

Operations of the Federal Reserve Bank of St. Louis—1977

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AS the central bank of the United States, the Federal Reserve performs three basic functions. It conducts monetary policy, supervises and regulates member banks, and provides various services to the public, the Treasury, and commercial banks.

These functions are performed by the Federal Reserve System's Board of Governors in Washington, the 12 regional Reserve Banks located in Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas and San Francisco, and the 25 branches of the regional banks.

The Eighth Federal Reserve District is served by the head office in St. Louis and branches in Little Rock, Louisville and Memphis. The district encompasses Arkansas and parts of Illinois, Indiana, Kentucky, Mississippi, Missouri, and Tennessee.

This article reviews the operations of the Federal Reserve Bank of St. Louis during 1977.

Bank Supervision and Regulation

The Federal Reserve Bank of St. Louis, together with the state banking authorities, has responsibility for the supervision of the 79 state chartered banks in the Eighth District which have elected to become members of the Federal Reserve System. An annual examination is made of state member banks in order to evaluate their assets, liabilities, capital accounts, liquidity, operations, and management. Attention is also focused on compliance with applicable laws and regulations.

Information gathered from such examinations is utilized by banking authorities to direct attention to potential problems or unsatisfactory conditions of the banks. Supervision seeks to foster an effective banking system in which the public interest is safeguarded.

Although they have authority to examine all member banks, Federal Reserve Banks generally do not examine national banks, all of which are required to be members of the Federal Reserve System. Primary responsibility for examination and supervision of national banks, which number 340 in the Eighth District, lies with the office of the Comptroller of the Currency. The Federal Deposit Insurance Corporation (FDIC), along with respective state banking authorities, examines state nonmember banks that are insured by the FDIC. Noninsured banks are examined only by state authorities.

Federal Reserve Banks also supervise bank holding companies. At the end of 1977, the Federal Reserve Bank of St. Louis had jurisdiction over 20 multibank and 88 one-bank holding companies. Prior approval must be obtained from the Federal Reserve System for bank holding company formations and for acquisitions of additional banks and permissible nonbank subsidiaries. Applications for holding company formations and for acquisitions of additional subsidiaries are analyzed by the Bank Supervision and Regulation Department along with the Legal and Research Departments. These departments consider the history, financial condition, and prospects of the institutions, and evaluate the quality of management. They also assess the legal aspects of the proposal and its likely effects on banking and nonbanking competition. During 1977, the Federal Reserve Bank of St. Louis received 14 applications to form one-bank or multibank holding companies and 24 applications from holding companies to acquire additional subsidiaries, engage *de novo* in nonbank activities, or establish new locations.

After formation, bank holding companies are required to register and file annual reports with Federal Reserve Banks. These annual reports are analyzed by the staff of the Bank Supervision and Regulation Department to verify accuracy and completeness, to

ascertain the current financial condition of the holding company and its subsidiaries, and to determine compliance with applicable laws and regulations. Examination reports prepared by the primary Federal supervisory agency of the respective bank subsidiaries are also analyzed by the Federal Reserve Bank to determine the overall condition of such subsidiaries. In addition, discretionary on-site inspections of bank holding companies and their nonbank subsidiaries are conducted by Supervision and Regulation personnel. The purpose of these inspections is similar to that of examinations of banks.

Check Collection

The collection and clearing of checks drawn on member and nonmember banks is a service provided by the Federal Reserve System and is a major activity at this Bank. Payment for the items cleared is accomplished on the day of presentment by a charge to the reserve account of the member bank or to the reserve account of a member correspondent. Checks drawn on nonmember banks are also paid for on the day of presentment by a charge to the account of a specified member correspondent.

During 1977 the four Federal Reserve offices in the Eighth District cleared 693 million checks totaling \$289 billion. This reflects increases of almost 4 percent in the number of checks cleared and more than 14 percent in dollar value when compared with 1976 check clearing activity. Although growth in the volume of items cleared has slowed somewhat over the past year, the dollar value of these items continued to increase at about the same rate as in past years.

A major goal of the Federal Reserve System is to provide a speedy check payments mechanism. To this end a Regional Check Processing Center (RCPC) program was implemented during the early 1970s to

increase the speed of the check payment process and to facilitate the return of dishonored items. The RCPCs that have been in operation in the Eighth Federal Reserve District since 1972 continue to enable the overnight collection of items drawn on banks in the RCPC area, thereby permitting prompt credit and payment for these checks.

Electronic Transfer of Funds

Wire transfers have been used for many years to facilitate transfers of balances between banks. The Federal Reserve and its member banks utilize a computer network for transferring funds nationwide. Using this system, many member banks are able to render more efficient service to their customers and effect payment for the purchase and sale of Fed funds. Nonmember banks benefit from this service indirectly through correspondent member banks.

Settlement for such transfers is made by debits and credits to reserve accounts. Generally, transfers through this network are for large amounts, with no charge levied for transfers of \$1,000 or more. Member banks also utilize these facilities to transfer marketable government securities. All four Federal Reserve offices and 22 commercial banks in the Eighth District with a significant volume of transfers are currently on-line. Several other banks are considering the installation of terminals. Over 360 member banks nationwide have installed on-line terminals connected to their Federal Reserve District computers. Member banks not having on-line terminals may telephone their transfers to their local Federal Reserve office where the transfers are entered into the wire transfer system over Federal Reserve Bank terminals.

Terminal installations at the banks are connected to the computer at the St. Louis Federal Reserve office which is the switching center for the Eighth

Table 1

VOLUME OF OPERATIONS¹

	Number (thousands)		Percent Change	Dollar Amount (millions)		Percent Change
	1977	1976		1977	1976	
Checks handled ²	692,723	667,678	3.8%	\$ 288,929	\$254,357	13.6%
Transfers of funds	1,141	974	17.1	1,035,000	871,000	18.8
Currency received and counted	318,000	281,000	13.2	2,900	2,800	3.6
Government securities issued, serviced, and redeemed	13,300	13,226	.6	36,388	69,050	-47.3
U.S. Government coupons paid	400	592	-32.4	185	266	-30.5
Food Stamps received and counted	120,000	133,000	-10.5	504	556	- 9.5

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

²Excludes U.S. Government checks and postal money orders.

District. Operators of the terminals in the commercial banks can initiate transfers directly from their banks, at which time the transfers are processed automatically through the computer at the St. Louis office and directed through a central switching computer at Culpeper, Virginia, to another Federal Reserve District for the account of the receiving commercial bank. Transfers of funds may also be made between member banks in the same District. If the receiving bank is on-line, transfers are switched automatically to that bank's terminal through its Federal Reserve District computer.

By transferring funds electronically, all necessary information for completing the transfer is obtained. Third-party information may be entered to identify the originator and/or the recipient of the funds. Member bank reserve accounts are debited and credited automatically, and banks with on-line terminals receive an immediate record of each transaction at its conclusion. The use of electronic equipment for transfers of funds has reduced the time required for completion of a typical transaction from almost an hour to a matter of only a few minutes.

With the installation of on-line terminals at the 22 District commercial banks, about 3,900 transactions per day are sent and received by electronic means, and thus do not require manual processing by Eighth District personnel. This represents 82 percent of total transfers processed.

Volume and dollar amounts of transfers processed by the Eighth District continues to increase. During 1977, more than 1.1 million transfers amounting to \$1,035 billion were completed by the Federal Reserve Bank of St. Louis and its branches. This is an 18 percent increase in number and a 13 percent increase in value over the previous year.

Federal Recurring Payments

The Bank has been processing the payroll for Air Force installations in the Eighth Federal Reserve District by electronic means since August 1975.

A number of other Federal recurring payments are also settled through the electronic funds transfer system (EFTS). Social Security payments comprise the largest category with a monthly volume of 280,000 payments. Monthly volumes for other categories are 11,700 Civil Service Annuity payments, 8,500 railroad retirement payments, 12,000 Veterans Administration payments, and 5 CIA retirement payments. In addition, 2,000 revenue sharing payments are processed quarterly.

Automated Clearing Houses

An automated clearing house (ACH) provides for the exchange of payments on magnetic tape. Traditional clearing houses, by contrast, provide for the exchange of payments with batches of paper checks.

The St. Louis Reserve Bank and each of its branches operate automated clearing houses. The Arkansas Automated Clearing House, operated by the Little Rock Branch, began operations in October 1977. The Kentuckiana Automated Clearing House, operated by the Louisville Branch, began operating in April 1976. The Mid-America Payments Exchange, operated by the Bank's head office in St. Louis, has been operational since July 1976. In addition, the Mid-South Automated Clearing House, operated by the Memphis Branch, began operations in February 1977. The District's four ACH's process about 42,000 commercial debit and credit items monthly.

Coin and Currency

Coin and currency, comprising approximately 26.1 percent of the money stock, are more widely used than demand deposits in consummating small transactions, primarily because of convenience. Personal checks generally are used for transactions of larger amounts. The Federal Reserve Banks supply, through the commercial banking system, virtually all of the coin and currency in circulation, and excess coin and currency is returned to Federal Reserve Banks through the commercial banking system.

Approximately 318 million pieces of currency valued at \$2.9 billion were received and verified at the four Federal Reserve offices in the Eighth District during 1977. This was an increase of about 13 percent in number of pieces, and a 4 percent increase in dollar volume from 1976. The number and value of coins received and verified showed a decline from 1976 levels. Combined sorting, counting, and wrapping of coin and currency at the four offices averaged almost 6.4 million pieces per working day in 1977, up slightly from 1976.

In sorting currency at the Reserve Banks, that which is no longer usable is removed from circulation and destroyed. During 1977, the Federal Reserve Bank of St. Louis and its branches verified and destroyed currency totaling \$771 million.

Lending

Three types of credit are made available to member banks in the Eighth Federal Reserve District: short-

term adjustment, seasonal, and emergency credit. Member banks may make temporary adjustments in their reserve positions due to deposit losses, unexpected or unusual requests for loans, or other changes they encounter. Member banks which have highly seasonal loan demands may apply to this Bank for seasonal credit. Such loan demands are due primarily to a recurring pattern of change in deposits and loans. Under seasonal credit, member banks are permitted to maintain a portion of their liquid assets in the form of Federal funds (loans of excess reserves to other banks), so long as such holdings conform to the bank's normal operating experience. Arrangements for this type of credit should be made in advance. Credit for longer periods is also available to member banks to meet emergency conditions which may result from unusual local, regional, or national financial situations, or adverse circumstances where member banks are involved.

The discount rate is the rate of interest charged by the Federal Reserve Bank on loans to member banks. The level of the discount rate, in relation to other short-term market rates, has an influence on the volume of credit extended by the Federal Reserve Bank. When the discount rate is higher than other market interest rates, member banks usually choose to obtain funds from other sources to make temporary reserve adjustments. When the discount rate is low in relation to other market rates, member banks tend to rely more heavily on the Federal Reserve for funds.

At the start of 1977, the discount rate was 5.25 percent. The rate was increased twice during the year, and at yearend it was 6 percent. However, throughout the last half of 1977, the discount rate was below other short-term interest rates. As a result of this difference in rates, member bank borrowings in the Eighth District were relatively high. The daily average of loans outstanding amounted to \$23.7 million in 1977, more than ten times the \$2.2 million for 1976. There were 860 loans amounting to \$5.0 billion made to 63 Eighth District member banks by the Federal Reserve Bank of St. Louis during 1977. This is an increase from 1976 when 231 loans totaling \$428.9 million were made to 32 member banks.

Fiscal Agency

As a fiscal agent of the Federal Government, the Federal Reserve Bank performs many services. The U.S. Treasury makes payments for various types of Government spending through accounts maintained

in the System. Funds received by the Treasury are deposited into its account at the Federal Reserve Banks or into tax and loan accounts at designated commercial banks. These funds represent mainly receipts from payment of taxes and collections from the sale of Government securities to the public. Balances in the tax and loan accounts are transferred upon call to the account of the Treasury of the United States at Federal Reserve Banks in order for the Treasury Department to have use of the funds.

The Federal Reserve Banks also act on behalf of the Government in marketing Treasury securities. When the Treasury offers new securities, the Reserve Banks prepare and distribute applications and official offering circulars, receive subscriptions from those who wish to buy, allot the securities among the subscribers according to the terms of the offering, collect payment, and make delivery to the purchasers. With funds from the Treasury's account, Federal Reserve Banks pay interest on securities and redeem them at maturity. Reserve Banks also pay interest on and redeem securities of most Government-sponsored corporations.

The Federal Reserve Banks will, as fiscal agents, hold in safekeeping securities pledged to secure Government deposits in tax and loan accounts at commercial banks. Federal Reserve Banks will also hold securities of member banks in safekeeping. U.S. Treasury and most government agency securities are held in book-entry form by the Reserve Banks.

Securities of the U.S. Government and various government agencies are issued, serviced, and redeemed by Federal Reserve Banks. In 1977, 13.3 million securities totaling \$36.4 billion were handled by the Federal Reserve Bank of St. Louis and its branches. Also during 1977, coupons of U.S. Treasury and agency securities totaling 400,000 pieces amounting to \$185 million were paid by Eighth District offices.

U.S. Government food stamps are also redeemed by Federal Reserve Banks. A total of 120 million food stamps amounting to \$504 million were received and counted by the Federal Reserve Bank of St. Louis and branch offices during 1977.

Research

The Federal Reserve System, while working closely with other policymaking agencies in the Government, has the primary responsibility for the formulation and implementation of monetary policy. Through representation on the Federal Open Market Committee,

As of March 2, 1978

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Arkansas

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Inc., Little Rock, Arkansas

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T. G. VINSON, President, The Citizens Bank, Batesville,
Arkansas

FIELD WASSON, President, First National Bank, Siloam
Springs, Arkansas

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Louisville, Kentucky

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Carrollton, Carrollton, Kentucky

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State University, Murray, Kentucky

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Mississippi

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First National Bank in St. Louis, St. Louis, Missouri

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Table II

**COMBINED COMPARATIVE STATEMENT
OF CONDITION**
(in thousands of dollars)

	ASSETS	
	December 31, 1977	December 31, 1976
U.S. Government Securities:		
Bills	\$1,763,667	\$1,572,649
Certificates	—	—
Notes	2,148,021	1,955,859
Bonds	370,930	274,192
TOTAL U.S. GOVERNMENT SECURITIES	\$4,282,618	\$3,802,700
Gold Certificate Reserves	\$ 468,914	\$ 466,364
Special Drawing Rights Certificate Account	53,000	50,000
Coin	19,869	26,661
Loans and Securities:		
Discounts and Advances Secured by U.S. Government and Agency Obligations	6,600	300
Other Discounts and Advances	—	—
Federal Agency Obligations Bought Outright	339,654	276,987
Cash Items in Process of Collection	565,391	321,441
Bank Premises (net)	12,833	12,668
Other Assets	75,292	63,456
Interdistrict Settlement Account	—	270,478
TOTAL ASSETS	\$5,824,171	\$5,291,055
LIABILITIES		
Deposits:		
Member Bank — Reserve Accounts	\$ 817,447	\$ 765,374
U.S. Treasurer — General Account	474,331	573,537
Foreign	9,098	7,778
Other Deposits	22,260	58,153
TOTAL DEPOSITS	\$1,323,136	\$1,404,842
Federal Reserve Notes (NET)	\$3,912,126	\$3,535,992
Deferred Availability Cash Items	362,632	249,108
Interdistrict Settlement Account	114,545	—
Other Liabilities	47,458	36,009
TOTAL LIABILITIES	\$5,759,897	\$5,225,951
CAPITAL ACCOUNTS		
Capital Paid In	\$ 32,137	\$ 32,552
Surplus	32,137	32,552
TOTAL CAPITAL ACCOUNTS	\$ 64,274	\$ 65,104
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	\$5,824,171	\$5,291,055

Federal Reserve Banks play an important role in formulating System policy.¹ Also, the 12 Federal

¹The Federal Open Market Committee (FOMC) consists of the seven members of the Federal Reserve's Board of Governors and the President of the Federal Reserve Bank of New York as permanent members, with four of the remaining eleven Reserve Bank Presidents serving on a rotating basis. The FOMC directs the purchase and sale of Treasury and Government agency securities on the open market.

Table III

COMPARATIVE PROFIT AND LOSS STATEMENT
(Dollar Amounts in Thousands)

	1977	1976	Percent Change
Total earnings	\$284,888	\$256,795	10.9%
Net expenses	33,619	35,041	-4.1
Current net earnings	\$251,269	\$221,754	13.3%
Net additions (+) or deductions (-)	-5,829	+460	—
Assessments for expenses of Board of Governors	-1,563	-1,403	11.4%
Net earnings before payments to U.S. Treasury	\$243,877	\$220,811	10.4%
Distribution of Net Earnings:			
Dividends	1,963	1,915	2.5%
Interest on Federal Reserve Notes	242,329	217,582	11.4
Transferred to Surplus	-415	1,314	-131.6
TOTAL	\$243,877	\$220,811	10.4%

Reserve Banks contribute to System awareness of local and regional business conditions through the collection of business, monetary, and financial data. Information gathered is used by the President of this Bank in policy discussions during meetings of the Federal Open Market Committee.

Economic data and analysis of regional, national, and international conditions are made available to the public by the Research Department through its various releases. Comprehensive analysis of economic problems and conditions provide the basis of articles appearing in this *Review*. The *Review*, which is published monthly, has a circulation of about 43,000 copies and is distributed both nationally and internationally.

As mentioned above, the Research Department also assists in the bank regulatory function by reviewing the impact of bank mergers and holding company acquisitions on the communities to be served.

Bank Relations and Public Information

The Bank Relations and Public Information Department endeavors to establish and maintain personal contact with all banks located in the Eighth Federal Reserve District through a structured visitation program and attendance at various banking functions. An effort is also made to increase public understanding of the functions, responsibilities, and policies of the Federal Reserve System by distributing films and publications, providing in-house tours, delivering

speeches, and conducting seminars. Emphasis is placed on maintaining contact with schools and colleges in this District.

The Functional Cost Analysis Program offered to member banks is administered by this department. This program provides participating member banks with bank operating costs by function and permits comparison with banks of similar size. Technical assistance is furnished during the first year to banks desiring to participate in the program. Last year, 50 Eighth District member banks participated in the program.

In maintaining contact with the banking industry and the general public during 1977, the officers and staff members of the Federal Reserve Bank of St. Louis and its branches delivered 208 addresses before bankers, business groups, and educators. The Bank

was represented at 223 banker, 491 professional, and 200 miscellaneous meetings. Under the bank visitation program, 837 banks in the District were visited. During 1977, 355 groups requested films and 5,291 visitors toured the four Federal Reserve offices in the Eighth District.

Financial Statements

The Bank's net expenses for 1977 were 4 percent lower than net expenses for 1976. While expenses declined, the Bank's payments to the Treasury increased by more than 11 percent, from \$218 million in 1976 to \$242 million in 1977.

The \$242 million paid to the Treasury was 85.1 percent of total earnings. In 1976, by comparison, 84.7 percent of total earnings was paid to the Treasury.

