Operations of the Federal Reserve Bank of St. Louis — 1971

THE ST. LOUIS Federal Reserve Bank and its branches provide numerous services to member banks, the United States Government, and the public. These service operations include collecting checks, maintaining member bank reserve accounts, transferring funds, distributing coin and currency, and acting as fiscal agent for the Federal Government. The Bank also extends credit to its member banks, exercises supervision over certain commercial banks, engages in research directed toward the formulation of monetary policy, and performs educational functions in regard to both monetary actions and Federal Reserve operations. In addition, it participates in Federal Open Market Committee deliberations, which are discussed in other issues of the *Review*.[1]

This report on the operations of the Federal Reserve Bank of St. Louis includes the operations of its head office in St. Louis and its branches in Little Rock, Louisville, and Memphis. The Federal Reserve Bank of St. Louis is one of twelve Federal Reserve Banks which, with their branches and the Board of Governors, form the Federal Reserve System. The St. Louis Bank operates in the Eighth Federal Reserve District, which includes all of Arkansas and portions of Illinois, Indiana, Kentucky, Mississippi, Missouri, and Tennessee.

Table I

VOLUME OF OPERATIONS[1]

	Dollar Amount (millions) 1971	Dollar Amount (millions) 1970	Percent Change
Checks collected[2]	$155,803.1	$138,945.2	12.1%
Noncash collection items	268.9	434.3	−38.1
Coin counted	86.0	79.6	8.0
Currency counted	1,866.8	1,816.2	2.8
Transfers of funds	349,249.4	287,467.7	21.5
U.S. Savings Bonds[3]	585.0	579.4	1.0
Other Government securities[3]	23,629.2	21,706.2	8.9
U.S. Government coupons paid	229.4	202.1	13.5
	Number (thousands) 1971	**Number (thousands) 1970**	**Percent Change**
Checks collected[2]	480,946	397,504	21.0%
Noncash collection items	804	855	− 6.0
Coin counted	725,885	715,505	1.5
Currency counted	248,806	240,452	3.5
Transfers of funds	356	317	12.3
U.S. Savings Bonds[3]	10,724	10,943	− 2.0
Other Government securities[3]	581	978	−40.6
U.S. Government coupons paid	804	814	− 1.2

[1]Total for St. Louis office and the Little Rock, Louisville, and Memphis branches
[2]Excludes Government checks and money orders
[3]Issued, exchanged, and redeemed

Check Collection and Clearance

The operation of the Federal Reserve Bank of St. Louis utilizing the largest number of employees is collecting and clearing checks. At the close of last year, 299 persons or 21 percent of the employees at this Bank and its branches were engaged in the check collection operation.

Checks drawn on commercial banks are the means of settling the major portion of all nonbank financial transactions. Payment by check offers many advantages over payment by cash, including less risk from theft, fire, and other disasters; greater convenience in making large transactions; greater opportunity to make large unscheduled transactions; and provision of a record of disbursements. The use of checks by individuals and businesses is facilitated by the collection and clearing operations of the Federal Reserve Banks, which provide a mechanism for settlement of checks collected by commercial banks. Settlement is accomplished by entries to the member banks' reserve accounts at the Reserve Banks.

The dollar volume of checks collected by the St. Louis Federal Reserve Bank and its branches rose from $139 billion in 1970 to $156 billion in 1971, an

[1]See Reprints 13, 17, 22, 28, 39, 57, and 68 for annual reviews of monetary actions by the FOMC for the years 1964 through 1970, available on request from this Bank.

increase of 12 percent. The number of checks collected increased 21 percent from 398 to 481 million.

These sharp rises in number and dollar volume of checks collected last year reflect improved economic activity (including inflation) in the district and a trend increase in the use of checks as a means of payment. The greater rise in the number of checks collected than in the dollar volume reflects the Bank's new program of sorting many checks received from St. Louis area banks drawn on each other. Before mid-1970, these checks were sorted by the Suburban Check Exchange clearing banks and were cleared in bundles through the Collection Department. The dollar value of checks cleared was not affected by this change, but the number increased because a presorted bundle is counted as one item, whereas checks sorted and cleared at this Bank are counted individually.

Technological innovations, such as the conversion to electronic equipment, have increased the efficiency of collecting checks over the years. In 1960, prior to the installation of high-speed collection equipment, the St. Louis office and its three branches collected checks at the rate of 372 per man hour. By 1970 the rate of such collections had increased almost threefold to 1,026 checks per man hour. In 1971 approximately 97 percent of all checks received at this Bank were processed through computers.

The Federal Reserve System in June 1971 outlined a program to streamline the structure of the U.S. payments system by expanding zones of overnight check clearance around Federal Reserve Banks and branches and by opening new regional zones for check clearance. The establishment of regional facilities would accelerate check collections and increase availability of funds. The St. Louis Bank expanded its zones of immediate payment several decades ago to include most suburban banks in the St. Louis area. The zones of immediate clearing around St. Louis and its branch cities will be further expanded as transportation and equipment problems are resolved.[2]

In addition to collecting checks, the Federal Reserve Banks handle numerous other settlement items such as postal money orders, food stamp coupons, and noncash collections. Among the latter are collections for drafts, promissory notes, bonds, and bond coupons.

Transfer of Funds

Wire transfer of funds is a service that the Federal Reserve provides to member banks to promptly and efficiently transmit funds around the country. These transfers primarily result from transactions involving interbank loans, check collections, and U.S. Treasury obligations. In implementing the new program for more rapid check clearance, the Federal Reserve in 1971 removed charges on wire transfers of $1,000 or more made through member banks by third parties – nonmember banks, businessmen and individuals – to encourage immediate payment of large amounts by wire. In addition, plans are being made to extend the hours of the wire transfer operations when warranted by a sufficient volume.

The St. Louis Reserve Bank processed 356 thousand wire transfers amounting to $349 billion in 1971, an increase of 12 percent in number and 22 percent in dollar volume from 1970. These rapid increases in the number and dollar volume probably reflect in part the elimination of the above mentioned fees.

Coin and Currency Operations

The Federal Reserve Banks maintain a readily available supply of coin and currency to provide the amounts, kinds, and denominations demanded by the public. The public holds about a fifth of its money in currency, which is more universally acceptable than checks and is more desirable in settling some transactions.[3] The use of currency, especially for small transactions, is more timesaving and often a less expensive means of settlement than the use of checking accounts. To meet the public demand for currency, member banks order funds from their Reserve Bank, which charges the order to their reserve accounts. Nonmember banks generally receive their currency supplies from member banks. Those member banks with excess currency may deposit it in their reserve account at the Reserve Bank. The usable coin and currency is then redistributed, and the unfit is removed from circulation to be melted down or destroyed.

Coin and paper currency handled at the St. Louis Bank increased in 1971 as the demand for a hand-to-hand medium of exchange rose with increased economic activity. Pieces of coin counted and sorted

[2]During the first half of 1972, the Little Rock immediate check clearing zone will be expanded to include Pulaski and Saline Counties in Arkansas; the Louisville zone will include Clark and Floyd Counties in Indiana and Jefferson County in Kentucky; and the Memphis zone will include Shelby County in Tennessee, Crittenden County in Arkansas, and DeSoto County in Mississippi. During the first half of 1973, the St. Louis zone will be expanded to include the City of St. Louis and St. Louis, Franklin, Jefferson, St. Charles and Warren Counties in Missouri, and Madison, St. Clair and Monroe Counties in Illinois.

[3]Money is defined as demand deposits of the nonbank public plus currency outside banks.

totaled 726 million, up 2 percent from 1970, and their value amounted to $86 million, up 8 percent. Pieces of paper currency counted and sorted increased 4 percent in 1971 to 249 million, and the value rose 3 percent to $1.9 billion.

Fiscal Agency Operations

As fiscal agents for the U.S. Treasury, the Federal Reserve Banks service the Treasury's checking account, perform much of the work involved in the issuance and redemption of Government securities, and execute numerous other fiscal duties.

The Federal Reserve Banks add to the Treasury's checking account by periodically collecting Treasury funds from commercial banks. These funds were previously deposited in commercial banks by the payment of taxes and sales of Government securities. When the Government disburses its funds, the checks issued in payment are drawn against its account at the Federal Reserve Banks.

When a new Government security is issued, the Federal Reserve Banks circulate subscription forms and receive applications for its purchase. The securities are allotted according to the Treasury's instructions and are delivered to the purchasers. In addition, the Reserve Banks redeem Government securities upon maturity, make exchanges, and pay interest by redeeming coupons.

In 1971 the four offices of this Bank issued, reissued, exchanged, and redeemed 11 million U.S. Savings Bonds valued at $585 million. The number declined 2 percent from a year earlier, but the value rose one percent. The number of other Government securities issued, serviced, and redeemed decreased 41 percent in 1971 to 581 thousand while the dollar value rose 9 percent to $23.6 billion. The rapid decline in the number of such Government issues processed, particularly with respect to securities issued, resulted from several factors. After interest rates on short-term Government securities continued to decline in early 1971, funds of small investors were attracted to other investments, such as certificates of deposit, with higher rates of return. In addition, the Government no longer issued Treasury bills under $10,000 after March 1969. Therefore, no bills of a smaller denomination were handled after the maturity dates in 1970.

Lending Activity

Member banks may borrow from Reserve Banks over short-term periods to meet their required reserves. The volume of these borrowings tends to rise when the Federal Reserve lending rate is below other short-term rates, such as those on Treasury bills and prime commercial paper. Conversely, these loans decline when the discount rate, the interest rate charged to member banks on funds borrowed from Reserve Banks, is above these market rates.

After being well below market rates during 1969 and most of 1970, the discount rate exceeded market interest rates during most of the past year. Reflecting these interest rate differentials, loans to member banks by the Federal Reserve Bank of St. Louis have declined sharply since 1969. Daily borrowings averaged only $1.5 million in 1971, compared with $12.7 million in 1970 and $41.8 million in 1969. The percent of member banks borrowing from this Bank sometime during the year decreased from 17 in 1970 to 7 in 1971.

The St. Louis Reserve Bank altered the discount rate six times during 1971 to realign it with fluctuations in market rates. The effective rate on discounts under Sections 13 and 13a of the Federal Reserve Act was reduced from 5.5 percent to 5.25 percent on January 8, to 5 percent on January 29, and then to 4.75 percent on February 13. It was increased to 5 percent on July 16 and was reduced again on November 11 to 4.75 percent and on December 13 to 4.5 percent, the lowest rate since March 1968.

In early 1971 the Board of Governors introduced several major changes in lending procedures to facilitate Federal Reserve credit services to member banks. The new procedures were designed to simplify discount window accommodation by:

1) using a continuing lending agreement instead of an application and note for most borrowings;
2) collecting interest at the time of repayment rather than by deduction in advance; and
3) making changes in the discount rate applicable to outstanding loans.

Supervision

Federal Reserve Banks perform a variety of supervisory activities to foster effective operation of the commercial banking system. A major supervisory function is the annual examination of state chartered member banks to evaluate their assets, liabilities, capital, liquidity, operations, and management. This examination information is used by banking authorities to correct unsatisfactory practices and conditions. Examiners from the Federal Reserve Bank of St.

Louis along with the state supervisory authorities examine the 111 state member banks in the Eighth Federal Reserve District.[4] The staff of the Comptroller of the Currency examines the 347 national banks in the district, which are required by law to be members of the Federal Reserve System. Other insured banks are examined by the Federal Deposit Insurance Corporation and state supervisory authorities while the few noninsured banks are examined by state examiners only. Although fewer in number than the 1,064 nonmember banks, member banks hold about 60 percent of the total district bank deposits.

Other supervisory functions of the Federal Reserve System include the admission of state banks to membership in the System and the approval of acquisitions by registered bank holding companies, bank mergers, and new branches of state member banks. During 1971, this Bank processed 6 applications to form one-bank or multiple bank holding companies and 14 applications by holding companies to acquire additional subsidiaries. The passage of the "Bank Holding Company Act Amendments of 1970" placed one-bank holding companies under Federal Reserve regulation similar to that of multiple bank holding companies. These amendments will continue to increase supervisory activities. Approximately 75 of the estimated 1,500 one-bank holding companies in the nation have registered through this Bank.

Research

The research operations at the Federal Reserve Bank of St. Louis are directed toward the collection and analysis of regional, national, and international data. These data are instrumental in the formulation of monetary policy recommendations used by the President of this Bank in meetings of the Federal Open Market Committee. Information and data related to economic developments are available to the public in the monthly *Review* and other periodicals.

The Research Department's role in reviewing proposed bank holding company acquisitions and bank mergers has greatly expanded in recent years. The passage of the "Bank Holding Company Act Amendments of 1970" further increased research operations, especially with respect to one-bank holding companies.

Bank Relations and Public Information

This activity of the St. Louis Federal Reserve Bank is designed to maintain personal contact with all banks in the Eighth District and to assist member banks with their operations relative to those of the Federal Reserve. Each year this department makes available to all district member banks the Federal Reserve Functional Cost Accounting Program, which provides a cost-income profile of each participating bank's major functions. These data enable an individual bank to make comparisons with its previous operating statistics and with an average of banks of similar size.

This department also distributes educational films on banking and makes arrangements for the display of currency exhibitions, speeches by the Bank's staff, and tours of the Bank.

Transfer of Counties from Eighth District

Operations of the St. Louis Federal Reserve Bank in 1972 will be affected by the transfer of 26 member and 92 nonmember banks, located in 24 counties in western Missouri, from the St. Louis to the Kansas City Federal Reserve District. The twelve Federal Reserve Districts were originally constructed in 1914 by the Reserve Bank Organization Committee,[5] which was authorized by the Federal Reserve Act to apportion the districts "with due regard to convenience and customary course of business."[6] In line with the efforts of the Federal Reserve to accelerate check clearances, the transfer of these counties, which are economically aligned with metropolitan Kansas City, will shorten the distances of check and cash delivery routes. This change, effective January 24, 1972, is the first in Federal Reserve district boundaries since 1926 when two counties were transferred from the Dallas to the Kansas City District.

Financial Statements

Although the Federal Reserve Banks generate earnings, their operations are directed primarily toward influencing monetary conditions. In 1971 the portion

[4]Number of banks as of December 31, 1971.

[5]In making its districting decisions, the Organization Committee stated that it had been guided by the following six considerations: "mercantile, industrial, and financial connections existing in each district; ability of reserve bank in each district to meet legitimate demands on it; fair division of capital among the districts; general geographical and transportation situation of the districts; population, area, and prevalent business activities of the district; and ability of member banks of each district to provide the minimum necessary capital." See H. Parker Willis, *The Federal Reserve System: Legislation, Organization and Operation* (New York: The Ronald Press Company, 1923), p. 586.

[6]U.S., Congress, Senate, U.S. Reserve Bank Organization Committee, *Location of Reserve Districts in the United States*, 63rd Cong., 2nd Sess., 1914, document no. 485, p. 361.

of the System's earnings allocated to the St. Louis Bank and its branches totaled $136.9 million, a decrease of one percent from a year earlier. This decline reflects the lower rates received on earning assets, which more than offset the increased holdings of such assets. After operating costs, net additions, statutory dividends to member banks, and additions to surplus, the remaining earnings of $115.9 million were paid to the U.S. Treasury as interest on Federal Reserve notes. Dividends and transfers to surplus totaled $1.5 million and $1.1 million, respectively.

Total assets of the Federal Reserve Bank of St. Louis and its branches at the end of 1971 were $4 billion, an increase of 13 percent from a year earlier. Most of this rise resulted from increased holdings of Government securities, which are the principal means of creating Reserve Bank credit. Two-thirds of the assets were Government securities, primarily short-term Treasury bills and notes. The remaining assets, including the gold certificate account, the special drawing rights certificate account, notes on other Reserve Banks, Federal agency obligations, cash items in process of collection, and bank premises, totaled $1.3 billion.

Liabilities of the St. Louis Bank and its branches rose to $3.9 billion at the close of 1971. Federal Reserve notes, the principal type of currency in circulation, amounted to $2.1 billion or more than half of this Bank's liabilities. Deposits, consisting primarily of the reserve accounts of member banks, amounted to $1.2 billion, and other liabilities including deferred availability cash items and accrued dividends totaled $0.6 billion.

Table II

COMPARATIVE PROFIT AND LOSS STATEMENT

(Dollar Amounts in Thousands)

	1971	1970	Percent Change
Total earnings	$136,856	$138,738	— 1.4%
Net expenses	21,912	18,248	20.1
Current net earnings	114,944	120,490	— 4.6
Net additions (+) or deductions (—)	+ 3,551	+ 416	753.6
Net earnings before payments to U.S. Treasury	$118,495	$120,906	— 2.0
Distribution of Net Earnings:			
Dividends	$ 1,474	$ 1,406	4.8
Interest on Federal Reserve notes	115,887	118,298	— 2.0
Transferred to surplus	1,134	1,202	— 5.7
Total	$118,495	$120,906	— 2.0%

Table III

COMPARATIVE STATEMENT OF CONDITION

(Dollar Amounts in Thousands)

ASSETS

	December 31, 1971	December 31, 1970
Gold Certificate Account	$ 346,208	$ 468,866
Special Drawing Rights Certificate Account	15,000	15,000
Federal Reserve Notes of Other Banks	40,140	32,102
Other Cash	17,475	12,279
Discounts and Advances	—	380
Acceptances	—	—
Federal Agency Obligations	18,621	—
U.S. Government Securities:		
Bills	1,157,788	952,157
Certificates	—	—
Notes	1,365,056	1,218,810
Bonds	126,175	107,825
TOTAL U.S. GOVERNMENT SECURITIES	$2,649,019	$2,278,792
TOTAL LOANS AND SECURITIES	$2,667,640	$2,279,172
Cash Items in Process of Collection	854,530	671,121
Bank Premises (Net)	14,682	12,125
Other Assets	26,644	28,468
TOTAL ASSETS	$3,982,319	$3,519,133

LIABILITIES AND CAPITAL ACCOUNTS

LIABILITIES

	December 31, 1971	December 31, 1970
Federal Reserve Notes (Net)	$2,118,926	$1,951,221
Deposits:		
Member Bank — Reserve Accounts	1,015,178	884,761
U.S. Treasurer — General Account	153,419	73,887
Foreign	9,520	4,250
Other Deposits	27,851	10,906
TOTAL DEPOSITS	$1,205,968	$ 973,804
Deferred Availability Cash Items	584,961	525,050
Other Liabilities and Accrued Dividends	22,112	20,972
TOTAL LIABILITIES	$3,931,967	$3,471,047

CAPITAL ACCOUNTS

	December 31, 1971	December 31, 1970
Capital Paid In	25,176	24,043
Surplus	25,176	24,043
Other Capital Accounts	—	—
TOTAL CAPITAL ACCOUNTS	$ 50,352	$ 48,086
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	$3,982,319	$3,519,133

MEMORANDA: Contingent liabilities on acceptances purchased for foreign correspondents increased from $8,503,000 on December 31, 1970 to $8,667,000 on December 31, 1971.