Operations of the Federal Reserve Bank of St. Louis – 1978

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AS the central bank of the United States, the Federal Reserve System performs a number of key functions within the nation's financial community, conducting monetary policy, supervising and regulating member banks, and providing 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 Reserve Banks.

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

This report reviews the operations of the Federal Reserve Bank of St. Louis during calendar year 1978.

Bank Supervision and Regulation

The Federal Reserve Bank of St. Louis, together with state banking authorities, has responsibility for the supervision of 71 state-chartered banks in the Eighth District which have elected to become members of the Federal Reserve System. The Bank makes annual examinations of state member banks in order to evaluate their assets, liabilities, capital accounts, liquidity, operations, and management. Attention also is focused on compliance with applicable laws and regulations.

Banking authorities use the information gathered through such examinations to direct attention to potential problems or unsatisfactory conditions at 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 of the 336 national banks in the Eighth District lies with the office of the Comptroller of the Currency. The Federal Deposit Insurance Corporation (FDIC) and respective state banking authorities examine state nonmember banks that are insured by the FDIC, while noninsured banks are examined only by state authorities.

Federal Reserve Banks also are responsible for supervision and regulation of bank holding companies. At the end of 1978, the Federal Reserve Bank of St. Louis had jurisdiction over 20 multibank and 97 one-bank holding companies, compared to 20 and 88, respectively, at the end of 1977. Prior approval must be obtained from the Federal Reserve System for bank holding company formations, acquisitions of additional banks and nonbank subsidiaries, and *de novo* expansions of existing subsidiaries. Applications for such bank holding company activities are analyzed by the Bank Supervision and Regulation Department, as well as the Bank's Legal and Research Departments. These departments consider the history, financial condition, and future prospects of the institutions involved and evaluate the quality of management. They also assess the legal aspects of any proposal and its likely effect on banking and nonbanking competition. During 1978, the Federal Reserve Bank of St. Louis received 20 applications to form bank holding companies and 25 applications from holding companies to acquire additional subsidiaries, engage *de novo* in nonbank activities, or establish new locations. An additional 15 applications were received for informal review.

After formation, bank holding companies must register and file annual reports with Federal Reserve Banks. These annual reports are analyzed by the staff of the Bank Holding Companies Division 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 also are analyzed to determine the overall condition of such subsidiaries. In addition, on-site inspections of bank holding companies and their nonbank subsidiaries are conducted by Division personnel. The purpose of these inspections is similar to that of examinations of banks.

Check Collection

The service of collecting and clearing checks drawn on member and nonmember banks is a major activity of 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 also are paid for on the day of presentment by a charge to the account of a specified member correspondent.

During 1978, the four Federal Reserve Bank of St. Louis offices cleared 744 million checks totaling $317 billion. This reflects increases of more than 7 percent in the number of checks cleared and 11 percent in dollar value when compared with 1977 check clearing activity.

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 return of dishonored items. The RCPCs that have been in operation in the Eighth Federal Reserve District since 1972 continue to facilitate 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

"Electronic funds transfers" — or "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 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 23 commercial banks in the Eighth District with a significant volume of transfers are currently participating in this network. Several other banks are considering the installation of terminals to take advantage of the service, whose reliability and speed permit major efficiencies in comparison to the standard procedure of shipping checks. Nearly 400 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 transfers are entered into the wire transfer system over Federal Reserve Bank terminals.

Table 1

Volume of Operations[1]

	Number (thousands)			Dollar Amount (millions)		
	1978	1977	Percent Change	1978	1977	Percent Change
Checks handled[2]	743,661	692,723	7.4%	$ 317,437	$ 285,868	11.0%
Transfers of funds	1,476	1,141	29.4%	1,153,708	1,035,000	11.5%
Currency received and counted	311,439	318,000	−2.1%	2,836	2,900	−2.2%
Government securities issued, serviced, and redeemed	13,902	13,300	4.5%	97,018	36,388	166.6%
U.S. Government coupons paid	313[3]	400	−21.8%	78[3]	185	−57.8%
Food stamps received and counted	122,926	120,000	2.4%	504	504	—

[1]Total for the St. Louis, Little Rock, Louisville, and Memphis offices.
[2]Excludes U.S. Government checks and postal money orders.
[3]Reflects conversion to book entry in handling of definitive coupons.

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 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 terminals 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 minutes.

With the installation of on-line terminals at the 23 District commercial banks, about 4,200 transactions per day are sent and received electronically and thus do not require manual processing by Eighth District personnel. This represents 71 percent of total transfers processed.

Volume and dollar amounts of transfers processed by the Eighth District continue to increase. During 1978, nearly 1.5 million transfers amounting to $1,154 billion were completed by the Federal Reserve Bank of St. Louis and its branches. This is a 29.4 percent increase in number and an 11.5 percent increase in value over the previous year. More on-line banks are expected to be added to the system in 1979.

Federal Recurring Payments

The Federal Reserve computer systems, on a recurring basis, process electronic data representing U.S. Government payments. Payments are received on magnetic tape from Government disbursing centers, processed, and distributed to financial organizations.

The Eighth District has processed such payments since August 1975, when the Federal Reserve System began handling the payroll for the Air Force. In 1978, these operations were expanded to include payments to Navy retirees.

The electronic funds transfer system (EFTS) currently is used in the Eighth District for the settlement of a variety of Federal recurring payments. Social Security payments constitute the largest category, with a monthly volume of 387,000 payments. Monthly volumes also include 19,000 Civil Service Annuity payments, 14,000 railroad retirement payments, 32,000 Veterans Administration payments, 44,000 Air Force payments, 14 CIA retirement payments, and 3,000 Navy retirement payments. In addition, 2,000 revenue-sharing payments are processed on a quarterly basis.

Automated Clearing Houses

An automated clearing house (ACH) provides for the exchange of payments on magnetic tape, in contrast to traditional clearing houses which provide for such payment exchanges with batches of paper checks.

The St. Louis Reserve Bank and each of its branches operate automated clearing houses and, since late 1978, are linked to a coast-to-coast network of financial institutions automatically handling pre-authorized payments via electronic communications and using Federal Reserve System facilities. The interregional network consists of 32 automated clearing house associations. It links approximately 9,400 banks and 1,500 thrift institutions which are members of these associations with 6,000 customer corporations.

Within the Eighth District, 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 February 1977, the Mid-South Automated Clearing House, operated by the Memphis Branch, began operations, followed in October 1977, by the Arkansas Automated Clearing House, operated by the Little Rock Branch.

Collectively, the District's four ACH facilities process approximately 42,000 commercial debits and 20,000 credit items each month.

Coin and Currency

Coin and currency, approximately 26.4 percent of the money stock, are used more widely than demand deposits in consummating small transactions, pri-

marily because of convenience. Personal checks generally are used for transactions of larger amounts. The Federal Reserve Banks supply virtually all of the coin and currency in circulation through the commercial banking system, and excess coin and currency are returned to Federal Reserve Banks through this system.

Approximately 311 million pieces of currency valued at $2.8 billion were received and verified at the four Federal Reserve offices in the Eighth District during 1978. This was a decrease of about 2 percent in number of pieces and a 2 percent decline in dollar volume from 1977. The number and value of coins received and verified showed a decline from 1977 levels. Combined sorting, counting, and wrapping of coin and currency at the four Eighth District offices averaged almost 5.6 million pieces per working day in 1978, slightly less than in 1977.

Currency which is no longer usable is removed from circulation and destroyed. During 1978, the Federal Reserve Bank of St. Louis and its branches verified and destroyed currency totaling $761 million.

Lending

Three types of credit are 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 may maintain a portion of their liquid assets in the form of Federal funds (loans of excess reserves to other banks), as 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 also is 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 beginning of 1978, the discount rate stood at 6 percent. The rate was increased seven times during the year and, at year's end, was 9½ percent, the highest since the Eighth District began operations in 1914. Throughout virtually all of 1978, however, the discount rate was below other short-term interest rates. As a result of this difference between rates, member bank borrowings in the Eighth District were relatively high, with daily average outstanding loans amounting to $57.8 million in 1978, more than twice the $23.7 million figure of 1977. There were 2,440 loans totaling $10.5 billion made to 119 Eighth District member banks by the Federal Reserve Bank of St. Louis during 1978. This is a substantial increase over 1977, when 860 loans amounting to $5 billion were made to 63 member banks.

Fiscal Agent

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 mainly represent 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 wishing 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.

As of January 24, 1979

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The Federal Reserve Banks, as fiscal agents, will hold in safekeeping securities pledged to secure Government deposits in tax and loan accounts at commercial banks. Federal Reserve Banks also will 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 1978, the Federal Reserve Bank of St. Louis and its branches processed 38,526 original-issue transactions, 113,160 servicing transactions, and 30,503 redemption transactions on behalf of the Treasury and various agencies, handling 13.9 million securities with a value of $97 billion. Also during 1978, 313,000 redemption transactions involving coupons of U.S. Treasury and agency securities were processed by the Eighth District offices, amounting to $78 million.

U.S. Government food stamps also are redeemed by Federal Reserve Banks. A total of 123 million food stamps amounting to $504 million were received and counted by the Federal Reserve Bank of St. Louis and its branch offices in 1978.

The Federal Reserve Banks also act as issuing and redemption agents for United States Savings Bonds. In this capacity in 1978, the Eighth District offices processed 13,597,669 Savings Bonds on original issue and redemption as well as reissue and replacement transactions.

Research

The Federal Reserve System, working closely with other policymaking agencies in the Government, has the primary responsibility of formulating and implementing monetary policy. Through representation on the Federal Open Market Committee (FOMC), Federal Reserve Banks play an important role in formulating System policy.[1] The President of this Bank uses the information gathered in policy discussions at meetings of the FOMC. In addition, the 12 regional Federal Reserve Banks contribute to System awareness of local and regional business conditions through the collection of business, monetary, and financial data.

[1]The Federal Open Market Committee 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 11 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 II

Combined Comparative Statement of Condition
(in thousands of dollars)

ASSETS	December 31, 1978	December 31, 1977
U.S. Government Securities:		
Bills	$1,721,549	$1,763,667
Certificates	—	—
Notes	2,240,002	2,148,021
Bonds	508,999	370,930
TOTAL U.S. GOVERNMENT SECURITIES	$4,470,550	$4,282,618
Gold Certificate Reserves	$ 466,025	$ 468,914
Special Drawing Rights Certificate Account	55,000	53,000
Coin	21,666	19,869
Loans and Securities:		
Discounts and Advances Secured by U.S. Government and Agency Obligations	31,705	6,600
Other Discounts and Advances	29,855	—
Federal Agency Obligations Bought Outright	322,415	339,654
Cash Items in Process of Collection	582,892	565,391
Bank Premises (net)	12,865	12,833
Other Assets	155,101	75,292
Interdistrict Settlement Account	68,589	—
TOTAL ASSETS	$6,216,663	$5,824,171
LIABILITIES		
Deposits:		
Member Bank — Reserve Accounts	$ 888,203	$ 817,447
U.S. Treasurer — General Account	246,465	474,331
Foreign	6,284	9,098
Other Deposits	22,431	22,260
TOTAL DEPOSITS	$1,163,383	$1,323,136
Federal Reserve Notes (Net)	$4,539,975	$3,912,126
Deferred Availability Cash Items	380,254	362,632
Interdistrict Settlement Account	—	114,545
Other Liabilities	66,111	47,458
TOTAL LIABILITIES	$6,149,723	$5,759,897
CAPITAL ACCOUNTS		
Capital Paid In	$ 33,470	$ 32,137
Surplus	33,470	32,137
TOTAL CAPITAL ACCOUNTS	$ 66,940	$ 64,274
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	$6,216,663	$5,824,171

The public also has access to data and information relating to economic developments through regular publications of the St. Louis Research Department. Comprehensive analysis of economic problems and conditions provides the basis for articles appearing in the *Review*, published monthly by this department. The *Review* has a circulation of about 42,000 copies and is distributed both nationally and internationally.

The Research Department also assists in the bank regulatory function by reviewing the impact of bank

Table III

Comparative Profit and Loss Statement
(in thousands of dollars)

	1978	1977	Percent Change
Total Earnings	$347,018	$284,888	21.8%
Net Expenses	33,759	33,619	.4
Current Net Earnings	$313,259	$251,269	24.7%
Net Additions (+) or Deductions (−)	−21,065	−5,829	261.4
Assessments for Expenses of Board of Governors	−1,667	−1,563	6.7%
Net Earnings before Payments to U.S. Treasury	$290,527	$243,877	19.1%
Distribution of Net Earnings:			
Dividends	1,975	1,963	.6%
Interest on Federal Reserve Notes	287,219	242,329	18.5
Transferred to Surplus	1,333	−415	—
TOTAL	$290,527	$243,877	19.1%

mergers and holding company acquisitions on the communities to be served.

Bank Relations and Public Information

The Bank Relations and Public Information Department establishes and maintains personal contact with all banks located in the Eighth Federal Reserve District through a structured bank call program and attendance at various banking functions. An effort also is 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 take part in the program. Last year, 46 Eighth District member banks participated in the activity.

In maintaining contact with the banking industry and the general public during 1978, the officers and staff members of the Federal Reserve Bank of St. Louis and its branches delivered 423 addresses before bankers, business groups, and educators. The Bank was represented at 161 banker, 89 professional, and 285 miscellaneous meetings. Under the bank call program, 836 banks in the District were visited. During 1978, 987 groups requested films from the Bank Relations film library, and 6,554 visitors toured the four Federal Reserve offices in the Eighth District.

Financial Statements

The net expenses of the Federal Reserve Bank of St. Louis in 1978 were .4 percent higher than net expenses for 1977. Although the increase in expenses was small, the Bank's payments to the Treasury increased by 18.5 percent — from $242 million in 1977 to $287 million in 1978.

The $287 million paid to the Treasury was 82.8 percent of total earnings. In 1977, by comparison, 85.1 percent of total earnings was paid to the Treasury.