

1985 Annual Report



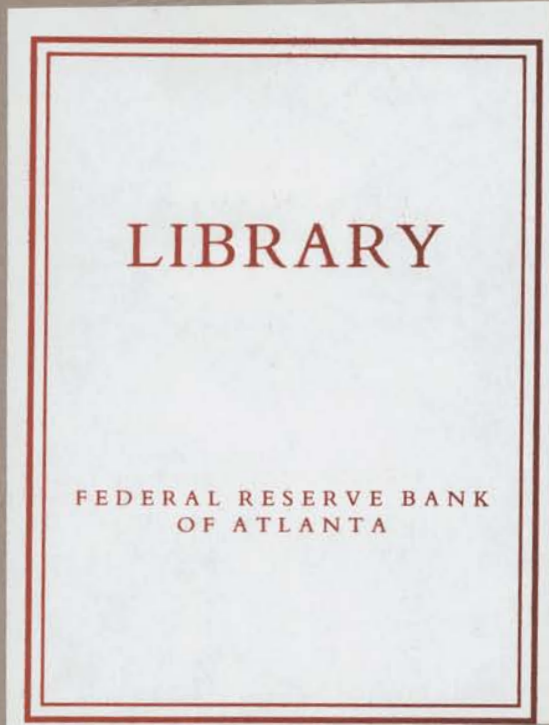
SIXTH FEDERAL RESERVE DISTRICT
ATLANTA • BIRMINGHAM • JACKSONVILLE
MIAMI • NASHVILLE • NEW ORLEANS

RESEARCH LIBRARY
MAY 7 1986
FEDERAL RESERVE BANK
OF ATLANTA

HG
3613
.A7
F2
1985

Federal Reserve Bank of Atlanta

1985 Annual Report



Contents

3 From the Boardroom
4 Challenges to Economic Growth
11 Atlanta Fed Activities
13 Directors and Senior Officers
20 Statement of Condition
21 Statement of Earnings
22 Summary of Operations

Federal Reserve Bank of Atlanta

2613
A7
F2

FROM THE BOARDROOM

The Federal Reserve Bank of Atlanta interacts with the public at large in three distinct but related ways. The President and Chief Executive Officer of the Bank, Robert P. Forrestal, regularly participates in the formulation and implementation of monetary policy for the nation through his service on the Federal Open Market Committee, the System's principal policymaking arm. The Federal Reserve also is empowered to supervise and regulate certain financial institutions and to assist these and other depository institutions in troubled circumstances. Recently, System and Reserve Bank efforts in this direction have been reviewed and significantly intensified. Aside from sharing in the System's monetary policymaking and regulatory functions, the Atlanta Fed, along with other Reserve Banks, provides important financial services to depository institutions and to the U.S. Treasury. This past year we introduced several enhancements to these services. In all of our activities the Federal Reserve Bank of Atlanta emphasized what we regard as our Bank's core values: integrity, quality service, and cost effectiveness.

After reviewing how the U.S. economy fared in 1985 and outlining its prospects and those of the Sixth District for this year, the essay that forms the core of this report attempts to acquaint readers with the central bank's roles as monetary policymaker and financial system regulator. Additionally, it highlights issues that bear on how these functions are performed. While monetary policy is a powerful and flexible tool, this report points out that there are limitations on what the Fed can do to foster the ultimate goal of sustained, non-inflationary economic growth through measures at its disposal. These limitations are imposed by the nature of certain problems, including potential vulnerabilities that could affect our financial system; growing sentiment in favor of protectionism; the need for actual progress in reducing the federal budget deficit; and, more generally, social attitudes that threaten the outlook for lasting economic growth. Ultimately,

resolution of these issues rests with the private sector—not only businesses but also individuals such as those who read this report. A capsule review of last year's major developments in various Atlanta Fed operations supplements the essay and is followed by a statistical summary of earnings and operations for 1985.

We hope readers will find this annual report both interesting and informative.

Whatever your link to the Bank, greater familiarity with our activities should broaden understanding of the Federal Reserve and thereby enhance your relationship with our institution. We further hope that this report will set an agenda of issues to be addressed by those with whom the Federal Reserve Bank of Atlanta deals—depository institutions, the U.S. Treasury, our employees, and the public at large.

Atlanta Fed Chairman John H. Weitnauer, Jr., and President Robert P. Forrestal.



CHALLENGES TO ECONOMIC GROWTH

U.S. Economic Performance in 1985

American economic expansion slowed dramatically last year compared with the rapid pace experienced in 1983 and 1984. Gross national product (GNP), the total output of goods and services produced, expanded by about 2 1/2 percent in 1985; 1984's annual average growth rate exceeded 6 percent. Some slowdown was to be expected, of course. During the early phases of recovery from a recession the economy tends to grow much faster than later in the business cycle. In fact, if such slowing did not occur, then inflation could once again become a primary concern and negate many of the benefits of faster growth. Nonetheless, the degree and duration of the slackening, which actually began in 1984 and continued intermittently into 1985, was rather pronounced. Not until the second half of 1985 did GNP resume growth in the 3 percent range that seems to be our nation's long-range potential. Even then, many sectors remained sluggish.

With slower economic growth during much of the first half of 1985, it was understandable that the unemployment rate did not dip as markedly as it had in the previous year. For six months the jobless rate remained at 7.3 percent, dropping only to 6.9 percent by year's end. On the brighter side, inflation proved even more moderate than had been expected. In 1985 consumer prices increased by an average of 3.5 percent, compared with a 4.2 percent increase in 1984.

One restraint on 1985's overall GNP expansion was rooted in the international sector. Foreign suppliers met a substantial portion of the growth in consumer purchases and business investment in equipment. Meanwhile, American manufacturers and farmers who had come to depend heavily on exports were priced out of foreign markets by the relatively high value of the U.S. dollar. Domestic production consequently languished; employment in

manufacturing actually declined for six consecutive months in the first half of the year, and growth in personal income slowed despite a sustained expansion in the service sector. Against the backdrop of a relatively accommodative monetary policy and ample supplies of credit, interest rates declined markedly, but these factors could not overcome the difficulties confronting a significant portion of industry and agriculture. At the same time that it dampened GNP growth, the strength of the dollar helped check price increases. A flood of less expensive foreign goods reduced the costs paid by American businesses and consumers for many items. Lower-priced imports also forced many American producers to be extremely competitive in their pricing.

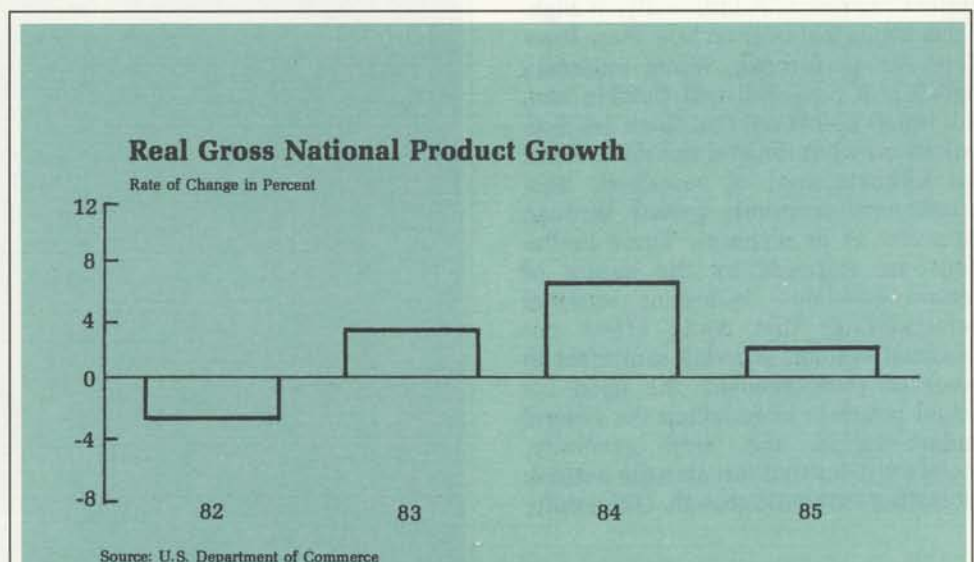
Outlook for 1986

Moderate improvement is likely in 1986. For the year as a whole GNP may expand somewhat more than 3 percent. Unemployment should decline further, but dramatic progress on this front does not seem probable. Given the record proportion of Americans in the work force, even a sustained drop into the 6 percent range would constitute respectable progress. Fortunately, inflation should remain subdued this year.

Several factors should contribute to somewhat faster growth in 1986. The fall in oil prices probably will dampen inflation and spur economic activity generally. The decline in the U.S. dollar's value on foreign exchange markets, which began in early 1985, should lead to a modest turnaround in the trade situation as the year progresses. Rapid money growth and the attendant decline in credit costs, such as occurred in 1985, often are followed by an acceleration in activity. Some sources of uncertainty remain, such as capital investment by business and the effects of fiscal policy. Nonetheless, when strengths and weaknesses are considered together, there appears to be sufficient momentum to sustain the expansion at a pace close to our potential or even to experience slightly faster growth for a while.

Sources of Strength. Lower oil prices should boost economic activity generally, both in the United States and internationally, since energy is such an important input. With reduced energy costs, many businesses' profitability should improve, and net farm income also may rise since much fertilizer is derived from petroleum. Consumers, too, will have more to spend on discretionary items.

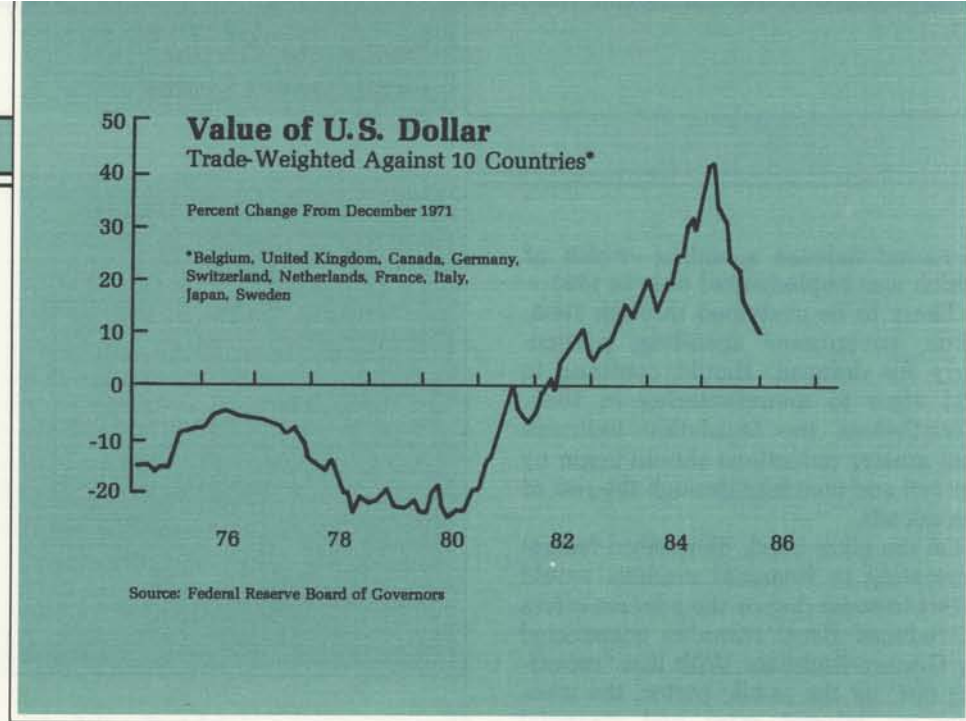
Along with lower energy costs, several factors should make consumer



spending a source of modest growth in 1986 despite the high level of debt incurred last year. Steadily advancing employment augurs well for household budgets. Stock and bond market rallies also have significantly enhanced the net worth position of consumers, either directly or through pension funds and the like, and this rise in consumer wealth eventually should work to increase spending.

The international sector also should improve. By the end of last year the exchange rate of the U.S. dollar had fallen 25 percent, on a trade-weighted basis against the currencies of 10 other advanced economies, from its February 1985 peak. Since changes in exchange rates can take from six months to a year to affect foreign trade patterns, some upturn in exports should begin to appear in the coming months. This development would be especially welcome to the many manufacturers and farmers whose foreign markets have atrophied in concert with the rising exchange value of the dollar. At the same time that U.S. exports grow, demand for imports should start to taper as the dollar's decline makes them costlier to American consumers. As a result, hard-pressed domestic producers should experience some revival of orders and sales.

The rapid growth in money and credit during 1985 may have a positive impact on several sectors of the economy, particularly consumer purchases of housing and durable goods. Mortgage interest rates fell considerably toward year end, reaching their lowest level since 1979. In addition to assisting home buyers, the lower credit costs associated with this monetary expansion have made it less expensive for builders to undertake new projects. Although much of the housing demand that had been deferred in the early 1980s already has been met, in a strengthened economy many consumers probably will want to "trade up." By the end of 1985 residential building was showing signs of renewed strength. The pent-up demand for durable goods such



as cars likewise largely has been met, but the average age of automobiles owned by Americans remains much higher than was usual during most of the post-World War II period. In an environment of noninflationary growth and lower interest rates, Americans conceivably could begin replacing their automobiles more frequently, as they once did.

Aside from lessening production costs, lower interest rates also reduce the cost structure of business in general, not only now but also in the future. Many corporations, for example, have been calling in high-rate bonds issued in the early 1980s and refinancing at significantly reduced rates. Additionally, stable short-term credit costs and the depreciation of the dollar last year should help ease some of the strains on the nation's financial institutions, especially those that have heavy concentrations of loans to less developed countries (LDCs). Because such nations are now better able to service their debt burdens, institutions whose loan portfolios are heavily weighted by LDC debt should see their financial situation improve as well.

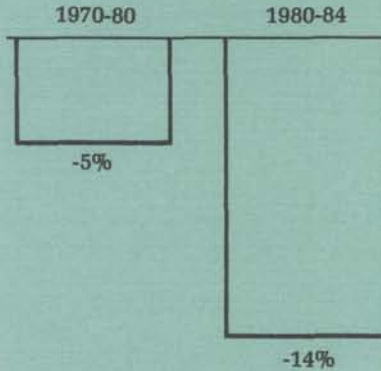
Areas of Uncertainty. Despite these favorable factors, some imbalances exist that may retard growth for a while. The outlook for capital spending by business is clouded. Surveys indicate a

scaling back of business capital investment plans for 1986. The favorable tax treatment adopted in 1981 contributed to substantial overbuilding of structures, particularly office buildings, in many areas of the country. High vacancy rates and rental discounts seem likely to dampen enthusiasm for initiating new projects despite today's much lower interest rates. Uncertainty about future modifications in the tax treatment of investment, including the possibility that certain changes could be retroactive, also may be discouraging investment plans. In addition, with excess productive capacity of around 20 percent—a higher level than earlier in the expansion—many businesses are unwilling to expand their investment in plants and equipment.

The public sector is difficult to classify as either a source of strength or weakness in 1986. Although the effects of the Gramm-Rudman budget act are uncertain at this point, this legislation holds the promise of diminishing the large federal budget deficits. Since this reduction probably will take the form of lower federal spending, some of the stimulus that helped propel economic growth during the past few years also should lessen. However, minimal shrinkage in the deficit is likely in the 1986 fiscal year. What's more, because of the nature of defense contracts and commitments, the momentum from the

Decline in Textile Employment in the Southeast

Percentage Change



Source: U.S. Department of Labor

increased defense spending—much of which was implemented only in 1985—is likely to be sustained through 1986. Thus, government spending, particularly for defense, should continue to add vigor to manufacturing in 1986. Nonetheless, the legislation indicates that greater reductions should begin by the fall and continue through the rest of the decade.

On the other hand, diminished federal borrowing in financial markets would offset to some degree the adverse effect of reduced fiscal stimulus occasioned by Gramm-Rudman. With less "crowding out" by the public sector, the pressure on interest rates and financial markets, which is created by expectations that deficits will continue indefinitely, may subside. This development would establish a better climate for businesses and also foster more consumer spending. Should substantial reductions in the deficit appear to be developing, the dollar could decline in a noninflationary manner because resources would be freed up by a smaller government sector.

Prices are a third uncertainty. Some pickup in inflation is possible in 1986. The significant drop in the dollar's exchange rate means that the price of imports, on which Americans have come to depend so heavily, is likely to rise somewhat. This is not cause for undue concern, though, because prices probably will not rise noticeably until later in the year. Even then, such increases could be moderate in view of the nation's excess capacity and the likelihood that many foreign producers will act to maintain their participation in U.S. markets. Moreover, oil prices recently have fallen substantially. Lower energy costs should work to offset the effects of potentially higher import prices.

Outlook for the Southeast

The nation's performance largely determines the outlook for the Sixth Federal Reserve District, which includes Alabama, Florida, Georgia and parts of Louisiana, Mississippi, and Tennessee.

However, some special regional factors are at work. Defense spending should be a plus for many southeastern areas. The anticipated effect of lower credit costs on sales of durable goods should prove a boon to the region's increasing number of vehicle assembly plants, such as those in Tennessee and Georgia, and perhaps to Alabama's important tire industry. Another favorable factor in this region is population growth. Many parts of the Southeast are likely to continue to attract people from other sections of the United States, and this influx of new residents will fuel demand for housing as well as the ongoing expansion of services, ranging from movie theaters, restaurants, and department stores to doctors', dentists', and lawyers' offices.

Traditional Manufacturing. The dollar's decline should help some of the region's traditional economic activities such as agriculture, textiles, apparel, and lumber, which have been hard hit by import competition. However, the current plight of certain distressed sectors, for example, lumber and farming, developed over several years and is unlikely to be reversed completely in the near term. Employment in the textile industry has been declining for well over a decade, even during the 1970s when the U.S. dollar was widely regarded as "undervalued" on foreign currency markets. To compete in today's international markets, the textile industry has been growing more capital intensive

and technological for some time. Thus, textile mills should not be expected to resume their role as major employers even though their corporate balance sheets may begin to look healthier. In fact, the movement of workers from low-wage, import-sensitive industries into other sectors with more growth potential and greater opportunities for higher wages should prove beneficial in the long run.

Energy. Overall prospects for the oil and natural gas industries, which are concentrated in Louisiana and southern Mississippi, are more clouded. World-wide demand has been slack relative to supplies, and the decline in oil prices has been substantial, rendering the near-term outlook for drilling and exploration bleak. Still, lower prices could generate significant growth in demand for oil, natural gas, and petroleum by-products such as chemicals. Modest improvement for refiners and makers of petroleum-based products may therefore be on the horizon.

Construction. Another regionally important industry that seems destined to undergo some retrenchment is non-residential construction. Despite the large number of people and companies that have been moving to the Southeast, many cities have more office space than current demand warrants. Some have a glut of hotel rooms as well. This overbuilding is reflected in high vacancy rates and a proliferation of rental discounts. The number of new department stores and shopping centers planned for certain southeastern cities may also be outstripping the potential for growth in consumer spending over the next few years. Accordingly, some slowdown seems inevitable—even desirable—to allow existing supplies to be absorbed.

The Rural/Urban Disparity. The southeastern economy's sources of strength—defense spending, inventory rebuilding, population growth, and the dollar's decline—suggest that Florida and Georgia will enjoy the brightest prospects in 1986. Louisiana, with its less diversified economy, will continue to struggle. Tennessee, Alabama, and

probably Mississippi are likely to fall in the middle. Generally, cities should fare better than rural areas since most population growth is taking place in urban and suburban areas. Rural areas not only depend more heavily on agriculture but also face the challenge of finding new sources of jobs for many permanently displaced textile, apparel, and other manufacturing workers. The outlook for Atlanta and Nashville is especially promising.

Issues Confronting Policymakers and the Public

The "moderate" expansion envisioned for the nation and region in 1986 is respectable considering that trends in productivity and resource gains limit long-run U.S. growth to about 3 percent. Moreover, this year should usher in more balanced performance than was experienced last year. Americans face important issues, however, that make this outlook less certain and pose special dilemmas for economic policymakers.

Financial System Conditions. One such issue pertains to America's financial system. That system is fundamentally strong and resilient, but certain lingering problems remain a matter of concern. Debt owed by LDCs continues to burden many U.S. financial institutions. Substantial declines in interest rates and in the foreign-exchange value of the U.S. dollar enable borrower countries and their lending institutions to restructure and service this debt more easily, since much of it is dollar-denominated. However, lower oil prices will probably outweigh the effects of lower interest rates on oil-exporting LDCs that are heavily indebted and on their U.S. creditors. In addition, the dollar's depreciation will make some LDCs' products more expensive in this country and could reduce the export earnings and growth of developing nations. America's colleagues among the industrial nations can help take up the potential slack in LDCs' export markets. Recent signs of stronger growth in

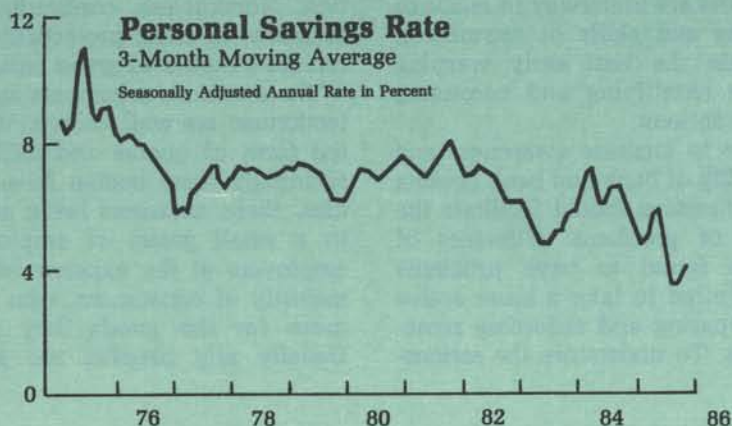
Europe give reason to expect that the fundamentals are in place for such a transition, yet these countries also must exhibit the political willingness to assume a larger share of LDC exports. If, instead, other advanced economies do not sustain and improve their economic expansions or if they seek to protect their own favorite industries, the likelihood of continued progress on the part of LDCs would be diminished.

Such stalled progress would exacerbate other problems that confront the U.S. financial system, especially in view of the high degree of leverage that characterizes all the major segments of the U.S. economy—consumers, governments, and businesses. Public sector debt already has been described. Individuals borrowed heavily in 1986 to finance their spending. Although savings rates are not as low as once thought, they do not compare favorably with previous U.S. rates or with rates in many other advanced countries. In recent years, the corporate sector's leverage has skyrocketed with the surge of takeovers and mergers. Many of these deals have been financed by debt issued in the form of low-grade investment bonds, and the already troubled thrift industry has been prominent among the investors in such "junk bonds." Beyond the problems posed by LDC debt and leveraged buyouts, many financial institutions are encumbered by farm and energy loans. In addition,

because of the existing surfeit of offices, condominiums, and apartments across the country, real estate lending also could pose problems for certain types of institutions, particularly savings and loan associations. A sudden economic disruption could have detrimental effects on the stability of our financial system. Thus, policymakers must be extremely watchful of developments in LDCs, in the farm, energy, and real estate sectors, and with respect to the continuing use of leveraged buyouts.

Weaknesses in the banking community were manifested last year by 120 bank failures—the largest number since the establishment of federal deposit insurance. This number could well be matched, if not exceeded, in 1986. The vast majority of these failed banks were and will probably continue to be small community institutions. While such failures do not significantly influence the broad financial markets, they can have an adverse impact on local areas. Containing the pressures that can arise when banks fail is a primary objective of public policy. For these reasons, the Federal Reserve, in its role as the nation's central bank, acts to ensure that the marketplace remains orderly and that institutional adjustments occur within a stable financial system.

During 1985 the Federal Reserve System undertook a major effort to review its supervisory framework and



Source: U.S. Department of Commerce

the resources devoted to those responsibilities. Current requirements of the marketplace highlighted the need for more concentrated supervisory efforts, procedures, and guidelines. Although numerous policy and procedural changes were set in place last year, the new program consists essentially of five reforms: (1) strengthening existing standards, (2) identifying problems earlier, (3) correcting existing weaknesses, (4) communicating examination findings more clearly, and (5) increasing cooperation with state supervisory agencies.

Strengthening existing standards will take several forms. New minimum capital requirements have been adopted, and further refinements were proposed toward year end. Improved techniques are being developed for measuring bank holding company cash flow and liquidity for incorporation into the inspection process, and formal guidelines relating to acceptable loan concentration levels and loan loss provisions were added to the examination function. Finally, the Board of Governors issued guidelines regarding dividend policies for organizations experiencing earnings problems.

To detect problems sooner, large banks and bank holding companies under the Board's supervision will be examined more frequently. A policy of expanded financial statement reporting and increased off-premise surveillance also was put into place. The System is developing strategies to improve supervisory responses to banking emergencies, such as those that occurred in Ohio and Maryland during 1985. Continued efforts are underway to enhance the training and skills of examiners, who remain the best early warning system for identifying and correcting problem situations.

Measures to increase awareness and accountability of bank and bank holding company directors should facilitate the correction of problems. Directors of institutions found to have problems will be required to take a more active role in preparing and enforcing remedial actions. To underscore the serious-

ness of examinations, senior Federal Reserve officials will be more actively involved in presenting examination results to the boards of large or troubled institutions. To assure effective communication and to emphasize directors' responsibilities to take corrective action, the Fed will routinely provide reports summarizing examination findings to individual directors of institutions found to have problems. Currently, the System is forging a stronger link between examinations and applications processing: for example, the Federal Reserve will ensure that the most current condition is confirmed, through on-site evaluations where necessary, before approving significant applications.

Finally, programs now are being developed to improve the Fed's interaction with and reliance on state agencies so as to better utilize resources and eliminate duplication of effort among supervisory bodies. This effort by the Federal Reserve to fortify the banking industry and minimize the effect of disruptions represents a major initiative. The Atlanta Fed has strongly supported its development.

Protectionism. Another problem, and one far less subject to Federal Reserve policy influence, is protectionism. Some shift away from protectionism is likely since President Reagan vetoed a major protectionist bill and the dollar's substantial depreciation last year should ease some strains on affected industries. Significant progress toward reducing federal deficits also would allow the dollar's further decline without straining domestic capacity or rekindling inflation. Nonetheless, continuing political pressures to enact protectionist policies remain a matter of grave concern.

The economic arguments against protectionism are well known. Whether in the form of quotas and tariffs or the seemingly more benign form of subsidies, these measures bring advantages to a small group of employees and employers at the expense of the vast majority of consumers, who must pay more for the goods they purchase. Usually any benefits are short-lived

and merely postpone inevitable adjustments in affected firms and industries. Protectionist measures by one country are almost always followed by retaliatory actions on the part of other nations, and the net result is a decline in world trade and economic activity. In effect, protectionism chokes off foreign markets that have the potential to become major customers for goods in which the United States has a comparative advantage.

Beyond these familiar economic arguments are certain social or moral objections to those sentiments that give rise to support for protectionist measures. This apparent political groundswell bespeaks a shortsighted approach to public policy, a lack of vision that can erode the social values underpinning America's laws and policies. Efforts to protect domestic industry against foreign competition transfer to future generations the burden of making needed adjustments. U.S. policymakers, businesses, and citizens should be taking necessary steps to get the nation's economy "into shape," for these actions would leave today's youth the legacy of a healthier economy—one in which more workers earned greater real incomes, one based on a mix of higher value-added economic activities suited to the world's leading economy. In contrast, adoption of protectionist policies would allow the United States to remain slack for a while longer, shifting responsibility for the inevitable transition onto the next generation.

Social Ethics. Unfortunately, the social shortsightedness underlying support for protectionism extends beyond a single issue or ideology and thus poses a considerable threat to the United States as a whole. The term, "me-generation," often used to refer to those who came of age in the 1970s, emphasizes how the attitudes of that group differ from the more socially concerned values of their 1960s' counterparts. A number of programs designed to implement the earlier social goals proved to be far costlier than originally anticipated or even misguided, and so natu-

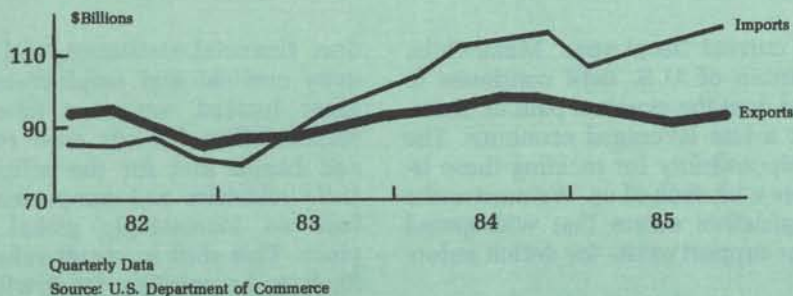
rally the social pendulum has reversed. However, the United States now seems to be drifting too far in the other direction. Evidence suggests excessive concern with present well-being and an alarming disregard for how certain policies might affect other segments of society and future generations. Such attitudes, which characterize all too many individuals, are apparent in the business community as well. Recent years have seen many instances of fraudulent and otherwise illegal or implicitly unethical behavior in the private sector. This phenomenon has been evident in a variety of professions, ranging from defense contractors and stockbrokers to government securities dealers, accountants, and bankers. The willingness of these people to compromise the most fundamental principles of honesty and even to break the law for the sake of immediate gain jeopardizes the trust on which our society is based.

The importance of trust in the financial industry is widely recognized. Disrupted trust shakes depositors' confidence and thus can quickly damage even sound institutions. Trust is important in all economic dealings, though, for when it suffers, commercial relations must be rebuilt. Usually this rebuilding process leads to a maze of red tape, paperwork, bureaucracy, and in some cases regulation. The more extensive the maze becomes, the more it detracts from efficiency and flexibility, eventually hampering economic growth and prosperity. Mounting incidents of dishonesty also sully the reputation of business in general. Individuals, in turn, are tempted to sacrifice moral standards for the sake of short-term personal gain.

The shortsightedness and self-centeredness that characterize the economic behavior of many individuals take a number of forms. Most American consumers have been enjoying a high standard of living, apparently ignoring the heavy toll their spending spree levies on certain groups. These segments particularly include farmers and workers in industries that are especially

U.S. Foreign Trade

Trade of Goods and Services



export-dependent or import-sensitive. We also have grown indifferent to the consequences of our actions on future generations. Seemingly, many Americans do not understand that both our spending binge of recent years and the current problems in manufacturing and farming are rooted in the nation's reluctance to save more personally and to bring our spiralling public debt under control. Those who do understand this relationship appear unwilling to alter their patterns of gratification until events beyond their control force a change.

Although the effects of large structural federal budget deficits are complex, some basic impacts are readily comprehensible. In addition to their link to the current hardships being felt by farmers, manufacturers, and some financial institutions, deficits transfer an onerous responsibility to future generations. The huge volume of internal and external debt that we as a nation are accumulating eventually must be paid back. Most likely our children will have to shoulder this burden just at the time when they reach their peak spending years. To service and possibly retire this debt, they will have to save more, in many cases forgoing such major purchases as homes, education, and the like. Thus, our recent bout of consumption will come at their heavy expense.

The United States has gone deeply into debt in the past, especially in times of national military emergencies, thereby forcing future generations to finance

current needs. Most of that financing, however, was drawn from domestic sources. By contrast, today's huge budget deficits are being funded to a significant extent by foreigners. In 1984 the equivalent of one-quarter of our net domestic needs for investment and deficit financing were met by funds from other countries. Therefore, servicing the 1980s' public debt will redistribute income not simply from one group of Americans to another but also from the United States to investors from abroad.

It is easy to blame others for our nation's problems. Many people attribute the weakness of American textile, apparel, and steel industries to the low wage levels and government subsidies that prevail in many LDCs. Others charge flagging U.S. export growth to nontariff barriers erected by Japan and Europe. Some even place the responsibility with Congress. It is true that our legislators failed for many years to address the deficit issue; however, congressional delegates are elected and highly sensitive to their constituents' demands. If we as citizens, members of various trade and professional organizations, or opinion leaders in our own right, had opposed these deficits sooner and more forcefully, Congress likely would have taken action earlier than last December, when it enacted the Gramm-Rudman law.

This legislation is an important step in the right direction, but it is only the beginning. As of yet, it merely holds the promise of deficit reduction; only minimal spending cutbacks are probable

in the current fiscal year. Meanwhile, the burden of U.S. debt continues to soar, as does the eventual pain of transition to a less leveraged economy. The real responsibility for tackling these issues lies with each of us. We must make our legislators aware that widespread popular support exists for deficit reduction.

Additionally, Americans must generate more personal savings. In this way we can ensure the availability of adequate funds for future research on products and production techniques, for construction of more modern factories, and for replacing outmoded equipment with machines and methods that will enable the United States to compete more effectively in world markets. We also must begin to ask less of government and to rely more on ourselves and on private institutions to solve many of today's complex problems. Each of us, as individuals and as representatives of organizations, must be prepared to sacrifice some of our dependence on the public sector—for subsidies, protec-

tion, financial assistance, and possibly even medical and employment insurance. Instead, we must take greater responsibility for our own retirement and health and for the efficiency of U.S. industries and companies as they face an increasingly global marketplace. This shift in social values is not likely to be painless, for it will require that we live less for the pleasure of the present. Ultimately, however, it should result in higher living standards for us and our children, fewer disruptions and dislocations over time, and a more prosperous and competitive nation. If we fail to take these personal measures, Congress surely will find it more difficult to cut federal spending and to reduce future budget deficits.

Conclusion

Resolving all these challenges will be a formidable task but one assisted by an economic context that is generally favorable. The expansion is likely to be sustained in 1986, and some of the

nation's troubled sectors seem ready to rally. The Federal Reserve will continue to seek policy approaches that promote economic growth, price stability, and the soundness of the U.S. and international financial systems. With the Fed fostering such an environment, individuals and businesses should find they can take a longer view than is possible in a more volatile setting, where uncertainty creates pressure to maximize short-run gains. Yet the Fed and other policymakers cannot achieve these goals on their own. American businesses must pursue farsighted measures to deal with the complexities of global economic integration and other issues that have been reviewed here. The support of enlightened citizens also will be necessary for the nation to surmount its present problems. If we all do what we can in our personal and professional lives to promote more judicious economic thinking and corresponding public policies, we can help launch the U.S. economy on a path of enduring and healthy growth.

Highlights of 1985

Core Values

The Federal Reserve Bank of Atlanta articulated a set of corporate goals that reflect the commitments and objectives of its staff. Three values—integrity, quality service, and cost effectiveness—constitute the heart of this philosophy. Integrity means that the Bank will be fair, honest, and impartial and will conduct its business with high standards to maintain strong public confidence. Quality service indicates that all Bank staff are to provide exemplary service, with emphasis on reliability and responsiveness to customers, constituents, and each other. Cost effectiveness suggests that resources should be managed prudently to maintain maximum productivity and efficiency.

Payments Services

Volume and Prices. The volume of various payments services provided by the Atlanta Fed continued to grow in 1985. The Sixth District processed 2.3 billion checks, far more than any other Reserve Bank and about 8 percent more than the Atlanta Fed processed in 1984. In the electronic payments area, average daily wire transfer originations grew 4 percent, and total commercial automated clearinghouse (ACH) volume increased about 27 percent from 1984 to 1985. In securities services, average monthly definitive safekeeping receipts increased almost 4 percent, and total noncash items collected grew 13 percent. Owing to continued growth in the volume of payments services as well as ongoing strong productivity and cost efficiency, the District will be able to maintain most 1986 prices at 1985 levels and can lower some prices. However, selected price increases will be implemented for nonautomated ACH services. Sixth District-controlled prices are the lowest in the Federal Reserve System.

Returns/Rejects Processing. New computer equipment was installed at each branch in 1985 to facilitate return-item and reject-item processing. This new equipment, which provides the enhanced capabilities needed to expand service levels in these areas, will contribute significantly to the efficiency of check operations.

Large-Dollar Return Notification. Depository institutions' practice of delaying withdrawals from depositors' accounts for extended periods received significant public and congressional exposure last year. Responding to the banking community's concerns over potential risk of loss if "hold" periods were reduced, the Board of Governors adopted an amendment to Regulation J to improve the system of notification for nonpayment of checks processed through the Federal Reserve in amounts of \$2,500 or more. At the same time, the Federal Reserve began offering a notification service to help payor institutions meet the new requirements, which became effective October 1, 1985. In providing this service, Reserve Banks are assuming liability for making the proper notification within prescribed time limits. This amendment should improve the timeliness and reliability of notification and thereby reduce the financial risk to the institution of first deposit. Eventually, this change should assist depository institutions in reducing the length of holds sometimes placed on deposited funds.

Payments System Risk. On May 17, 1985, the Board of Governors issued a policy statement on the control and reduction of risks to the Federal Reserve and to depository institutions participating in large-dollar wire transfer systems. The policy, scheduled to become effective on March 27, 1986, calls on depository institutions to reduce the credit risks associated with their partic-

ipation in these systems. Furthermore, the policy defines the role that the Federal Reserve and other financial institution supervisors will play in monitoring, examining, and counseling depository institutions on these matters. The policy encourages each depository institution that incurs daylight overdrafts to adopt voluntarily a "cross-system sender net debit cap." The cap represents the maximum net debit that a depository institution may incur at any one time on all of the large-dollar wire transfer systems (Fedwire and each private network) in which it participates. The policy sets limits based on creditworthiness, operational controls, and credit policies and procedures. To acquaint depository institutions with this new policy, the Sixth District held 18 seminars attended by representatives of over 300 depository institutions throughout the Southeast.

Product Development. One of the Sixth District's primary goals is to be a leader in providing payments services in all areas—checks, electronic payments, and securities. As a result, emphasis is placed on developing high quality, efficient, and technologically advanced services to meet our customers' needs. The Atlanta branch is one of three Federal Reserve offices participating in a check truncation pilot program. Phase I of the program, involving the capture, storage, and retrieval of items drawn on institutions within the area of the pilot program, was implemented in 1985.

Development, conversion, and expansion of our electronic payments and information delivery network, Fedwire, to depository institutions' microcomputer work stations continued in 1985. Services currently or soon to be available through Fedwire include transfer of funds and securities, electronic origination and receipt of ACH entries, check-return item notification, account information, Treasury-tender subscriptions, cash-order requests, and financial

rate information. The District also implemented eight securities services enhancements in 1985, including magnetic tape and microfiche listings of holdings, notification of matured bonds, separate bond-in-transit accounts, interest and principal statements, and subaccounts.

Supervision and Regulation

Mergers and Acquisitions. In 1985 nearly 350 applications from institutions seeking changes in structure or operation were submitted to the Atlanta Fed. The Sixth District was the only one in the System to experience an increase in the volume of these applications during 1985. The Atlanta Fed maintained its good record of processing applications despite the higher volume of applications and abbreviated processing time.

State Member Banks. Twenty-one state-chartered banks in the Sixth District were admitted to membership in the Federal Reserve System in 1985, bringing the total number of state member banks to 113. This record growth in our constituency is attributable in part to continued expansion of the southeastern banking industry, especially in Florida, and the conversion to commercial banks of savings and loan associations seeking FDIC insurance. Also, bank subsidiaries of some bank holding companies seem to prefer being regu-

lated by the same authority as their parent company.

Monetary Policy

Directors. We want to thank our directors for their valuable counsel during the year, with a special word of appreciation to Dan B. Andrews, President of the First National Bank in Dickson, Tennessee. Mr. Andrews stepped down from our head office board at year's end after completing six years on that body and three previously with the Nashville board. We want to welcome Virgil H. Moore, Jr., Chairman and Chief Executive Officer of First Farmers and Merchants National Bank in Columbia, Tennessee, who recently joined our head office board.

Discount Rate. The discount rate was changed only once in 1985. This change occurred on May 20, when the rate was lowered from 8 to 7 1/2 percent, the lowest point since August 1978.

Federal Advisory Council. We wish to express our gratitude to Philip F. Searle, Chairman of Sun Banks, Inc., who completed his term as Sixth District representative to the Federal Advisory Council. We are pleased that Bennett A. Brown, Chairman and Chief Executive Officer of the Citizens and Southern Georgia Corporation, has assumed this responsibility in 1986.

Advisory Councils. The Federal Reserve Bank of Atlanta, like other Reserve Banks, formed an advisory council consisting of 15 representatives from agriculture, small business, and labor. In its first two meetings the Council already has given the Bank's directors and staff concerned with monetary policy greater insight into the special concerns of small business, agriculture, and labor and provided an additional sounding board on regional and national economic issues.

Distinguished Speakers and Special Functions. The Bank continued to attract distinguished private and public figures for dialogues with our directors and business and community leaders on important public policy issues. Speakers appearing in this series of monthly programs included well-known government figures, bankers, judges, economists, academics, and business leaders. The Bank also sponsored luncheons honoring leaders from a variety of fields ranging from finance to diplomacy.

Building Construction Program

The Jacksonville Branch building project was running several months behind schedule at the beginning of 1985. The contractor has realigned the project management and has scheduled completion of the building for the middle of 1986.

BOARD OF DIRECTORS, 1985

JOHN H. WEITNAUER, JR.
CHAIRMAN
Chairman and Chief Executive Officer
Richway
Atlanta, Georgia

BRADLEY CURREY, JR.
DEPUTY CHAIRMAN
President
Rock-Tenn Company
Norcross, Georgia

DAN B. ANDREWS
President
First National Bank
Dickson, Tennessee

HAROLD B. BLACH, JR.
President
Blach's, Inc.
Birmingham, Alabama

JANE C. COUSINS
President and Chief Executive Officer
Merrill Lynch Realty/Cousins
Miami, Florida

E. B. ROBINSON, JR.
Chairman and Chief Executive Officer
Deposit Guaranty National Bank
Jackson, Mississippi

BERNARD F. SLIGER
President
Florida State University
Tallahassee, Florida

HORATIO C. THOMPSON
President
Horatio Thompson Investment, Inc.
Baton Rouge, Louisiana

MARY W. WALKER
President
The National Bank of Walton County
Monroe, Georgia

New Director for 1986

VIRGIL H. MOORE, JR.
Chairman and Chief Executive Officer
First Farmers and Merchants National Bank
Columbia, Tennessee

1985 directors: Seated are Currey, left, and Weitnauer. Standing, from left, are Sliger, Robinson, Walker, Thompson, Blach, Cousins, Andrews, and Federal Advisory Council Member Searle.



Federal Advisory Council, 1985

PHILIP F. SEARLE
Chairman
Sun Banks, Inc.
Orlando, Florida

Federal Advisory Council, 1986

BENNETT A. BROWN
Chairman and Chief Executive Officer
Citizens and Southern Georgia Corporation
The Citizens and Southern National Bank
Atlanta, Georgia

**MARTHA McINNIS
CHAIRMAN**

President
EnviroSouth, Inc.
Montgomery, Alabama

G. MACK DOVE

President
AAA Cooper Transportation Company
Dothan, Alabama

GRADY GILLAM

Chairman
AmSouth Bank, N.A.
Gadsden, Alabama

SAMUEL RICHARDSON HILL, JR.

President
University of Alabama in Birmingham
Birmingham, Alabama

WILLARD L. HURLEY

Chairman and Chief Executive Officer
First Alabama Bancshares, Inc.
Birmingham, Alabama

CHARLES LEE PEERY

Chairman
The First National Bank of Florence
Florence, Alabama

MARGARET E. M. TOLBERT

Associate Provost for Research and Development
Director, Carver Research Foundation
Tuskegee Institute
Tuskegee, Alabama

A. G. TRAMMELL

President
Alabama Labor Council, AFL-CIO
Birmingham, Alabama

New Directors For 1986

ROY D. TERRY

President and Chief Executive Officer
Terry Manufacturing Company, Inc.
Roanoke, Alabama

JUDITH THOMPSON

President and Chief Executive Officer
Thompson Tractor Company, Inc.
Birmingham, Alabama

MILTON WENDLAND

Owner
Autauga Farming Company
Autaugaville, Alabama

Birmingham Branch directors: Left to right, Gillam, Trammell, McInnis, Peery, and Hurley. Not pictured: Dove, Hill, and Tolbert.



JACKSONVILLE

E. WILLIAM NASH, JR.
CHAIRMAN
President, South-Central Operations
The Prudential Insurance Company of America
Jacksonville, Florida

GEORGE C. BOONE, JR.
President and Chief Executive Officer
Security First Federal Savings and Loan
Association
Daytona Beach, Florida

BUELL G. DUNCAN, JR.
Chairman and Chief Executive Officer
Sun Bank, N.A.
Orlando, Florida

E. F. KEEN, JR.
Vice Chairman
NCNB Bancorporation, Inc.
Bradenton, Florida

ANDREW A. ROBINSON
Dean
College of Education and Human Services
University of North Florida
Jacksonville, Florida

JO ANN DOKE SMITH
Co-Owner
Smith Brothers
Micanopy, Florida

JOHN D. UIBLE
Chairman and Chief Executive Officer
Florida National Banks of Florida, Inc.
Jacksonville, Florida

JOEL R. WELLS, JR.
President and Chief Executive Officer
Sun Banks, Inc.
Orlando, Florida

Jacksonville Branch directors: Seated, Nash. Standing, from left, Robinson, Duncan, Smith, and Keen. Not pictured: Boone, Uible, and Wells.



New Directors for 1986

ROBERT R. DEISON
Chairman
Andrew Jackson State Savings and Loan
Association
Tallahassee, Florida

GEORGE W. GIBBS, III
President and Chief Executive Officer
Atlantic Dry Dock Corporation
Fort George Island, Florida

MIAMI

EUGENE E. COHEN
CHAIRMAN
Chief Financial Officer and Treasurer
Howard Hughes Medical Institute
Coconut Grove, Florida

ROBERT D. APELGREN
President
Apelgren Corporation
Pahokee, Florida

SUE McCOURT COBB
Attorney
Greenberg, Traurig, Askew, Hoffman, Lipoff,
Rosen, and Quentel, P.A.
Miami, Florida

JAMES P. HERMES
President and Chief Executive Officer
Bank of the Islands
Sanibel, Florida

D. S. HUDSON, JR.
Chairman
First National Bank and Trust Company of
Stuart
Stuart, Florida

ROBERT L. KESTER
Vice Chairman
Barnett Bank of South Florida, N.A.
Pompano Beach, Florida

ROBERT D. RAPAPORT
Chairman
Royal Palm Savings Association
Principal, The Rapaport Companies
Palm Beach, Florida

ROBERT M. TAYLOR
Chairman and Chief Executive Officer
The Mariner Group, Inc.
Fort Myers, Florida

New Director for 1986

WILLIAM H. LOSNER
President and Chief Executive Officer
The First National Bank of Homestead
Homestead, Florida

Miami Branch directors: Seated, left to right, Apelgren, Cobb, Cohen, and Taylor. Standing, Kester, Rapaport, and Hudson. Not pictured: Hermes.



NASHVILLE

CONDON S. BUSH
CHAIRMAN

President
Bush Brothers & Company
Dandridge, Tennessee

WILL A. HILDRETH

President and Chief Executive Officer
First National Bank of Loudon County
Lenoir City, Tennessee

SAMUEL H. HOWARD

Senior Vice President of Public Affairs
Hospital Corporation of America
Nashville, Tennessee

ROBERT W. JONES

Chairman and President
First National Bank
McMinnville, Tennessee

C. WARREN NEEL

Dean
College of Business Administration
The University of Tennessee
Knoxville, Tennessee

OWEN G. SHELL, JR.

President and Chief Executive Officer
First American National Bank of Nashville
Nashville, Tennessee

PATSY R. WILLIAMS

Partner
Rhyne Lumber Company
Newport, Tennessee

New Directors for 1986

GENE CHEATHAM

President
Advanced Integrated Technology, Inc.
Nashville, Tennessee

SHIRLEY A. ZEITLIN

President
Shirley Zeitlin & Company Realtors
Nashville, Tennessee

Nashville Branch directors: Seated, left to right, Shell, Williams, Bush, and Neel. Standing, Howard, Hildreth, and Jones.



NEW ORLEANS

LESLIE B. LAMPTON
CHAIRMAN
President
Ergon, Inc.
Jackson, Mississippi

JAMES G. BOYER
Chairman, President,
and Chief Executive Officer
Gulf National Bank at Lake Charles
Lake Charles, Louisiana

CARL E. JONES, JR.
Chairman, President,
and Chief Executive Officer
First Alabama Bank of Mobile, N.A.
Mobile, Alabama

PHILIP K. LIVINGSTON
Vice Chairman, President, and Chief Executive
Officer
Citizens National Bank
Hammond, Louisiana

SHARON A. PERLIS
Attorney
Metairie, Louisiana

TOM B. SCOTT, JR.
President and Chief Executive Officer
Unifirst Bank for Savings, F.A.
Jackson, Mississippi

ROOSEVELT STEPTOE
Professor of Economics
Southern University
Baton Rouge, Louisiana

New Directors for 1986

ALAN R. BARTON
President and Chief Executive Officer
Mississippi Power Company
Gulfport, Mississippi

ROBERT M. SHOFSTAHL
President and Chief Executive Officer
Pelican Homestead and Savings Association
Metairie, Louisiana

CAROLINE G. THEUS
President
Inglewood Land & Development Company
Alexandria, Louisiana

New Orleans Branch directors: Seated, left to right, Lampton and Perlis. Standing, Boyer, Jones, Livingston, and Steptoe. Not pictured: Scott.



SENIOR OFFICERS

ROBERT P. FORRESTAL
President

JACK GUYNN
First Vice President

B.H. HARGETT
Executive Vice President

W.R. CALDWELL
Senior Vice President

CHARLES D. EAST
Senior Vice President and Comptroller

HARRY C. SCHIERING
General Auditor

H. TERRY SMITH
Senior Vice President

SHEILA TSCHINKEL
Senior Vice President and Director of Research

PATRICK K. BARRON
Vice President and Miami Branch Manager

WARDLYN BASSLER
Vice President

HENRY BOURGAUX
Vice President
and New Orleans Branch Manager

HARRY BRANDT
Corporate Secretary and Assistant
to the President

FRANK J. CRAVEN
Vice President

W.M. DAVIS
Vice President

DELMAR HARRISON
Vice President and Atlanta Branch Manager

JAMES D. HAWKINS
Vice President
and Jacksonville Branch Manager

ROBERT E. HECK
Vice President

FRED R. HERR
Vice President
and Birmingham Branch Manager

JOHN R. KERR
Vice President

B. FRANK KING
Vice President
and Associate Director of Research

ELY S. MATTERI
Vice President

RICHARD R. OLIVER
Vice President

JOHN M. WALLACE
Vice President

JEFFREY J. WELLS
Vice President and Nashville Branch Manager

EDMUND WILLINGHAM
Vice President and General Counsel

Management Committee: Seated, left to right, Tschinkel, Guynn, and Smith. Standing, Schiering, Caldwell, East, and Hargett.



Management Committee

JACK GUYNN
First Vice President

B.H. HARGETT
Executive Vice President

W.R. CALDWELL
Senior Vice President

CHARLES D. EAST
Senior Vice President and Comptroller

HARRY C. SCHIERING
General Auditor

H. TERRY SMITH
Senior Vice President

SHEILA TSCHINKEL
Senior Vice President and Director of Research

STATEMENT OF CONDITION

Assets	December 31, 1984	December 31, 1985
Gold Certificate Account	\$ 360,000,000	\$ 413,000,000
Special Drawing Rights Certificate Account	161,000,000	192,000,000
Coin	49,655,950	52,703,051
Loans and Securities	4,018,821,491	5,736,386,771
Cash Items in Process of Collection	541,108,045	909,232,707
Bank Premises	39,275,879	47,651,466
Other Assets	437,619,842	800,708,587
Interdistrict Settlement Account	2,276,686,836	3,476,149,849
Total Assets	\$7,884,168,043	\$11,627,832,431
Liabilities		
Federal Reserve Notes	\$5,216,469,381	\$7,340,529,859
Deposits*	1,756,695,061	2,936,095,302
Deferred Availability Cash Items	545,785,769	914,400,459
Other Liabilities	96,905,432	143,715,811
Interdistrict Settlement Account	0	0
Total Liabilities	\$7,615,855,643	\$11,334,741,431
Capital Accounts		
Capital Paid In	\$ 134,156,200	\$ 146,545,500
Surplus	134,156,200	146,545,500
Total Capital Accounts	\$ 268,312,400	\$ 293,091,000
Total Liabilities and Capital Accounts	\$7,884,168,043	\$11,627,832,431

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

STATEMENT OF EARNINGS

Earnings and Expenses	1984	1985
Total Current Income	\$481,819,985	\$565,425,720
Operating Expenses	88,577,516	95,094,551
Cost of Earnings Credit (Deduct)	12,044,659	11,295,260
Current Net Income	\$381,197,810	\$459,035,909
Net Additions (+) Deductions (-)*	-37,009,013	103,092,542
Assessment for Expenses of Board of Governors	6,826,100	6,372,824
F. R. Currency Cost	3,261,034	5,380,162
Net Earnings Before Payment to U.S. Treasury	\$334,101,663	\$550,370,688
Distribution of Net Earnings		
Dividends Paid	\$ 7,686,605	\$ 8,445,546
Payment to U.S. Treasury (Interest on F.R. Notes)	313,799,808	529,535,842
Transferred to Surplus Account Net Additions (+) Deductions (-)	+12,615,250	+12,389,300
Total Income Distributed	\$334,101,663	\$550,370,688
Surplus Account		
Surplus January 1	\$121,540,950	\$134,156,200
Transferred to Surplus - as above	12,615,250	12,389,300
Surplus December 31	\$134,156,200	\$146,545,500

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

SUMMARY OF OPERATIONS

	1984		1985	
	\$ (millions)	items (thousands)	\$ (millions)	items (thousands)
Services to Depository Institutions				
Clearing and Collection Services				
Checks handled:				
U.S. Government checks	54,928	77,161	57,210	77,470
Commercial checks	1,307,228	2,138,020	1,367,556	2,299,243
ACH payments processed	263,037	72,087	427,231	87,161
Wire transfers of funds	6,890,627	6,139	2,947,469	6,373
Cash Services				
Total cash receipts	23,995	4,820,753(r)	25,778	5,176,656
Total cash payments	116,954	6,606,512(r)	18,274	6,753,204
Currency processed	—	1,679,140	—	1,761,108
Coin processed	—	3,159,478	—	3,390,971
Loans to depository institutions, daily average	44	—	25	—
Securities Services				
Wire transfer of securities	579,000	553	719,918	312
Noncash collection	1,431	1,282	1,421	1,461
Services to U.S. Treasury				
U.S. savings bonds issued, redeemed by Federal Reserve Bank	293	2,121	312	2,455
U.S. savings bonds issued and redeemed by qualified issuing and paying agents	964	9,866	987	9,850
Other Treasury securities issued, serviced and redeemed	28,609	198	39,916	182
Deposits to Treasury Tax and loan accounts	51,238	936	35,887	1,020
Food coupons destroyed	1,414	368,631	1,572	339,834

r = revised

For additional copies write to:
Information Center
Federal Reserve Bank of Atlanta
104 Marietta Street, N.W.
Atlanta, Georgia 30303-2713

(404) 521-8788

Branches:

Birmingham Branch
1801 Fifth Avenue, North
Birmingham, Alabama 35283

Jacksonville Branch
515 Julia Street
Jacksonville, Florida 32231

Miami Branch
9100 N.W. 36th Street Extension
Miami, Florida 33178

Nashville Branch
301 Eighth Avenue, North
Nashville, Tennessee 37203

New Orleans Branch
525 St. Charles Avenue
New Orleans, Louisiana 70161

HG/2613/.A7/F2
Federal Reserve Bank of At
Annual report / Federal
Reserve Bank of Atlanta.
ALCW 1985 \$.00

Research Library
Federal Reserve Bank of Atlanta
104 Marietta Street, N.W.
Atlanta, Georgia 30303-2713



HG/2613/.A7/F2
Federal Reserve Bank of At
Annual report / Federal
Reserve Bank of Atlanta.
ALCW 1985 \$.00

55