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This section of the FEDERAL REGISTER contains regulatory documents having general applicability and legal effect, most of which are keyed to and codified in the Code of Federal Regulations, which is published under 50 titles pursuant to 44 U.S.C. 1510.

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OFFICE OF PERSONNEL MANAGEMENT

5 CFR Part 532

RIN 3206–AI01

Prevailing Rate Systems; Survey Order Month Change for Jefferson, New York, Nonappropriated Fund Wage Area

AGENCY: Office of Personnel Management.

ACTION: Final rule.

SUMMARY: The Office of Personnel Management (OPM) is issuing a final rule to change the survey order month for the Jefferson, NY, nonappropriated fund (NAF) Federal Wage System (FWS) wage area from March to April beginning with the next full-scale wage survey for the Jefferson wage area in 1998. This change is expected to improve the survey data yield for the Jefferson wage area and to allow the Department of Defense to better balance its wage survey workload.

EFFECTIVE DATE: March 30, 1998.

FOR FURTHER INFORMATION CONTACT: Mark Allen at (202) 606–2848, or send an e-mail message to maallen@opm.gov.

SUPPLEMENTARY INFORMATION: On September 2, 1997, OPM published a proposed rule to change the survey order month for the Jefferson, NY, NAF FWS wage area (62 FR 46221). The proposed rule provided a 30-day period for public comment, during which OPM received no comments.

The Department of Defense, the lead agency for the Jefferson wage area, requested that the survey order month for the Jefferson wage area be changed from March to April beginning with the 1998 full-scale wage survey in the Jefferson wage area. Changing the wage survey order month for the Jefferson wage area will allow the local wage survey committee to avoid conducting local wage surveys during inclement March weather and will thereby improve wage survey participation and data yield. In addition, the new survey month will allow the Department of Defense to better balance its wage survey workload by moving wage surveys in the Jefferson wage area from a heavy workload month to a light workload month. The April survey order month will delay the Jefferson wage schedule effective date by only 1 month.

The Federal Prevailing Rate Advisory Committee reviewed this recommendation and by consensus recommended approval.

Pursuant to section 553(d)(3) of title 5, United States Code, I find that good cause exists to make this regulation effective in less than 30 days. The regulation is being made effective immediately because of the need to conduct a full scale wage survey in the Jefferson wage area in April rather than in March 1998.

Regulatory Flexibility Act

I certify that these regulations will not have a significant economic impact on a substantial number of small entities because they affect only Federal agencies and employees.

List of Subjects in 5 CFR Part 532

Administrative practice and procedure, Freedom of information, Government employees, Reporting and recordkeeping requirements, Wages.

Office of Personnel Management.

Janice R. Lachance,

Director.

Accordingly, OPM is amending 5 CFR part 532 as follows:

PART 532—PREVAILING RATE SYSTEMS

1. The authority citation for part 532 continues to read as follows:

Authority: 5 U.S.C. 5343, 5346; § 532.707 also issued under 5 U.S.C. 552.

Appendix B to Subpart B of Part 532—[Amended]

2. Appendix B to subpart B is amended under the State of New York by revising the beginning month of survey listing for the Jefferson wage area from March to April.

[FR Doc. 98–8204 Filed 3–27–98; 8:45 am]
BILLING CODE 6325–01–P

FEDERAL RESERVE SYSTEM

12 CFR Part 204

[Regulation D, Docket No. R–0988]

Reserve Requirements of Depository Institutions

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board of Governors of the Federal Reserve System is amending its Regulation D, Reserve Requirements of Depository Institutions, issued pursuant to section 19 of the Federal Reserve Act, in order to move from the current system of contemporaneous reserve maintenance for institutions that are weekly deposits reporters to a system under which reserves are maintained on a lagged basis by such institutions. Under a lagged reserve maintenance system, the reserve maintenance period for a weekly deposits reporter will begin thirty days after the beginning of a reserve computation period. Under the current system, the reserve maintenance period begins only two days after the beginning of a reserve computation period.

DATES: *Effective date:* The final rule will be effective on July 30, 1998.

Applicability date: The final rule will be applicable as of the maintenance period beginning July 30, 1998. For that maintenance period, required reserves and the vault cash that can be used to meet reserve requirements will be based on the computation period that begins on June 30, 1998.

FOR FURTHER INFORMATION CONTACT: William Whitesell, Section Chief, Money and Reserves Projections Section, Division of Monetary Affairs (202/452–2967); Oliver Ireland, Associate General Counsel, (202/452–3625) or Lawranne Stewart, Senior Attorney (202/452–3625), Legal Division. For the hearing impaired only, contact Telecommunications Device for the Deaf (TDD), Diane Jenkins (202/452–3544).

SUPPLEMENTARY INFORMATION:

Background

The Board of Governors of the Federal Reserve System (Board) published a notice of proposed rulemaking in the **Federal Register** on November 12, 1997 (62 FR 60671) that solicited comments

on proposed amendments to its Regulation D, Reserve Requirements of Depository Institutions (12 CFR Part 204). Under the proposal, a lag of thirty days (two full maintenance periods) would be introduced between the beginning of a reserve computation period and the beginning of the maintenance period during which reserves for that computation period must be maintained. The reserve maintenance period therefore would not begin until seventeen days after the end of the computation period. The proposal also provides for the same two-period lag in the computation of the vault cash to be applied to satisfy reserve requirements.

Providing a two-period lag for both required reserves and applied vault cash will allow the Federal Reserve, as well as depository institutions, to calculate the level of required reserve balances before the beginning of the maintenance period. It has become increasingly difficult to estimate the quantity of balances that depositories must hold at Reserve Banks to meet reserve requirements in the concurrent maintenance period, largely because of the implementation of retail sweep programs by many institutions. In addition to improving the ability of depository institutions and the Federal Reserve to estimate and project required reserve balances, the increased lag also should reduce the level of resources that must be devoted to these tasks.

The Board received a total of thirty written comments on its November proposal. Comments were received from eleven banking organizations, one savings bank, eight depository industry associations, seven Reserve Banks, a university professor, and a member of a research institution; the comment list also contains a Board staff summary of a briefing of Reserve Bank presidents on the issue.

Four Reserve Banks, all but one of the depository institutions, and all but one of the depository industry associations expressed support for the proposal. These commenters agreed that lagged reserve requirements would provide earlier, more accurate information about the level of required reserves. The improvement in information would make depositories better able to manage their reserve positions, and would allow savings on the resources now used to estimate reserve needs. Better information about the required reserve balances of the banking system as a whole also would facilitate the implementation of monetary policy by the Open Market Desk.

While a majority of the commenters supported the proposal, some commenters, including a depository institution, three Reserve Banks, and two individuals were opposed to it.

One small bank opposed lagged reserve requirements (LRR) because of the seasonal surge in deposit inflows it experiences during a single week in both May and November. With LRR, it would have to wait ''three weeks to keep the required reserves.'' However, it should not be too difficult for this institution to find a means of investing its excess reserves temporarily, and then, if needed, borrow funds from its correspondent or from market sources in order to meet reserve requirements. If such funding is unavailable, the institution presumably would be eligible to apply for a loan from the discount window.

One Reserve Bank argued that, before abandoning contemporaneous reserve requirements, the Federal Reserve should explore the possibility of reducing funds rate volatility by conducting multiple open market operations in a single day. Careful consideration has indeed been given to this idea. For the first time since the 1970s, the Open Market Desk in 1997 began conducting multiple repurchase agreement operations within a day, when needed. In practice, however, such operations cannot be undertaken very late in the day, when much of the volatility in the funds rate arises, because the securities wire for book entry transactions closes at 3:30 p.m., and because of a limited availability of collateral for repurchase agreement transactions late in the business day.

Other objections to a shift to LRR were expressed by three Reserve Banks, a university professor, and a member of a research institution. Some argued that LRR would make it more difficult to return to a regime of monetary targeting. However, there appears to be only a remote chance that the FOMC would move away from its current eclectic policymaking, involving review of a wide variety of macroeconomic indicators, in order to return to a regime of strict monetary targeting. The monetary aggregates have not proved to be sufficiently reliable to perform such a role. M1, the aggregate against which reserves currently are required, is no longer a candidate for monetary targeting in part because of its heightened interest sensitivity following the deregulation of deposit interest rates in the 1980s, and also because of uncertainties related to retail sweep programs and overseas demand for United States currency. M2 has also suffered from an unstable relationship to income and interest rates in this decade. Broad monetary aggregates like M2 may again become useful as indicators, but they are not likely to be employed as strictly targeted variables to be closely controlled over short time periods.

Even if M2 growth were used as a strict target for monetary policy, a federal funds rate instrument would be more appropriate than a reserve quantity instrument to hit that target. The reason is that the bulk of M2 is not by law subject to reserve requirements, and as a result, its relationship to reserve quantities is quite loose. With a federal funds rate instrument, rather than a reserve quantity instrument, there is no advantage to contemporaneous reserve requirements; in fact, monetary policy is more easily implemented with LRR.

Some of those objecting to LRR emphasized the advantage that contemporaneous requirements have over LRR in a regime of both strict monetary targeting and use of predetermined reserve quantities to hit those monetary targets. It is indeed the case that contemporaneous reserve requirements have a timing advantage compared with LRR in this type of operating regime, although the chance of returning to such a regime appears remote. In particular, when using a reserve quantity instrument, the response of short-term interest rates to unexpected changes in money demand is quicker by a week or two with contemporaneous requirements.

However, as one Reserve Bank argues, this advantage for contemporaneous requirements is rather small: ''[E]xperience suggests that, in practice, the deposit adjustment mechanism * * * would be essentially the same under both contemporaneous accounting and the lag proposed by the Board.'' In particular, ''transaction deposits do not appear to respond to changes in cost within a time frame as short as the current, two-week maintenance period.''

While contemporaneous requirements would have an advantage under monetary targeting with a reserve quantity instrument, LRR does not preclude such a regime, as one Reserve Bank mentioned. In fact, reserve requirements were lagged during the 1979-to-1982 period, when the Federal Reserve used a nonborrowed reserve instrument to hit targets for intermediate-term M1 growth.

One Reserve Bank commented that the Federal Reserve should employ a system that helps in the implementation of monetary policy under the operating regime it is using at the time. And LRR is ''more consistent with our current regime.'' If the Federal Reserve returned

''to reserve targeting at some point in the future and * * * desired a slightly more rapid response of interest rates to variations in the money stock,'' it could then reinstitute contemporaneous requirements.

Another Reserve Bank commented that, while the likelihood of returning to a reserve-based operating regime was remote, ''the Federal Reserve would have a much easier time converting from lagged to contemporaneous reserve accounting than it did in the past,'' because ''[o]ur statistical processing systems have become much more sophisticated and flexible.'' Accounting and information systems at banks and thrifts have also improved substantially in recent years, as pointed out by some commenters, and therefore depositories should also find it less difficult than in 1984 to return to contemporaneous requirements, if it became necessary.

In summary, while contemporaneous reserve requirements would have an advantage over LRR in a situation in which the FOMC both returned to monetary targeting and switched from an interest rate to a reserve quantity operating instrument, the probability of that situation occurring appears to be exceedingly small and the advantage would be modest.[1] Under the operating procedures employed currently and likely to be employed prospectively by the Federal Reserve, LRR is preferable to contemporaneous reserve requirements for the purpose of monetary policy implementation. Lagged requirements would also allow resource cost savings both for the Federal Reserve and for depositories, and would permit depositories to cut some of the financial losses owing to the holding of reserve balances that are at times insufficient and at times too high. For these reasons, the Board is implementing lagged reserve requirements as proposed.

Some of the comments received included suggestions that were unrelated to the issue of lagged versus contemporaneous reserve requirements. One Reserve Bank argued that abolishing reserve requirements, ''would free up resources spent by depository institutions on sweep accounts and other devices that minimize reserve requirements.'' This is a legislative issue, however, rather than an issue for a Board decision.

A major clearinghouse did not appear to object to lagged reserve requirements, but recommended that, to reduce uncertainties about reserves positions, the Federal Reserve should restrict the last fifteen minutes of trading on the funds wire each day to direct trades among depositories for their own account at a Reserve Bank. The Board will continue to review this and other ideas for reducing volatility in the market for reserves in order to determine whether any further adjustments in its procedures are appropriate.

A banking association argued that the implementation of lagged reserve requirements should allow elimination of the costly ''Daily Advance Report of Deposits,'' which collects deposit and vault cash data daily from large banks and thrifts. This report is indeed used to estimate the level of required reserve balances in the current maintenance period, and with lagged requirements, it would no longer be needed for this purpose. However, the report also provides an early indication of the weekly changes in the monetary aggregates. For this reason, the Board does not plan to eliminate this report at the present time. In the future, however, the Board could evaluate whether this report from large depositories and a similar report from a sample of small banks might be trimmed to reduce burdens on depository institutions and the Federal Reserve.

Final Regulatory Flexibility Analysis

The Regulatory Flexibility Act (5 U.S.C. 601–612) requires an agency to publish a final regulatory flexibility analysis (5 U.S.C. 604) containing: (1) A succinct statement of the need for and the objectives of the rule; and (2) a summary of the issues raised by the public comments, the agency's assessment of the issues, and a statement of the changes made in the final rule in response to the comments; (3) a description of significant alternatives to the rule that would minimize the rule's economic impact on small entities and reasons why the alternatives were rejected.

As discussed above, the purpose of the amendment is 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 will affect only institutions that are weekly deposits reporters, which generally include depository institutions that have total deposits of $75 million or greater, as only these institutions currently are required to maintain reserves on a contemporaneous basis.[2] The amendments will not increase reporting or recordkeeping requirements associated with Regulation D for institutions that are weekly reporters, but will significantly simplify compliance with the rule for these institutions. The amendments therefore will not increase regulatory burden on small institutions generally.

For those small institutions that are affected, the amendments generally will reduce regulatory burden. Although a few institutions with large seasonal variations in their deposit bases may experience a greater temporary mismatch between their levels of maintained versus required reserves, these mismatches can be managed without undue burden through the money markets in the same manner that depository institutions currently manage their reserve positions.

As discussed above, the Board also has considered and continues to consider other methods for reducing uncertainties in the market for reserves. The Board recognizes that the amendments considered here do not address all issues related to such uncertainties, but believes that the adoption of a lagged reserve maintenance system will provide a significant improvement in information regarding the level of required reserve balances for both the Federal Reserve and for depository institutions.

List of Subjects in 12 CFR Part 204

Banks, banking, Federal Reserve System, Reporting and recordkeeping requirements.

For the reasons set out in the preamble, the Board is amending part 204 of chapter II of title 12 of the Code of Federal Regulations as follows:

PART 204—RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS (REGULATION D)

1. The authority citation for part 204 continues to read as follows:

Authority: 12 U.S.C. 248(a), 248(c), 371a, 461, 601, 611, and 3105.

2. In § 204.3, paragraph (c) is revised to read as follows:

§ 204.3 Computation and maintenance.

* * * * *

(c) *Computation of required reserves for institutions that report on a weekly basis.* (1) Required reserves are

[1] Should the Federal Reserve determine that effective monetary policy required that a reserve instrument be employed to hit a money supply target, it could consider whether the shorter lag of contemporaneous reserve requirements would again be useful; it would need also to consider whether to ask Congress for permission to impose reserve requirements on personal time and savings deposits in order to better align required reserves with the monetary aggregate most likely to be targeted, M2.

[2] While weekly reporters that are Edge or Agreement corporations or U.S. branches or agencies of a foreign bank may have deposits of less than $75 million, the deposits of these entities represent only a portion of the total deposits of the larger organizations to which they belong.

computed on the basis of daily average balances of deposits and Eurocurrency liabilities during a 14-day period ending every second Monday (the computation period). Reserve requirements are computed by applying the ratios prescribed in § 204.9 to the classes of deposits and Eurocurrency liabilities of the institution. In determining the reserve balance that is required to be maintained with the Federal Reserve, the average daily vault cash held during the computation period is deducted from the amount of the institution's required reserves.

(2) The reserve balance that is required to be maintained with the Federal Reserve shall be maintained during a 14-day period (the ''maintenance period'') that begins on the third Thursday following the end of a given computation period.

* * * * *

By order of the Board of Governors of the Federal Reserve System, March 24, 1998.

Jennifer J. Johnson,

Deputy Secretary of the Board.

[FR Doc. 98–8190 Filed 3–27–98; 8:45 am]

BILLING CODE 6210–01–P

SMALL BUSINESS ADMINISTRATION

13 CFR Part 123

Disaster Loan Program

AGENCY: Small Business Administration (SBA).

ACTION: Final rule.

SUMMARY: Under this rule, an SBA disaster loan borrower can request an increase in a disaster loan within two years after the loan was approved. The increase must be used to cover eligible damages resulting from events that occurred after the loan was approved and were beyond the borrower's control. Under the rule, the SBA Associate Administrator for Disaster Assistance can waive the two year limit because of extraordinary circumstances.

DATES: This rule is effective March 30, 1998.

FOR FURTHER INFORMATION CONTACT: Bernard Kulik, 202/205–6734.

SUPPLEMENTARY INFORMATION: SBA makes thousands of physical and economic injury disaster loans to repair or replace damaged property or to help a business recover from economic injury. Borrowers must use such loans only to help them recover from the effects of a specific disaster. Borrowers may request increases in their loans after the initial disaster loans were made and, where appropriate, SBA will approve the request. On November 25, 1997, SBA published a notice of proposed rulemaking (62 FR 62707), to define the circumstances under which a borrower could request an increase and to limit the time period for the request to two years. The SBA Associate Administrator for Disaster Assistance (AA/DA) has the authority to waive the two year limit for extraordinary and unforeseeable circumstances. SBA received no comments from the public on the proposed rule. The final rule is identical to the proposed rule.

Under the rule, a borrower of a disaster loan (whether physical or economic injury) can request an increase in the loan amount if the eligible cost of repair or replacement of damages increases because of events occurring after the loan approval that were beyond the borrower's control. For example, a borrower can request an increase of a physical disaster loan before the repair, renovation or reconstruction is completed if hidden damage is discovered or if official building codes changed since SBA approved the physical disaster loan. With respect to economic injury disaster loans, borrowers can request increases in working capital if they cannot resume business activity as quickly as planned because of events beyond their control. These examples, while not all inclusive, support a borrower's request for an increase in the amount of a disaster loan. These kinds of events usually will be apparent within two years after SBA approves a disaster loan. However, in extraordinary circumstances, the rule permits the AA/DA to waive the two year limitation.

Compliance With Executive Orders 12612, 12778, and 12866, the Regulatory Flexibility Act (5 U.S.C. 601, et seq.), and the Paperwork Reduction Act (44 U.S.C. Ch. 35)

SBA certifies that this rule does not constitute a significant rule within the meaning of Executive Order 12866 and does not have a significant economic impact on a substantial number of small entities within the meaning of the Regulatory Flexibility Act, 5 U.S.C. 601 *et seq.* It is not likely to have an annual economic effect of $100 million or more on the economy, result in a major increase in costs or prices, or have a significant adverse effect on competition or the United States economy.

For purposes of the Paperwork Reduction Act, 44 U.S.C. Ch. 35, SBA certifies that this rule contains no new reporting or recordkeeping requirements.

For purposes of Executive Order 12612, SBA certifies that this proposed rule has no federalism implications warranting the preparation of a Federalism Assessment.

For purposes of Executive Order 12778, SBA certifies that this rule is drafted, to the extent practicable, in accordance with the standards set forth in section 2 of that Order.

(Catalog of Federal Domestic Assistance Programs, No. 59.012 and 59.008)

List of Subjects in 13 CFR Part 123

Disaster assistance, Loan programs-business, Small businesses.

Accordingly, pursuant to the authority contained in section 5(b)(6) of the Small Business Act (15 U.S.C. 634(b)(6)), SBA amends part 123, chapter I, title 13, Code of Federal Regulations, as follows:

PART 123—DISASTER LOAN ASSISTANCE

1. The authority citation for part 123 continues to read as follows:

Authority: 15 U.S.C. 634(b)(6), 636(b), 636(c) and 636(f); Pub. L. 102–395, 106 Stat. 1828, 1864; and Pub. L. 103–75, 107 Stat. 739.

2. Sections 123.18, 123.19 and 123.20 are added to read as follows:

§ 123.18 Can I request an increase in the amount of a physical disaster loan?

SBA will consider your request for an increase in your loan if you can show that the eligible cost of repair or replacement of damages increased because of events occurring after the loan approval that were beyond your control. An eligible cost is one which is related to the disaster for which SBA issued the original loan. For example, if you discover hidden damage within a reasonable time after SBA approved your original disaster loan and before repair, renovation, or reconstruction is complete, you may request an increase. Or, if applicable building code requirements were changed since SBA approved your original loan, you may request an increase in your loan amount.

123.19 May I request an increase in the amount of an economic injury loan?

SBA will consider your request for an increase in the loan amount if you can show that the increase is essential for your business to continue and is based on events occurring after SBA approved your original loan which were beyond your control. For example, delays may have occurred beyond your control which prevent you from resuming your normal business activity in a reasonable time frame. Your request for an increase in the loan amount must be related to the disaster for which the SBA