Operations of the Federal Reserve Bank of St. Louis — 1970

THE FEDERAL RESERVE BANK OF ST. LOUIS is one of the twelve Federal Reserve Banks which, along with their branches and the Board of Governors, make up the Federal Reserve System. In addition to its participation in the formulation of monetary policy, the Bank performs a variety of regular services and functions for member banks, the public, and the United States Government. Its service functions or operations include collecting checks, transferring funds, distributing currency and coin, maintaining member bank reserve accounts, and fiscal agency and depository operations for the United States Government.

This report will review most of the 1970 operations and functions of the Federal Reserve Bank of St. Louis and its three branches at Little Rock, Louisville, and Memphis. Federal Open Market Committee deliberations in which the Bank participates will be covered in other issues of this *Review*.

Money Operations

Governments generally play a large role in supplying coin and currency used by their citizens. Prior to the acceptance of paper money, the role consisted primarily of minting operations and maintenance of established standards with respect to quality and weight of coin. With the more extensive use of paper money, the necessities of maintaining a ready supply of amounts and kinds of money that people demand, and of removing unfit money from circulation, have become major functions of coin and currency supervision. These functions are performed in the United States by the Federal Reserve banks.

When a member bank desires to replenish its currency supply, it orders the funds from the Federal Reserve bank which charges the amount to the member bank's reserve deposit account. Conversely, if a bank has excess currency on hand, it may deposit currency in the Federal Reserve bank and receive credit in its reserve account.

Coin and paper currency operations at this Bank increased in 1970 from year-earlier levels. The pieces of coin counted and sorted totaled 716 million, up 12 per cent from a year earlier, and the value totaled $80 million, up 13 per cent (Table I). Pieces of paper currency counted rose from 237 million in 1969 to 240 million in 1970, and the value rose from $1.7 to $1.8 billion.

The volume of coin and paper currency handled has increased over the years with the growth in economic activity. Pieces of paper currency handled rose from 199 million in 1950 to 201 million in 1960, and to 240 million in 1970. The value of paper currency handled rose from $1.1 billion in 1950 to $1.2 billion in

Table I

VOLUME OF OPERATIONS[1]

	Dollar Amount (millions) 1970	1969	Per Cent Change
Checks collected[2]	138,945.2	140,348.6	−1.0%
Noncash collections items	434.3	450.7	−3.6
Coin counted	79.6	70.5	12.9
Currency counted	1,816.2	1,715.9	5.8
Transfers of funds	287,467.7	244,648.5	17.5
U.S. Savings Bonds handled[3]	579.4	595.4	−2.7
Other Government securities handled[3]	21,706.2	21,839.0	−0.6
U.S. Government coupons paid	202.1	172.3	17.3

	Number (thousands) 1970	1969	Per Cent Change
Checks collected[2]	397,504	344,068	15.5%
Noncash collection items	855	914	−6.5
Coin counted	715,505	636,317	12.4
Currency counted	240,452	236,842	1.5
Transfers of funds	317	300	5.7
U.S. Savings Bonds handled[3]	10,943	11,219	−2.5
Other Government securities handled[3]	978	953	2.6
U.S. Government coupons paid	814	736	10.6

[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.

1960, and to $1.8 billion in 1970. Number of coins handled rose from 293 million in 1950, to 427 million in 1960, to 716 million in 1970, and the value of the coins rose from $25 million in 1950, to $43 million in 1960, to $80 million in 1970.

Studies by this Bank indicate that changes in the demand for a hand-to-hand medium of exchange are primarily responsible for the varying growth rates of currency. When sales which typically utilize currency have risen, currency in circulation has usually increased. When such sales have declined, currency has declined. Actions by the Federal Reserve to supply reserves to the banking system have had little direct influence on the volume of currency outstanding.

Collecting and Transferring Funds

The largest operation of the Federal Reserve Bank, as measured by number of employees, is collecting checks and transferring funds. Most large (and many small) obligations of individuals, businesses, and governments are settled by transferring bank deposits. Over 95 per cent of the value of all financial transactions represent checks drawn on commercial banks. This use of checks by individuals and businesses is facilitated by the collection facilities of the Federal Reserve banks. In addition, the Federal Reserve banks provide wire transfer services for transferring funds to bank customers' accounts in other Federal Reserve districts and a mechanism through which commercial banks settle for the funds transferred.

The number of checks collected by the Bank in 1970 totaled 398 million, up from 344 million a year earlier; the dollar volume was $139 billion, down from $140 billion. The volume of checks collected has trended up over the years, rising from 134 million in 1950, to 171 million in 1960, and to 398 million in 1970. In dollar amount the checks totaled $47 billion in 1950, $69 billion in 1960, and $139 billion in 1970.

The sharp increase in number of checks collected by the Bank last year reflected both the long-run uptrend in check usage and a change in check collection services provided member banks in the St. Louis area. In mid-1970 the Federal Reserve Bank of St. Louis inaugurated a new program of sorting checks drawn on St. Louis area banks which are deposited by member banks. Prior to this time, these banks sorted and cleared checks on each other through the Check Exchange Division of the Collection Department. This change in procedure, along with the long-run uptrend in check usage, caused the sharp increase in the number of checks collected through the Federal Reserve System.

The reduced dollar volume of check clearings by this Bank in 1970 reflects largely a difference in method by which banks settle for checks. Prior to 1970, most banks paid for checks drawn on themselves with a draft on their correspondent bank which was included in the dollar volume of check clearings. Now most of these banks pay for such checks through an automatic charge arrangement whereby their account or their correspondent bank's account is charged for the checks. This process eliminates the use of drafts which were included in the clearings, thereby reducing the dollar volume. However, the change had little impact on the number of checks cleared.

Over the years the efficiency of collecting checks has been increased by innovations such as the conversion to electronic equipment. The St. Louis Federal Reserve Bank in 1970 processed through high-speed computers about 97 per cent of all checks received.

The telegraphic transfer of funds is another growing service which the Federal Reserve provides to member banks in order to speed the movement of funds around the country. In 1970 wire transfers of funds by this Bank totaled $287 billion, an increase of 18 per cent from a year earlier. The dollar volume of funds transferred by the St. Louis Federal Reserve Bank in this manner increased about fourfold during the past decade.

Fiscal Agency Operations

The Federal Reserve banks carry the general accounts of the U.S. Treasury, handle much of the work entailed in issuing and redeeming Government obligations, and perform numerous other fiscal duties.

When the Treasury offers a new issue of Government securities, the Federal Reserve banks send out subscription forms, receive applications from those who wish to buy, make allotments of securities in accordance with instructions from the Treasury, deliver the securities to the purchasers, receive payment for them, credit the amounts received to Treasury accounts, and make exchanges of denominations. In addition, the Federal Reserve banks pay interest on coupons by charging the Treasury's account and redeem securities as they mature.

Excluding the marketing of short-term Treasury bills which are sold through auction, all Government securities until last year had been marketed at fixed yields. This system of debt marketing required the Treasury to estimate rates and terms at which the securities would sell. In 1970 the Treasury expanded the use of the auction method of debt marketing. In November $2 billion of 6¾ per cent, one and one-half year notes were marketed successfully through the auction system.

The four offices of this Bank issued, exchanged, or redeemed 11 million United States Savings Bonds valued at $579 million in 1970. The number and value were each about 3 per cent less than in 1969. Other Government securities issued, serviced, or retired totaled 978 thousand, 3 per cent above a year earlier, while dollar volume, totaling $21.7 billion, was down 1 per cent.

Lending to Member Banks

The rate charged on loans to member banks by the Federal Reserve Bank of St. Louis was reduced twice during 1970. At the turn of the year a rate of 6 per cent was in effect on discounts under Sections 13 and 13a of the Federal Reserve Act. It was reduced to 5¾ per cent on November 11 and to 5½ per cent on December 11.

The discount rate reductions followed rather than led the decline in market interest rates. Average monthly yields on three-month Treasury bills, for example, peaked at just under 8 per cent in December 1969, but they had declined to about 5½ per cent when the discount rate was reduced to 5¾ per cent in November 1970. After the market yield on three-month Treasury bills had dropped below 5 per cent later in the year, the discount rate was reduced to 5½ per cent.[1]

Borrowing from the Federal Reserve Bank of St. Louis and its three branches declined sharply in 1970 from the previous year. Daily borrowing averaged only $12.7 million in 1970, compared with $41.8 million in 1969. The proportion of member banks that borrowed from the Federal Reserve Bank during the year declined from 22 per cent in 1969 to 17 per cent in 1970.

In late 1970 the Federal Reserve Board announced some major changes in procedures designed to simplify lending operations of the Federal Reserve banks. The new procedures eliminate the necessity for submitting a note in connection with each loan, permit the use of continuing lending agreements, permit the Federal Reserve banks to collect interest on loans to member banks at the time of repayment rather than on the borrowing date, and make changes in the discount rate applicable to all outstanding Federal Reserve bank loans. Thus the rate will cease to be a discount rate once the announced procedures become effective.

Supervision

The Federal Reserve Bank of St. Louis, along with the respective state supervisory authorities, exercises supervision over state chartered member banks in the Eighth Federal Reserve District which includes portions of seven states (Table II). Such supervision includes annual examinations for evaluating the assets, operations, policies, and management of the banks.

Table II

Number of Banks by Type
In Eighth Federal Reserve District

	12/31/70	12/31/69	Per Cent Change
National	348	348	0.0%
State Member	111	117	—5.1
State Nonmember	1,058	1,047	1.1
Total	1,517	1,512	0.3

Through such evaluations and the resulting recommendations, the authorities attempt to contribute to a more "sound" banking system. All of the 111 state member banks in the district were examined by Federal Reserve examiners in 1970. The 348 national banks in the district, which are required by law to be members of the Federal Reserve System, are examined by the staff of the Comptroller of the Currency. State nonmember banks that are insured by the Federal Deposit Insurance Corporation (FDIC) are examined by both the FDIC and their respective state supervisory authorities. The few noninsured banks are examined only by the state banking authorities. The nonmember banks, although numbering 1,058 in the district at the close of 1970, are smaller on the average than member banks and hold only about two-fifths of the total district bank deposits.

In addition to the examining function, the Federal Reserve bank exercises supervisory functions in admission of state banks to membership in the System, approval of branches and mergers of state chartered member banks, and of acquisitions by registered bank holding companies. Also, late in the year the "Bank

[1]Further reductions occurred in both market rates and the discount rate in early 1971.

Holding Company Act Amendments of 1970" was passed, and will place most one-bank holding companies in about the same category as registered bank holding companies with respect to supervision and permissible activities. This amendment will greatly enlarge the supervisory activities of the examination function.

Research

Research activities at the Bank include, first and foremost, the gathering and analyzing of national and regional data with a view to the formulation of monetary policy recommendations. These recommendations are used by the President of the Bank in Federal Open Market Committee deliberations, and are also used to provide economic information to the public through the monthly *Review* and other recurring releases, available upon request.

The research department has in recent years taken a more active part in decision-making relative to bank mergers and bank holding company acquisitions. The recent amendments to the bank holding company act are expected to enlarge research department activity with respect to bank holding company analyses.

Statements

The Federal Reserve Bank of St. Louis participates in the System's earnings and expenses. Preliminary figures indicate that during 1970 gross current earnings of the System amounted to $3,877 million and expenses totaled $321 million, leaving net current earnings of $3,556 million. With an $11 million net addition to the profit and loss account, net earnings

Table III

COMPARATIVE PROFIT AND LOSS STATEMENT

(Thousands of Dollars)

	1970	1969	Per Cent Change
Total earnings	$138,738	$117,877	17.7%
Net expenses	18,248	15,515	17.6
Current net earnings	120,490	102,362	17.7
Net additions (+) or deductions (−)	+ 416	− 2	—
Net earnings before payments to U.S. Treasury	$120,906	$102,360	18.1
Distribution of Net Earnings:			
Dividends	$ 1,406	$ 1,351	4.1
Interest on Federal Reserve notes	118,298	100,168	18.1
Transferred to surplus	1,202	841	42.9
Total	$120,906	$102,360	18.1

Table IV

COMPARATIVE STATEMENT OF CONDITION

December 31, 1970 Compared with December 31, 1969

(Dollar Amounts in Thousands)

ASSETS

	December 31, 1970	December 31, 1969
Gold certificate account	$ 468,866	$ 345,289
Special drawing rights certificate account	15,000	—
Federal Reserve notes of other banks	32,102	29,347
Other cash	12,279	9,828
Discounts and Advances	380	15,200
Acceptances	—	—
U. S. Government securities:		
Bills	952,157	820,240
Certificates	—	—
Notes	1,218,810	1,156,476
Bonds	107,825	128,808
TOTAL U. S. GOVERNMENT SECURITIES	$2,278,792	$2,105,524
TOTAL LOANS AND SECURITIES	$2,279,172	$2,120,724
Cash items in process of collection	671,121	621,658
Bank premises (net)	12,125	9,592
Other assets	28,468	84,373
Total Assets	$3,519,133	$3,220,811

LIABILITIES AND CAPITAL ACCOUNTS

LIABILITIES

	December 31, 1970	December 31, 1969
Federal Reserve notes (net)	$1,951,221	$1,796,579
Deposits:		
Member banks — reserve accounts	884,761	824,090
U. S. Treasurer — general account	73,887	67,998
Foreign	4,250	4,550
Other	10,906	11,316
Total Deposits	$ 973,804	$ 907,594
Deferred availability cash items	525,050	449,575
Other liabilities and accrued dividends	20,972	21,021
Total Liabilities	$3,471,047	$3,175,129

CAPITAL ACCOUNTS

Capital paid in	24,043	22,841
Surplus	24,043	22,841
Other capital accounts	—	—
Total Capital Accounts	$ 48,086	$ 45,682
Total Liabilities and Capital Accounts	$3,519,133	$3,220,811

MEMORANDA: Contingent liabilities on acceptances purchased for foreign correspondents increased from $5,107,000 on December 31, 1969 to $8,503,000 on December 31, 1970.

before payments to the United States Treasury were $3,567 million. Under the policy adopted by the Board of Governors at the end of 1964, all net earnings, after the statutory dividend to member banks and additions to surplus to bring it to the level of paid-in capital, were paid to the United States Treasury as interest on Federal Reserve notes. Payments in 1970 to the United States Treasury as interest on Federal Reserve notes amounted to $3,493 million; statutory dividends to member banks, $41 million; and additions to surplus accounts, $33 million.

Compared with 1969, gross earnings of the System were up $504 million, or 15 per cent. Earnings on Government securities increased $591 million, but earnings on foreign currencies and discounts and advances decreased $73 million and $15 million, respectively. Expenses in 1970 were up $46 million, about 17 per cent, and dividends on member bank stock rose $2 million.

The St. Louis Federal Reserve Bank's share of System net earnings in 1970, before payments to the U.S. Treasury, totaled $120.9 million (Table III). This was 18 per cent above earnings of a year earlier, reflecting both the higher rates received on earning assets and the larger volume of assets. The St. Louis Bank's portion of System earnings paid to the U.S. Treasury rose 18 per cent, a rise from $100 million to $118 million, while additions to surplus rose from $841,000 to $1.2 million.

The Bank's portion of System assets rose to $3.5 billion at the end of 1970 from $3.2 billion a year earlier. Most of the assets, $2.3 billion, are investments in U.S. Government securities, largely short-term Treasury bills and notes. The Bank's portion of the System Gold Certificate Account totaled $0.5 billion, and other assets including the Special Drawing Rights Certificate Account, notes on other Reserve banks, other currency, discounts to member banks, cash items in the process of collection, and the Bank premises totaled about $0.8 billion. The gain in assets from a year earlier largely reflects an increase in holdings of Government debt and the Gold Certificate Account. These items rose about $200 million and $100 million, respectively.