

Operations of the Federal Reserve Bank of St. Louis — 1973

WILLIAM LEPLEY

THE Federal Reserve Bank of St. Louis is one of twelve such banks which, with the Board of Governors, make up the Federal Reserve System. The St. Louis Bank operates in the Eighth Federal Reserve District, which encompasses all of Arkansas and parts of Illinois, Indiana, Kentucky, Mississippi, Missouri, and Tennessee. In addition to the head office in St. Louis, the Bank has branches in Little Rock, Louisville, and Memphis.

The functions of the Federal Reserve System include the formulation and implementation of monetary policy, the regulation of banks, and the provision of services to banks, the U.S. Government, and the general public. The day-to-day operations of the Federal Reserve Banks consist primarily of the regulatory and service functions. This report reviews these operations for the Federal Reserve Bank of St. Louis during 1973.

Bank Supervision and Regulation

The Federal Reserve System has responsibility for the supervision and regulation of state-chartered banks which are members of the Federal Reserve System. Nonmember state banks which are insured by the Federal Deposit Insurance Corporation (FDIC) are supervised by that agency as well as state officials. National banks, although required to be members of the Federal Reserve System, are under the jurisdiction of the Comptroller of the Currency.

One of the regulatory actions of the Federal Reserve Banks is the processing of applications from state-chartered banks for membership in the Federal Reserve System. New branches of state member banks also must be approved by the Reserve Banks. An

important part of the Federal Reserve System's continuing supervision of banks is the annual examination of state member banks which the twelve Reserve Banks conduct in their districts. The purpose of the examinations is to evaluate each bank's assets, liabilities, capital, liquidity, operations, and management, and to determine compliance with applicable laws and regulations. The Bank Supervision and Regulation Department of the Federal Reserve Bank of St. Louis examined 91 banks during 1973.

The Federal Reserve System also has responsibility for administering the Bank Holding Company Act. The responsibility of the Reserve Banks includes the analysis of applications both for establishing bank holding companies and for acquiring additional banks and bank-related firms. In addition, supervision of the bank holding companies is performed by the Reserve Banks. At the end of 1973, the Federal Reserve Bank of St. Louis had jurisdiction over 17 multi-bank holding companies and 67 one-bank holding companies.

The Bank Supervision and Regulation, Legal, and Research Departments of the Federal Reserve Bank of St. Louis are involved in processing the bank holding company applications. Factors analyzed in connection with these applications include the financial conditions and managerial capabilities of the relevant companies, the effects on competition expected to result from the proposal, and likely effects on the convenience and needs of the areas involved. Under certain circumstances the Federal Reserve Bank possesses delegated authority to approve applications. In most cases the recommendations of the Federal Reserve Bank are forwarded to the Board of Governors of the Federal Reserve System for the final decision.

During 1973, 41 bank holding company applications were received and accepted for processing by the Federal Reserve Bank of St. Louis.

Bank holding companies are required to file annual reports with the Reserve Banks. Also, discretionary on-site inspections of bank holding companies are conducted. This information, in addition to the examination reports of subsidiary banks, is analyzed to ascertain the financial condition of the holding company and its subsidiaries and to determine compliance with applicable laws and regulations.

Applications for bank mergers are processed by the Federal Reserve Banks when the resulting bank is to be a state-chartered member of the System. Factors considered in the review of these cases are similar to those in bank holding company cases.

In addition to regulating the state-chartered member banks, the Federal Reserve System contributes to the regulation of banks which are under the jurisdiction of the FDIC and the Comptroller of the Currency. Advisory opinions are provided by the Federal Reserve System for proposed bank mergers which are subject to the approval of these agencies. The advisory opinions are limited to a discussion of the competitive effects of the proposed mergers. The Federal Reserve Bank of St. Louis provided advisory opinions on four of these bank mergers during 1973.

Check Collection and Funds Transfer

The Federal Reserve System provides check collection and clearing service for both member and non-member banks. Entries are made to the reserve accounts of member banks to effect payment for checks. For nonmember banks entries are made to the accounts of member banks which are correspondents of the nonmembers.

As the economy has expanded, the volume of checks which must be collected and cleared has increased. The St. Louis Bank and its branches cleared 586 million checks with a dollar value of \$191 billion in 1973. This amounted to a 14.2 percent increase in number and an 11.9 percent increase in dollar value over 1972 levels.

The increasing volume of checks has meant a greater burden on the check clearing operation, and automation is one of the means being used to improve this operation. Electronic computing facilities are used extensively by the St. Louis Bank; preparations were undertaken during 1973 for the implementation of more powerful computing facilities to improve further the check clearing process.

An increasing amount of funds are transferred electronically by means of the Federal Reserve Communications System (FRCS). This System consists of the Reserve Banks and their branches; the offices are equipped with data communications terminals which can be connected through a central switching station. When immediate payment is desired, member banks may transfer funds through the FRCS. Nonmember banks, firms, and individuals can make use of this service through the member banks. These wire transfers of funds are especially attractive for large transactions. During 1973, 494,000 wire transfers amounting to \$491 billion were made by the St. Louis Bank and its branches, an increase of 20.3 percent in number and 23.7 percent in dollar value over 1972 levels.

In order to speed the collection and clearing of checks, Regional Check Processing Centers (RCPCs) have been established by the Federal Reserve System. The goal of the RCPC project is to increase the number of banks receiving overnight check clearing service. Zones are designated for each RCPC and the

Table 1

VOLUME OF OPERATIONS¹

	Number (thousands)		Percent Change	Dollar Amount (millions)		Percent Change
	1973	1972		1973	1972	
Checks collected ²	585,713	512,966	14.2%	\$191,460.3	\$171,092.6	11.9%
Coin received and counted	1,291,315	652,056	98.0	131.3	77.2	70.1
Currency received and counted	273,304	266,323	2.6	2,147.0	1,969.9	9.0
Transfer of funds	494	410	20.3	491,244.9	397,204.6	23.7
U.S. Savings Bonds and Savings Notes ³	11,021	10,311	6.9	642.6	605.6	6.1
Other Government Securities ²	493	415	18.8	23,812.0	20,710.9	15.0
U.S. Government coupons paid	683	706	-3.3	242.6	219.4	10.7
Food coupons received and counted	142,635	129,610	10.0	315.6	273.8	15.3

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

²Excludes Government checks and money orders.

³Issued, exchanged, and redeemed.

banks within these zones may use this faster check clearing service. Previously, only some banks located close to their check clearing facilities were served in this manner.

The Federal Reserve Bank of St. Louis and its three branch offices have been operating RCPCs since mid-1972. These offices have always provided check clearing facilities, but they now provide overnight check clearing to much larger areas. Implementation of the Eighth District RCPC plan has involved a gradual expansion of the RCPC zones. In January 1973, the second phase of the RCPC plan was implemented in St. Louis with the addition of 97 banks to the St. Louis RCPC zone. The RCPC zones of Louisville and Memphis have already been expanded to the geographic boundaries of these branches. The expansion of Little Rock's RCPC zone is approximately 90 percent complete.

Coin and Currency Operations

Coin and currency, making up approximately 23 percent of the nation's money supply, are used for a variety of transactions.¹ Currency is more widely accepted than personal checks and its use is more convenient and less costly for smaller transactions. Member banks receive or deposit coin and currency at the Federal Reserve Banks; the necessary bookkeeping entries are made to their reserve accounts. This service is also available to nonmember banks, the entries being made to the reserve accounts of correspondent banks which are members of the System. Currency is sorted at the Federal Reserve Banks, and that which is no longer usable is removed from circulation and destroyed.

During 1973, 273 million pieces of paper currency with a value of \$2.1 billion were received and counted by the St. Louis Reserve Bank. Pieces of coin received and counted totalled 1.3 billion, amounting to \$131 million.

Lending Activity

Member banks may borrow from their Federal Reserve Banks for short periods of time in order to meet reserve requirements. The interest rate at which the banks may borrow is referred to as the discount rate. The volume of Federal Reserve loans to banks typically rises as short-term market interest rates rise relative to the discount rate; conversely, loan volume

declines as short-term market interest rates decline relative to the discount rate.

The discount rate at the beginning of 1973 was 4.5 percent; it was raised seven times during the year and reached 7.5 percent at yearend. Short-term market interest rates remained above the discount rate throughout 1973. Member bank borrowings were quite high, with the daily average outstanding loans rising from \$6.6 million in 1972 to \$55.0 million in 1973. During 1973, 1,759 advances were made, amounting to \$11.1 billion; this is a substantial increase from the 198 advances totalling \$1.3 billion which were made in 1972.

U.S. Fiscal Agency Operations

The Federal Government maintains checking accounts at the Federal Reserve Banks which provide the means for making Government disbursements. When the Government receives funds from taxes or the sale of securities, they are initially deposited in the Treasury's "tax and loan accounts" at designated commercial banks. The Treasury periodically transfers funds from these commercial banks to its checking accounts at the Federal Reserve Banks.

Securities subscriptions of the Federal Government are also handled by the Federal Reserve Banks. The Reserve Banks circulate the subscription forms for new Government securities and accept applications for their purchase. The securities are issued by the Reserve Banks and the funds received as payment are deposited in the Treasury's accounts. After the securities have been issued and delivered, the Reserve Banks pay the interest on the securities and redeem them at maturity.

In 1973, 11 million savings bonds and notes and 493,000 other Government securities with a combined total dollar value of more than \$24 billion were issued, exchanged, or redeemed by the Federal Reserve Bank of St. Louis. Also, 693,000 Government bond coupons with a dollar value of \$242.6 million were paid by this Bank.

Another fiscal agency activity is the redemption of U.S. Government food coupons (commonly known as "food stamps"). During 1973, 143 million food coupons with a total value of \$315.6 million were received and counted by the St. Louis Bank.

Research

The Research Department of the Federal Reserve Bank of St. Louis contributes to the formulation of

¹The money supply is defined as demand deposits of the nonbank public plus coin and currency outside banks.

national monetary policy and to the Bank's regulatory function. In addition, it provides economic data and analyses to the public.

A variety of regional, national, and international economic data is collected and analyzed by this department. The information is used by the President of the Bank in his participation in monetary policy discussions during meetings of the Federal Open Market Committee.

Members of the Research Department contribute to bank regulation by analyzing the competitive and public interest aspects of bank mergers and holding company acquisitions. Recommendations on each case are submitted to the Board of Governors.

Data collected by the Department are available to the public in its ten regular publications. The *Review*, with a monthly circulation in 1973 of more than 42,000, provides a forum for the presentation of economic research.

The Research staff is also encouraged to publish articles in outside economic journals. Several such articles appeared during 1973.

Bank Relations and Public Information

The St. Louis Bank and its branches maintain personal contact with the banks and assist member banks with their operations related to the Federal Reserve System. The Federal Reserve "Functional Cost Analysis Program" is one of the services provided to member banks. This program provides a cost-income profile of each participating bank's major functions. The individual bank can compare its current operating statistics with its past data as well as with average data for banks of similar size.

The Bank also maintains contact with the public through several other activities. During 1973, officers and staff members of the Federal Reserve Bank of St. Louis and its branches delivered 217 addresses before groups of bankers, businessmen, and educators. The Bank was represented at 226 banker, 62 professional, and 187 miscellaneous meetings. Under the bank visitation program, 1,452 banks were visited. During 1973, 286 groups requested films, and 3,894 visitors toured the four offices.

Financial Statements

Total assets of the Federal Reserve Bank of St. Louis and its branches at the end of 1973 were \$3.98 billion, an increase of 7 percent from the previous year (see Table II). A \$427 million increase in holdings of U.S.

Table II
COMPARATIVE STATEMENT OF CONDITION
(Dollar Amounts in Thousands)

	December 31, 1973	December 31, 1972
ASSETS		
U.S. Government Securities:		
Bills	\$ 1,380,319	\$ 1,065,852
Certificates	—	—
Notes	1,437,002	1,317,964
Bonds	117,801	124,403
TOTAL U.S. GOVERNMENT SECURITIES	\$ 2,935,122	\$ 2,508,219
Discounts and Advances	\$ 20,880	\$ 51,800
Acceptances	—	—
Federal Agency Obligations	72,482	47,117
TOTAL LOANS AND SECURITIES	\$ 3,028,484	\$ 2,607,136
Gold Certificate Account	\$ 359,159	\$ 534,206
Special Drawing Rights Certificate Account	15,000	15,000
Federal Reserve Notes of Other Banks	48,880	35,124
Other Cash	18,610	21,120
Cash Items in Process of Collection	463,205	444,584
Bank Premises (Net)	13,822	14,609
Other Assets	31,711	34,143
TOTAL ASSETS	\$ 3,978,871	\$ 3,705,922
LIABILITIES AND CAPITAL ACCOUNTS		
LIABILITIES		
Deposits:		
Member Bank — Reserve Accounts	\$ 771,264	\$ 814,166
U.S. Treasurer — General Account	178,196	142,418
Foreign	8,840	9,860
Other Deposits	15,344	11,178
TOTAL DEPOSITS	\$ 973,644	\$ 977,622
Federal Reserve Notes (Net)	\$ 2,602,493	\$ 2,319,569
Deferred Availability Cash Items	310,996	335,415
Other Liabilities and Accrued Dividends	34,768	19,406
TOTAL LIABILITIES	\$ 3,921,901	\$ 3,652,012
CAPITAL ACCOUNTS		
Capital Paid In	\$ 28,485	\$ 26,955
Surplus	28,485	26,955
Other Capital Account	—	—
TOTAL CAPITAL ACCOUNTS	\$ 56,970	\$ 53,910
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	\$ 3,978,871	\$ 3,705,922

MEMORANDA: Contingent liabilities on acceptances purchased for foreign correspondents increased from \$6,086,000 on December 31, 1972 to \$19,757,000 on December 31, 1973.

Government securities was the primary source of the increase in total assets. This increase was somewhat offset by a \$175 million decrease in the Gold Certificate account. Approximately three-fourths of the Bank's assets were held in U.S. Government securities. The remaining assets, including the gold certificate account, the special drawing rights certificate account, notes on other Reserve Banks, cash items in process of collection, and bank premises, totalled \$1.04 billion.

Liabilities of the St. Louis Bank increased to \$3.92 billion, a 7 percent increase from the end of 1972. This increase resulted largely from a 12 percent increase in Federal Reserve Notes, the principal type of currency

Table III
COMPARATIVE PROFIT AND LOSS STATEMENT
 (In thousands of dollars)

	1973	1972	Percent Change
Total earnings	\$180,673	\$141,543	27.6%
Net expenses	27,791	23,757	17.0
Current net earnings	152,882	117,786	29.8%
Net additions (+) or deductions (-)	— 2,862	— 1,590	—
Net earnings before payments to U.S. Treasury	150,020	116,196	29.1%
Distribution of net earnings:			
Dividends	\$ 1,667	\$ 1,544	8.0%
Interest on Federal Reserve Notes	146,823	112,873	30.1
Transferred to surplus	1,530	1,779	— 14.0
TOTAL	\$150,020	\$116,196	29.1%

in circulation. These notes amounted to \$2.6 billion, approximately two-thirds of the Bank's total liabilities. Deposits, consisting mainly of member bank reserve accounts, amounted to \$974 million.

Federal Reserve Banks' earnings result from interest on Government securities, interest on loans to member banks, and reimbursements for certain fiscal agency functions. In 1973, the portion of the Federal Reserve System's earnings allocated to the St. Louis Bank totalled \$180.7 million, an increase of 27.6 percent from the previous year (see Table III). After statutory dividends of \$1.7 million were paid to member banks and operating expenses of \$27.8 million were covered, \$1.5 million was transferred to surplus and \$147 million was paid to the Treasury as interest on Federal Reserve Notes.

