

Annual Report of Operations of the Federal Reserve Bank of St. Louis

IN ADDITION TO RESPONSIBILITIES involving the formation of monetary policy, the Federal Reserve Bank performs supervisory functions and a variety of services for the public, the United States Government, and commercial banks. Background information on monetary actions is frequently provided in this *Review* (for an analysis of 1966 see the December issue). Supervision by the Federal Reserve Bank is exercised principally through examination of state-chartered member banks. This review of the year concentrates on the service functions of the bank.

Among its service operations, the bank furnishes currency for circulation, facilitates the collection and clearing of checks, handles the legal reserve accounts of member banks, and acts as fiscal agent of the Government. Most operations of the bank — including those at the branches in Little Rock, Louisville, and Memphis — increased in 1966, reflecting growth in economic activity in the Central Mississippi Valley.¹

Money Operations. Supplying coin and currency to commercial banks and thereby to the general public is carried out through the Money Department of the bank. Its major activities include receiving, sorting, counting, wrapping, storing, paying out, and shipping coin and currency. Money handling operations in 1966 rose from year-earlier levels. Both the number of pieces

and the average denomination of coins and bills handled were up, resulting in a sizable increase in dollar volume.

Coin handling continued to rise sharply in 1966, reflecting a greater availability of supplies following the severe shortage in 1964. The number of pieces handled rose from a low of 227 million in 1964 to 318 million in 1965 and to 387 million in 1966, increases of 40 and 22 per cent for 1965 and 1966, respectively. The dollar value rose 10 and 46 per cent in these years. Coin handled in 1966, however, was still well below the 1961 peak, when 490 million pieces valued at \$48 million were counted and sorted. Since the coin

VOLUME OF OPERATIONS¹

	Dollar Amount (Millions)		Per Cent Change Annual Rate	
	1966	1965	1965-66	1956-66
Coin counted	39.5	27.0	46.3	2.0
Currency counted	1,508.9	1,421.9	6.1	2.4
Checks collected ²	113,825.9	102,900.2	10.6	7.2
Noncash collection items	626.0	566.2	10.6	6.1
Transfers of funds	135,844.9	109,066.4	24.6	12.6
U.S. Savings Bonds handled ³	669.5	624.3	7.2	-1.2
Other Government securities handled ³	17,168.1	16,282.6	5.4	8.0
U.S. Government coupons paid	154.6	136.6	13.2	8.2
Loans to member banks— daily average outstanding	31.8	15.3	107.8	

	Number (Millions)		1965-66	Annual Rate 1956-66
	1966	1965		
Coin counted	387.3	317.5	22.0	0.9
Currency counted	224.3	218.8	2.5	0.9
Checks collected ²	266.7	244.6	9.0	6.7
Noncash collection items	.835	.587	42.2	5.5
Transfers of funds	.214	.200	7.0	4.9
U.S. Savings Bonds handled ³	9.270	8.784	5.5	2.8
Other Government securities handled ³	.665	.564	17.9	10.5
U. S. Government coupons paid	.755	.733	3.0	1.9

¹ Arkansas, Illinois, Indiana, Kentucky, Mississippi, Missouri, and Tennessee. With the exception of Arkansas, only a portion of each of these states is in the Eighth Federal Reserve District. For a review of district economic activity during 1966, see the January 1967 issue of this *Review*.

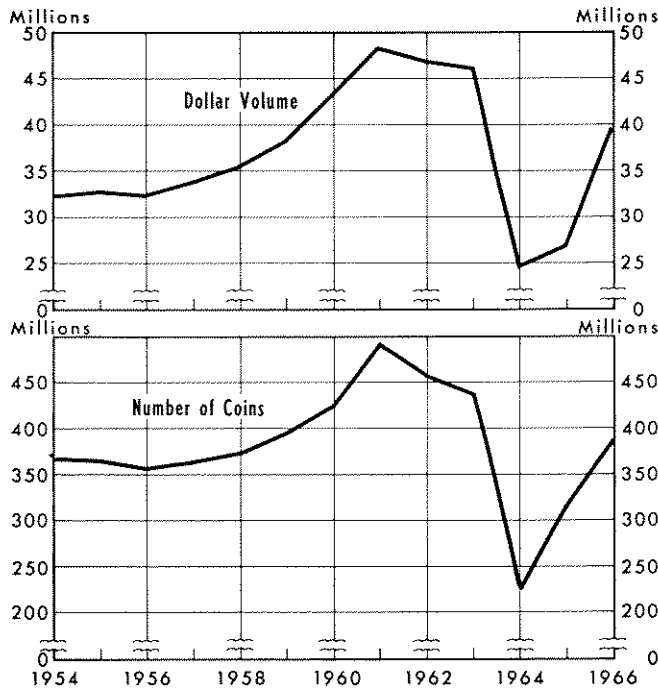
¹ Total for the St. Louis office and the Little Rock, Louisville, and Memphis branches.

² Excludes Government checks and money orders.

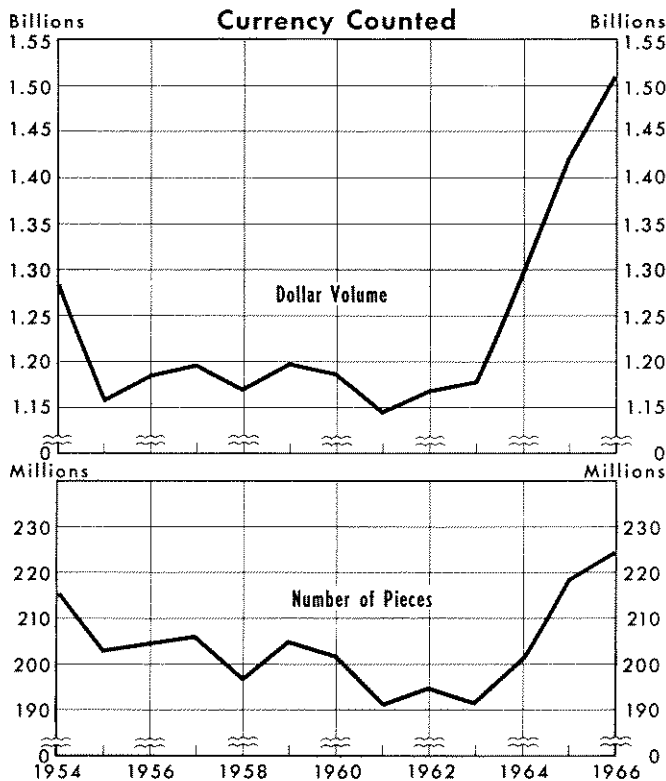
³ Issued, exchanged, and redeemed.

shortage still existed in the early part of 1966, the operations for the year as a whole were less than at any time during the 1960-63 period.

Coin Counted



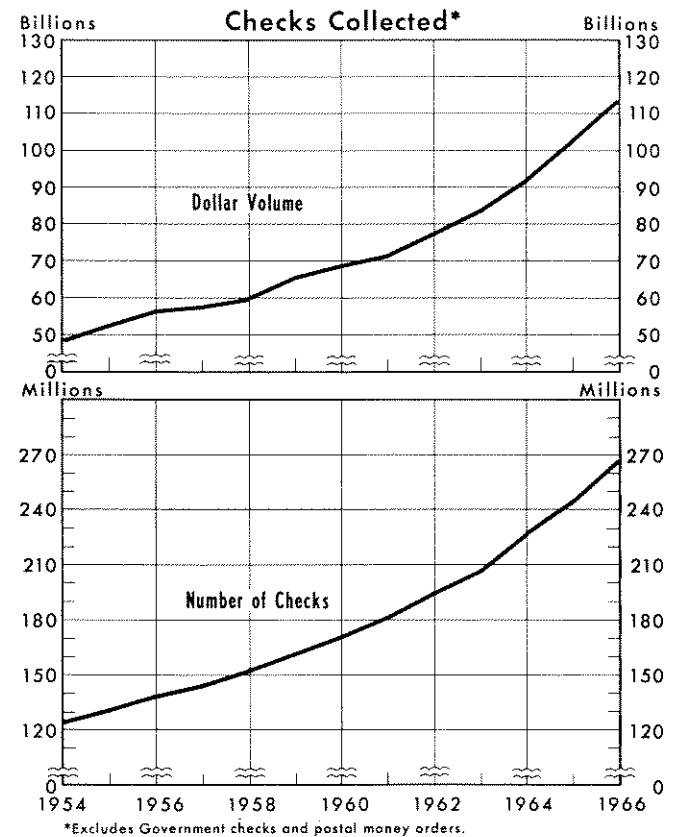
The dollar value of currency handled rose to \$1.5 billion in 1966, 6 per cent above the year-earlier level. The value of currency counted has increased at an annual rate of 8.6 per cent since 1963 after virtually



no change from 1955 to 1963. The number of pieces counted and sorted totaled 224 million in 1966, 2.5 per cent more than a year earlier. Pieces handled have increased at an annual rate of 5.5 per cent since 1963 in contrast to a moderate decline during the previous eight years.

Check Collections. Federal Reserve Banks receive checks from member banks, other Federal Reserve offices, and Government agencies for collection. Checks received may be drawn on banks in the Eighth District that remit at par, all par-remitting banks in other districts, Federal Reserve Banks, and the United States Treasury.

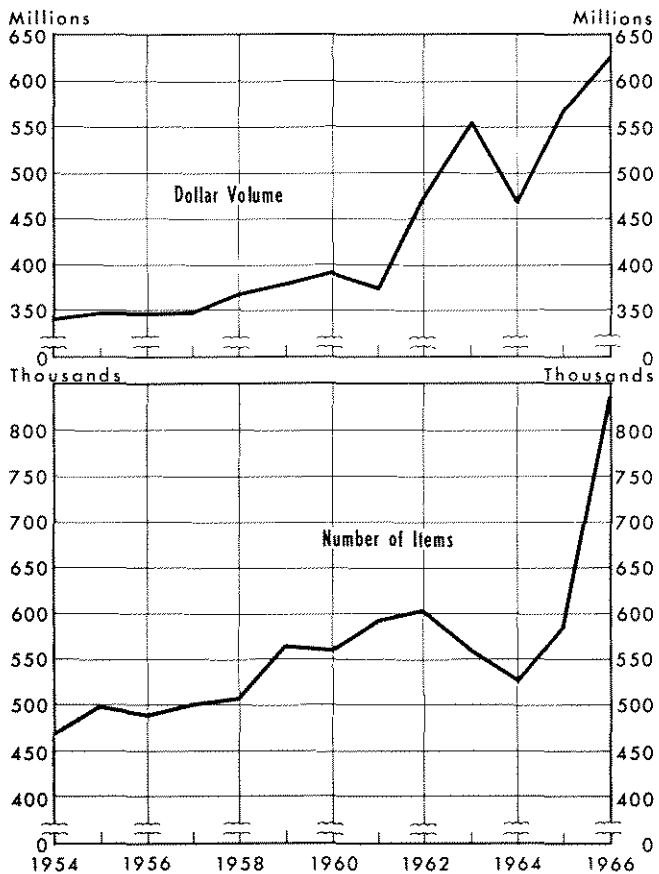
The number of checks passing through the bank rose from 245 million in 1965 to 267 million in 1966, an increase of 9 per cent. Since the average check drawn was for a greater amount, dollar volume of these collections rose 11 per cent to \$114 billion in 1966. The number and dollar value of checks collected increased every year from 1956 to 1966. The number rose at an average rate of 6.7 per cent per year, and the dollar value, at a 7.2 per cent rate.



Noncash Collections. In addition to maintaining facilities for check collections, Federal Reserve Banks handle numerous other items for collection. These noncash collections include drafts, promissory notes, bonds and bond coupons, and various other docu-

ments. The combined dollar value of these collections was up 11 per cent from 1965 to 1966 and at a 6 per cent average rate from 1956. The number of items jumped 42 per cent from 1965 to 1966 and have risen at a 5.5 per cent average rate since 1956.

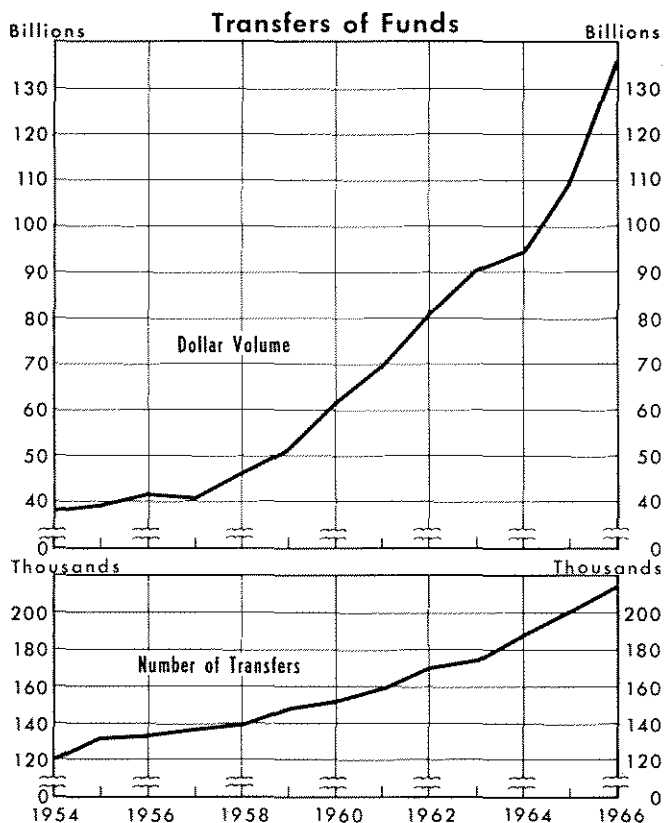
Noncash Collection Items



Transfer of Funds. Wire transfers of funds are largely movements of member bank balances between Federal Reserve Banks, resulting for the most part from Federal funds transactions, check collection settlement, and transfers in connection with transactions in U. S. Treasury obligations. This bank participated in 214,000 such transfers in 1966, up 7 per cent from the previous year. The dollar value, totaling \$136 billion, was up 25 per cent.

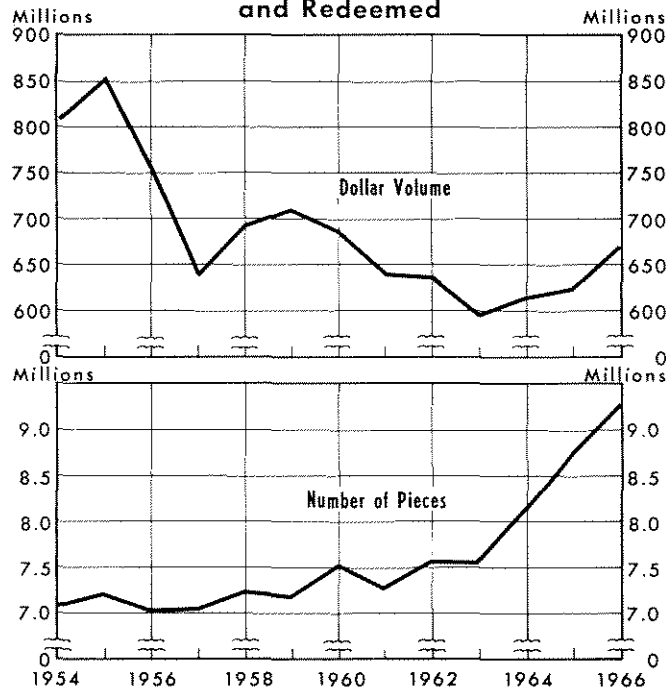
Fiscal Agency Operations. Each Federal Reserve Bank acts as depository and fiscal agent of the United States Government. The Reserve Banks carry the principal checking accounts of the Treasury, issue and redeem Government securities, administer the Treasury tax and loan deposit accounts at commercial banks, and perform various other Government financial duties.

In its capacity as fiscal agent, the bank in 1966 issued, exchanged, and redeemed 9.3 million United

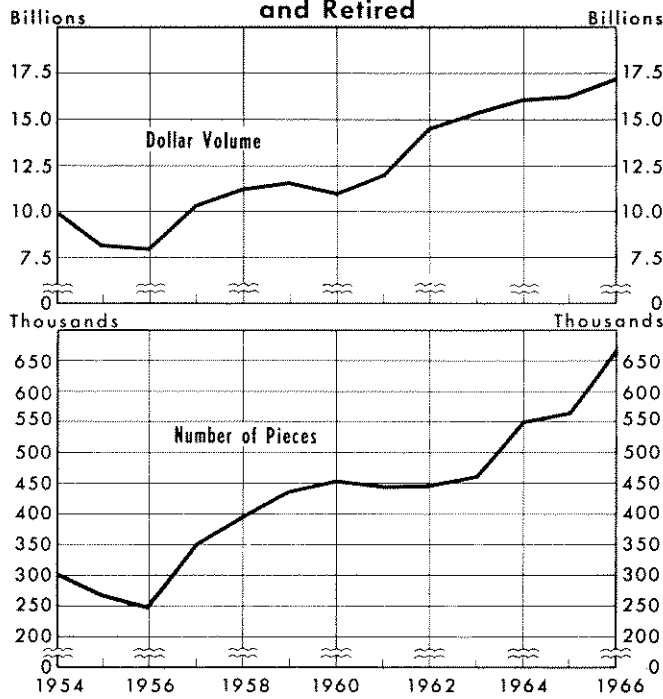


States Savings Bonds valued at \$670 million. The number of bonds was up 5.5 per cent from a year earlier, and their value was up 7 per cent. From 1956 to 1966 dollar volume declined at a 1.2 per cent annual rate, while number of pieces increased at a 3 per cent rate.

U.S. Savings Bonds Issued, Exchanged, and Redeemed

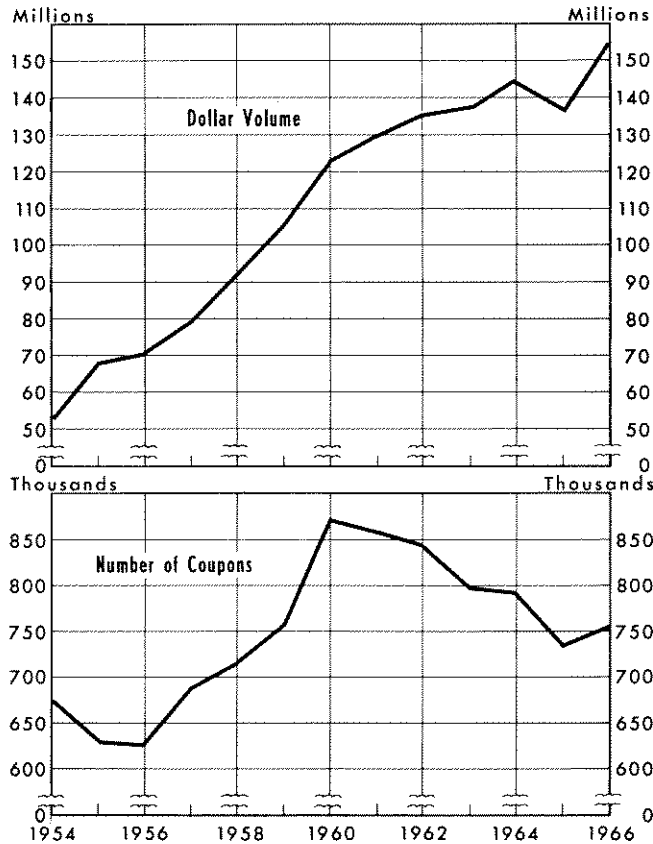


Other Government Securities Issued, Serviced, and Retired



serviced, and retired rose 18 per cent from a year earlier, and their value was up 5.4 per cent. Since 1956 the number of such securities has risen 10 per cent per year, and the dollar volume, at an 8 per cent

U.S. Government Coupons Paid



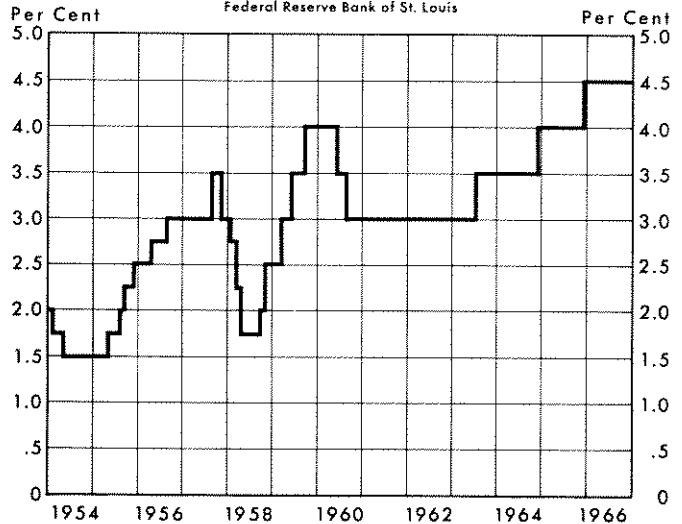
rate. Government coupons paid in 1966 were up 3 per cent in number and 13 per cent in dollar value.

Loans. Federal Reserve credit is generally extended on a short-term basis to a member bank to enable it to adjust its asset position when necessary because of developments such as withdrawal of deposits or short-run requirements for credit beyond those which can reasonably be met by use of the bank's own resources. Federal Reserve credit is also available for longer periods when necessary to assist member banks in meeting unusual situations resulting from national, regional, or local difficulties or from exceptional circumstances involving particular member banks.

The discount rate, the rate charged member banks which borrow from a Federal Reserve Bank, is established by the bank's directors, subject to review and determination by the Board of Governors. The last rate change was an increase from 4 to 4½ per cent in December 1965.²

Discount Rate

Federal Reserve Bank of St. Louis

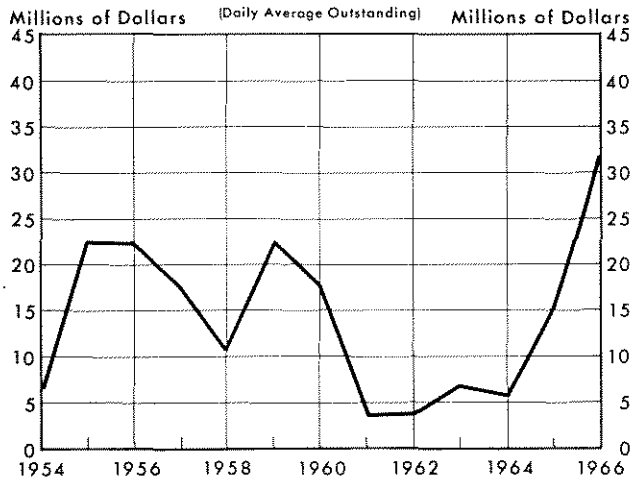


Average borrowing by member banks from the Federal Reserve Bank of St. Louis was much higher in 1966 than in other recent years. Average credit outstanding to member banks in the Eighth District in 1966 was \$32 million, up from \$15 million in 1965 and from about a \$5 million average in the 1961-64 period. In comparison, loans to member banks averaged about \$19 million during the 1955-60 period. The greater borrowings in 1966 reflected a sharp rise in short-term market interest rates relative to the dis-

²The rate charged under Sections 13 and 13a of the Federal Reserve Act on advances secured by U. S. Government securities and discounts of and advances secured by eligible paper. The rate charged on advances secured by collateral other than Government securities and "eligible" paper is one-half of one per cent higher than the normal discount rate. The Board of Governors has recommended elimination of this "penalty" discount rate.

count rate and a strong demand for commercial bank credit. The rise in short-term interest rates resulted primarily from a huge demand for funds accompanying a stimulative Federal budget and a strong demand for goods and services.

Loans to Member Banks



Statements. Total assets of the Federal Reserve Bank of St. Louis were \$2.6 billion at the end of 1966, an increase of 1.6 per cent from a year earlier. The rise in assets was largely matched by increases in notes outstanding (currency) and member bank deposits (reserves).

Net earnings, before payments to the United States Treasury, rose to \$56 million in 1966, up 19 per cent from 1965. The rise in earnings reflected primarily the higher average interest rates on bank earning assets. Dividends to member banks, set by law at 6 per cent of paid-in capital, were up 5 per cent. Payments to the Treasury (interest on Federal Reserve notes) of \$55 million were 21 per cent above a year earlier.

COMPARATIVE STATEMENT OF CONDITION

Thousands of Dollars

	December 31, 1966	December 31, 1965
Assets		
Gold certificate reserves	534,492	527,575
Federal Reserve notes of other banks	29,701	42,029
Other cash	31,278	7,128
Discounts and advances	2,400	1,394
U.S. Government securities	1,490,875	1,546,710
Uncollected items	479,437	412,676
Other assets	50,178	40,003
Total assets	2,618,361	2,577,515
Liabilities and Capital Accounts		
Federal Reserve notes (net)	1,471,034	1,450,866
Deposits:		
Member banks-reserve accounts	727,057	690,741
U.S. Treasurer-general account	599	55,282
Other	11,814	14,589
Deferred availability cash items	360,611	320,883
Other liabilities and accrued dividends	7,748	6,894
Total capital accounts	39,498	38,260
Total liabilities and capital accounts	2,618,361	2,577,515

COMPARATIVE PROFIT AND LOSS STATEMENT

Thousands of Dollars

	1966	1965
Total earnings	68,176	58,246
Net expenses	11,809	11,053
Net earnings	56,367	47,193
Net additions (+) or deductions (-)	-44	+39
Net earnings before payments to U.S. Treasury	56,323	47,232
Distribution of net earnings:		
Dividends	1,168	1,110
Interest on Federal Reserve notes	54,536	44,935
Transferred to surplus	619	1,187
Total	56,323	47,232

