authorization.

2. In order to increase the effectiveness of Federal savings and loan associations in encouraging thrift by making their facilities available to the public generally, to authorize such associations to provide for the sale of checks, including travelers checks and money orders, thereby extending the scope of such activity previously permissible under the ruling referred to in item 3 hereof.

3. To revoke an existing ruling in paragraph (d) of § 555.8 of said Part 555 which would be supplanted by the regulation amendments herein.

Accordingly, the Federal Home Loan Bank Board hereby amends said Parts 545 and 555 as follows, effective September 14, 1970:

FEDERAL HOME LOAN BANK BOARD

No. 70-94

Page Two

1. Part 545 is amended by adding a new § 545.4-1, immediately after § 545.4 to read as follows:

§ 545.4-1 Payments to third parties by withdrawals or transfer of savings accounts; checks and money orders.

(a) Withdrawals and transfers. Savings accounts in a Federal association shall not be subject to check or to withdrawal or transfer on negotiable or transferable order or authorization to the association. However, withdrawal requests may be in the form of nontransferable orders or authorizations to the association for the payment of amounts in savings accounts to third parties periodically or otherwise. Any such order or authorization which may be honored as a withdrawal request for payment to a third party may, if so authorized by the third party, also be honored as a transfer to a savings account of such third party. The association may charge a fee for its services in making any payment or transfer pursuant to this section. Any form for such orders or authorizations shall contain language in boldface type of reasonable size to the effect that the order or authorization is not negotiable or transferable.

(b) Sale of checks and money orders. As an incident to its principal activities and for the convenience of its members and others, a Federal association may provide for the sale of checks, including travelers checks, and money orders on which the drawee is a Federal Home Loan Bank, commercial bank, or other organization engaged in the business of handling such instruments.

2. Part 555 is amended by revoking paragraph (d) of § 555.8.

(Sec. 5, 48 Stat. 132, as amended; 12 U.S.C. 1464. Reorg. Plan No. 3 of 1947, 12 F.R. 4981, 3 CFR, 1943-48 Comp., p. 1071)

By the Federal Home Loan Bank Board

Jack Carter

Jack Carter
Secretary

DEC 11 1969

TO: Board of Governors

FROM: Division of Research and Statistics
(Mr. Struble)

SUBJECT: Proposed authorized payment plan and deposit transfer Power for Savings and Loan Associations.

The Home Loan Bank Board has published a proposed change in regulation which would give savings and loan associations authority to honor shareholder requests in the form of nonnegotiable or non-transferrable orders or authorizations to pay amounts in savings accounts to third parties; transfer affected by checks or other negotiable instruments would continue to be prohibited. The nontransferrable orders or authorizations could designate payment of a single obligation. In addition, orders or authorizations instructing the association to pay a member's periodic obligations--such as a utility bill--could be honored even if the amounts to be paid were not specified.

A second important part of this FHLBB proposal is that these orders or authorizations could be honored by direct transfer to a savings account of a third party, if the third party agreed to this arrangement.

The comments to follow offer an analysis of the economic implications of this proposal including its implications for the payments mechanism and for monetary policy. Before proceeding to this discussion, it might be worth summarizing two of its major points. Those aspects of the proposal reviewed in the first paragraph above will, if adopted, significantly increase the substitutability of deposits at savings and loan associations with demand deposits at commercial banks. The aspect of the proposal reviewed in the second paragraph, if adopted, would make possible the development of a payment system wholly independent of the present payment system based on demand deposit accounts at commercial banks and the mechanism for clearing checks written on these accounts.

How Will These Plans Develop?

Before any evaluation of the economic implications of the FHLBB proposal can be made, it is necessary to formulate some conception of how these plans will work and how extensive they might become. The immediate discussion to follow offers some tentative answers to these questions.

Activities prohibited. It appears that only those payment transactions in which a check--a negotiable instrument--is used to make payment on an obligation to a third party would be prohibited. While such a restriction may have been important in past years, it should be emphasized that it will not necessarily be so in the future. After all, most projections of the evolution of the payments mechanism contend that the check is scheduled for eventual obsolescence. Thus, the long-run development of these payment plans at savings and loan associations would not appear to be particularly confined by this restriction.

Near-term development. It seems unlikely that these payment plans would assume major significance in the near term following their authorization. Part of the rationale for this conclusion is that, to date, preauthorized payment plans based on demand deposits at commercial banks have not proven to be very popular, as most people seem reluctant to have payments automatically deducted from their account. Moreover, a large number of S&L's will in all probability be quite reluctant to offer these plans to the public because of the prospective increase in costs to be incurred in servicing accounts. Support for this latter assumption is provided by several letters the FHLBB received from S&L's in which they objected to this proposal on the grounds that the industry could not bear the added costs associated with operating these plans.

While these factors will serve to hold back an immediate burgeoning of these plans, it seems unlikely that they will retard their development entirely. The opportunity to earn interest on a "transactions" balance should overcome the reluctance which many people have to entering into this type of arrangement. And, some S&L managers will probably conclude that the costs of operating these plans will be more than covered by the revenue to be derived from the additional deposit funds generated. Thus, it seems likely that during the initial period of introduction these payment plans will take hold and begin growing but at a comparatively moderate pace. Although the extent of the development which will occur over these early years cannot be foreseen with any degree of accuracy, one thing seems certain to occur: commercial banks will observe the potential competitive challenge of these plans and will urge strongly that they be given the opportunity to offer similar plans based on their savings deposit accounts.

Longer-run developments. Despite an initial reluctance, it seems likely that plans of this kind probably would be destined to assume increased importance with the passage of time. Developing forces such as the unfolding computer technology, for example, will both permit and encourage a payment mechanism based upon some form of money transfer other than a check. The mounting volume of paper work generated by the present check clearing system can also be cited, for it has led to considerable bank interest in alternative types of payments arrangement. Finally, expansion of charge account purchases--of which increasing credit balances associated with bank credit cards and other revolving credit arrangements are the most dramatic--should be mentioned, since the growing practice of permitting repayment of account balances on an instalment basis would appear to be well suited to the operation of these plans. The shareholders, for example, could simply authorize the S&L to pay the minimum balance due on his revolving credit arrangement with a department store or commercial bank. If to these basic forces one adds the opportunity to obtain an interest return on what are essentially "transaction" balances, then it appears that these plans--whether based on deposit accounts at S&L's or on savings accounts at commercial banks--are sure to spread.

A fairly detailed sketch of the potential activities of these S&L plans can be presented which meets the test of reasonableness in the sense that it does not appear to be in conflict with existing laws and appears entirely feasible on operational grounds.

After operating these payment plans on a limited basis for a period of time needed to gain experience, some savings and loans might well opt to expand its activities by advertising something like the following plan.

1. Arrange with your employer to have at least part of your paycheck automatically credited to your savings and loan account.

2. In return for placing these funds with us, we will pay interest daily on the balance you maintain with us. (It seems quite unlikely that the interest rate offered under these arrangements will match that being offered on other types of savings accounts, because the expenses of operating this payments mechanism will have to be met. Alternatively, S&L's may offer uniform rates on all their savings accounts but charge specific fees for the services they provide in making payments.)

3. We will, after receiving your authorization, pay amounts from your account to meet your periodic bills.

4. In addition, you may sit down once or twice a month and fill in pertinent information with regard to your other bills on one of our authorization slips. After we receive this authorization in the mail, we will carry out your instructions.

(Presumably, the obligations handled through these payment plans will encompass the vast majority of all payments which have to be made by an ordinary household during the month, since most retail purchases, including even grocery store purchases, might well be transacted through charge accounts by this time.)

5. If you need any cash during this period simply come to our office. Or, if that is not convenient, simply mail in an authorization slip and we will send you a money order which you can conveniently turn into cash. In fact, if you wish, you may authorize us to send you periodically a money order of a given amount. (This discussion assumes that another change in regulation, proposed by the FHLBB at the same time as the one under discussion in this memorandum, is adopted. This proposal would permit a Federal savings and loan association to "provide for the sale of checks, including traveler's checks, and money orders on which the drawee is a Federal Home Loan Bank, commercial bank, or other organization engaged in the business of handling such instruments.")

This is but one sketch of the type of arrangement which S&L's could conceivably offer to a customer. Many others would be possible, for if present proposed regulations are adopted, the S&L's will have great flexibility in designing these plans. And, given this flexibility, it is logical to assume that the associations will develop arrangements capable of handling most types of consumer payments. Consequently, these plans could become extremely popular.

<u>Savings and Loan Payments Transfer System</u>

When these payment plans are first established, S&L's will carry out the payment instructions of their shareholders by debiting the shareholder's account for the amount of the payment in question. The S&L will then present a check, written on its deposit account at a commercial bank, to the designated third party specifying in the process that the check is to serve as payment for the bills of the shareholder. Thus, initially the completion of payments under these payment plans will be closely tied to the existing check clearing system. But as these plans evolve, it seems quite possible (and indeed quite likely) that they will begin to break away from the use of checks and could eventually become essentially divorced from the check clearing system. This potential course of development would appear to be made possible by the last sentence in the FHLBB's proposal--that is, that transfers can be made to the account of a third party in payment to that party, if the third party agrees.

For example, it would appear likely that S&L's would attempt to encourage business firms in their immediate area to whom large payments for household customers are made to hold deposit balances with them. There is nothing in existing laws to prohibit firms of this type from holding balances with S&L's, and it seems quite possible that S&L's would induce these firms to do so as a convenience to all concerned. Indeed, the S&L will offer to pay an interest rate as an inducement to the establishment of such accounts, and might even agree to transfer an account balance after it reaches a certain level. The transfer could be made to commercial bank accounts or perhaps to the account of a security dealer--who may also have an account with the S&L--to pay for securities acquired in the name of the deposit customer. The precise nature of the transfer would, of course, be established by agreement. No matter to whom the transfer is made, it seems a reasonably safe presumption that, as time passes, such transactions would tend increasingly to take the form of a direct transfer of credit balances rather than a transfer of funds through the mechanism of a check.

Coinciding with these developments on a local level, it also is conceivable that S&L's in different regions of a State or in different sections of the country would begin entering into arrangements which would facilitate the transfer of funds among associations. Separate service corporations could be established to aid with the process of clearing intra-State transfers, while interstate transfers arrangements might be developed in several ways. For example, facilities could be developed at the Federal Home Loan Banks for inter-District settlements, just as banks now clear through the Federal Reserve Banks.

The sketch presented above is, of course, but one possible course of development. But despite its tentative nature, it does serve to illustrate that the potential would exist for the development of a payment system independent of one operated through transactions based on deposit accounts at commercial banks. What is envisioned, is an arrangement not too different from the "post giro" systems which operate independently of the check clearing system in many European countries.

Economic Implications

Improved efficiency of check clearing. It seems reasonably clear that authorized-preauthorized payment plans whether operated by S&L's or by commercial banks will improve the efficiency of the existing check clearing system. To illustrate this point, consider a hypothetical situation in which initially 100 households are making monthly payments to the same 10 business firms and that each household pays each bill with a check on its demand deposit account. Under this arrangement a total of 1,000 checks would have to pass through the check clearing system. Then assume that these households decide to utilize the payment plan service of a savings and loan association. Each household would then send one check to the S&L to cover its total monthly liabilities. The S&L, in turn, would send one check drawn on its bank account to each of the 10 firms to pay the bills of its 100 household customers. The total number of checks required to clear though the check clearing system under this arrangement would be 110. Thus, a significant reduction in items to be cleared is achieved. Admittedly, the degree of conformance between the firms to be paid and the customers of a single S&L, as described here, is probably larger than would normally occur in actual practice. Yet, this example does indicate the potential economies to be gained by consolidating the bills of a large number of customers and discharging these obligations with a single payment. It should be stressed that similar economies would be obtained from bank operated payment plans, whether these plans are based on savings deposits or demand deposits.

Other possibilities for cutting back the volume of checks could also arise from the operation of payment plans. For example, household wage earners might direct their employers to deposit their paychecks directly in S&L accounts. This would eliminate the need for householders to write checks on their bank account in order to increase their S&L deposit account. And if S&L's are successful in inducing firms to establish accounts with them, then the payment of bills to these firms could be completed without any check being written at all.

An even further possible source of reduction in check clearing activity might arise from this arrangement, for it is just possible that once firms are able to earn interest on a transaction balance they may be less inclined toward the practice of attempting to economize cash balances by shifting from deposits into open market instruments.

The decrease in the volume of paperwork to be cleared by the financial system as a whole will not be as extensive as might appear from the focusing only on the drop in the volume of checks to be cleared. The S&L's and banks offering the services of these plans will, after all, experience a sharp step-up in paperwork in performing these services. But on net balance some cost reduction should be achieved.

Deposit instability. It appears likely that individual savings accounts used as a basis for these payment plans will fluctuate more than they do presently. However, whether this will result in a substantial increase in the volatility of aggregate savings and loan accounts will depend upon the success these institutions have in synchronizing the volume of their deposit inflows with the volume of their deposit outflows. Payments could be staggered by arranging to pay utilities on one day, insurance companies on the next, etc., or by arranging to pay on any one day the bills of only a proportionately small number of deposit customers to these various firms. This would reduce the tendency for payment obligations to bunch up on a given day. In addition, payments could be scheduled to coincide with deposit inflows, and the volume of inflows could be evened out by obtaining deposit customers who receive their paycheck on different days. Thus, while it is clear that the activity and fluctuation associated with individual accounts are certain to rise, the extent of increase in the volatility of deposit accounts in the aggregate remains a matter for conjecture. In addition, assuming that the funds to establish these S&L payment plan accounts are attracted from commercial bank demand deposits, then during this transition period, deposit instability at commercial banks could also increase. It also seems likely that substituting payments based on S&L accounts for payments based on demand accounts at banks will alter (perhaps significantly) traditional seasonal (and perhaps cyclical) patterns of deposit fluctuations at commercial banks.

The liquidity problems generated by this augmenting of deposit instability are obvious. Savings and loan associations will have to develop procedures for minimizing the instability of their total deposit balances and to expand existing arrangements for obtaining cash to meet unexpected deposit outflows. The liquidity problem facing commercial banks will be no less acute, particularly during the transition period, for presumably banks will experience a steady erosion in their demand deposit accounts--assuming that traditional restrictions on demand accounts are retained--and will have to develop procedures for meeting these deposit declines.

Implications for economic stability and monetary policy

Preauthorized-authorized payment plans based on savings deposits will reduce demand for money (defined as demand deposits adjusted plus currency) relative to a given volume of transactions or a given level of income, unless major changes are made in existing regulations which would permit banks to pay interest on their demand balances. However, during the early stages of development this decline will be moderate for two reasons: a) because these plans will not be offered in all areas of the country and even where they are offered they will presumably restrict the types of payments which can be made so that households will continue to need money to pay for a large proportion of their transactions; and b) because S&L's will need to increase their demand deposit balances at commercial banks in order to complete the enlarged volume of payments they will have to make. However, S&L's presumably will be able to handle a given volume of transactions with lower average demand deposit balances than those maintained by households so that, on net, demand for money will decline, but only moderately. Such moderate changes in demand for money, and related changes in velocity, would not appear to present any significant problem in the administration of monetary policy.

However, as time passes and these payment plans become more pervasive, it seems clear that demand for money, as presently defined, may begin to erode significantly, because these payment plans do appear to have the potential to become important substitutes for demand deposits. As discussed above, the importance of the check as a means of payment seems destined to diminish considerably with the onset of new technology. And in an age in which charge account purchasing is spreading steadily, the possibility of having to wait 30 days before gaining control over funds held in a savings account will not be considered much of a handicap, particularly if, as seems likely, the probability of such a development is thought to be quite small.

Traditional relationships between money, bank credit, and developments in other financial aggregates may become distorted as a result of this substitution process as will the relationship of any of these aggregates to GNP and other economic variables. This will tend to increase the difficulty of evaluating the significance of monetary aggregates, particularly in the transition period. Once the transition period is concluded, new relatively stable--at least no less stable than now--relationships between monetary aggregates, other assets, credit market conditions and economic activity presumably will emerge. But the transition period may be fairly lengthy and conditions during that period may be quite turbulent, as more and more household cash balances are shifted to savings account forms in more and more associations or shifted to savings accounts at banks, if banks were given the same authority as S&L's.

Distinctions between money and other liquid assets, for example, will become decidedly blurred during this transition period. This, of course, is not an entirely new phenomenon, particularly when one considers the long standing post-World War II trend in which time deposits at commercial banks and mutual savings banks and savings shares at S&L's have been substituted for demand deposits at banks. But this trend of developments has been reasonably steady and orderly so that, even though the implications of this trend have not been entirely understood, they have had their impact on a fairly gradual basis. During the early stages of the evolution of preauthorized payment plans it is to be expected that this substitution process will remain gradual. But as time goes on, it is possible that these plans could begin to catch on with a rush, resulting in sharp structural changes over short periods of time.

Competitive Equity

If savings and loan associations are given the authority to operate preauthorized-authorized payment plans several issues will be raised regarding the impact of this change on competitive arrangements between associations and commercial banks and between savings deposit accounts and demand deposit accounts. Moreover, depending upon how these issues are resolved, several problems with regard to determining the type of regulations to apply to different types of accounts at different institutions and the means for coordinating the implementation of these regulations will be encountered.

If S&L's receive authority to operate these plans then it seems certain that commercial banks will request authority to operate similar plans based on their savings deposit accounts. But if payment plans based on savings accounts prove popular--and at least eventually this seems likely to occur--then the issue of why interest can be paid on what are essentially transactions balances held in savings accounts but cannot be paid on demand deposit may well be raised. In addition, there will be the question of why reserve requirements against transactions balances held in demand deposits should be higher than reserve requirements against similar balances held in time deposits. And more will be involved here than simply the question of reserve ratios: the types of assets to qualify as reserves will have to be considered. Why, commercial banks are sure to ask, must we hold reserves in the form of deposit balances at Federal Reserve Banks which provide a zero interest return while S&L's are permitted to hold their reserves in the form of interest-bearing Treasury securities.

Finally, assume for the moment that a proposal is offered to resolve these various issues by requiring S&L's to hold reserves in the form of zero interest earning deposits at the Federal Home Loan Banks, that reserve ratios on all deposits are equalized, and that the interest prohibition on demand deposits is eliminated. At least one additional issue would remain which is, what relative rates of growth in reserves would be allowed by the Federal agencies generating these reserves. At a minimum it seems likely that very close coordination of reserve policies will be required.

CONCLUDING COMMENT

Preauthorized-authorized payment plans will quite probably play an important role in the completion of payments transactions in the future. The evolution of computer and electronics technology will permit and indeed should promote such payments arrangements. Expansion of purchases financed through credit card plans and other revolving credit arrangements should also help to promote the applicability and thereby the growth of payment plans.

The introduction of these plans will reduce the volume of checks required to complete a given volume of transactions so that some improvement in efficiency of the payment system is to be expected even over the fairly short-run future. Over the longer-run these plans could easily lead to the development of a credit transfer payment system operated by commercial banks and S&L's. If S&L's are given permission to make credit transfers the result could eventually be the development of a payment transfer system which operates essentially independently of the commercial bank system.

During the period in which these plans would be introduced and established it seems certain that financial institutions would encounter increased difficulty with deposit instability. The monetary authorities would be confronted with problems no less difficult, as traditional relationships among financial variables and between financial variables and other economic variables will be distorted. And the increased difficulty encountered in interpreting financial developments will be accompanied by equally acute problems with regard to influencing these conditions, since the reins by which the monetary authority has traditionally exercised control will be loosened. But perhaps the most difficult problems generated by the proposal to give S&L's the authority to operate preauthorized-authorized payment plans are those involving questions of the competitive position of various financial institutions and various types of deposits.

Prudence would appear to demand that, in consideration of these many potential problems and issues, considerable caution should be exercised in their adoption. Preferably this would seem to point to the need for prior study and resolution of all the technical and regulatory issues to be created by the introduction and operation of these plans. If this ideal approach is not acceptable, however, it would seem wise to at least move gingerly. One course of action meeting this criteria might be initially to prohibit S&L's from making credit transfers among their accounts. Another may be to limit the debits (and also credits if these are permitted) to certain types of transactions, such as mortgage or rent payments, or payments on utility bills.

September 10, 1970

To: Board of Governors

From: Legal Division (R. F. Sanders)

Subject: Permitting business corporations to have savings deposits.

This memorandum, prepared at Governor Maisel's request, is designed to furnish some background material that might be helpful to Board members in connection with the anticipated discussion of this topic by the Federal Advisory Council at its meeting with the Board tomorrow. (See ABA's letter of September 4, 1970, page 3.) It is assumed that Board members will not wish to discuss the merits of the arguments, outlined below, for and against the Board amending Regulation Q to permit business corporations to have savings deposits. However, it is hoped that the material will give the Board some idea of the issues involved.

In my opinion, amending Regulation Q to permit business corporations to have savings deposits would be a valid exercise of the Board's authority to define the terms used in section 19 of the Federal Reserve Act. (In 1963, Comptroller of the Currency Saxon published an interpretation indicating that national banks could, despite Regulation Q, offer savings deposits to business corporations; however, Comptroller Camp has withdrawn that interpretation.)

Arguments <u>for</u> the change are:

(1) Savings and loan associations accept comparable accounts from business corporations; all federally insured financial institutions should be subject to the same rules governing savings and time deposits, except for the differential in rate designed to avoid undesirable shifts of funds from one class of institution to another. This is implicit in the interest-rate-control legislation enacted by the Congress in 1966.

(2) Unlike the situation when the Board drew the distinction between persons eligible for savings deposits and those who are not, the Board now permits a higher rate of interest on time deposits than on savings deposits. Although the original concept underlying savings deposits was to encourage thrift, that is an anachronism in view of the present rate structure.

(3) Prohibiting business corporations (and municipal corporations) from having savings deposits is a distinction based on the nature of the depositor that cannot be justified on the basis of economic considerations. In some respects, the distinction appears to be arbitrary; for example, a school district may have a savings deposit but a board of education may not. Maintaining the distinction has taken an inordinate amount of the time of the Board and its staff over the years. The reasons for maintaining the distinction do not justify the effort involved.

Arguments <u>against</u> the change are:

(1) The number of corporations that maintain savings deposits in S&Ls is nominal compared with the number that could be expected to open such accounts in member banks. This is true today and would remain so after the FHLBB regulations regarding preauthorization of payments from savings deposits in S&Ls become effective. The desirability of one-stop banking will still favor deposits in commercial banks.

(2) Permitting business corporations to have savings deposits would result in a marked decline in the amount of demand deposits. Although it might not be worthwhile for an individual to make daily transfers from his savings account to his checking account to meet his needs for funds on a daily basis, large business corporations probably would find that procedure worthwhile. If so, corporations would tend to retain the bulk of their funds in savings deposits. (It would seem advantageous to member banks to have corporations shift their funds from demand to savings deposits, because that would reduce substantially their reserve requirements, unless the Board only permits corporate savings deposits for the purposes of Regulation Q and not for the purposes of Regulation D.) This possibility is sufficiently likely to raise a legal question whether permitting corporate savings deposits is consistent with the statutory prohibition in section 19 against payment of interest on demand deposits.

(3) It is unnecessary to permit member banks to have corporate savings accounts to eliminate much of the present administrative burden involved. Excluding only corporations operated for profit from having savings deposits and permitting all municipal authorities to have such deposits would substantially reduce the amount of time required to administer this aspect of Regulation Q.

CHAIRMAN BURNS

For Information Only

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date September 9, 1970.

To Board of Governors

From Robert C. Holland

Subject: New regulations of FHLBB providing fund transfer authority for payment of accountholders' bills.

As mentioned in the memorandum dated September 8, 1970 from the Office of the Secretary, the Federal Advisory Council has added to the agenda for its upcoming September 11 meeting with the Board, the subject of the new regulations of the Federal Home Loan Bank Board providing fund transfer authority for payment of accountholders' bills.

For reference in connection with that discussion, there is attached a letter on this matter received today from the American Bankers Association. Staff memoranda on the subject are in preparation for distribution to the Board for consideration at a reasonably early date.

Attachment

THE AMERICAN BANKERS ASSOCIATION 90 PARK AVENUE, NEW YORK, N. Y. 10016

NAT S. ROGERS
PRESIDENT

FIRST CITY NATIONAL BANK
HOUSTON, TEXAS 77001

September 4, 1970

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

Dear Mr. Chairman:

I had hoped to be able to present this letter in person. However, since the effective date of the Home Loan Bank Board Regulation is September 14 and there is a need for prompt consideration, I am having it delivered today. I hope to have the opportunity to visit with you in person when I am in Washington next week.

Sincerely,

Nat S. Rogers

Nat S. Rogers

THE AMERICAN BANKERS ASSOCIATION 90 PARK AVENUE, NEW YORK, N. Y. 10016

NAT S. ROGERS
PRESIDENT

FIRST CITY NATIONAL BANK
HOUSTON, TEXAS 77001

September 4, 1970

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

Re: Federal Home Loan Bank Board
Regulation 12 C.F.R. 545, 555

Dear Mr. Chairman:

The Federal Home Loan Bank Board has recently adopted amendments to its regulations, effective September 14, which will permit Federal savings and loan associations to honor non-negotiable authorizations by account holders in Federal savings and loan associations for payment to third parties, including direct transfers to the savings account of third parties, periodically or otherwise.

The American Bankers Association along with others protested to the Federal Home Loan Bank Board regarding the issuance of these regulations. Nevertheless, the Board put the regulations into effect a year after their first publication in the Federal Register. The American Bankers Association urges the Federal Reserve Board to use its influence to bring about the withdrawal of these regulations for the following reasons:

(1) The regulations of the Federal Home Loan Bank Board exceed the authority granted in the Housing and Urban Development Act of 1968 to permit "withdrawal of savings accounts upon non-transferable order or authorization." The legislative history makes it clear that this provision was not intended to permit Federal savings and loan associations to accept demand deposits or to establish a new type of payment mechanism which has many of the attributes of checking accounts.

(2) Under these regulations the distinction between demand and savings deposits would be blurred and the effectiveness of the Federal Reserve Board in controlling monetary conditions could be impaired.

Dr. Arthur F. Burns
Page 2
September 4, 1970

Payment of interest on deposit balances available for transfer to third parties will be attractive to private individuals and corporations where this type of deposit is made available. This ability to attract additional deposits will encourage many Federal savings and loan associations to offer this type of payment mechanism. These advantages could reduce the need for demand deposits and could permit Federal savings and loan associations to acquire funds which otherwise would go into demand deposits of commercial banks. Under these circumstances, there would be decreases in commercial bank deposits which are subject to monetary control while at the same time the accounts of savings and loan associations would in effect operate as part of the money supply, but would do so outside the direct control of the Federal Reserve. Thus, the effectiveness of the Federal Reserve in exercising its monetary policy would be frustrated.

(3) The new regulations permitting payment of interest by Federal savings and loan associations on deposits that are essentially demand in character would involve a major change in the payments mechanism and the relationship of financial institutions. We believe that questions of this importance should not be acted upon until the Presidential Commission on Financial Structure and Regulation has had an opportunity to consider the proposal along with other problems involving our financial system.

If, however, the Federal Home Loan Bank Board persists in retaining the regulations with respect to transfer payments, we urge the Federal Reserve Board and the Federal Deposit Insurance Corporation to recognize the inequities which may result and, therefore, to extend comparable authority to commercial banks.

As indicated above, the ability of Federal savings and loan associations to offer payment transfer services from interest-bearing accounts will afford a powerful attraction to the development of new accounts from both individuals and corporations. These associations will be able to develop many arrangements for handling consumer and corporate payments through interest-bearing savings accounts with required reserves (lower than bank reserves) invested in earning assets. Electronic equipment and computer technology may add further impetus to direct transfer arrangements. In order for commercial banks to maintain a fair degree of competitive equality, it is essential that they be permitted to offer comparable services. Moreover, if the commercial banking system and the Federal Reserve are to continue to play the central role in the payments system, it is most important not to encourage the diversion of large volumes of payments and transfers into new channels. If new transfer methods are to be authorized, they should also be available through the existing payments mechanism.

If the regulation is permitted to take effect, The American Bankers Association urges the Federal Reserve Board and the Federal Deposit Insurance Corporation to permit commercial banks to make comparable payments and transfers from interest-bearing savings and time accounts to third parties and to accept corporate deposits in savings accounts.

Sincerely yours,

Nat S. Rogers

Nat S. Rogers

September 9, 1970.

Mr. Nat S. Rogers, President,
The American Bankers Association,
90 Park Avenue,
New York, New York. 10016

Dear Nat:

I want to be quick to acknowledge, in Chairman Burns' absence, your letter of September 4, 1970 concerning recent regulatory amendments adopted by the Federal Home Loan Bank Board.

The Board of Governors has been following developments in this area closely, and I can assure you the Board will give prompt and careful consideration to the views set forth in your letter.

Yours sincerely,

Robert C. Holland,
Secretary of the Board.

bc: Mr. Sanders
Mr. Kenyon
Mr. Axilrod
Mr. Eckert
Mr. Leonard
Mrs. Mallardi (2)

L/6 BH

THE AMERICAN BANKERS ASSOCIATION 90 PARK AVENUE, NEW YORK, N.Y. 1001

NAT S. ROGE
PRESIDE

FIRST CITY NATIONAL BA
HOUSTON, TEXAS 770

September 4, 1970

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

Dear Mr. Chairman:

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Sincerely,

Nat S. Rogers

Nat S. Rogers

Called for appointment
on Friday 9/11/70
yes — no —

THE AMERICAN BANKERS ASSOCIATION 90 PARK AVENUE, NEW YORK, N. Y. 10016

NAT S. ROGERS
PRESIDENT

FIRST CITY NATIONAL BANK
HOUSTON, TEXAS 77001

September 4, 1970

Dr. Arthur F. Burns
Chairman
Board of Governors of the
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Washington, D. C. 20551

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Dr. Arthur F. Burns
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September 4, 1970

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Dr. Arthur F. Burns
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September 4, 1970

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Sincerely yours,

Nat S. Rogers

Nat S. Rogers

FR 373

Mrs Mallardi

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date 9/9/70

To Mr. Holland

From Catherine

Dr. Burns would like to have your opinion on an appointment with Mr. Rogers and Mr. Alexander.

RCH
Handled by phone 9/9

General
Services
Administration

Gerald R. Ford Presidential Materials Project
National Archives and
Records Service

326 E. Hoover Street
Ann Arbor, MI 48109