Record of Policy Actions of the Board of Governors

Regulation B
Equal Credit Opportunity

March 23, 1998—Amendments

The Board amended certain model forms in Regulation B to reflect revisions to the disclosures provided under the Fair Credit Reporting Act that must be given to consumers who are denied credit on the basis of information from an affiliate of the creditor or a consumer reporting agency, effective April 30, 1998.

Votes for this action: Mr. Greenspan, Ms. Rivlin, Mr. Kelley, Ms. Phillips, and Messrs. Meyer, Ferguson, and Gramlich.[1]

Regulation B requires creditors to provide consumers with a notice of action taken if an application for credit is denied, an account is terminated, or the terms of an account are unfavorably changed. The Fair Credit Reporting Act requires that disclosures be provided to consumers when credit is denied on the basis of information obtained from an affiliate of the creditor, or from a consumer reporting agency or a third party other than a consumer reporting agency. The Board revised the language in several model forms to reflect 1996 amendments to the act.

Regulation C
Home Mortgage Disclosure

September 21, 1998—Amendments

The Board amended Regulation C to require lenders to report dates on the loan application register using four digits for the year to bring Home Mortgage Disclosure Act reporting into compliance with Year 2000 data system standards, effective September 24, 1998.

Votes for this action: Mr. Greenspan, Ms. Rivlin, and Messrs. Kelley, Meyer, Ferguson, and Gramlich.[2]

Regulation C, which implements the Home Mortgage Disclosure Act, requires most mortgage lenders in metropolitan statistical areas to report annually to federal supervisory agencies and to disclose to the public information about their home mortgage and home improvement lending. The Board amended Regulation C to modify the loan application register that is used to report this information to prepare for Year 2000 data systems conversion and to make certain other technical changes.

Regulation D
Reserve Requirements of Depository Institutions

March 23, 1998—Amendments

The Board amended Regulation D for institutions that report deposits weekly

1. In voting records throughout this chapter, Board members, except the Chairman and Vice Chair, are listed in order of seniority.

2. Throughout this chapter, note 2 indicates that one vacancy existed on the Board when the action was taken.

to move from contemporaneous reserve maintenance to a system under which reserves are maintained on a lagged basis, effective as of the maintenance period beginning July 30, 1998.

Votes for this action: Mr. Greenspan, Ms. Rivlin, Mr. Kelley, Ms. Phillips, and Messrs. Meyer, Ferguson, and Gramlich.

The Board revised Regulation D to improve the ability of the Federal Reserve and depository institutions to estimate accurately the quantity of reserves that will be needed to meet reserve requirements. The amendments introduce a lag of thirty days between the beginning of a reserve computation period and the beginning of a reserve maintenance period and a similar lag for computing the vault cash that can be applied to satisfy reserve requirements.

November 19, 1998— Amendments

The Board amended Regulation D to decrease the amount of net transaction accounts at depository institutions to which a lower reserve requirement applies and to increase the amount of reservable liabilities that is exempt from reserve requirements, for 1999. The Board also announced higher deposit cutoff levels for determining deposit reporting requirements.

Votes for this action: Mr. Greenspan, Ms. Rivlin, and Messrs. Kelley, Ferguson, and Gramlich. Absent and not voting: Mr. Meyer.[2]

Under the Monetary Control Act of 1980, depository institutions, Edge Act corporations, agreement corporations, and U.S. agencies and branches of foreign banks are subject to reserve requirements set by the Board. The act directs the Board to adjust annually the amount subject to the lower reserve requirement to reflect changes in net transaction accounts at depository institutions. Recent declines in net transaction accounts warranted a decrease to $46.5 million, and the Board amended Regulation D accordingly.

The Garn–St Germain Depository Institutions Act of 1982 establishes a zero percent reserve requirement on the first $2 million of an institution’s reservable liabilities. The act also provides for annual adjustments to that exemption amount based on increases in reservable liabilities at depository institutions. Recent growth in reservable liabilities warranted an increase in the amount exempted from reserve requirements to $4.9 million, and the Board amended Regulation D accordingly.

For institutions reporting weekly, the amendments are effective with the reserve computation period beginning December 1, 1998, and the corresponding reserve maintenance period beginning December 31, 1998. For institutions reporting quarterly, the amendments are effective with the reserve computation period beginning December 15, 1998, and the corresponding reserve maintenance period beginning January 14, 1999.

To reduce the reporting burden on small institutions, depository institutions with total deposits below specified levels are required to report their deposits and reservable liabilities quarterly or less frequently. To reflect increases in the growth rate of total deposits at all depository institutions, the Board increased the deposit cutoff levels used in determining the frequency and detail of depository reporting to $81.9 million for nonexempt depository institutions and to $52.6 million for exempt depository institutions, beginning in September 1999.

Regulation E
Electronic Fund Transfers

March 4, 1998—Interim Amendment

The Board approved an interim amendment to Regulation E to permit depository institutions and other entities to provide disclosures electronically if the customer agrees, effective March 25, 1998.

> Votes for this action: Mr. Greenspan, Ms. Rivlin, Mr. Kelley, Ms. Phillips, and Messrs. Meyer, Ferguson, and Gramlich.

Regulation E, which implements the Electronic Fund Transfer Act, requires depository institutions and other entities to provide consumers with disclosures about the terms and conditions of electronic fund transfer services, account activity, error resolution, and authorizations or confirmations concerning electronic fund transfers. The disclosures generally must be provided in writing. Under the interim amendment, depository institutions or other entities subject to the act are permitted to use electronic communication to satisfy written disclosure, documentation, notice, and other information requirements if the consumer agrees to such communication. The Board has sought comment on the interim amendment and on proposed rules similar to the interim amendment to address electronic communication under Regulations B (Equal Credit Opportunity), DD (Truth in Savings), M (Consumer Leasing), and Z (Truth in Lending).

September 21, 1998—Amendments

The Board amended Regulation E to revise the time periods for investigating certain errors, effective September 24, 1998.

> Votes for this action: Mr. Greenspan, Ms. Rivlin, and Messrs. Kelley, Meyer, Ferguson, and Gramlich.[2]

The Electronic Fund Transfer Act and Regulation E require a financial institution to investigate and resolve a consumer's claim of error within specified time limits. The amendments to Regulation E revise the time for claims involving point-of-sale and foreign-initiated transactions to require institutions to provide provisional credit within ten business days and to complete their investigation within ninety calendar days. For new accounts, the amendments revise Regulation E to allow an institution twenty business days to provide provisional credit and ninety calendar days to complete the investigation.

Regulation H
Membership of State Banking Institutions in the Federal Reserve System

February 13, 1998—Amendments

The Board amended Regulation H to lengthen the examination-frequency cycle for certain financial institutions, effective April 2, 1998.

> Votes for this action: Mr. Greenspan, Ms. Rivlin, Mr. Kelley, Ms. Phillips, and Messrs. Meyer, Ferguson, and Gramlich.

The Board, jointly with the other federal banking and thrift agencies, made certain financial institutions eligible to be examined on an eighteen-month cycle rather than a twelve-month cycle, consistent with provisions of the Riegle Community Development and Regulatory Improvement Act of 1994 and the Economic Growth and Regulatory Paperwork Reduction Act of 1996. Institutions with assets of $250 million or less and composite ratings of "1" or "2" under the uniform rating system that are well capitalized and well managed generally would qualify for the lengthened cycle. The amendments make final an interim rule approved by the Board on January 23, 1997.

September 28, 1998—Interim Guidelines

The Board amended Regulation H to include guidelines that establish safety and soundness standards applicable to efforts by insured depository institutions to achieve Year 2000 readiness, effective October 15, 1998.

> Votes for this action: Mr. Greenspan, Ms. Rivlin, and Messrs. Kelley, Meyer, Ferguson, and Gramlich.[2]

The Board, jointly with the other federal banking and thrift agencies, adopted interim Interagency Guidelines Establishing Year 2000 Standards for Safety and Soundness. The guidelines apply only to insured depository institutions and incorporate standards for compliance that previously had been issued by the agencies in several guidance papers. Under powers granted by section 39 of the Federal Deposit Insurance Act, as amended, the Board may direct a state member bank that does not comply with the guidelines to submit an acceptable corrective action plan without the necessity of an administrative proceeding. The Board may also direct a state member bank that fails to submit an acceptable corrective action plan or does not comply with an acceptable plan to take immediate corrective action. The agencies sought public comment on the interim guidelines.

Regulation H
Membership of State Banking Institutions in the Federal Reserve System

Regulation P
Security Procedures

June 26, 1998—Amendments and Rescission of Regulation

The Board amended Regulation H to reduce regulatory burden by simplifying and updating the regulation, and rescinded Regulation P, which was incorporated into Regulation H, effective October 1, 1998.

> Votes for this action: Mr. Greenspan, Ms. Rivlin, Ms. Phillips, and Messrs. Meyer, Ferguson, and Gramlich. Absent and not voting: Mr. Kelley.

The amendments to Regulation H remove outdated material, update and reorganize the remaining material, incorporate provisions designed to reduce burden on state member banks, and eliminate several obsolete interpretations. The Board also rescinded Regulation P because its provisions were incorporated into Regulation H. These actions are consistent with provisions of the Riegle Community Development and Regulatory Improvement Act of 1994.

Regulation H
Membership of State Banking Institutions in the Federal Reserve System

Regulation Y
Bank Holding Companies and Change in Bank Control

June 26, 1998—Amendments

The Board amended Regulations H and Y

to permit institutions to include in tier 2 capital up to 45 percent of their unrealized holding gains on certain equity securities, effective October 1, 1998.

Votes for this action: Mr. Greenspan, Ms. Rivlin, Ms. Phillips, and Messrs. Meyer, Ferguson, and Gramlich. Absent and not voting: Mr. Kelley.

The Board, jointly with the other federal banking and thrift agencies, amended the risk-based capital standards for banks, bank holding companies, and thrift institutions regarding the capital treatment of unrealized holding gains on certain equity securities. The amendments permit institutions to include in supplementary (tier 2) capital up to 45 percent of the before-tax net unrealized holding gains on certain available-for-sale equity securities.

July 24, 1998—Amendments

The Board approved amendments to Regulations H and Y to revise its capital adequacy standards for state member banks and bank holding companies to address the regulatory capital treatment of servicing assets on mortgage assets and financial assets other than mortgages, effective October 1, 1998.

Votes for this action: Mr. Greenspan, Ms. Rivlin, and Messrs. Meyer, Ferguson, and Gramlich. Absent and not voting: Mr. Kelley.[2]

The amendments, adopted by the Board jointly with the other federal banking and thrift agencies, increase the maximum amount of servicing assets, when combined with purchased credit card relationships, that may be included in regulatory capital from 50 percent to 100 percent of tier 1 capital. The amendments apply a further limit of 25 percent of tier 1 capital to the aggregate amount of nonmortgage servicing assets and purchased credit card relationships and impose a 10 percent discount on the valuation of mortgage servicing assets, nonmortgage servicing assets, and purchased credit card relationships.

Regulation I
Issue and Cancellation of Federal Reserve Bank Capital Stock

June 26, 1998—Amendment

The Board amended Regulation I to reduce regulatory burden by simplifying and updating its requirements, effective October 1, 1998.

Votes for this action: Mr. Greenspan, Ms. Rivlin, Ms. Phillips, and Messrs. Meyer, Ferguson, and Gramlich. Absent and not voting: Mr. Kelley.

The amendments simplify, modernize, and condense the regulation; reflect the replacement of share certificates by a book-entry system; codify Board and staff interpretations; provide for carryover of small adjustments in Reserve Bank stock positions; adopt a 360-day year of 30-day months for dividend accruals; and clarify certain accounting issues. These actions are consistent with provisions of the Riegle Community Development and Regulatory Improvement Act of 1994.

Regulation J
Collection of Checks and Other Items by Federal Reserve Banks

Regulation CC
Availability of Funds and Collection of Checks

December 7, 1998—Termination of Proposed Rulemaking

The Board decided not to make regulatory changes with respect to certain legal disparities that exist in the presentment and settlement of checks.

Votes for this action: Messrs. Greenspan, Kelley, Meyer, Ferguson, and Gramlich. Absent and not voting: Ms. Rivlin.[2]

In March 1998, the Board requested comment on an advance notice of proposed rulemaking on the reduction or elimination of the remaining legal disparities between Federal Reserve Banks and private-sector banks in the presentment and settlement of checks and on the advantages and disadvantages of the same-day settlement rule, which requires paying banks to settle in same-day funds for checks presented to them by private-sector banks by 8:00 a.m. local time at a location specified by the paying bank. On the basis of its analysis of the comments received, the Board concluded that the costs associated with further regulatory changes would outweigh any gains in efficiency for the payments system.

Regulation K
International Banking Operations

April 27, 1998—Interim Amendment

The Board approved an interim amendment to Regulation K to lengthen the examination-frequency cycle for certain U.S. branches and agencies of foreign banks, effective August 28, 1998.

Votes for this action: Mr. Greenspan, Ms. Rivlin, Mr. Kelley, Ms. Phillips, and Messrs. Meyer, Ferguson, and Gramlich.

The interim rule, which was issued jointly with the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, implements provisions of the Economic Growth and Regulatory Paperwork Reduction Act of 1996 by making certain U.S. branches and agencies of foreign banks eligible for an eighteen-month examination cycle rather than a twelve-month cycle. U.S. branches and agencies of foreign banks with assets of $250 million or less qualify for the lengthened cycle if they meet the criteria provided in the interim amendment. The agencies also sought public comment on the interim amendment.

Regulation M
Consumer Leasing

September 21, 1998—Amendments

The Board amended Regulation M and its commentary to clarify rules on lease payments, advertisements, and rounding calculations, effective September 24, 1998.

Votes for this action: Mr. Greenspan, Ms. Rivlin, and Messrs. Kelley, Meyer, Ferguson, and Gramlich.[2]

Regulation M implements the Consumer Leasing Act, which requires lessors to provide consumers with uniform cost and other disclosures about consumer lease transactions. The amendments to Regulation M make several technical changes to the regulation and commentary concerning lease payments, advertisements, and the treatment of taxes.

Regulation Y
Bank Holding Companies and Change in Bank Control

March 20, 1998—Clarification of Conditions

The Board clarified that a section 20 subsidiary that operates off the premises of a depository institution is not required to make certain oral disclosures to retail customers, effective March 27, 1998.

Votes for this action: Mr. Greenspan, Ms. Rivlin, Mr. Kelley, Ms. Phillips, and Messrs. Meyer, Ferguson, and Gramlich.

The Board approved a clarification to the operating standard on customer disclosures applicable to the securities activities of section 20 subsidiaries. As modified, a section 20 subsidiary that operates off the premises of a depository institution may satisfy the disclosure requirements of that operating standard by providing a one-time written disclosure when an investment account is opened.

May 29, 1998—Amendments

The Board amended Regulation Y to simplify the tier 1 leverage capital standard for bank holding companies and to incorporate the market risk capital rule into the leverage standard, effective June 30, 1998.

Votes for this action: Mr. Greenspan, Ms. Rivlin, and Messrs. Kelley, Meyer, Ferguson, and Gramlich. Absent and not voting: Ms. Phillips.

Under the amended capital standard, a minimum ratio of tier 1 capital to total assets (leverage ratio) of 3 percent is established for bank holding companies that either are rated composite "1" under the rating system for bank holding companies or have implemented the Board's risk-based capital market risk measure. The minimum leverage ratio for all other bank holding companies is 4 percent. Bank holding companies are expected to maintain higher-than-normal capital ratios if they have supervisory, financial, operational, or managerial weaknesses, or if they are anticipating or experiencing significant growth.

November 19, 1998—Amendment

The Board amended Regulation Y to exempt from its appraisal requirements any transaction by a section 20 subsidiary involving underwriting and dealing in mortgage-backed securities, effective December 28, 1998.

Votes for this action: Mr. Greenspan, Ms. Rivlin, and Messrs. Kelley, Ferguson, and Gramlich. Absent and not voting: Mr. Meyer.[2]

The amendment permits section 20 subsidiaries to underwrite and deal in all types of mortgage-backed securities without confirming that the underlying loans met applicable appraisal requirements when they were originated or without obtaining new appraisals for loans that lack acceptable appraisals.

Regulation Z
Truth in Lending

February 2, 1998—Amendment

The Board amended Regulation Z to adjust the threshold amount of mortgage fees that triggers additional disclosures and certain limitations, effective January 1, 1998.

Votes for this action: Mr. Greenspan, Ms. Rivlin, Mr. Kelley, Ms. Phillips, and Messrs. Meyer, Ferguson, and Gramlich.

The Home Ownership and Equity Protection Act of 1994 imposes additional disclosure requirements and certain substantive limitations on mortgages if total points and fees payable by the consumer exceed the greater of $400 or 8 percent of the total loan amount.

The Board is required to adjust annually the $400 threshold based on the annual percentage change in the consumer price index (CPI) as of June 1 of the preceding year. On the basis of the CPI on June 1, 1997, the Board increased the threshold amount for 1998 to $435.

Regulation DD
Truth in Savings

July 9, 1998—Amendments

The Board made final an interim rule amending Regulation DD to permit institutions to disclose an annual percentage yield equal to the contract interest rate for certain deposit accounts with maturities longer than one year, effective August 28, 1998.

Votes for this action: Messrs. Greenspan, Kelley, Meyer, Ferguson, and Gramlich. Absent and not voting: Ms. Rivlin.[2]

The Truth in Savings Act requires depository institutions to provide disclosure of an annual percentage yield on interest-bearing accounts calculated under a method prescribed by the Board. The amendments, which make final an interim rule the Board adopted in January 1995, address an anomaly for certain certificates of deposit that occurs when the annual percentage yield disclosure is lower than the stated interest rate. Under the amendments, an institution is permitted to disclose an annual percentage yield equal to the contract interest rate for noncompounding time accounts with a maturity greater than one year if the accounts require interest distributions at least annually.

September 21, 1998—Amendments

The Board amended Regulation DD to modify rules affecting lobby signs and disclosures for certain time accounts, effective September 24, 1998.

Votes for this action: Mr. Greenspan, Ms. Rivlin, and Messrs. Kelley, Meyer, Ferguson, and Gramlich.[2]

The amendments to Regulation DD implement changes to the Truth in Savings Act enacted in 1996. The changes modify the rules for indoor lobby signs, eliminate subsequent disclosure requirements for automatically renewable time accounts with terms of one month or less, and repeal civil liability provisions as of September 30, 2001.

Rules Regarding Delegation of Authority

November 18, 1998—Amendments

The Board amended its Rules Regarding Delegation of Authority to expand the authority of the Director of the Division of Consumer and Community Affairs to perform certain administrative duties and review certain technical matters under the Board’s consumer statutes and regulations, effective November 25, 1998.

Votes for this action: Mr. Greenspan, Ms. Rivlin, and Messrs. Kelley, Meyer, Ferguson, and Gramlich.[2]

The Board delegated to the director the authority to issue interpretations under the Fair Credit Reporting Act, to adjust annually the dollar amount of loans subject to the Home Ownership and Equity Protection Act and the threshold for exempting small depository institutions under the Home Mortgage Disclosure Act, to make certain determinations under Regulation BB (Community Reinvestment), and to conduct public hearings or other proceedings under applicable statutes on consumer-law issues.

Policy Statements and Other Actions

March 4, 1998—Uniform Cash Access Policy

The Board revised its cash access policy to clarify the base level of free currency access to all depository institutions in an interstate branching environment, effective May 4, 1998.

Votes for this action: Mr. Greenspan, Ms. Rivlin, Mr. Kelley, Ms. Phillips, and Messrs. Meyer, Ferguson, and Gramlich.

The Board clarified that each depository institution may designate up to ten endpoints to receive free currency access from each Reserve Bank office but may not designate an endpoint to receive free cash access from more than one Reserve Bank office. The Board also delegated to the Director of the Division of Reserve Bank Operations and Payment Systems the authority to interpret the policy, to approve changes in the base number of free endpoints and the volume thresholds, and to waive the policy for a limited period of time if warranted by special circumstances.

April 6, 1998—Fedwire Securities Transfer Operating Hours and Receiver Controls

The Board decided not to adopt an earlier opening time for the Fedwire securities transfer service and authorized the Federal Reserve Banks to design and implement an optional automatic securities transfer reversal feature for use by Fedline participants.

Votes for this action: Messrs. Greenspan and Kelley, Ms. Phillips, and Messrs. Meyer, Ferguson, and Gramlich. Absent and not voting: Ms. Rivlin.

The Board's decision not to implement an earlier opening time for the service at this time that had been proposed in January 1995 was based on the anticipated cost and technical difficulties identified by industry participants. In connection with this action, the Board authorized the Reserve Banks to design and implement an optional automatic securities transfer reversal feature for use by Fedline participants to give them better control over their use of intraday credit.

June 17, 1998—Policy Statement on Payments System Risk

The Board approved certain revisions to its policy on payments system risk in certain private multilateral settlement arrangements, effective January 4, 1999.

Votes for this action: Mr. Greenspan, Ms. Rivlin, Mr. Kelley, Ms. Phillips, and Messrs. Meyer, Ferguson, and Gramlich.

The Board adopted a policy statement on Privately Operated Multilateral Settlement Systems to provide a flexible, risk-based approach to risk management as part of its payments system risk reduction program. The policy integrates the ‘‘large-dollar’’ and ‘‘small-dollar’’ components of the Board's existing policy statement, which are being repealed concurrently with the effective date of the new policy, into one comprehensive policy.

October 27, 1998—Policy Statement on Income Tax Allocation in a Holding Company Structure

The Board approved a policy statement on intercompany tax allocation agreements among holding companies and their depository institution subsidiaries, effective November 23, 1998.

Votes for this action: Mr. Greenspan, Ms. Rivlin, and Messrs. Kelley, Meyer, Ferguson, and Gramlich.[2]

Consistent with provisions of the Riegle Community Development and Regulatory Improvement Act of 1994, the Board, jointly with the other federal banking and thrift agencies, provided guidance on the allocation and payment of taxes for banking and thrift organizations that file income tax returns as members of a consolidated group. The guidance generally provides that tax settlements between parent and depository institution subsidiaries should be on terms that are no less favorable to the subsidiary than if it were a separate taxpayer.

October 29, 1998—Notice of Service Enhancement

The Board approved enhancements to the net settlement services that the Federal Reserve Banks offer to financial institutions, effective March 29, 1999.

Votes for this action: Mr. Greenspan, Ms. Rivlin, and Messrs. Kelley, Meyer, Ferguson, and Gramlich.[2]

Under the enhanced service, the Reserve Banks will offer a fully automated settlement service that provides participants in clearing arrangements with finality of settlement intraday on the settlement date. The service will provide the agent in a clearing arrangement with an on-line mechanism to submit an electronic file of settlement information to the Federal Reserve. The enhanced service is intended to increase operational efficiency and to facilitate a reduction in the duration of settlement risk for participants.

November 23, 1998—Policy Statement on Loan Loss Reserves

The Board approved a policy statement on the allowance for loan losses of depository institutions, issued November 24, 1998.

Votes for this action: Mr. Greenspan, Ms. Rivlin, and Messrs. Kelley, Ferguson, and Gramlich. Absent and not voting: Mr. Meyer.[2]

The Board, jointly with the other federal banking and thrift agencies and the Securities and Exchange Commission, issued the statement to better ensure the consistent application of loan-loss accounting policy and to improve the transparency of financial statements.

December 7, 1998—Fedwire Funds Transfer Segmented Settlement Period

The Board decided to retain the current thirty-minute settlement period at the end of the Fedwire funds transfer operating day and not to implement restrictions on respondent bank transfers during the last fifteen minutes of the settlement period, from 6:15 p.m. to 6:30 p.m. eastern time.

Votes for this action: Mr. Greenspan, Ms. Rivlin, and Messrs. Kelley, Meyer, Ferguson, and Gramlich.[2]

The Board decided not to implement a segmented settlement period for the Fedwire funds transfer service that had been proposed in June 1998 because it was unclear that such an approach would significantly reduce uncertainty and volatility for the markets as a whole and because of potentially costly operational changes.

1998 Discount Rates

During 1998, the Board of Governors approved two reductions of ¼ percentage point in the basic discount rate charged by the Federal Reserve Banks. These actions, taken in mid-October and mid-November, lowered the basic rate from 5 percent to 4½ percent. The rates for seasonal and extended credit, which are set on the basis of market-related formulas, were changed more frequently, and they exceeded the basic rate by varying amounts during the year.

Basic Discount Rate

The Board's decisions on the basic discount rate were made against the background of the policy actions of the Federal Open Market Committee (FOMC) and related economic and financial developments. These developments are reviewed more fully in part 1 of this REPORT and in the minutes of the 1998 FOMC meetings, which also appear in this REPORT.

January to September: No Changes

Economic activity expanded rapidly during the early months of 1998 after posting robust gains in the latter part of 1997. The expansion was paced by exceptionally strong growth in private domestic spending for consumption, housing, and business equipment. Despite indications of persisting pressures on compensation associated with continued rapid growth in employment and tightening labor markets, price inflation abated. Large declines in energy prices contributed to this favorable inflation result, but rapid growth in productivity helped to hold down the advance in labor costs. Against this background, most Federal Reserve Banks continued to favor an unchanged basic discount rate of 5 percent, its level since early 1996. However, two Banks concerned about what they viewed as strong prospects for rising inflation requested a ¼ percentage point increase during the first quarter, and they were joined by two other Banks by early spring. The Board took no action on these requests, but the Board members agreed on the need to monitor the economy for warning signs of mounting inflationary pressures.

Over the spring and summer, growth in economic activity moderated to a pace well below that experienced during the opening months of the year. Price inflation remained subdued, and wage inflation changed little during the period. By mid-summer only one Reserve Bank was proposing an increase in the basic rate, while another was requesting a decrease. Subsequently, the proposal for an increase was withdrawn and a growing number of Banks called for reductions of ¼ or ½ percentage point. The requests for lower rates were submitted in the context of rising concerns about the adverse effects of foreign economic and financial developments on the U.S. economy.

October and November: Basic Rate Reduced

The FOMC decided to ease the stance of monetary policy slightly in late September, thereby inducing a decline of ¼ percentage point in the federal funds rate to an average of about 5¼ percent. The easing was deemed to be desirable to cushion the likely adverse consequences on future domestic economic activity of the global financial turmoil that had weakened foreign economies and had contributed in large measure to the emergence of tighter conditions in U.S. financial markets. On October 15, the FOMC eased the stance of policy slightly further, with the federal funds rate expected to decline to an average of around 5 percent. In a companion action, the Board approved pending requests to reduce the basic rate ¼ percentage point, to 4¾ percent. These actions were taken in light of heightened concerns among lenders and the unsettled conditions in financial markets more generally that were seen as likely to restrain aggregate demand in the future. On November 17, the FOMC and the Board announced further slight easing actions that reduced the federal funds rate to an average of around 4¾ percent and the basic discount rate to 4½ percent. Although conditions in financial markets had become much more settled since mid-October, unusual strains remained. The further easing actions together with those taken since late September were expected to be sufficient to foster financial conditions that would promote sustained economic expansion and subdued inflation. Over the balance of the year, no Reserve Bank submitted further requests to change the basic discount rate.

Structure of Discount Rates

The basic discount rate is the rate normally charged on loans to depository institutions for short-term adjustment credit, while flexible, market-related rates generally are charged on seasonal and extended credit. These flexible rates are calculated every two weeks in accordance with formulas that are approved by the Board.

The purpose of the seasonal program is to help smaller institutions meet needs arising from a clear pattern of intrayearly movements in their deposits and loans. Funds may be provided for periods longer than those permitted under adjustment credit. Since its introduction in early 1992, the flexible rate charged on seasonal credit has been closely aligned with short-term market rates; it is never less than the basic rate applicable to adjustment credit.

The purpose of extended credit is to assist depository institutions that are under sustained liquidity pressure and are not able to obtain funds from other sources. The rate for extended credit is 50 basis points higher than the rate for seasonal credit and is at least 50 basis points above the basic rate. In appropriate circumstances, the basic rate may be applied to extended-credit loans for up to thirty days, but any further borrowings would be charged the flexible, market-related rate.

Exceptionally large adjustment-credit loans that arise from computer breakdowns or other operating problems not clearly beyond the reasonable control of the borrowing institution are assessed the highest rate applicable to any credit extended to depository institutions; under the current structure, that rate is the flexible rate on extended credit.

At the end of 1998, the structure of discount rates was as follows: a basic rate of 4.50 percent for short-term adjustment credit, a rate of 4.85 percent for seasonal credit, and a rate of 5.35 percent for extended credit. During 1998, the rate for seasonal credit ranged from a low of 4.85 percent to a high of 5.65 percent, and that for extended credit ranged from a low of 5.35 percent to a high of 6.15 percent.

Board Votes

Under the Federal Reserve Act, the boards of directors of the Federal Reserve Banks must establish rates on loans to depository institutions at least every fourteen days and must submit such rates to the Board of Governors for review and determination. The Reserve Banks are also required to submit requests every fourteen days to renew the formulas for calculating the market-related rates on seasonal and extended credit. Votes relating to the reestablishment of the formulas for these flexible rates are not shown in this summary. All votes on discount rates taken by the Board of Governors during 1998 were unanimous.

Votes on the Basic Discount Rate

October 15, 1998. Effective this date, the Board approved actions taken by the directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and San Francisco to reduce the basic discount rate by ¼ percentage point, to 4¾ percent.

> Votes for this action: Mr. Greenspan, Ms. Rivlin, Messrs. Kelley, Meyer, and Ferguson. Votes against this action: None. Absent and not voting: Mr. Gramlich.

The Board subsequently approved similar actions taken by the directors of the Federal Reserve Banks of Cleveland, Richmond, and Dallas, effective October 16, 1998.

November 17, 1998. Effective this date, the Board approved actions taken by the directors of the Federal Reserve Banks of New York, Philadelphia, Dallas, and San Francisco to reduce the basic discount rate by ¼ percentage point, to 4½ percent.

> Votes for this action: Mr. Greenspan, Ms. Rivlin, Messrs. Kelley, Meyer, Ferguson, and Gramlich. Votes against this action: None.

The Board subsequently approved similar actions taken by the directors of the Federal Reserve Banks of Boston, Richmond, Atlanta, St. Louis, and Kansas City, effective November 18, 1998, and by the Federal Reserve Banks of Cleveland, Chicago, and Minneapolis, effective November 19, 1998. ■