REF

Federal Reserve Bank of Atlanta

Banking in Transition

1990 Annual Report

Contents

Message from the President

February 8, 1991

This annual report of the Federal Reserve Bank of Atlanta features highlights of 1990 accomplishments along with the consolidated financial statements of the Atlanta, Birmingham, Jacksonville, Miami, Nashville, and New Orleans branches. In addition, names of all directors and officers who served the Sixth District during the past year are listed.

Besides the review of the year's developments, this report includes a discussion of issues facing the banking industry in today's atmosphere of accelerating change. This essay is an exploration of the dynamics underlying the current strains and problems facing the U.S. financial system. It also contains an outline of the fundamental characteristics the system must have to deal effectively with both competitive challenges and American society's demand for a deposit insurance safety net. The essay concludes with an agenda of legislative and regulatory changes needed if banking reform is to be both feasible and lasting.

I would like to express my appreciation to all of the Sixth District's directors for their valuable counsel throughout the year. In particular, I want to acknowledge those directors whose service ended in 1990—Robert D. Apelgren, Ronald M. Boudreaux, Harry B. Brock, Jr., Gary J. Chouest, Vincent K. Hickam, James A. Rainey, Robert M. Taylor, Frederick A. Teed, Caroline Theus, and A.G. Trammell.

My special thanks go to E.B. Robinson, Jr., who in 1990 completed six years of service as a head office director. Mr. Robinson will continue to assist the System during the coming three years as the Sixth District's Federal Advisory Council member.

Robert P. Forrestal

Robert P. Forrestal
President and Chief Executive Officer

Thinking beyond the Present Turmoil

Robert P. Forrestal

Banking in the United States is in a state of transition, changing from an industry in which public sector subsidies and controls have played too great a role to one that must eventually become more subject to market competition. This transition—a necessary one—will ultimately make our banking system safer and more efficient. In the year ahead, we can anticipate a great deal of discussion regarding the future of banking and strategies for negotiating this period of change. Suggestions from Congress, the administration, the industry itself, and experts in the field will provide a range of options for decisions on the direction we ultimately take.

Our considerations should go beyond crisis-management and center on four fundamental issues. First, it is important to understand the dynamic forces that push the financial system to change. Then we need to ask ourselves what we want our financial sector to look like, given the external dynamics and social preferences impinging on it. We also should consider how financial institutions can adapt to this set of factors. Finally, we have to determine whether statutory and regulatory changes are needed to head us in a more productive direction.

In addition, we must understand that adjustments to the system will occur at a fairly slow pace. We cannot and should not expect an overnight transformation. Instead, our focus should be on ensuring that the end result of this transition will be a banking industry better equipped to play its integral role in the nation's financial system.

Dynamics Driving U.S. Banking's Transition

Advances in automation and communications, combined with the legacies of past regulation, have undercut banks' competitiveness and are the primary dynamics driving change in the financial services industry. Technology has allowed capital to flow with increasing ease across industry lines once thought impermeable and, more recently, across international boundaries. The electronics revolution has eliminated some key distinctions between products and between institutions, distinctions established when major elements of the current regulatory framework were instituted in the 1930s.

New tools of information technology have made it possible for nonbanking institutions to offer products highly substitutable for those provided by banks, and, as communications have progressed, to offer such products in even larger markets. When "800" numbers brought bank-type services as near as one's telephone, banks lost the competitive edge that had been virtually guaranteed them earlier by industry regulations like interest-rate ceilings. Because banks could not fully compete in terms of interest rates, they attempted to enhance their traditional emphasis on personal service by building a large number of offices. After the friction created by interest-rate regulations was weakened and then eliminated, a large number of offices became superfluous. At the same time, advancing communications technology reduced the importance of physical facilities.

Deregulatory efforts that came in response to these changes in the financial services environment were meant to level the playing field on which banks and nonbanks competed. Such reforms have proven unequal to that task, however, because they could not eliminate the cost to banks of investments in buildings no longer necessary, made in the context of a bygone regulatory era.

Moreover, the tendency toward overcapacity had been exacerbated by one particular feature of the old regulatory system that was left in place during the deregulatory effort—deposit insurance. This subsidy attracted a large number of U.S.-based entrants to our already crowded banking system. Once they had entered, they discovered it was difficult to leave if profits proved meager. A bank cannot decide simply to declare bankruptcy and close its doors as a restaurant can, for example. In addition to the business dimension, the unique position of banks in the financial and payments system means that a closing must be supervised. Since exit takes so long, the excessive competition for business tends to drive margins below those consistent with long-term profitability. Deposit insurance compounds this problem.

The Crux of Present Banking Industry Weakness: Deposit Insurance

It is thus critical to address the weaknesses in the deposit insurance system as a prelude to other reforms. The U.S. deposit insurance system poses a true dilemma because it has some useful features that should surely be preserved. The system has—along with the lender-of-last-resort function of the Fed's discount window—done a good job of fulfilling the chief objective of its creators. It has helped shield the banking industry from the kind of systemic runs that can cripple the nation's economic activity. In addition, deposit insurance has taken on the function of providing security for small savers. The public can be expected to continue to demand this sort of safety for their savings.

The deposit insurance system is seriously flawed, however, in ways that became apparent after the value of the banking charter began to decline. The preservation of deposit insurance, even while other rigid elements of the system that had enhanced profits were eroded and then finally eliminated, aggravated a problem inherent to certain insurance systems, especially those in which premiums are unrelated to risk. Known as moral hazard, the problem is that the existence of insurance can increase the tendency to take the very risks insured against. With their franchises less protected and capital and profit margins thinning in the face of competition from other banks as well as nonbanking institutions, the most hard-pressed depository institutions have more incentive to gamble on riskier assets in the hope of making up a lot of ground in a hurry. Even though their capital is inadequate to cushion potential losses, they know that, should they lose, deposit insurance would back them up. In this way, deposit insurance has become a substitute for capital in shoring up the charter value of such institutions.

The deposit insurance guarantee also shields depositors from concern over the health of individual banks and keeps them from exerting greater discipline on bank management. Even larger depositors with amounts that are technically uninsured have relaxed their vigilance when they have believed that a bank is "too big to fail." That is, if a bank's failure could potentially have systemic effects and destabilize the system, it becomes more likely that it will not be allowed to fail and that all of its depositors will be protected. The resulting spread of insurance and the safety net generally only compounds the moral hazard problem.

What Do We Want from Our Financial System?

Clearly, we want our future financial system to eliminate the perverse aspects of deposit insurance while preserving the system's positive contributions to banking stability and consumer confidence. It does not seem that the cost of insuring individual accounts up to $100,000 is too great for accomplishing the latter objective, although a somewhat lower ceiling would probably not be disruptive. Nevertheless, it is still incumbent upon us to reduce the deposit insurance subsidy in ways that sharply lower the risks now posed to taxpayers.

Second, our institutions should be able to withstand a greater degree of market discipline. Total reliance on government support and protection undermines the effectiveness of competition in honing products to suit consumer preferences and, through the capital markets, in weeding out unsuccessful performers.

Third, we should press for less reliance on regulation so that institutions can respond to changes that occur naturally in dynamic markets without our needing to revise the system on an ad hoc basis. Achieving this sort of adaptability implies an expansion of banks' powers at some point after the deposit insurance safety net has been more narrowly defined and capital levels are adequate.

Finally, the rules should be applied evenhandedly. No institution should be confident that it is "too big to fail." The presumption should always be that prompt and predictable supervisory action will be taken when capital falls below stipulated levels; otherwise, market discipline erodes each time an exemption occurs.

Enhancing Adaptability through Capital and Consolidation

If we are to reshape the financial system in ways that enhance banks' ability to adapt to changing market conditions and that at the same time reduce the role of public subsidies, the first step is to increase the stake banks' owners have in the prudent management of their institutions. This change entails better capitalization. We have already begun to move in the direction of higher capital ratios by the agreement among international regulators to institute risk-based capital standards, which began to be phased in at the end of last year. Most U.S. institutions have already made the adjustments required for the fully implemented standards of 1992. However, even higher minimum levels of capital are called for, especially for institutions that want to take on additional activities.

Increased capital is attractive for a number of reasons. First, we are attempting to repair a system that has encouraged bank owners to take more risk than would otherwise be the case and to substitute deposit insurance for capital. Thus, it makes sense to reverse that trend gradually by requiring more capital. Higher capital levels would also create a larger buffer between mistakes bankers make and the need to draw on the insurance fund while at the same time moving us in the direction of greater market discipline. Banks would have to be able to convince market participants that their investments would be rewarded. Those that could not do this would obviously not be able to expand.

Of course, attaining higher capital levels is not without its costs. Several of our large banks have had their debt ratings reduced, and the current market yield on this debt has risen. Many bank stocks have taken a beating. To a great extent, this shortage of capital reflects the overcapacity in the nation's banking system. With somewhat more than 13,000 banks competing, margins do not favor significant new investment in bank stocks. Rather, industry consolidation is one likely route to higher capitalization. The efficiencies that would accrue from better returns to scale should bolster profitability for the remaining banks and attract more capital to them.

Adjustments to Our Statutory and Regulatory Structure

It is apparent, then, that regulatory changes, most of which must be initiated by congressional action, are called for if we are to meet the kinds of objectives outlined above. Deposit insurance must be redefined to reduce moral hazard and the subsidies that perpetuate overcapacity. Capital levels need to be raised to increase incentives for prudent management. Greater emphasis on noninsured debt instruments should also be instituted as an additional source of market discipline. Larger banks might be required to issue bonds whose payment is junior to the banks' other liabilities.

Another needed structural change is regulatory oversight capable of forcing institutions to take immediate steps, including liquidation when necessary, if their capital ratios fall below established thresholds. Under the current framework, banks can protest a regulator's decision of insolvency over too long a period of time. Thus, regulators should adopt a more formal program of progressive action keyed to capital levels. Such a program could be instituted quite readily using the risk-based standards now in effect, with thresholds ratcheted up as higher capital standards are set. In the best of all worlds, the regimen would be applied evenly to all institutions regardless of size. No institution would be "too big to fail" because each would have a capital cushion to make good on its obligations at the time of its closing. Policies must be designed so that prompt corrective action and sufficient capital cushions minimize the costs of the collapse and liquidation of the largest banks. This expectation should be enforced in ways that prevent the possibility of a contagious loss of confidence in the financial system.

After bolstering banks' capital and reducing the deposit insurance subsidy, we should allow a general expansion of bank powers. This expansion might include, for example, underwriting corporate debt and equity issues, activities in which the Fed has begun to allow very well capitalized holding companies to engage on a case-by-case basis. For that matter, there is no reason why a bank holding company should be prohibited from engaging in any business consistent with its expertise if the lines between insured and uninsured activities are properly drawn and if capital is adequate. Equalizing the scope of permissible activities for banks and their competitors would level the playing field at last.

One other change that could enhance banks' competitiveness would be the institution of nationwide interstate banking. We are already on the way to interstate banking as individual states choose to open their borders to outside organizations. However, Congress could—and should—cut the Gordian knot and take us directly to a nationwide interstate arrangement. Such a move would reduce the costs of geographic diversification. There is no apparent danger in going to nationwide interstate banking immediately.

Conclusion

In sum, the financial services industry is in a period of transition marked by confusion and a lack of clearly conceived objectives. But this situation is not unusual at a time when creative tensions are at work to produce something new. The present atmosphere of heightened interest in the importance of banking in the nation's economy is not unlike the period when the concept of the Federal Reserve was evolved three-quarters of a century ago. The nation had experienced a severe financial panic in 1907, which had sharpened awareness of the need to transform the financial system in keeping with developments in an economy that was fast leaving behind its traditional agricultural base in favor of industry.

Again, as in the early years of this century, we have been through a financial industry crisis. The savings and loan debacle has rocked our faith in the nation's financial system. This time, the system did not grind to a halt, thanks in part to the resilience of our underlying institutions. However, the experience has forced us to examine the problems caused by the collision of past regulation and contemporary market dynamics like the technological advances that have blurred the lines between banks and their competitors. This is a painful process, and it is not likely to become more comfortable any time soon. But it prods us to begin working toward viable long-term solutions. With respect to those solutions, safety and soundness must be the primary criteria as long as the public demands a deposit insurance safety net and taxpayers remain at risk. Still, the forces that have been driving change in the financial system—technology and communications—continue to amplify the need for us to create conditions that allow banks to adapt more handily than they now can. Higher capital levels, prompt corrective action, and expanded powers are key ingredients in making U.S. banks more competitive in a market that is rapidly becoming more global in scope.

Financial Services

Volumes and Prices. During 1990 the Sixth Federal Reserve District's volume of priced payments services posted a year of mixed growth. Automated clearinghouse (ACH), funds transfers, and check-processing volumes continued growth consistent with prior-year patterns. Bookentry securities transfers volume remained unchanged in 1990. Definitive safekeeping and noncash collection volumes decreased, reflecting the continuing industrywide phaseout of these paper-based instruments.

The Sixth District processed approximately 2.6 billion checks in 1990—6 percent more than in 1989—far exceeding volume processed by any other Federal Reserve Bank. Basic transaction volume for funds transfers rose approximately 7 percent, and ACH commercial volume grew about 20 percent. Noncash collection volume fell 21 percent, and definitive securities safekeeping volume dropped almost 9 percent. The Sixth District fully recovered the $86.9 million costs of providing these services (including the Private Sector Adjustment Factor) in 1990.

Processing Consolidations. The Atlanta Fed completed the centralization of ACH and Treasury, Tax, and Loan (TT&L) processing for all six offices during 1990. These applications were previously processed in a decentralized environment in each office. Centralization allows for more efficient ACH processing and provides a base for implementing an all-electronic ACH environment. TT&L consolidation increases the degree of automation processing, in turn lowering processing costs and raising operational efficiencies.

Supervision and Regulation

Bank Supervision. Enactment of the Federal Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) in August 1989 expanded the scope of the Fed's supervisory activities. FIRREA's impact was most evident in the consumer affairs and bank holding company application areas. Disclosure of Community Reinvestment Act performance ratings beginning on July 1 marked the first time regulators' ratings were made available to the public. In the applications area, resources devoted to processing bank holding company applications increased as banking organizations began to use the provisions of FIRREA to acquire healthy as well as failing thrifts. This activity, coupled with emerging problems in the banking industry, increased the number of applications prepared for consideration by the Board of Governors.

The number of problem institutions supervised by the department rose because of weakness in the economy, particularly in real estate. Staff not only enhanced surveillance and supervisory action procedures but also increased communications with other regulators to keep abreast of problems. In addition, the department provided increased assistance for every expanding Federal Reserve System initiative, including special examinations of banks and credits in other regions of the country.

In response to the rapid increase in foreign banks' presence in the U.S. banking market during the 1980s, the examination program for international banks has expanded accordingly. In 1990 the first cycle of independent reviews of foreign bank agencies in Florida neared completion, and an alternate examination program for foreign bank agencies in Georgia was begun. Officer visitations to the Latin American home offices of foreign banking organizations assigned to the Sixth District continued.

Consumer and Community Affairs. The community affairs staff maintained its outreach program, responding to numerous requests for technical assistance and presentations on topics related to the Community Reinvestment Act. The highlight of 1990 was the completion of a two-year study of mortgage lending disparities. The study received national attention and created a new analytical framework for analyzing lending patterns.

Discount and Credit. In November 1990 the Board of Governors announced a restructuring of the interest rate charged on seasonal credit extended through the discount window. Beginning on January 9, 1992, the rate will be tied to market rates for 90-day certificates of deposit and the fed funds rate. This move precedes an expected review of the discount function by the Board.

The discount rate was changed once in 1990, on December 19, when it was lowered from 7 percent to 6 1/2 percent.

Research

Research. The staff of the research department completed and presented significant research on monetary and financial policy issues. Members of the staff addressed policymakers, scholars, and the general public through the Bank's publications, presentations, and scholarly journals. In addition, the department held a research conference for academic economists and continued its joint sponsorship of a seminar series in which scholars present new financial and economic research.

To continue its work on monetary policy issues, department staff studied the usefulness of monetary aggregates, domestic and international influences on real interest rates, and the influence of money's backing on its value. Additional research addressed international economic subjects, including equilibrium real exchange rates and the impacts of devaluation. To further the department's macroeconomic modeling efforts, disaggregated estimates of the consumer price index were specified and a visiting scholar completed work on a method for forecasting with data of different frequencies. Much of this research added depth to the staff's support of President Forrestal's participation in monetary policy decisions.

Financial research, which is a particular emphasis, continued to focus on innovations and their impact on financial structure and regulation. This research produced a method for identifying futures market disruptions as well as innovative policy proposals for relieving less developed countries' debt problems and introducing off-balance-sheet risk into bank capital standards. The staff also contributed their financial expertise to Federal Reserve and public discussions of deposit insurance and financial structure reform.

Public Affairs. To help consumers better understand the Community Reinvestment Act (CRA) and the changes in that legislation that took effect in July, the public affairs department published a brochure for the general public, *Is My Bank Meeting Its Community Reinvestment Obligations?* In conjunction with the Bank's supervision and regulation department, public affairs staff hosted media briefings in Atlanta and Miami on the CRA changes.

To improve access to the Bank's information resources, the department produced a brochure for research library users, detailing its holdings and services, as well as a *Publications* pamphlet, which describes the variety of materials produced by the Atlanta Fed. In response to a subscriber survey, the department modified the Bank's three newsletters somewhat to better address readers' interests and needs.

In the community relations area, the department continued to coordinate a number of Bank programs in support of education. Among 1990's contributions to this outreach effort were internships for five students, speakers for a citywide youth motivation day, and luncheon workshops on economic, financial, and professional topics for high school and college students.

The department also completed several multiyear automation projects, including a fully computerized bibliographical control system in the research library and a unified mainframe mailing-list management system that will allow for more efficient and accurate responses to subscriber's requests.

Statistical Reports. During 1990 the statistical reports department coordinated the District's involvement in a System project to develop a National Information Center (NIC). Extensive data on the structure, characteristics, and regulatory relationships of Sixth District financial institutions were refined for inclusion in a national data base. When complete, the NIC data base will be linked to financial and supervisory data. This information system will enhance the System's ability to supervise banks and bank holding companies and to administer regulations affecting financial institutions.

Major changes in bank and bank holding company quarterly condition and income reports were implemented to monitor risk-based capital levels and off-balance-sheet activities. These reports are widely used to monitor the overall health of the banking industry.

The department also supported a new System report on credit card services. In response to requirements of the Fair Credit and Charge Card

Disclosure Act of 1988, the Federal Reserve System began collecting and publishing information on the terms and availability of credit card plans offered by a broad sample of financial institutions. The reporting panel includes the nation's 175 largest credit card issuers, including eighteen institutions in the Sixth District.

Secretary's Office. Deputy Treasury Secretary John Robson, North Carolina Congressman Stephen Neal, and columnist Leonard Silk joined Fed Governors John LaWare and David Mullins as participants in the Bank's distinguished speaker series. Chairman Alan Greenspan spoke to a joint meeting of the Sixth Federal Reserve District's head office and branch directors.

Corporate Services

Payments System Risk Initiatives. Proposals to change the cap and collateral provisions of the current payments system risk policy, distributed for public comment during the summer of 1989, were approved by the Board of Governors May 2, 1990, for implementation January 10, 1991. The Federal Reserve Bank of Atlanta provided information to depository institutions regarding the potential effects of these changes in policy on their organizations. The Board is still evaluating two parts of the package distributed for public comment in 1989—proposals to change the method for measuring daylight overdrafts and to price daylight overdrafts.

Billing and PACS Projects. During the summer, the Atlanta Fed was selected to develop new computer software for the Federal Reserve's expense accounting system, known as PACS (Planning and Control System). The new software will be used by several other Federal Reserve Banks. During the last half of the year a user group worked to define requirements for the new system. The Bank also developed the Federal Reserve's billing software and currently maintains the application for the System.

Disaster Recovery. The Federal Reserve Bank of Atlanta, in its role as a provider of electronic payments services to depository institutions, is committed to maintaining high levels of availability and recoverability in its computer operations. In 1990 the District constructed and moved into a new data center containing increased security and recovery capabilities. Backup computer equipment installed in the data center minimizes the possibility that equipment failures could disrupt operations. Installation of supplementary power equipment reduces the chances that an electrical power outage resulting from a hurricane, fire, earthquake, or other cause will adversely affect Atlanta's data processing abilities.

To gauge capabilities for responding to a disaster-related extended outage affecting the Atlanta data center, the District performed extensive testing of disaster recovery plans to restore operations at a fully equipped recovery site in Culpeper, Virginia. Recovery plans were developed and tested that will allow funds transfers, securities transfers, ACH, and accounting to resume normal operations no later than the opening of business following the day of the disaster. Recovery plans for other functions were also developed. A publication providing instructions to depository institutions in the event of a disaster was developed and distributed to depository institutions in the District.

Automation Technology Update. During 1990 all District offices were connected to a data communications network using high-speed circuits. This network supports an integrated management system for detecting and resolving problems. This system has the ability to combine voice and data traffic, built-in redundancy to maintain availability, and a flexible growth path to accommodate new service requests. New minicomputers were installed in all District offices in 1990 to provide distributed processing support for cash-processing and office automation.

Data Security. Throughout 1990 increased emphasis was placed on data security awareness and education of employees regarding security policies and requirements. A new manual containing safeguards for securing and controlling access to data was published in August. The District is involved in a Systemwide project to enhance financial payments data security using message authentication.

Auditing. The Sixth District's audit management updated the Bank's risk analysis methodology to incorporate exposures and risks that characterize automated business transactions. Auditing has allocated more staff time to evaluating the establishment of controls in automated systems as they are being developed. The District also continued to serve as the host site for the System's Center for Auditor Development (SCAD), which develops Fed-specific auditing programs and negotiates contracts for external training services on behalf of the System audit community.

A major training accomplishment in 1990 was coordination of the float symposium for auditors throughout the System. Atlanta's audit department has been a major influence in the development and performance of System audits of float, an area Reserve Bank management in all Districts consider highly sensitive and critical.

Human Resources. As a part of the Bank's emphasis in recent years on management, skill, and professional development, the preparation of managers to cope with a changing work force has been established as a high priority. In 1990 the human resources department built on efforts begun the previous year to respond to this initiative by coordinating an Assistant Vice Presidents Conference and a series of meetings between small groups of employees and senior officers of the Bank. The AVP conference encouraged discussion of the Bank's organizational philosophy, core values, and strategic directions. Other matters considered at both the meetings and the conference included compensation, benefits, and a more flexible approach to meeting employees' concerns.

In addition to these programs, the department placed greater emphasis on training first-line supervisors to handle shifts occurring in the work force as well as the quickened pace of technological change. At the same time, the Bank offered all members of the staff opportunities to expand or refine their work skills, through an array of practical courses ranging from basic grammar and corporate writing to effective presentations and time management. The department also maintained the tuition-reimbursement programs for undergraduate and graduate study. More than 40 percent of the Bank's 2,500 employees participated in formally sponsored programs, including outside seminars offered at all six offices. The department has begun a Districtwide assessment of future training and development needs to better prepare for the even more fluid work environment expected in the decade ahead.

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Financial Statements

Statement of Condition

Assets	December 31, 1989	December 31, 1990
Gold Certificate Account	$508,000,000	$465,000,000
Special Drawing Rights Certificate Account	330,000,000	303,000,000
Coin	45,558,035	53,559,550
Loans and Securities	10,682,310,531	8,442,763,252
Items in Process of Collection	747,057,245	581,434,267
Bank Premises	58,603,733	58,207,950
Other Assets	3,171,711,499	3,533,589,537
Interdistrict Settlement Account	(3,167,208,235)	2,887,248,610
Total Assets	$12,376,032,808	$16,324,803,166
Liabilities		
Federal Reserve Notes	$7,315,186,411	$11,768,411,002
Deposits*	3,860,606,249	3,739,887,575
Deferred Credit Items	630,218,937	225,759,680
Other Liabilities	132,376,711	99,730,709
Interdistrict Settlement Account	0	0
Total Liabilities	$11,938,388,308	$15,833,788,966
Capital Accounts		
Capital Paid In	$218,822,250	$245,507,100
Surplus	218,822,250	245,507,100
Total Capital Accounts	$437,644,500	$491,014,200
Total Liabilities and Capital Accounts	$12,376,032,808	$16,324,803,166

*Includes depository institution accounts, collected funds due to other Federal Reserve Banks, U.S. Treasurer-General account, other and miscellaneous deposits

Statement of Earnings and Expenses

Earnings and Expenses	December 31, 1989	December 31, 1990
Current Income	$1,096,973,751	$1,098,795,378
Current Expenses	118,688,181	123,553,422
Cost of Earnings Credits	14,584,037	12,996,381
Current Net Income	$963,701,533	$962,245,575
Net Additions (Deductions)*	121,078,687	211,986,696
Assessment for Expenses of Board of Governors	8,420,900	10,157,200
Federal Reserve Currency Cost	6,747,839	5,840,582
Cost of Unreimbursed Treasury Services	3,099,228	6,915,174
Net Income before Payment to U.S. Treasury	$1,066,512,253	$1,151,319,315

Distribution of Net Earnings		
Dividends Paid	$12,610,959	$14,123,790
Payments to U.S. Treasury (Interest on Federal Reserve Notes)	1,030,846,694	1,110,510,675
Transferred to Surplus	23,054,600	26,684,850
Total Income Distributed	$1,066,512,253	$1,151,319,315

Surplus Account		
Surplus January 1	$195,767,650	$218,822,250
Surplus December 31	$218,822,250	$245,507,100

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

Summary of Operations

Services to Depository Institutions	1989 Items (thousands)	1989 Percent Change From One Year Ago	1990 Items (thousands)	1990 Percent Change From One Year Ago
Check Clearing				
U.S. Government Checks Processed	73,164	–1.1	74,069	1.2
Commercial Checks Processed	2,465,144	0.2	2,609,030	5.8
Electronic Payments				
ACH Commercial and Government Payments Processed	196,823	20.4	236,344	20.1
Wire Transfers of Funds	8,499	4.8	9,075	6.8
Cash Services				
Currency Orders Processed	118	–0.8	114	–3.4
Coin Orders Processed	55	–6.8	50	–9.1
Loans to Depository Institutions				
Loans Processed*	1,832	21.2	1,606	–12.3
Securities Services				
On-Line Bookentry Transfers	63	34.0	63	0.0
Noncash Items Processed	1,005	–3.6	796	–20.8
Definitive Safekeeping Receipts	183	–41.3	167	–8.7
Services to U.S. Treasury				
U.S. Savings Bonds Issued	8,238	14.8	6,783	–17.7
U.S. Savings Bonds Redeemed	268	3.1	328	22.4
Other Treasury Issues				
Issued	105	191.7	89	–15.2
Redeemed	7	–79.4	5	–28.6
Deposits to Treasury Tax and Loan Accounts	849	13.5	829	–2.4
Food Coupons Destroyed	358,460	0.8	450,742	25.7

*Numbers shown are actual, not in thousands.

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