

# ANNUAL REPORT '80



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## Federal Reserve Bank of Atlanta

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# Federal Reserve Bank of Atlanta

## From the Boardroom

1980 has been a remarkable year of transition for the financial institutions of the Sixth District, their customers, the Federal Reserve System, and for our Bank.

The most exciting and far-reaching event of the year, by far, was the passage of the Depository Institutions Deregulation and Monetary Control Act. When President Carter signed that Act on March 31, 1980, he initiated the most significant series of changes in our financial environment since the 1930s. They will affect us and our constituents importantly for the remainder of the twentieth century.

For the southeastern consumer and his banking institution, the most noteworthy feature of the new law was the introduction of interest-bearing checking accounts. In addition to allowing banks to pay interest on consumer checking balances on the final day of 1980, the new legislation extended the same option to savings and loan associations as well as credit unions. About nine out of ten S&Ls in the District are using the new power. A few credit unions (CUs) were already offering similar services, called "share drafts," in 1980. Now more than three-quarters of the larger credit unions in the District are expected to offer such accounts to their members.

Sixth District consumers will also find that there has been a huge increase in the number of places where they can go to obtain checking services. The S&Ls and CUs in our District currently operate from over 5,000 offices. We estimate that interest-bearing checking accounts are or will soon be available at half or more of these locations. When added to our 7,000 bank offices, this represents at least a 50 percent increase in the number of places consumers can take their checking account business.

Naturally, the interest payments on these new accounts will be quite costly for the institutions offering them. Costs will grow even more because the new legislation also requires the Federal Reserve Banks to begin charging fees for the basic services we have traditionally provided free to our constituents. For member banks as a whole, however, these charges in 1981-84 will be offset by a phased reduction of their reserve requirements. Our new constituents—nonmember banks, the thrift institutions, and credit unions—on the other

hand, are now subject to gradually increasing reserve requirements as they begin to use Fed services and offer the new checking accounts.

From our Bank's point of view, the landmark legislation brings us a large increase in both our regulatory and service functions. On the regulatory side, for example, we are now receiving deposit reports from and calculating required reserves for about 2,900 institutions—a fourfold increase from less than 700 institutions under the old rules. We have also opened the discount window to our new constituents and will soon be offering other services to them on a price-for-service basis. In short, the Monetary Control Act of 1980 has propelled us into a challenging period of service growth.

On the national economic scene, the way we conduct monetary policy also has been changing. We are now in our sixth quarter of operations under the new operating procedures that were announced on October 6, 1979. By placing much more emphasis on controlling the nation's monetary growth, the Federal Reserve intended to initiate a gradual reduction of the inflation rate. A year ago, we targeted 1980 growth rates for the monetary aggregates which would gradually reduce the trend of inflation if complemented by appropriate fiscal policy measures. The result has been a mixture of success and disappointment. One of the two most prominent definitions of money—M-1A—we held within the top of our target range. The other one—M-1B—was pulled above the range we specified by unexpectedly rapid growth in the new interest-bearing checking deposits. Measured monthly rather than on a quarterly average basis, however, M-1B reentered our target range in December. For both of these measures of money, we held 1980 growth slightly below that of 1979. In the face of rising inflation and federal deficits, this was no small achievement. But we clearly missed the midpoints of the ranges we intended to achieve and are now redoubling our efforts to further curtail the monetary aggregate growth rates in 1980-81. Our success is indispensable to the fight against inflation. We hope and expect that the federal budget deficit, which totaled \$59 billion in the past fiscal year, will also be curbed so that pressures in the financial markets will not become intolerably intense as we follow through with our contribution to the anti-inflation program.

Here in the Southeast, we have shared the national pattern of inflation and recession. We

fared generally better than the nation in 1980, partly because of the move of people and resources to the Sun Belt, partly because our construction sector avoided its speculative vulnerability of five years before, and partly because our region is less concentrated in recession-prone manufacturing of durable goods. Our friends in Alabama were the exception to this rule; 1980 was not a good year for them. Louisiana, in contrast, benefited disproportionately from its concentration in energy-related industries.

It is also a time of transition within the Federal Reserve Bank of Atlanta because of the recent retirement of President Monroe Kimbrel. Under his able leadership, this Bank has heightened its reputation for efficiency and excellence. Specifically, he presided over the installation of our Regional Check Processing Centers, the creation of path-breaking new facilities in our automated clearing house, and

the construction of our new Branch in Miami. Under his leadership, the Bank contributed significantly to the automation of currency processing and the introduction of electronic bookkeeping for Treasury securities.

Above all, Monroe Kimbrel led this Bank in demonstrating that public institutions can be cost-conscious and efficient. Our Bank has increased its physical volume of production—checks cleared, currency processed, etc.—by 10 percent a year since 1977. During the same period, our staff has actually been reduced by 5 percent—from 2,439 in 1977 to 2,318 full-time employees in December 1980. These are remarkable gains in productivity. They have enabled us to rise to rank first in measured overall efficiency among the 12 Federal Reserve Districts. For this legacy of excellent management, we thank Monroe Kimbrel and wish him well in his future endeavors.

Looking ahead, we see many things: a new building for our Jacksonville Branch; a new computer system serving all six offices; an altogether unfamiliar and challenging “priced services” operating environment; and major tasks relating to the full implementation of our new responsibilities under the Monetary Control Act. We plan to do all this without any appreciable increase in staff and with virtually no real increase in our operating budget, adjusted for inflation.

We also see an opportunity to persevere in the battle against inflation...to serve more depository institutions than the Fed has ever served before, and to serve them better...to meet and work effectively with leaders from our region’s nonmember banks, savings and loan associations, credit unions, and various international banking organizations.

To our old friends, the member bankers, we say thanks: your loyalty means a great deal to us, and our continuing obligation to serve you well will not be forgotten.

To our new friends, we say welcome, as we join to make this the beginning of a productive new era in the delivery of financial services.



*l. to r., President Ford, Chairman Fickling,  
Deputy Chairman Weitnauer*



*William A. Fickling, Jr.*

William A. Fickling, Jr.  
Chairman

*William F. Ford*

William F. Ford  
President  
Federal Reserve Bank of St. Louis

*John H. Weitnauer, Jr.*

John H. Weitnauer, Jr.  
Deputy Chairman

# Monetary Policy and the National Economy

Monetary policy in 1980 interacted with a mercurial and inflationary economy.

The year began amid fears of recession. Instead, the economy generated moderate growth, but inflation accelerated with surprising sharpness. A spurt in energy and food prices pushed up the Consumer Price Index at a 17-percent rate in the first quarter.

Businesses and consumers rushed to borrow in the atmosphere of heightened inflation, raising interest rates dramatically. On March 14, the Fed imposed special credit restraints at the request of the President. The prime rate then peaked at 20 percent in early April, but later fell sharply.

Income and production peaked, too. When the figures for April emerged, it was clear that the long-awaited recession had finally arrived—with a jolt. Interest rates plunged, the dollar declined on world markets, and the unemployment rate rose 1.6 points from March to May. Hopes for a balanced budget, or even the \$28-billion deficit projected earlier by the Administration, vanished

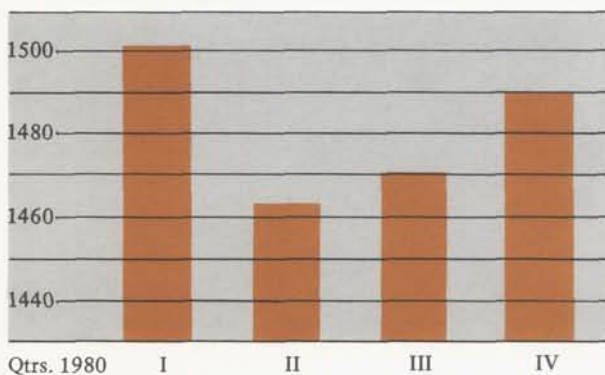
quickly as the recession took hold. Second-quarter statistics later confirmed the sharpest quarterly decline of the postwar era.

But then, almost as quickly, the nation's economic pulse revived. Third-quarter economic growth, although certainly not spectacular, surprised most forecasters. Inflationary pressure quickened, too. Interest rates rose again. And by the time the federal government closed its books on fiscal year 1980 at the end of October, the deficit had amounted to \$59 billion—over twice the original estimate.

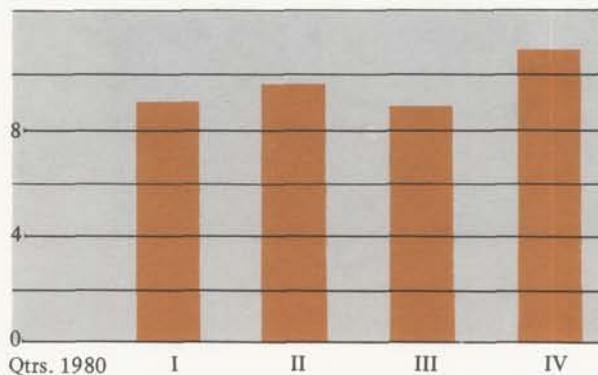
Even as economic activity quickened, though, there were conspicuous weak spots. Homebuyers balked at high mortgage rates. Domestic auto-makers cut production to match slumping sales. Spending for plant and equipment items proved disappointingly sluggish, especially in view of the need for more investment and higher productivity.

1980 was indeed mercurial, a year of perplexing ups and downs. As the year ended, inflation apparently remained as strongly imbedded as ever,

*Real GNP*  
billions of 1972 dollars



*Inflation (GNP Price Deflator)*  
% change at annual rate



and more sluggishness was in prospect for the economy.

This was not an environment conducive to effective monetary policy-making. Throughout the year, credit demands and interest rates ebbed and flowed with the shifting economy. Monetary growth impacted and reflected these shifting economic patterns of strength, weakness, and strength again, despite Fed efforts to moderate these swings.

Most of all, monetary policy was made more difficult by the surging federal deficit. The doubled deficit made it much more difficult to develop and sustain much confidence that inflation was coming under control. It required more Treasury borrowing from already-congested debt markets. This put even more pressure on interest rates and crowded out the efforts of some businesses, at least, to finance investments in productivity-enhancing plant and equipment.

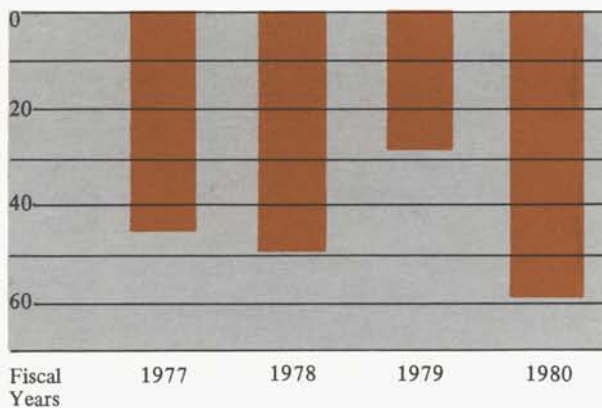
The record of monetary growth in 1980 is somewhat disappointing. Relative to the quarterly

growth targets established for the four monetary aggregates, we finished the year clearly within the target range on only one, M-1A. In addition, the monthly M-1B aggregate just barely fell back within its intended target range at the end of December. In both cases, 1980 growth was reduced from 1979's rate. But in none of the cases did we approach the midpoint of the respective target range. In short, monetary growth was cut back in 1980, but not as much as we had hoped.

Looking ahead to 1981, controlling monetary growth remains the key ingredient in our efforts to control inflation. The Fed's record promises to be better in 1981. There is now increasing support for holding down the federal deficit. If a firm monetary policy is accompanied by a less inflationary budget and other growth-inducing policies—particularly longer-run policies designed to foster investment, saving, and productivity—1981 should be a year of progress in our nation's ongoing battle against inflation. ■

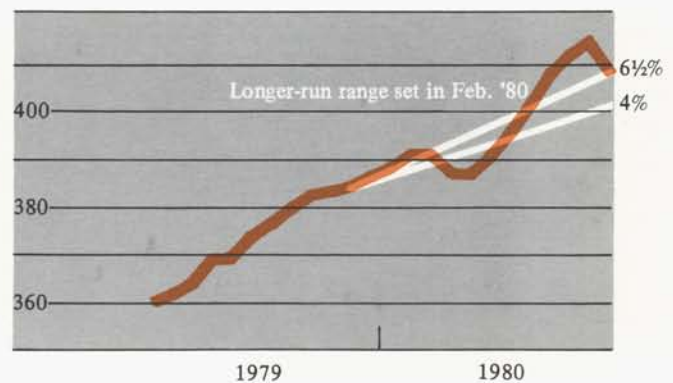
### Budget Deficit

billions of dollars



### Targeted and Actual M-1B

billions of dollars



# Southeastern Economy

## Overview

Volatile financial conditions and high inflation hit the Southeast almost as hard as the rest of the country in 1980. But a variety of factors, including in-migration and more recession-resistant industries, helped the District hold up better than the U. S. as a whole.

Our real estate industry survived two bouts of high mortgage rates and tight financial conditions. Commercial and industrial construction projects, fed by continued population growth, helped keep the area's construction industry moving.

Job growth slowed, however, across a broad spectrum of industries. Manufacturing employment—usually more sensitive to downturns than other sectors—fell considerably. But a favorable mix between light and heavy manufacturing cushioned the effect of sharp declines in automobile and steel employment.

Unemployment rates in the region were the worst since the 1973-75 contraction. In the six-state area, unemployment rose from 6 percent of the labor force in late 1979 to almost 8 percent during the depths of the 1980 recession. By late in the year, however, our region's unemployment rate had moved back down to around 7 percent—roughly a half percent below the national rate.

Among southeastern farmers, there were a few winners but many losers. Drought hurt the prospects for expanded crop output for many producers, but wheat and tobacco, with early growing seasons, largely escaped the searing heat and produced higher yields per acre than in 1979. It was an especially tough year for livestock producers: meat prices fell during the first half of 1980, partly due to a huge increase in hog marketings. The situation worsened during the fall months, when sharply rising feed costs aggravated earlier losses and further discouraged meat production.

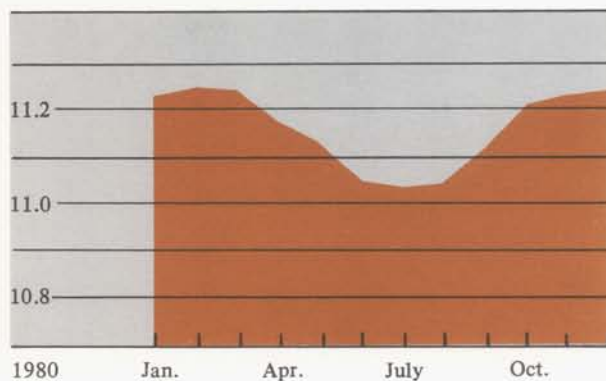
Overall, the region's economy—like the nation's—went through four distinct phases during 1980, moving from a relatively strong position from January through March, into recession from April to August, on to a partial recovery in late summer and the fall and, finally, renewed uncertainty as the year came to a close. A brief retracing of the region's major economic events follows.

## First Quarter: A Strong Regional Economy

As the curtain rose on 1980, the southeastern economy looked fairly strong in most sectors. Expanding employment and fatter paychecks supported brisk retail sales, despite the record-setting first quarter surge in consumer prices. Demand was especially strong for energy-efficient products. Home entertainment items were hot, perhaps as a consumer reaction to escalating gasoline prices. Auto dealers noted a pick up in

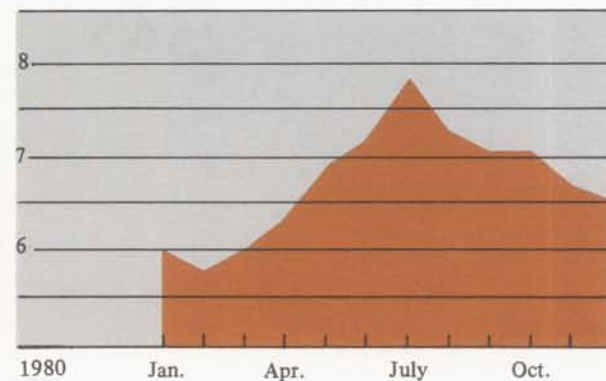
## Nonfarm Employment

millions



## Unemployment Rate

percent



Charts on pages 8-10 cover Sixth District states.

compact car sales, but had trouble keeping enough fuel-efficient cars on their lots to compete with foreign products.

The tourist industry also fared well in the early months of 1980. Hotels and motels in central Florida enjoyed peak occupancy rates, and attendance at tourist attractions was close to capacity.

Commercial and industrial building provided considerable support to construction. In Jacksonville and Atlanta, especially, contractors were busy with a backlog of big projects. The District's alternative fuel industry also boomed: two alcohol plants opened in southern Louisiana, and others will open soon in Jacksonville, Tampa, Orlando, Miami and Pensacola. A large coal gasification complex was planned for northern Alabama.

Some signs of impending weakness appeared, however, as impulse buying slowed and an unusually large number of customers reached their credit limits.

Weakness also showed up in residential construction early in the year. Rising mortgage interest costs cut into home demand, and mortgage loan applications fell markedly. Deposit inflows at S&Ls contracted.

And, unlike many other parts of the country, the Southeast saw consumer and business loan demand at commercial banks begin to slacken in the first quarter. High interest rates caused consumers to defer purchases of big-ticket items and seek credit less eagerly.

International developments also caused concern in the region: the federal ban on phosphate

exports to the Soviet Union worried Florida's phosphate industry, and retaliatory trade restrictions preoccupied poultry farmers.

A hard freeze in early March hurt the region's peach crop badly, but Florida's citrus and vegetable crop escaped major damage. Prospects for relatively high prices led farmers to expand plantings of several major crops despite sharply higher production costs.

### Recession in the Southeast

As spring unfolded, the District economy became decidedly recessionary. High interest rates intensified a sales slump and forced layoffs in the home and automobile industries. Many auto dealers closed their doors, and almost all of them kept their inventories as low as possible. Consumers retrenched, and merchandise sales, adjusted for inflation, declined.

By April, residential construction came to a standstill in most areas of the Southeast. Buyers had difficulty qualifying for loans, and houses remained on the market longer. Mortgage rates at 16 percent for potential home buyers were typical. Mortgage loan applications slowed to a trickle. Savings and loan associations had trouble securing loanable funds except through expensive money market and 30-month savings certificates.

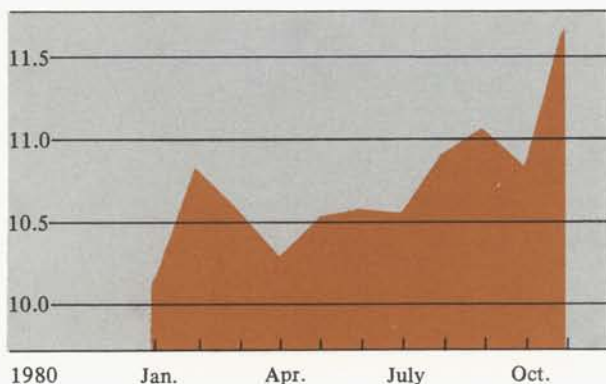
Nonresidential construction activity was still fairly brisk, and numerous plans for hotel, office, and/or retailing complexes were announced during spring and early summer. Some companies, however, postponed construction until more favorable financing terms could be arranged. Condominium construction in Florida slowed, as many buyers were unable to sell their houses in the northern U. S.

The high borrowing costs also sharply reduced consumer loan demand. Retailers noted a falloff in the sale of big-ticket items, where financing is usually necessary. Customers became very price conscious.

Employment weakened, too, throughout the District. Layoffs hit metal and auto supplies hard, especially in Mississippi (automotive wiring), Tennessee (auto glass), and Alabama (steering gears, aluminum and steel). Work forces in construction-related industries also were reduced throughout the region: carpet and lumber mills cut production, laid off workers and struggled to eliminate excess inventories.

A severe drought shriveled crops across the region in June and July. Hay and pasture suffered

*Retail Sales*  
billions of dollars



the largest losses, followed by corn, soybeans, and peanuts. Record temperatures also damaged the poultry industry.

### Late Summer Rebound

By August, there was growing evidence that the recession had bottomed out. Although consumer spending continued to be restrained, confidence was returning. Stronger-than-expected back to school purchases of soft goods encouraged retailers. Household improvement items sold briskly. Cash sales increased as credit usage declined.

Inventories continued to be closely monitored. New car sales improved in most areas and used car activity picked up. Consumers shopped carefully for the best rates on installment loans.

As mortgage interest rates fell in the third quarter, mortgage loans rebounded. By late summer, in fact, residential construction contracts in the six state area surged to the highest level of the year. Applications increased considerably at savings and loans, particularly in Florida, but builders of single-family homes were cautious. Residential construction remained weak in areas of rising unemployment, however, especially in central and northern Alabama.

Banks reported strong gains in real estate and installment loans. International banking was in a

growth spurt in south Florida, where Miami opened its sixteenth foreign agency.

Tourism held up reasonably well. The percentage of foreign visitors—especially Latin American visitors to the Miami area—continued to increase, offsetting a decline in domestic tourism.

Some industries, notably steel, plywood, tire, and aluminum plants, were recalling laid-off workers by fall, but hours worked in many industries remained far behind last year's rate. Scattered strikes troubled Alabama, where unemployment was the worst in the District.

Third quarter figures showed retail sales up 3.6 percent over second quarter, and District manufacturing production was beginning to improve.

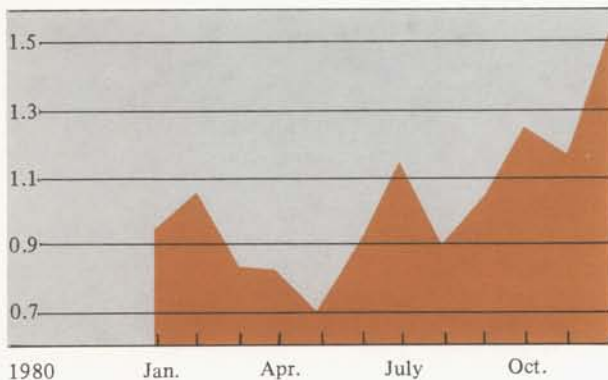
Lingering drought further reduced District crop production, although price increases offset some of the drag on income. Farmers made heavy use of emergency credit. Eight principal District crops yielded a combined net loss of \$1.2 billion in 1980.

### More Uncertainty Late in Year

Toward the end of 1980, some signs warned of possible renewed weakness ahead. Rapidly rising interest rates crimped housing starts again. Auto dealers also encountered difficulties as high

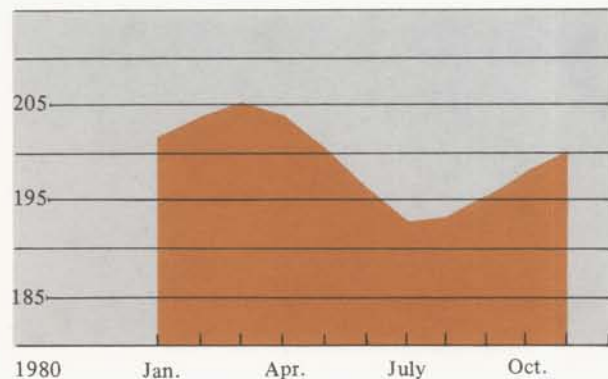
### Residential Construction Contracts

billions of dollars



### Manufacturing Production

index, 1967 = 100



interest rates and buyer resistance to price increases and expensive options drew down sales. Many prospective buyers failed to qualify for loans.

Even so, business volume generally exceeded retailer expectations as gross sales were up over the previous year. Some retailers attributed the strong sales to heavy promotions and special buys. Retailers selling top-quality goods did better than mass merchandisers and low-end discounters, whose customers were the hardest hit by inflation.

New housing starts were held down, as high construction and financing costs put home builders in a bind. New homes were scaled down and put on smaller lots. Existing homeowners chose to stay with their low mortgage rates rather than "trade up" to a larger house. Corporate transferees provided the bulk of sales in some areas. Some large savings and loan associations moved out of the fixed rate mortgage business and initiated a growing trend toward renegotiable and variable rate mortgages. The slowdown affected not only detached homes but also condominiums and apartment conversions.

Tourism was mixed toward year-end. Attendance at central Florida's major attractions was off sharply. In south Florida, however, international visitors kept bookings up at some hotels.

The high interest rates had not adversely affected employment. Manufacturers reported widespread increases in employment, although still below year-ago levels. Longer work weeks suggested that some industries, at least, were moving back toward full production. Oil support companies continued to bolster the economy in south Mississippi, and in Louisiana the petrochemical industry was still expanding.

Farm income prospects dimmed further. Prices received by farmers declined. Outstanding farm loans at District banks continued above year-ago levels, suggesting a slowdown in rates of repayments. For those farmers who can obtain sufficient financing, however, rising prices for some crops promise attractive returns for 1981. Returns to surviving livestock producers probably will have risen enough to also provide brighter profit margins in the year ahead.

So as the southeastern economy turned the corner into 1981, signs of impending weakness were mixed with surprising resiliency. ■

## A New Era for Southeastern Financial Institutions

1980 signalled the end of a restless, uneven decade in the financial industry, and the dawn of a promising new era. For commercial banks, S&Ls, and credit unions, the 1970s brought rapid changes. Inflation intensified their portfolio problems. Uncertainty and shifting conditions demanded more flexible management.

In response, banks tied business loan rates to the market, and S&Ls and credit unions made similar adjustments to mortgage terms. They all sought and promoted flexible savings instruments, such as certificates tied to Treasury securities, pulling more than a third of the region's time and savings deposits into instruments of this type.

The 1980s bring even greater challenges. Inflation remains severe. Interest rates are volatile. Financial innovation, partially a response to regulations, has heightened competition (from money market funds, for example). Earlier deregulation moves have helped the regulated institutions meet this competition, squeezing earnings in the process. On top of these changes, the Monetary Control Act of 1980 (MCA) will require still more adjustments in the year ahead.

### Monetary Control Act: New Powers, Fewer Regulations

The MCA makes all regulated depository financial institutions subject to similar rules. It expands their ability to serve consumers. It provides for a gradual phase-out of interest rate ceilings (Regulation Q), and it requires pricing and access to Federal Reserve services for all institutions.

Our region's institutions are likely to use their new powers aggressively. NOW accounts, for example, were popular when introduced in the Northeast. Personal checking accounts and consumer loans have been actively promoted by most

state-chartered thrift institutions in Maine since late 1975.

More than 90 percent of the Southeast's savings and loan associations began offering NOW accounts on January 1. Most of the region's larger credit unions already offer share drafts. Many of the smaller ones are expected to join the competition soon.

The MCA should be good news for consumers. With many more additional institutions offering each financial service, consumers will almost certainly find a greater variety of prices and services to choose from.

NOW accounts, however, are not for everyone. Check processing costs money, and financial institutions will be trying harder than ever to pass these costs along to customers, either through fees or minimum balances. This means that each consumer will now be more likely to pay the full cost of transaction services than in the past. People with low balances and high activity will typically pay more than they formerly did for checking accounts. But NOW accounts should be a boon for those with high balances and low activity.

Since most people prefer "one-stop banking," S&Ls will likely be drawn into the other consumer services they are allowed to offer. The larger savings and loans and credit unions are already offering a full line of other services (credit cards, installment loans, and even trust services) in addition to NOW accounts.

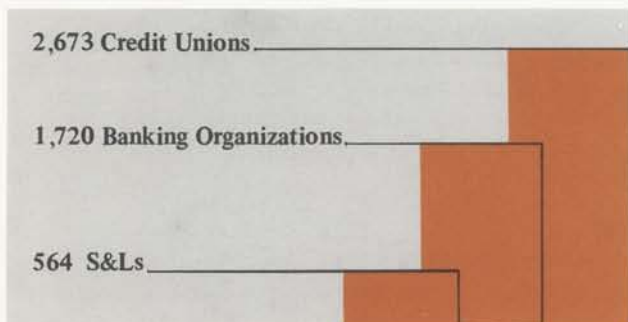
As they jockey for position, banks, S&Ls and credit unions are starting from different levels of size and structure. Credit unions in the region outnumber both banking organizations\* and S&Ls. On the other hand, banks (with almost 2,000) have many more branches. In the aggregate, however, banks have more total deposits than credit unions and S&Ls combined (except in Florida). In terms of median size, on the other hand, S&Ls exceed banks in total deposits in most of the region's states.

Southeastern S&Ls have another important advantage. They may expand statewide more easily than commercial banks through newly-established branches and through merger. Further, since the first of this year, the thrift industry's regulators have eased requirements for federal S&Ls' branch applications.

Clearly, competition will intensify. The structure of our District's financial industry will continue to change rapidly. In the long run, deregulation should help the region's financial institutions cope with volatile interest rates and innovative competitors. In the near term, however, they will be pushed hard to adjust to their new, less regulated environment. ■

\*Each multibank holding company is considered a single banking organization. Groups of institutions under the same noncorporate ownership are considered to be individual institutions because we lack complete information on this form of organization.

Number of Financial Institutions, Sixth District



Changing Powers of Depository Institutions Under Federal Regulations



# Federal Reserve Operations

## The Monetary Control Act of 1980: Sweeping Changes for the Federal Reserve

Dominating the year for the Federal Reserve was the passage in March of the Depository Institutions Deregulation and Monetary Control Act—the most important financial legislation in at least forty years. Most of the Act's provisions have a significant impact on Federal Reserve Bank operations and on depository institutions. Two provisions, in particular, demanded major efforts from this Bank as it prepared to serve its new constituents.

### Reserves: Universal and Uniform

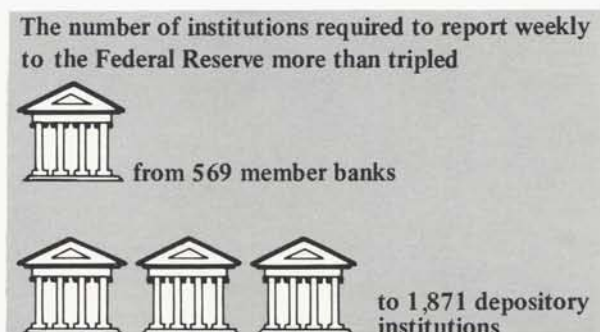
Title I of the Act imposes Federal Reserve requirements on all depository institutions that maintain transaction accounts or nonpersonal time deposits. It also gives the Federal Reserve System authority to require all depository institutions to file reports of their assets and liabilities. Depository institutions covered by Title I include banks, savings and loan associations, mutual savings banks, credit unions, Edge Act and Agreement

Corporations, and U. S. branches and agencies of foreign banks. As a direct result of this provision, the number of Sixth District institutions required to file the **Weekly Report of Transaction Accounts, Other Deposits and Vault Cash** rose from 569 member banks to 1,871 depository institutions. Data from these reports are used by us to calculate each reporting institution's reserve requirement and also by the Board of Governors to estimate the monetary aggregates.

The MCA will require much cooperation. To solicit help, the Bank arranged a series of meetings and workshops in each zone of the District with financial regulatory agencies, trade associations, and depository institutions. Individual meetings were held with many of the District's largest depository institutions which provide correspondent banking services. These meetings proved to be invaluable in establishing new avenues of communication with our new constituents.

To handle the increased reporting volume from nonmembers, the Bank substantially increased its computer processing capacity. It

### *Monetary Control Act 1980*



## Discount Operations: Opening "the Window"

also developed major new computer programs, designed a new automated data base, and expanded the District's data entry capacity. A critical phase was successfully completed in early November when nonmember institutions actually began keeping reserves with the Bank. Because nonmember reserve requirements are phased in over eight years, only 99 additional institutions were initially required to hold reserves in this District.

### Federal Reserve Services: A New Market

A second provision in Title I also has major significance for the Federal Reserve Banks and depository institutions. It requires the System to develop, publish, and begin charging explicit prices for many of its services, and to provide access to those services to all depository institutions at a uniform price. The pricing method specifies that System services will be competitively priced at full cost plus an adjustment for imputed taxes and the cost of capital.

The Board will formally announce final prices for each service in advance of each access date. The Bank plans a series of workshops and seminars throughout the District in 1981 to provide complete information on all priced Federal Reserve services. Sixth District management and staff look forward to providing a broad range of financial services to many new depository institutions. ■

Another of the Monetary Control Act's most important features expanded access to the Federal Reserve Discount Window. Any depository institution offering transaction accounts or nonpersonal time deposits subject to reserve requirements will have access to Federal Reserve credit on the same basis as member banks. U. S. branches and agencies of foreign banks also may now use the discount window.

The MCA provides for short-term adjustment credit to depository institutions and extended credit under certain conditions. It also allows emergency credit to nondepository institutions in unusual circumstances. Like member banks, nonmember depository institutions now eligible to borrow from the Federal Reserve are generally expected to rely on other available sources before turning to the window.

Lending activity in the Sixth District began the year moderately but accelerated rapidly throughout the first quarter. After peaking in March, borrowings began to decline, reflecting the impact of the monetary and credit actions announced on March 14. Volume was very low from May to August, but lending activity increased substantially in September and remained in the moderate to high range until year-end. Average daily borrowings during the year were \$112.4 million. Federal Reserve credit was extended to 125 depository institutions in 1980. The discount rate was changed seven times. ■

### Pricing and Access FED SERVICES

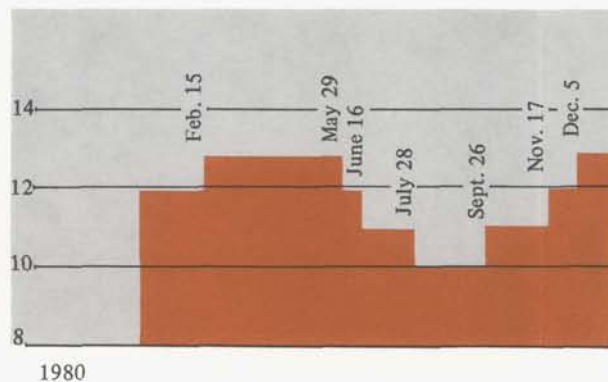
The services to be priced and their tentative access dates are:

Service	Date
Wire Transfer/Net Settlement Services	January 1981
Check Collection/ACH Services	August 1981
Securities and Noncash Collection Services	October 1981
Coin and Currency Services	January 1982

A three-phased approach for recovering the value of Federal Reserve float will also be announced during the first quarter of 1981. This approach will include operational improvements, changes in availability schedules and explicit float pricing. In addition, the Federal Reserve will price any new services offered.

### The Discount Rate

percent



## Supervision and Regulation

1980's major legislative and regulatory accomplishments greatly intensified the activities of the Supervision and Regulation Department.

The MCA resolved the problem of declining membership in the Federal Reserve System. Thus, instead of decreasing as in previous years, the number of District state-chartered banks subject to examination increased from 78 in 1979 to 82 by year-end 1980. This trend should continue. Another six existing and proposed state-chartered banks are slated to become members in 1981. No state member banks have announced plans to withdraw from membership.

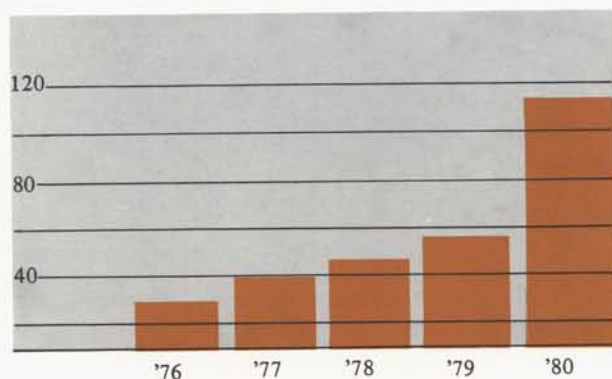
The year also saw a very large expansion in the Bank's international supervision activities. As

a result of this growth, a separate official responsibility was created within the department early in the year.

Regulation K was also revised to permit Edge Act Corporations to branch in the United States. Sixth District Edge Corporation offices—many of them in Miami—increased from 18 to 26 in 1980, with twelve more applications pending. The Federal Reserve joined with state banking authorities of Georgia and Florida to begin an examination program of state-chartered foreign bank agencies. At year-end, there were 27 such agencies in the District, with four more pending. In January 1981, the Department of Supervision and Regulation established a field office in Miami, principally for the purpose of examining Edge Corporations and foreign bank agencies.

1980 also saw increasing use of a new computer-based early warning system. A series of financial ratios from various routine reports enables examiners—using comparative analysis—to pinpoint potential problems. In late December 1980, the department installed a new computer terminal linked with the FDIC's computerized data base which includes all insured banks. This will help analyze bank holding company applications, aid in inspections, and reduce the overall cost of supervision and regulation. Another significant development was the surge in applications involving one-bank holding company formations. During the year, 74 applications for one-bank holding company formations were processed, more than the previous nine years combined. ■

*Bank Holding Companies*  
number of applications received





**First  
in Cost  
Effectiveness**

*Bankwide Aggregate Cost Index*

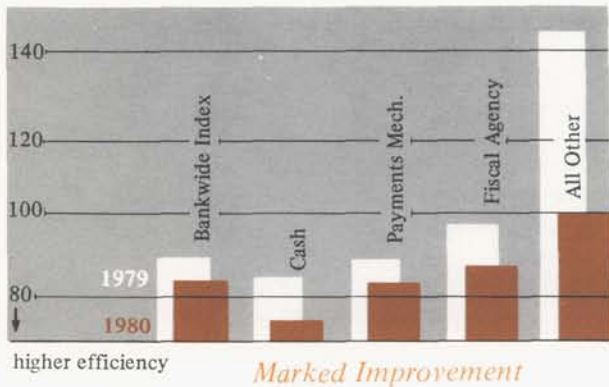
The MCA generated tremendous activity at the Atlanta Federal Reserve and its branches. Historically, the Sixth District has emphasized operational efficiency and strong cost controls. Preparations for the MCA presented a formidable challenge in cost effectiveness. Based on the figures for 1980's first three quarters, however, the District again was the System leader in efficiency.

Since 1977, the Federal Reserve System has used formal cost performance measures to evaluate

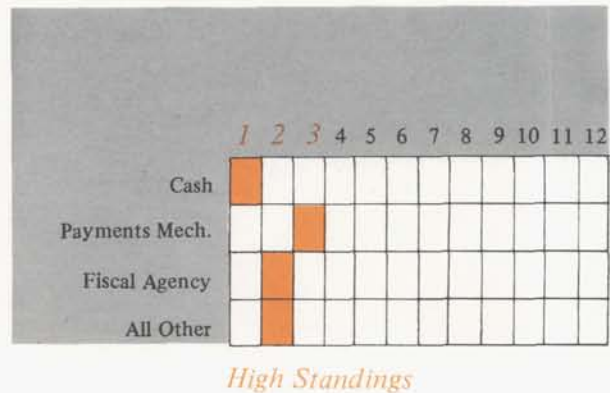
objectively the comparative efficiency of Reserve Bank operations. At the top level of measures is the Bankwide aggregate unit cost index. This measures comparative efficiency of total operations—the lower the index, the higher the efficiency. At the second level are aggregate unit cost indices for cash, payments mechanism, fiscal agency, and all other operations.

Overall, the Sixth District's solid gains in operational efficiency are clearly reflected in the comparative cost performance measures. ■

*Sixth District Performance, 1980 vs. 1979  
efficiency index (System=100)*



*Sixth District Ranking among the 12 Federal Reserve Districts  
based on aggregate unit cost index*



## The Electronic Money Network

The District's electronic payments and communications systems, faced with huge increases in volume, played key roles in the effort to maximize efficiency and service.

### Automated Clearing House

The Automated Clearing House (ACH) was a product of the late 1960s. The financial industry was concerned with the growing volume of paper processing. More than ten years of study, experimentation, and refinement have resulted in a network of 32 ACH facilities serving the entire country.

During 1980, nationwide ACH volume increased by 40 percent. The number of companies utilizing ACH services grew by 46 percent. Excluding Treasury-originated payments, ACH growth figures are even more impressive. Private sector volume increased 125 percent. In the District, total volume increased 26 percent (to 29 million transactions), and commercial activity rose 100 percent.

The most successful ACH application is direct deposit services for income credits such as payrolls, pensions, and dividends. On the debit side, preauthorized payments—mortgages, insurance premiums, utility, loan, and credit card payments—comprise the second largest use of ACH. Despite the ACH increase, over a billion consumer bill payments per year are still made by check in the Sixth District.

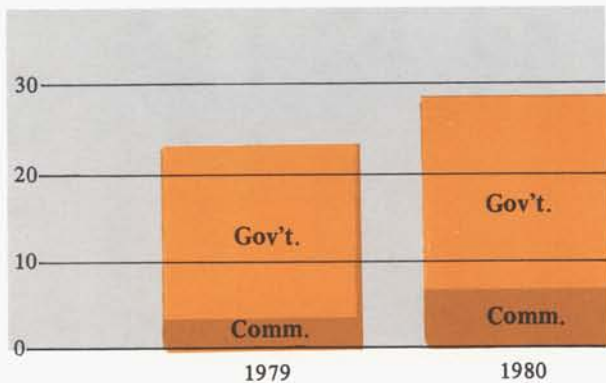
A relatively new service offering great potential for volume and convenience to the consumer is telephone bill payments. This service allows consumers to pay bills by telephone either by talking to an operator or keying in data using a Touch-tone telephone.

To further encourage ACH use, the Bank offered participating financial institutions an expanded schedule, marketing assistance, and new data communication links. In the fall of 1979, the Federal Reserve System expanded its current schedule to allow late-night deposit of time-critical debits. This service makes the ACH system more attractive to depository transfer check issuers. During 1980, Sixth District offices combined marketing efforts with local ACH associations to stimulate interest and volume growth. Several association-sponsored seminars were held to introduce the business community directly to ACH services.

In mid-1979, the District installed its first data communications link with participating institutions. This permits electronic exchange of ACH transactions between a Fed-operated ACH facility and a remote site serving financial institutions. District-supported link sites increased to eight in 1980. In the era of rising energy costs, these electronic delivery systems are becoming increasingly important.

The Automated Clearing House made great strides during the previous decade—especially in 1980. Technological advances reduced its hardware cost. Legal groundwork assured customer

*ACH*  
millions of items processed



protection in using the new payment service. Competitive pricing should increase ACH use more than ever. All these advances will insure an ever expanding role for the ACH in the nation's payments mechanism during the '80s.

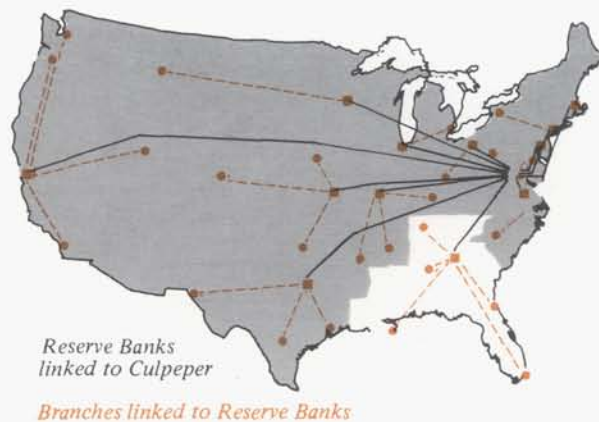
### Federal Reserve Communications System

In the early 1970s, the Federal Reserve Communications System (FRCS), which transmits funds and security transfers, was largely automated. The FRCS connects member banks, the Federal Reserve offices, and the Federal Reserve Board to a national switching center in Culpeper, Virginia via communication lines. As part of the nationwide network, the Sixth District operates a dual Cyber 1000 computer linking branch offices and local member banks to the Culpeper Switching Center. With the fully automated FRCS, funds can now be transferred from coast-to-coast in minutes.

Since its installation, the Sixth District network has grown considerably, both in size and in number of messages. It is now one of the largest in the System, serving over 150 member banks. Forty additional terminals were installed in 1980. The increase is expected to be even larger in 1981 because the Monetary Control Act permits on-line access to the Fedwire network for non-member financial institutions. The Sixth District's computer now switches approximately 25,000 messages a day, third highest in the System.

To consolidate the essentially independent District communications networks into a single, consistent and reliable network, the Districts in late 1981 will introduce a new communications network—FRCS-80. The new network offers state-of-the-art technology, multiple paths for message delivery and increased protection against circuit and equipment failures. In order to take full advantage of FRCS-80's capabilities, a System-wide effort is underway to rewrite the present software applications. ■

*Federal Reserve Communications System*



## Currency Handling in the Age of Automation

Cost effectiveness is also a primary concern in the District's massive currency handling operation. Until very recently, currency processing and destruction were labor intensive operations. Beginning as a simple tabletop hand sort for fit or unfit notes, the sorting operation progressed to note-by-note operator inspection using a Federal Bill Counting machine. Manual destruction of notes was also highly-controlled and labor-intensive.

Between 1966 and 1975, the currency volume (in millions of pieces) processed by Reserve Banks increased 49 percent. This rapid increase in currency use accelerated the search for a cost-effective, automated solution to our labor intensive operations.

Medium-speed processing techniques, introduced in 1975, doubled our production rates but did not provide individual note inspection or fitness sorting.

The Federal Reserve Bank of Atlanta played a major role in the development of a new high speed currency handling system. In 1978, we installed the first production model of a Currency Verification Counting and Sorting (CVCS) system. The CVCS counts each note and electronically inspects it for genuineness and fitness. It processes 50,000 pieces of currency per hour, compared to about 40,000 notes per day via manual processing. It destroys unfit notes on-line and repackages fit notes for recirculation with exceptional accuracy.

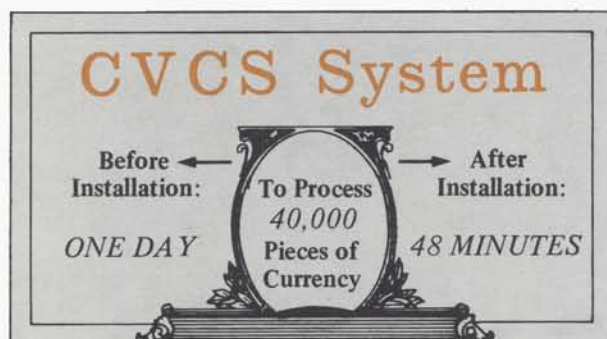
Currently, high speed equipment handles 58.6 percent of all notes processed in our District. That will soon rise to almost 90 percent. With the acceptance of Miami's first CVCS system in August 1980, all Sixth District locations now have at least one high speed system. Currently 13 systems are on-line throughout the District, with seven more scheduled to be operating by 1983.

High speed currency processing is a return to note-by-note fitness inspection. The result is improved quality and a relatively consistent fit currency product. The equipment also enables Reserve Banks to reduce staff, strengthen security, and improve controls.

The Federal Reserve System has also worked to improve the shredder, strapper, and authentication and denomination detectors. Further modifications have enhanced accountability, security, and the detection of defective notes.

These first generation high speed systems are justified primarily because they automate the destruction process and control the quality of circulating currency. Since their operation is still somewhat labor intensive, however, a Task Force is now developing requirements for second generation currency processing systems, with first delivery targeted for 1986. ■

### *Currency Verification Counting and Sorting System, Sixth District*



## The Treasury's Financial Agent

A systematic productivity improvement program, begun in 1979, has cut our costs of providing fiscal services to the U. S. Treasury, depository institutions, and the general public. These services include:

- (1) issuing, reissuing, and redeeming U. S. Savings Bonds
- (2) issuing, servicing, and redeeming other Government paper, such as U. S. Treasury bills, notes, and bonds
- (3) other related services, including wire transfer of securities, securities safekeeping, collection of noncash items, purchase and sale of securities, and maintenance of the Treasury Tax and Loan (TT&L) accounts.

The first phase of the program, completed in early 1980, focused on streamlining and standardizing savings bond operations. The second phase involved adopting custody standards to strengthen our operational controls and security. The third phase, recently begun, addresses the remaining Fiscal Agency operations.

Improved automated systems also helped reduce costs in this area. The Districtwide introduction of the Cyber/Custody System in mid-1979 significantly reduced securities transfer costs. The Savings Bond Consignment and Accountability System, introduced in October 1979 for issuing new Series EE and HH bonds, streamlined the savings bond operation. Changes to the Treasury Tax and Loan (TT&L) System also reduced our data processing costs.

The Bank made these cost improvements at the same time that record high interest rates encouraged sharply higher volume in Treasury issues, wire transfers of securities, custody, and noncash collection operations. Although volume in these operations increased as much as 234 percent over the year, the number of Fiscal Agency employees rose only 2.5 percent.

In 1980 the District significantly improved its cost position among the 12 Federal Reserve Banks in all Fiscal Agency service categories. According to the overall ranking, the Federal Reserve Bank of Atlanta is fast becoming a leader within the System in providing cost-effective Fiscal Agency services. ■

### *Sixth District Fiscal Agency Cost Ranking among 12 Federal Reserve Banks*



*Low number indicates low cost.*

## Improving the Working Environment

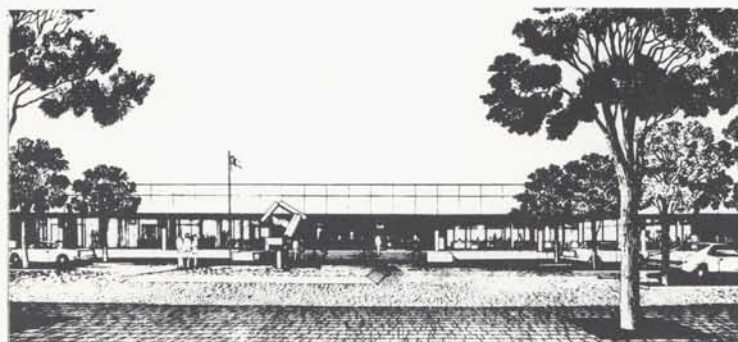
In 1980 we also pressed ahead with several major improvements to the Bank's physical facilities. Strong economic growth in the region during the 1970s generated increasing work volumes for the Bank and its branches. The economy of the entire region was healthy, but growth was exceptionally powerful in Florida. It became clear that the Federal Reserve's physical facilities in Florida had to be markedly upgraded. At the same time, all Sixth District offices were increasing automation to absorb the growing workload and avoid unacceptable growth in staff.

A major gain came with the Miami Branch's move in July 1980 from small rented quarters into a new building designed to serve south Florida for many years to come. Finally, on September 4, 1980, the new Miami building was dedicated for service to the south Florida banking and business community. It is a spacious, efficient, low-cost building of 260,000 square feet with capacity for handling the activity generated by an expanding south Florida economy. A staff of 380 employees operates the branch, which is well equipped, highly automated, and generally suited to support the many new Fed responsibilities.

Vigorous economic growth also characterized central and north Florida in the past decade, greatly increasing the Jacksonville Branch workload. The present branch building, completed in 1952, has become inadequate for Reserve Bank activities, especially check, currency and coin, and fiscal agency operations. An improvement program during the mid-1970s reduced the Jacksonville staff level significantly, enabling operations to proceed efficiently in the existing building plus a small amount of rented space. By 1978, however, it became clear that a new branch building would be required at Jacksonville as the volume of financial activity in the area continued to mount.

In August 1980, the firm of Kemp, Bunch, and Jackson, Architects Incorporated, of Jacksonville, was engaged to assist with the design and construction of a new branch building containing about 224,000 square feet. We expect that it will be completed in 1984. ■

*Miami Branch*  
(Architect's Drawing)





# Head Office

## Board of Directors

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*Chairman and Chief Executive,  
Charter Medical Corporation  
Macon, Georgia*

John H. Weitnauer, Jr., (Deputy Chairman)  
*Chairman and Chief Executive Officer,  
Richway  
Atlanta, Georgia*

Fred Adams, Jr.  
*President, Cal-Maine Foods, Inc.  
Jackson, Mississippi*

Dan B. Andrews  
*President, First National Bank  
Dickson, Tennessee*

Harold B. Blach, Jr.  
*President, Blach's, Inc.  
Birmingham, Alabama*

Guy W. Botts  
*Chairman of the Board,  
Barnett Banks of Florida, Inc.  
Jacksonville, Florida*

Jean McArthur Davis  
*President, McArthur Dairy, Inc.  
Miami, Florida*

Floyd W. Lewis  
*Chairman/Chief Executive Officer,  
Middle South Utilities, Inc.  
New Orleans, Louisiana*

Hugh M. Willson  
*President, Citizens National Bank  
Athens, Tennessee*

## Federal Advisory Council

Robert Strickland  
*Chairman, Trust Company of Georgia  
Atlanta, Georgia*

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*President*

Robert P. Forrestal  
*First Vice President*

Arthur H. Kantner  
*Senior Vice President*

Harry Brandt  
*Senior Vice President*

Jack Guynn  
*Senior Vice President*

B. H. Hargett  
*Senior Vice President*

Donald L. Koch  
*Senior Vice President and  
Director of Research*

Brown R. Rawlings  
*Senior Vice President*

Harry C. Schiering  
*General Auditor*

W. R. Caldwell  
*Vice President*

William N. Cox, III  
*Vice President and  
Associate Director of Research*

W. M. Davis  
*Vice President*

Delmar Harrison  
*Vice President*

Robert E. Heck  
*Vice President*

John R. Kerr  
*Vice President*

William G. Pfaff  
*Vice President*

H. Terry Smith  
*Vice President*

John M. Wallace  
*Vice President*

Edmund Willingham  
*Vice President and General Counsel*

## Branch Directors

### BIRMINGHAM

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*Executive Vice President, Booker T.  
Washington Insurance Company  
Birmingham, Alabama*

Guy H. Caffey, Jr.  
*Chairman and Chief Executive Officer,  
Southern Bancorporation of Alabama  
and Birmingham Trust National Bank  
Birmingham, Alabama*

Samuel Richardson Hill, Jr.  
*President, University of Alabama in  
Birmingham  
Birmingham, Alabama*

C. Gordon Jones  
*President and Chief Executive Officer,  
First National Bank of Decatur  
Decatur, Alabama*

Henry A. Leslie  
*President and Chief Executive Officer,  
Union Bank & Trust Company  
Montgomery, Alabama*

William H. Martin, III  
*President and Chief Executive Officer,  
Martin Industries, Inc.  
Florence, Alabama*

Martha McInnis  
*Executive Vice President,  
Alabama Environmental Quality  
Association  
Montgomery, Alabama*

### JACKSONVILLE

Jerome P. Keuper, (Chairman)  
*President, Florida Institute of  
Technology  
Melbourne, Florida*

Gordon W. Campbell  
*President and Chief Executive Officer,  
Exchange Bancorporation, Inc.  
Tampa, Florida*

Copeland D. Newbern  
*Chairman of the Board,  
Newbern Groves, Inc.  
Tampa, Florida*

# Branch Offices

## Branch Managers

Whitfield M. Palmer, Jr.  
*Chairman, Florida Crushed Stone  
Company  
Ocala, Florida*

Joan Stein  
*Partner, Regency Square Shopping  
Center  
Jacksonville, Florida*

Billy J. Walker  
*President, Atlantic Bancorporation  
Jacksonville, Florida*

Robert E. Warfield, Jr.  
*Chairman of the Board and President,  
Barnett Bank of Eustis, N.A.  
Eustis, Florida*

Charles J. Kane  
*Chairman and Chief Executive Officer,  
Third National Bank  
Nashville, Tennessee*

John Rutledge King  
*President, The Mason and Dixon  
Lines, Inc.  
Kingsport, Tennessee*

Robert C. H. Mathews, Jr.  
*President, R. C. Mathews Contractors,  
Inc.  
Nashville, Tennessee*

James F. Smith, Jr.  
*Chairman and Chief Executive Officer,  
Park National Bank  
Knoxville, Tennessee*

Hiram J. Honea  
*Vice President  
Birmingham Branch*

Charles D. East  
*Vice President  
Jacksonville Branch*

Frank Craven  
*Vice President  
Miami Branch*

Jeffrey J. Wells  
*Vice President  
Nashville Branch*

James D. Hawkins  
*Vice President  
New Orleans Branch*

## MIAMI

Roy Vandegrift, Jr., (Chairman)  
*President, Vandegrift-Williams' Farms,  
Inc.  
Pahokee, Florida*

Eugene Cohen  
*Chief Financial Officer and Treasurer,  
Howard Hughes Medical Institute  
Coconut Grove, Florida*

Jane C. Cousins  
*Realtor  
Cousins Associates, Inc.  
Miami, Florida*

Daniel S. Goodrum  
*President and Chief Executive Officer,  
Century Banks, Inc.  
Fort Lauderdale, Florida*

Alfred W. Roepstorff  
*President  
The National Bank of Collier County  
Marco Island, Florida*

David H. Rush  
*President, ACR Electronics, Inc.  
Hollywood, Florida*

M. G. Sanchez  
*President and Chief Executive Officer,  
First Bankers Corporation of Florida  
Pompano Beach, Florida*

## NEW ORLEANS

Horatio C. Thompson, (Chairman)  
*President, Horatio Thompson Invest-  
ment, Inc.  
Baton Rouge, Louisiana*

Robert H. Bolton  
*President, Rapides Bank & Trust  
Company  
Alexandria, Louisiana*

Patrick A. Delaney  
*President, Whitney National Bank of  
New Orleans  
New Orleans, Louisiana*

Leslie B. Lampton  
*President, Ergon, Inc.  
Jackson, Mississippi*

Paul W. McMullan  
*Chairman and Chief Executive Officer,  
First Mississippi National Bank  
Hattiesburg, Mississippi*

Levere C. Montgomery  
*Chairman, Time Saver Stores, Inc.  
New Orleans, Louisiana*

Ben M. Radcliff  
*President, Ben M. Radcliff Con-  
tractor, Inc.  
Mobile, Alabama*

## NASHVILLE

John C. Bolinger, Jr., (Chairman)  
*Management Consultant  
Knoxville, Tennessee*

Cecelia Adkins  
*Executive Director, Sunday School  
Publishing Board  
Nashville, Tennessee*

Ruth W. Ellis  
*President, Mountain Empire Bank  
Johnson City, Tennessee*

January 1, 1981

# Statement of Condition

<u>Assets</u>	December 31, 1979	December 31, 1980
Gold Certificate Account	\$ 524,688,000	\$ 465,000,000
Special Drawing Rights Certificate Account	64,000,000	79,000,000
Coin	39,384,258	37,825,493
Loans and Securities	5,279,866,673	4,720,945,944
Cash Items in Process of Collection	1,563,425,548	2,040,620,660
Bank Premises	31,161,579	34,819,465
Other Assets	338,935,683	536,880,814
<b>Total Assets</b>	<b><u>\$7,841,461,741</u></b>	<b><u>\$7,915,092,376</u></b>
 <u>Liabilities</u>		
Federal Reserve Notes	\$3,550,549,462	\$3,670,093,144
Deposits*	2,438,304,058	1,887,472,720
Deferred Availability Cash Items	1,134,833,592	1,666,523,054
Other Liabilities	97,811,925	118,931,979
Interdistrict Settlement Account	446,646,204	391,915,579
<b>Total Liabilities</b>	<b><u>\$7,668,145,241</u></b>	<b><u>\$7,734,936,476</u></b>
 <u>Capital Accounts</u>		
Capital Paid In	\$ 86,658,250	\$ 90,077,950
Surplus	86,658,250	90,077,950
<b>Total Capital Accounts</b>	<b><u>\$ 173,316,500</u></b>	<b><u>\$ 180,155,900</u></b>
<b>Total Liabilities and Capital Accounts</b>	<b><u>\$7,841,461,741</u></b>	<b><u>\$7,915,092,376</u></b>

\*Includes Depository Institution Accounts, Collected Funds Due to Other F.R. Banks, U. S. Treasurer – General Account.

# Statement of Earnings

Earnings and Expenses	1979	1980
Total Current Earnings	\$440,720,694	\$491,746,033
Net Expenses	<u>62,242,578</u>	<u>70,172,381</u>
Current Net Earnings	\$378,478,116	\$421,573,652
Net Additions (+) Deductions (-)*	-6,268,983	-1,038,097
Assessment for Expenses of Board of Governors	<u>3,781,700</u>	<u>4,723,800</u>
<b>Net Earnings before Payment to U. S. Treasury</b>	<b><u>\$368,427,433</u></b>	<b><u>\$415,811,755</u></b>

## Distribution of Net Earnings

Dividends Paid	\$ 5,050,938	\$ 5,355,123
Payments to U. S. Treasury (Interest on F. R. Notes)	357,326,595	407,036,932
Transferred to Surplus Account Net Additions (+) Deductions (-)	<u>+ 6,049,900</u>	<u>+ 3,419,700</u>
<b>Total Earnings Distributed</b>	<b><u>\$368,427,433</u></b>	<b><u>\$415,811,755</u></b>

## Surplus Account

Surplus January 1	\$ 80,608,350	\$ 86,658,250
Transferred to Surplus – as noted above	<u>6,049,900</u>	<u>3,419,700</u>
<b>Surplus December 31</b>	<b><u>\$ 86,658,250</u></b>	<b><u>\$ 90,077,950</u></b>

\*Includes gains/losses on sales of U. S. Government securities and foreign exchange transactions.

# Summary of Operations

	1979		1980	
	\$ (millions)	items (thousands)	\$ (millions)	items (thousands)
<b>SERVICES TO DEPOSITORY INSTITUTIONS</b>				
Clearing and Collection Services				
Checks handled:				
U. S. Government checks	51,799	95,517	57,572	90,098
Postal money orders	849	18,118	942	18,129
All other	915,526	1,965,862	1,028,497	2,043,507
ACH payments processed	7,782	23,328	14,718	29,462
Wire transfers of funds	3,200,000	3,600	3,900,000	4,200
Cash Services				
Total cash receipts	14,564	1,134,648	16,926	1,246,197
Total cash payments	10,438	938,562	10,982	1,029,306
Currency processed	—	1,190,853	—	1,170,823
Coin processed	—	2,644,517	—	2,580,650
Loans to depository institutions, daily average	103	—	112	—
Securities Services				
Wire transfers of securities	276,292	157	246,579	171
Noncash collection*	315	195	673	555
Government securities bought and sold by Federal Reserve Bank	295	5	209	4
<b>SERVICES TO U. S. TREASURY</b>				
U. S. savings bonds issued, serviced, redeemed by Federal Reserve Bank	323	2,719	348	2,377
U. S. savings bonds issued and redeemed by qualified issuing and paying agents	1,474	22,564	1,581	21,840
Other Treasury securities issued, serviced and redeemed	470,329	156	529,518	207
Deposits to Treasury Tax and Loan accounts	26,108	852	29,477	911
Food coupons destroyed	2,649	310,605	2,616	286,308

\*In late 1979, a cash-basis settlement system was established for corporate and municipal bond coupons, significantly increasing volume.



