
Federal Reserve Bank of Chicago

1983 Annual Report
Focus on the region



Federal Reserve Bank of Chicago

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Chicago, Illinois 60690

Detroit Branch

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Detroit, Michigan 48226

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Des Moines, Iowa 50309

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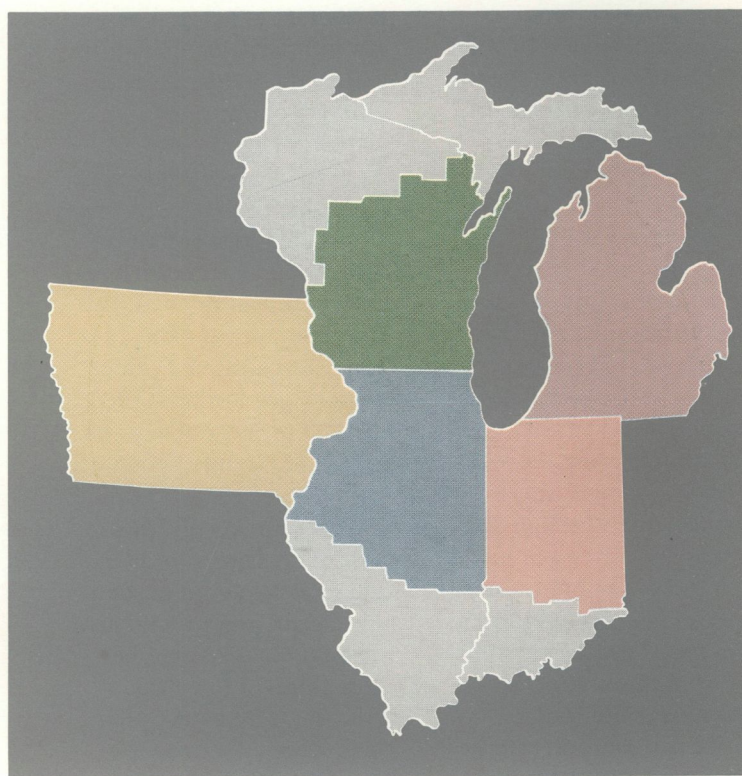
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2 *A message from the president*
4 *Foundations in the regions:
the Federal Reserve System*
6 *Directors: linking the Bank
to the region*
12 *Focus on the region:
economic analysis
regulatory activities
services*
18 *Directors and officers*
22 *Financial statements*

A message from the president

Our charter identifies this institution as the Federal Reserve Bank of Chicago, but "The Federal Reserve Bank of the Seventh District" would more correctly identify our commitment. The nature and scope of our commitment to the District, a region spanning the heart of the Midwest, serves as the theme of our Annual Report this year and is, I think, clearly demonstrated by the efforts and accomplishments of our directors, officers, and staff during 1983.

Many of the Bank's goals for 1983 were very specific in their focus on service to the District. In the area of economic policy and research, we concentrated our economic expertise and analytical strengths on efforts aimed at improving the long-run economic performance of the District. Through our increasing involvement in the study of economic issues of special concern within the District we have also learned more about how regional conditions relate to the broader national and international economic environment. These efforts have

enriched our contribution to the national monetary policy-making process.

Indeed, the monetary policy course we continued to support during 1983 relates directly to our special focus on the Midwest and its conditions. A noninflationary environment was not only a prerequisite to renewed economic expansion nationally but particularly important to the industries and workers of our region.

As 1983 closed, there were signs that the Midwest was positioned to share more fully in the uptrend that had taken place at the national level. But only if expectations for continued price stability are firmly planted, can the promise of renewed economic vitality become a sustainable reality. Therefore, we are keenly aware that the progress to date on inflation, achieved at such great cost, provides no justification for relaxing our commitment to a firm course for monetary policy. If anything, the need for steady but restrained monetary growth is intensified in view of the threats posed by continued high federal deficits and the economic and political instability that clouds the international scene.

Our efforts were also focussed squarely on the region in our supervisory and regulatory responsibilities during 1983. Our emphasis has been on strengthening and refining monitoring mechanisms so that the attention of Bank staff can be readily directed to any problem or potential problem situations and institutions within the District. We have also continued to seek opportunities to reduce the reporting and other regulatory burdens that fall particularly heavily upon the smaller institutions that predominate in the Seventh District. At the same time, the Bank's financial structure and regulatory research efforts have been focussed on the myriad changes taking place in the financial services markets. Through such studies we are developing an analytical foundation for recommending legislative and regulatory changes that can benefit not only the region's financial institutions, but as importantly, the ultimate consumers of financial services.

In the third main area of our activity—providing financial services to District depository institutions—we now

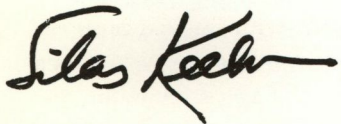
have the opportunity, and indeed a legislated mandate, to focus on and directly serve the needs of customers within a competitive environment. The objectives we set for ourselves in this very exciting and challenging area were quite high, and I think we can feel justifiably proud of our success in reaching them during 1983.

Of course, any organization's success in fulfilling its commitment is attributable to the individuals that make up that organization. In our case, each director, officer, and member of the staff contributed to the Bank's achievements this past year. But one exceptional individual deserves special recognition—John Sagan, who at year-end 1983 completed the maximum of two full three-year terms as a director of this Federal Reserve Bank, having served the last four years as chairman of the board.

This Bank's commitment to serving our District is testimony to John Sagan's leadership. He provided this Bank with singular purpose and constant focus during a

period of dramatic change that affected each facet of the Bank's activities. During this period, the District economy, the financial industry and marketplace, and the very basis on which the Bank provides services were all radically transformed. But through this period of change, which included the appointment of a new president of our Bank, John Sagan's ability to focus on and articulate the needs and concerns of the District enabled the Bank to steer an unerring course.

It seems most fitting that during 1983, the final year of John Sagan's leadership, he and the other members of his board initiated a major project to renovate and expand the Bank's headquarters building. By this action, as through all his efforts over the years, he has assured that even following his tenure the Bank will be able to continue fulfilling the commitment he has defined so clearly—serving the needs and meeting the concerns of its region.



Silas Keehn
President



John Sagan (left) provided outstanding leadership and guidance to Federal Reserve Bank of Chicago management, including President Silas Keehn (right), during eight years of dedicated service as a director. At year-end 1983, he completed the maximum of two three-year terms as a director on the District board, having served the last four years as its chairman. He joined the Bank's board after serving as a director of the Bank's Detroit Branch for two years.

Foundations in the regions: the Federal Reserve System

The legislative process within the American system of government is one of continuous negotiation and compromise. Legislation can emerge from the process if it weaves together enough individual elements either to gain the support of diverse interest groups or, at a minimum, to reduce their resistance.

The events that led to the passage of the Federal Reserve Act in 1913 truly exemplified this creative process. The distinctive structure that evolved for the American central bank represented an imaginative combination of public and private, national and regional, banking and governmental influences. Imbued with these diverse elements, the legislation eventually garnered the necessary support of those who were fearful of the so-called banking interests as well as those who were regarded as representing them.

If any one structural element of the proposed central banking system was critical

to its establishment, it was its unique regional plan of organization. The idea represented a dramatic departure from a proposal for a centralized National Reserve Association that had failed to gain congressional support in the early 1900s. Perhaps even more importantly, a regional system contrasted sharply with the two nineteenth century U.S. central banks that were rejected, in effect, by the American public when their twenty-year charters were permitted to expire.

The concept of a system of regional reserve banks was presented to Woodrow Wilson shortly before his presidential inauguration in 1913 by Congressman Carter Glass. The proposed regional plan won Wilson's support once Glass agreed to add a publicly appointed board as a "capstone" to the system. A network of regional banks governed by public officials were the basic features that after almost a year of debate,

negotiation, and refinement were adopted in the Federal Reserve Act. Interestingly one of those refinements was an added regional element—a requirement that each appointed board member be selected from a different Federal Reserve District.

Overall, a regionally structured central bank appealed to the American public in a way that other schemes could not. A fear of concentrations of power seems to be a basic feature of the American mentality. So, as in the structuring of the American system of government, in order for the concept of a central bank to gain public acceptance, a distinctive organizational plan had to be devised that would be regarded as diffusing that power and thereby appeasing those fears.

But the regional structure of the Federal Reserve System has important benefits that go well beyond its original public appeal. Seventy years have passed and during this period American govern-

ment and society have generally tended toward greater centralization. Nonetheless, the Fed System's regional structure remains to this day an extremely effective delivery system—both for providing services by the Federal Reserve and for harnessing the inputs and resources the Federal Reserve needs to carry on its work.

The Seventh Federal Reserve District

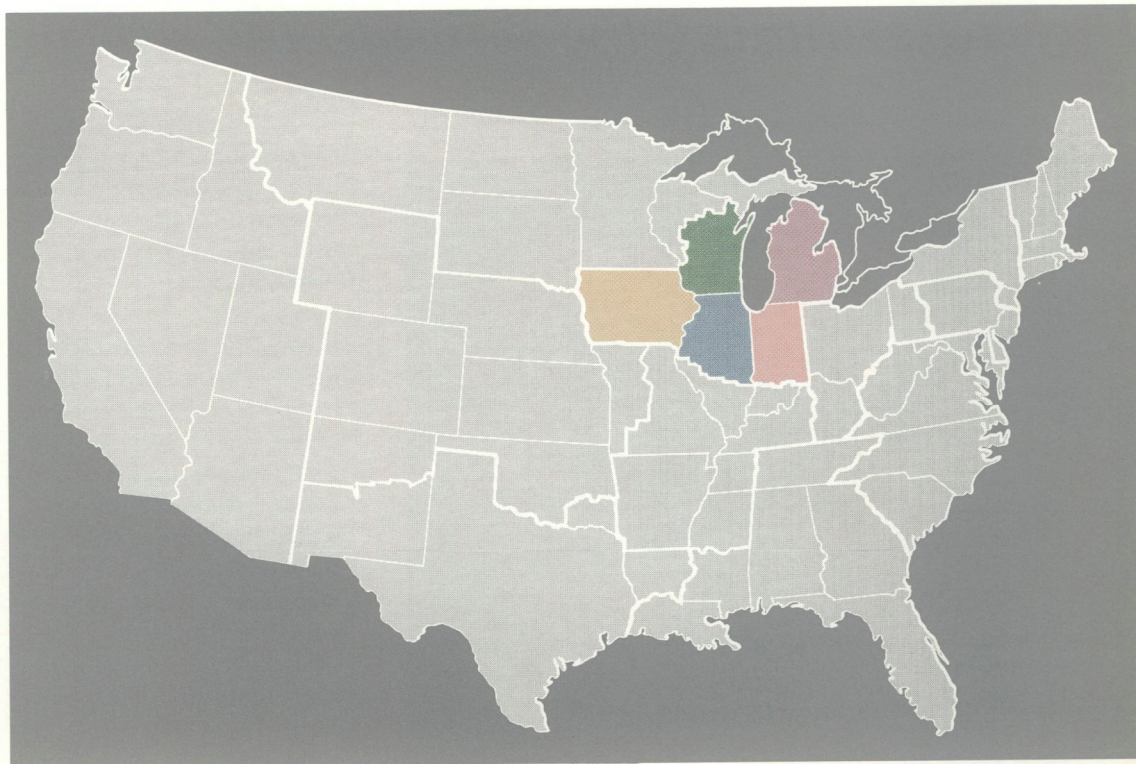
The Federal Reserve Act provided for the Reserve Bank Organization Committee to determine the locations of the Reserve Banks (as well as their number, at least eight but no more than twelve) and to define the boundaries of the districts the banks were to serve. As with the passage of the legislation itself, a great deal of negotiation and compromise took place before the Committee completed its task, but remarkably few changes have since been made in the original geographic structure that was devised.

Chicago, long a leading financial center, was an obvious choice for the location of a Reserve Bank.

Drawing district boundaries was a more difficult task, but the boundaries originally designated for the Seventh Federal Reserve District remain unchanged—with the exception of 25 counties in central Wisconsin added in 1916.

The area of the Seventh Federal Reserve District was then and remains today a leading region in terms of its place in American industry, agriculture, commerce, and finance. Spanning all of Iowa, northern Illinois and Indiana, southern Wisconsin, and the Lower Peninsula of Michigan which is served by the Bank's Detroit Branch, the Seventh Federal Reserve District is in many ways a microcosm of the nation. With 13 percent of the nation's population, it ranks second among the 12 districts, but it ranks first in the value of both its agricultural and manufacturing output.

The District contains most of the "Corn Belt" with some of the richest and most productive soil in the world. The five states produce about half of the nation's output of corn and soybeans, half of its pork, one-third of its oats, and over one-fourth of its milk.



Based on employment, about 17 percent of the nation's manufacturing activity is located in the District, and the area accounts for a particularly high proportion in such industries as iron and steel, electrical and nonelectrical machinery, motor vehicles, and pharmaceuticals.

The District has extensive transportation facilities—air, railways, and highways—and

has outlets to the sea through the Great Lakes and St. Lawrence Seaway, in one direction, and the Mississippi River in another.

Seventh District products represent an important component of the nation's foreign trade. International financial activity in the District is growing steadily, and the world's most important center for commodities and financial futures trading is located within the District.

Given its importance in the commercial and industrial activity of the country, the District mirrors many of the nation's strengths. By the same token, of course, it has in recent times provided vivid reflection of some of the nation's economic weaknesses.

Directors: linking the Bank to the region



Clearly, the primary role of each Federal Reserve Bank is to serve its region—its District. This, in essence, is the Bank's mandate.

Playing the key role in seeing that this mandate is fulfilled is the Reserve Bank's board of directors, which serves as a vital link to the Reserve District. The many ways in which the Federal Reserve Bank of Chicago's directors—both at the Head Office and the Detroit Branch—relate to the region serve to illustrate the point well.

The directors bring to our Bank a diversity and wealth of experience that reflects and represents the various interests, industries, and locales of the District. Through them, the Bank is provided with insight, expertise, talent, advice, and managerial know-how that could not and would not otherwise be available to it.

It is the role of the directors to assess and articulate needs

that cut across the various sectors of the District—to reflect the needs of financial institutions, producers, workers, businesses, and consumers alike. The directors then provide important input for Bank management in the development of policies and services that address these regional needs. Through the governance process our board assures that the needs and requirements of the District are adequately and fairly served.

At their monthly meetings, the directors report on their industries and local areas, reviewing current conditions, developments, and prospects. This first-hand grass-roots economic intelligence serves as valuable input for System monetary policymakers generally and, in particular, for the Bank president who serves as the Bank's representative on the System's chief monetary policy body, the Federal Open Market Committee.

The Chicago Reserve Bank directors have another and a more direct role in System

policy actions. At least once each 14 days, they set—subject to review by the Board of Governors in Washington, D.C.—the Bank's discount rate, i.e., the basic interest rate at which the Bank makes credit available to eligible District depository institutions.

In addition to their participation in the economic policy area, the directors have specific responsibilities for monitoring the management of Bank operations. Thus, the Bank benefits significantly from the directors' diversified managerial experiences as well as from their knowledge of economic and financial conditions.

The directors' responsibilities include the appointment of all the officers of the Bank. (The appointments of the President and First Vice President are subject to the approval of the Board of Governors.) The directors also review the Bank's internal audit program, budget, spending, major operational plans and decisions, and importantly, its overall performance.

The diversity of experience that our directors bring to the Federal Reserve Bank is

in large part an outgrowth of the selection process established by the Federal Reserve Act. The members of the board are divided into three classes—A, B, and C—with three directors in each class. In Class A are the “banker” directors, elected by the member commercial banks of the District as their representatives.

For this election, member banks are divided into size groups, so that large, medium, and small banks each select one Class A director. Thus, the Federal Reserve Act assures that even the banking directors provide a variety of perspectives. Class A directors on the Chicago Reserve Bank board also represent diverse local areas within the region. The elected representative of the Seventh District's smallest member banks comes from a bank with assets of \$47 million in Charles City, Iowa (population 8,778).

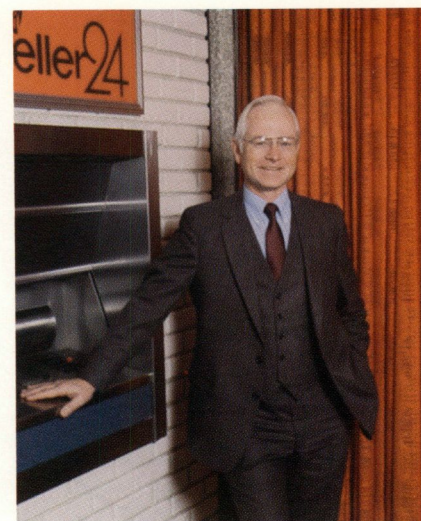
Medium-sized member banks are represented by a banker from a \$168 million institution in north-central Indiana, while the representative of the largest banks in the District comes from a \$7 billion Chicago bank.



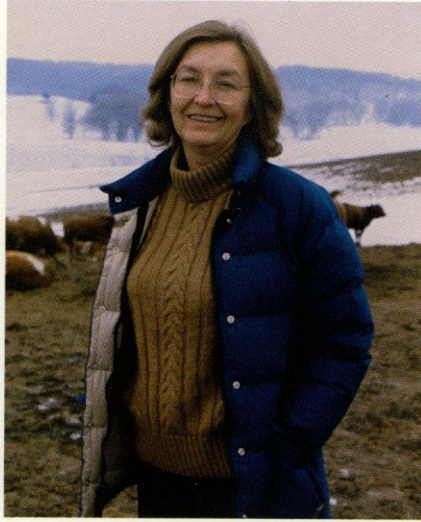
Charles M. Bliss
*Harris Trust and
Savings Bank
Chicago, Illinois*



Patrick E. McNary
*The First National Bank of
Logansport
Logansport, Indiana*



O. J. Tomson
*The Citizens National Bank
of Charles City
Charles City, Iowa*



Mary Garst
The Garst Company
Coon Rapids, Iowa



Dennis W. Hunt
Hunt Truck Lines, Inc.
Rockwell City, Iowa



Leon T. Kendall
Mortgage Guaranty
Insurance Corporation
Milwaukee, Wisconsin

The remaining six Reserve Bank directors are required by law to be representative of a wide variety of nonbanking interests including "agriculture, commerce, industry, services, labor, and consumers." The three Class B directors are elected by member banks. Again, each of the three size groups of banks elects one director. The Class C directors, on the other hand, are appointed by the Board of Governors, which also selects the chairman and deputy chairman of the Reserve Bank board from among the Class C directors. No Class B or C director can be an officer, director, or employee of a bank, nor can a class C director be a stockholder in a banking organization.

The nonbanking directors of the 1983 Chicago Reserve Bank board represent various areas of the District—from eastern Michigan to western Iowa. They come from the largest cities, small towns, and rural areas. They are affiliated with major corporations and with small businesses. Most importantly, they represent a cross-section of the District's most important sectors: agriculture, transportation, housing and mortgage finance, automobile manufacturing, labor, and communications.

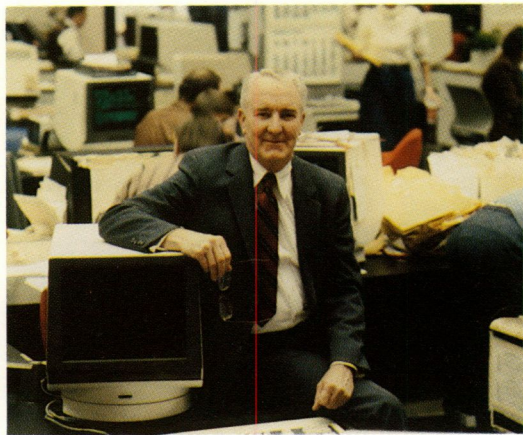
Given their diverse affiliations, our directors play another important role. Through their associations, contacts, and outreach efforts, the directors contribute to a broader public understanding of the responsibilities and actions of the Federal Reserve System and Bank. To this end, and to gain further insight into current developments around the District, the directors of the Chicago Reserve Bank hold their meetings from time to time outside Chicago. During 1983, the directors met in Detroit and also in Milwaukee, where they sponsored a variety of events in order to seek the views of area business, financial, labor, and community leaders.

An additional responsibility of the directors is to elect a District representative to the System-wide Federal Advisory Council. They also appoint the majority of Reserve Bank Branch Office directors, with the remainder appointed by the Board of Governors.

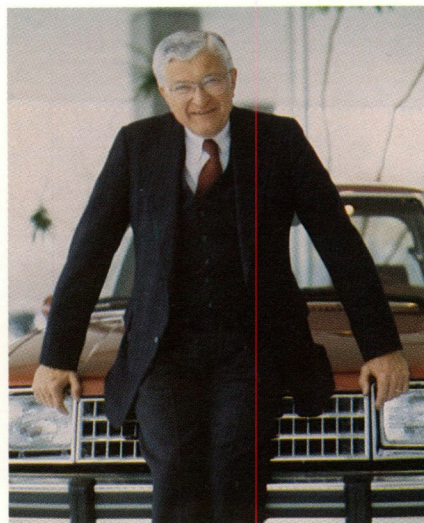
Established under the original Federal Reserve Act, the twelve-member Federal Advisory Council was designed to serve as a liaison between the banking communities of the various Reserve Districts, the twelve regional Reserve Banks, and the Washington-based Federal Reserve Board. The Council meets in



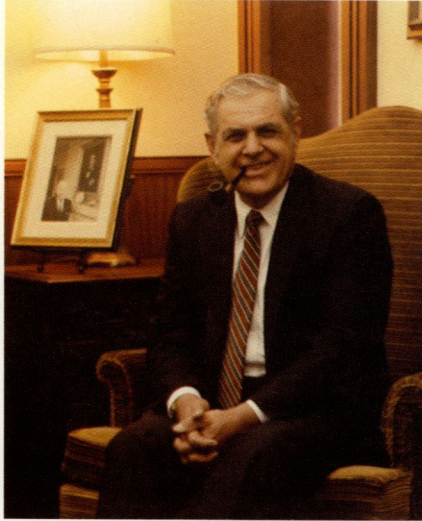
Edward F. Brabec
*Chicago Journeymen
Plumbers-Local 130
Chicago, Illinois*



Stanton R. Cook
*Tribune Company
Chicago, Illinois*



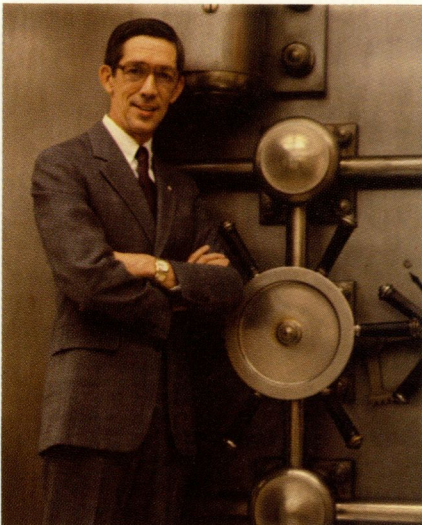
John Sagan
*Ford Motor Company
Dearborn, Michigan*



James H. Duncan
*First of America
 Bank Corporation
 Kalamazoo, Michigan*



Charles T. Fisher III
*National Bank of Detroit
 Detroit, Michigan*



Lawrence A. Johns
*Isabella Bank and Trust
 Mount Pleasant, Michigan*

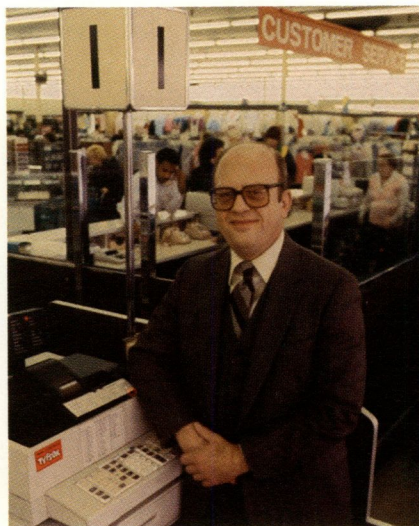
Washington at least four times each year to confer with the Board of Governors on financial matters, general business conditions, monetary policy issues, and other questions of concern to the Federal Reserve System. Following these meetings, the Seventh District representative presents a full report of the Washington discussions to the Chicago Reserve Bank board members. This process provides an additional source of regional guidance for System and Reserve Bank operations.

The seven-member board of directors of the Chicago Reserve Bank's Detroit Branch, like the board at the District level, provides an invaluable link to the region served by that institution. The composition of the Branch board parallels the District board in that it assures a diversity of inputs, from various locales and sectors. In fact, it permits information about and guidance from sectors not otherwise represented to be provided to our Reserve Bank. Four members of the Detroit Branch board are nonbankers and include an educator and a foundation executive, who provide broad public representation, and an executive from the

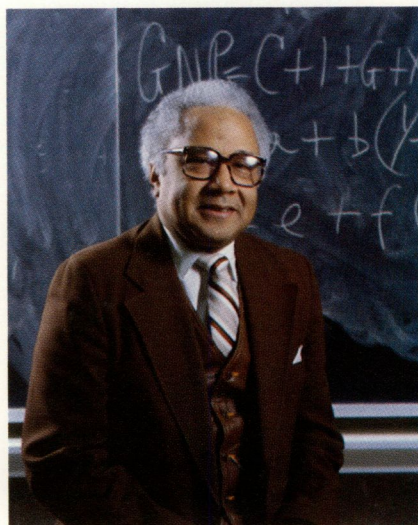
retail industry, a business sector of major importance. They are joined by a thrift institution official who provides especially important input given legislative changes that have broadened the Federal Reserve's relationship with that industry.

As with the District board, banking directors at the Branch level represent a variety of perspectives. The three banking representatives on the 1983 Branch board come from eastern, western, and central Michigan; through them major metropolitan institutions, state-wide holding companies, and community banks all have representation on the Detroit board.

Given their diversity in expertise and interests, the Branch directors oversee the operations of the Detroit Branch, assuring that it serves the needs of its Michigan territory. Most importantly, they participate actively in the activities and deliberations of the District board, and thus help the Bank to fulfill its commitment to the region as a whole.



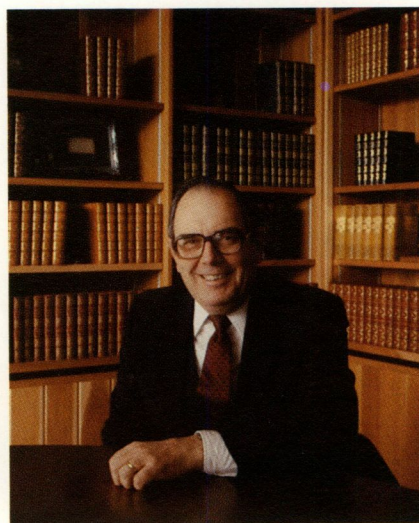
Robert E. Brewer
K mart Corporation
Troy, Michigan



Karl D. Gregory
Oakland University
Rochester, Michigan



Thomas R. Ricketts
Standard Federal
Savings and Loan
Association of Troy
Troy, Michigan



Russell G. Mawby
W.K. Kellogg
Foundation
Battle Creek,
Michigan

Focus on the region: economic analysis

In the first year of recovery from the 1981-82 recession, the Midwest in general, and the Seventh District in particular, made significant economic gains, but continued to lag the rest of the country, especially in employment. In testimony before a subcommittee of the House Committee on Banking, Finance, and Urban Affairs in June, Federal Reserve Bank of Chicago President Silas Keehn presented detailed data on the severity of current problems and spoke of concerns about the longer-term problems associated with adjustments to new economic realities in the Midwest. In speeches throughout the District during the year he delineated the role of the Federal Reserve and the individual Reserve Banks in encouraging economic growth and solutions to the immediate and long-term difficulties.

In large degree, the Midwest's economic problems were caused or, at least, exacerbated by inflation. Continued growth and further reductions in unemployment in the Midwest depend on the maintenance of a noninflationary environment. A resurgence of inflation would recreate the distortions in business and individual decision-making that have led to ever higher rates of unemployment in the successive business

cycles since World War II and would seriously limit chances for economic expansion and improvement in job opportunities.

The Federal Reserve System has a clear role to play in fostering price stability, and setting the stage for growth in the economy and jobs, through appropriate national monetary policy. There is also a role for the individual Reserve Banks. The complex process of economic adjustment involves social as well as economic objectives that may, on occasion, conflict with each other. Moreover, the objectives of various regions may clash. Cooperative national and regional efforts are required. In this intricate environment a Reserve Bank cannot determine the changes to be made, but can assist, serving as a focal point for studies of the region and as a catalyst for cooperative efforts.

On national policy questions, the Chicago Fed's economists and their technical staff continued to provide important support for the decisions and recommendations of the Bank's management. Such support required constant monitoring of economic data, analysis of national and regional issues,

and the preparation of background and briefing materials.

As part of the Bank's intensified regional commitment, a number of issues were studied by staff economists during the year. For example, a staff study on the effects of federal natural gas policy on energy prices in the Midwest was completed and published. Another, on the economic viability of high speed rail transportation in the region, neared completion. But among the many research programs, one effort clearly demonstrates the Bank's determination to serve the region as both a research center and a catalyst for cooperative action.

In mid-1983, the Federal Reserve Bank of Chicago joined with the Commercial Club of Chicago, a long-established group of business leaders, in a project to create a Chicago metropolitan area economic plan with an emphasis on creating and maintaining jobs. The plan is envisioned as a strategic road map, charting the course the Chicago area should take in the next twenty years. Representatives of government, labor, academia, neighborhoods, and other groups are being asked to participate in the project which should help to

develop a mechanism for ongoing public/private partnerships.

The role of the Chicago Fed is to develop a data base of economic information to support the work of all those involved in the project. Employment figures and trends, comparative data from other metropolitan areas, and other useful economic data are being collected and analyzed. The Bank has further agreed to maintain and update the data for the future. This information, along with similar data for other metropolitan and rural areas of the District, will become part of a larger regional data base the Bank intends to develop and maintain for public use.

The preparation of the new economic plan involves the analysis of Chicago's strengths and weaknesses and the identification of economic threats and opportunities in the area. Representatives of industry, labor, government, and education are working on "resource committees" that study an individual industrial sector or particular issue such as agribusiness, transportation, emerging businesses, research and education, and changing job skills.

From the recommendations of the resource committees will come the detailed pro-



Portrait of the region: financial hub

posals to better Chicago's economic and employment position. Some ideas that are emerging include: the establishment of special entities to provide technical assistance to small and emerging businesses; tax, zoning, and regulatory changes to encourage the retention of business; closer cooperation between the business and education communities to provide appropriate technical support for new enter-

prises as well as career training for new and displaced workers; and major promotional campaigns to improve the Chicagoland image as one of the world's great metropolitan centers.

During the last half of 1983, the "Commercial Club Project" engaged a great deal of attention from Chicago Fed staff members. Detailed sta-

tistical scans of the Chicago metropolitan area and of individual industries were developed, prepared, and distributed by the Bank to committee members. In addition, Bank staff attended virtually all the meetings of the 16 resource committees, contributing their own ideas and giving technical assistance. The final project report is scheduled for completion in August 1984.

While the immediate goal of the project is increased employment in the Chicago metropolitan area, other long-term benefits accrue to the Bank and the District. The experience gained in public/private studies, in gathering data, and in setting up project protocols can be applied to other localities. The active participation of the Chicago Fed in such projects is a particularly appropriate and valuable form of service to the region.

Focus on the region: regulatory activities

Each Reserve Bank provides service to its District in its regulatory and supervisory activities. But the Chicago Bank's strong regional focus underlies special efforts the Bank has undertaken within this area of responsibility.

The financial health of each bank holding company and state-chartered member bank in the District is continually monitored through various means including on-site examinations. Through its consumer affairs and compliance activities the Bank works with lenders and borrowers to see that customers are treated fairly and community needs are served.

The Reserve Bank's "discount window" activities also play a role in enabling depository institutions to serve their communities effectively. By extending credit through the "discount window", the Reserve Bank assists institutions in offsetting short-run shifts in assets and liabilities or more prolonged seasonal pressures. These ongoing Reserve Bank supervision, regulation, and lending functions help make it possible for the region's citizens to "bank" with confidence and enjoy access to credit on an equitable basis.

For the Chicago Reserve Bank these functions are no mean task. Among the 12 Banks, the Chicago Fed has the largest total of state member banks and the

second largest total of bank holding companies to supervise, plus the largest number of depository institutions with access to the discount window. Similarly, in the Chicago Reserve Bank's data collection responsibilities, the number of institutions that submit data for processing by the Chicago Fed is generally among the largest.

Rich in number, the District's depository institutions also run the gamut in terms of type, size, organizational structure, and market served. There are banks with extensive branch networks as well as the many unit banks; one-bank holding companies as well as multi's and chains; District institutions serving local, regional, national, and international markets plus out-of-District-based organizations that have found the means to operate on an interstate basis; nonfinancial-based companies seeking entrée to financial services markets; depository institutions looking to broaden their own business activities, plus those, representing the vast majority, that continue to concentrate on providing traditional financial services to meet the particular needs of their local customers.

This extensive and diverse population of District institutions, dominated by relatively small, community-based organizations, has made the Chicago Reserve Bank particularly sensitive to

the regulatory burdens that fall most heavily on smaller depository institutions. And this sensitivity was clearly in evidence through a number of the Bank's special undertakings during 1983.

The Bank's approach to implementing "Contemporaneous Reserve Requirements" (CRR) provides a prime example. In 1982, the Board of Governors, in an effort to enhance the conduct of monetary policy, decided to change reserve requirements procedures, effective in early 1984. Because the new system would alter the timing of reserve calculations, Reserve Banks would no longer be able to inform institutions of their reserve requirements. Instead, each institution would have to estimate its reserve position each day, based on a combination of actual and projected daily balance sheet figures.

Concerned about the costs and difficulties this change might impose for District institutions, the Bank undertook a broadly based and aggressive campaign to educate and assist them during 1983. The Bank conducted 60 seminars across the District attended by 2,000 individuals representing 1,200 institutions. The programs and materials developed by the Bank for these sessions were also used extensively in other Districts. Of particular interest was the software

package developed by the Bank for use on personal computers. The program enables an institution to easily calculate its reserve requirements and position in a matter of minutes. More than 2,000 copies of the program have been distributed nationwide.

As with CRR, the Bank's special efforts related to the review of data reports required from depository institutions reflect its concerns about regulatory burdens and costs, which ultimately are, after all, borne by the consumer. Without doubt, the System's information needs for monetary policy and supervisory purposes are substantial, and the information collected is also of immense value and interest to many outside the System. Nevertheless, the Chicago Reserve Bank is a staunch advocate of balancing data needs against respondent burden, and the Bank's participation in 34 System report review efforts during 1983 helped ensure that this balance is struck.

The Bank's strong regional focus manifests itself in another area of special emphasis. Banking structure issues have traditionally been the subject of much controversy and debate within the states of the District. To subject these sometimes emotionally-charged issues to more rigorous analysis, the Bank has long specialized

in research related to bank structure and competition, and has sponsored a nationally known annual conference where bankers, academics, and regulators gather to debate these issues.

Interest in financial structure issues has intensified recently, given the forces at work that are beating down the barriers that have traditionally circumscribed geographic and product markets. During 1983, the Bank placed particular emphasis on research that could serve as a foundation for recommending legislative or regulatory changes. Among the topics analyzed were the impact of deregulation on competition in financial services, the extent of nonbank entry into the banking field, and the implications of these types of market changes for the future of commercial banks and for the very meaning of the term "bank".

In all, this research has led to some interesting and rather exciting conclusions pertinent to the management of District institutions. The evidence indicates that artificial, institutional barriers delineating product and geographic markets have been futile and, to an extent, counterproductive. The barriers have not impeded innovative institutions that have sought to get around them, but have impeded other institutions they were



Portrait of the region: agricultural heartland

meant to protect. At the same time, the changes taking place in financial service markets appear to provide opportunities for smaller as well as large institutions, so long as they seek to take advantage of them.

As with the study of regulatory issues, the Bank's District focus comes through in special 1983 initiatives to strengthen its bank supervision capabilities. Reserve Bank management recog-

nized that the recent recession had been amplified within the District, and, in fact, that the Midwest's problems transcended cyclical trends. Such economic circumstances would continue for some time to have significant implications for asset quality at District banks and their financial health in general. Against this background, steps were taken to upgrade the Bank's monitoring systems so that potential problem situations could be

identified, and supervisory attention could be readily focussed on them. At the same time, the effectiveness of the examination staff in the field was enhanced by developing an automated facility to provide examiners better access to data and assist them in their analytical work. By strengthening its supervisory capabilities, the Bank helps to ensure that the District's residents enjoy the benefits of a viable financial system.

Focus on the region: services

Some notion of the Chicago Reserve Bank's importance in the region as a processor of financial transactions emerges by considering that on any day, the checks cleared through the Bank's five offices, if laid end to end, would form a path stretching from one end of the District to the other, and the total volume for 1983 would encircle the earth eight times.

But check volume is just one part of the story. Check processing, representing an impressive \$1 trillion in payments, in turn appears relatively small compared to the \$16.5 trillion in funds transfers handled by the Bank—enough to purchase all the goods and services produced in the United States during 1983 almost five times over.

In addition to check collection and funds transfers, financial services provided by the Bank to depository institutions and the U.S. government include issuing currency and coin; processing electronic payments; providing safekeeping and other securities services; issuing U.S. government securities including savings bonds; and processing tax deposits and food stamps. While through these activities the Bank has limited direct contact with individuals and businesses in the District, they are, indeed, the ultimate beneficiaries in their various roles as pur-

chasers and sellers of goods and services, savers and investors, securities issuers and holders.

Because of these activities, many everyday financial transactions can be taken for granted: paying by check, withdrawing cash, purchasing a savings bond, wiring funds, receiving a Social Security payment automatically. Overall, they serve to assure a smooth flow of financial transactions through the economy.

As in past years, the Bank undertook in 1983 to improve its service to the District by upgrading its various operations. The year also witnessed a major accomplishment by the Bank that improved the ability of the Federal Reserve System to serve the nation as a whole. The Federal Reserve System's new communications network, FRCS-80, developed by a special project team based at the Chicago Bank, became fully operational in 1983. More reliable and flexible than its predecessor system based in Culpeper, Virginia, the new system will be able to handle expanding information flows for years to come and can accommodate linkages with other communications networks.

With this milestone in the FRCS-80 project reached, the System Communication Center was established at the

Chicago Bank, consolidating the project effort with the ongoing management of the network. The consolidation with activities formerly based in Culpeper, of course, also permitted significant resource savings for the System and, ultimately, the public at large.

The FRCS-80 project typifies efforts on the part of the System to improve its internal operations. Recently, because the System must now make its services available to all depository institutions on a competitive basis, the System has also been able to muster the forces of the marketplace to improve the general level of financial services available and encourage improvements in the payments mechanism.

To serve as an effective competitive force, the Bank focussed during 1983 on providing a full line of high quality services that serve the needs of a broad range of institutions in the District, by enhancing its current services, offering new products, and improving service quality.

A number of service enhancements were introduced based on the results of customer surveys conducted by the Bank following passage of the Monetary Control Act as well as on extensive direct customer contact. In check collection, additional and more convenient sorting, deposit, and

availability options are now offered to meet differing customer needs. For small depositors with limited sorting capabilities, a mixed deposit program with calculated availability has been introduced. For larger institutions, group sort options have been developed that offer improved availability at relatively low prices.

In the cash services area, accounting changes were adopted in 1983 to improve funds availability for customers. Also, the Bank began to offer wrapped coin plus customized currency bundles to meet the needs of smaller institutions or individual branches of larger organizations. In the area of securities services, improvements in coupon collection availability were introduced, and efforts are under way to broaden the array of securities handled. In the area of communication services, the network of on-line data terminals continues to be expanded, providing access to more timely, lower-cost funds and securities transfers to a growing number of institutions.

In addition to enhancing current services, new products are being developed, with particular emphasis on information services that will help institutions manage their own funds positions and provide improved services to their customers. A variety of "payor information



Portrait of the region: industrial giant

services” were initiated including a demand deposit accounting tape service enabling institutions to quickly reconcile their cash letters and post the information to customer accounts. Other services include special sorting of checks and early notification of total checks drawn on specified customer accounts. Another new service, soon to be offered—“Money Position”—was developed in 1983 to provide on-line institutions with

timely and convenient information on their check and ACH activity.

As it expands the service line, the Bank remains aware of the need to maintain a high degree of accuracy, efficiency, reliability, and responsiveness—or put simply, service quality. To this end, the Bank has actively monitored its progress in service quality. Follow-up customer surveys have recently been con-

ducted to see how attitudes about the Bank as a service provider had changed since passage of the Monetary Control Act. The results were most encouraging. Almost 90 percent of institutions responded that the Bank provides reliable, high quality services, more than a 30 percent increase over the earlier survey. Moreover, about 70 percent now say that the Bank provides personalized services that are responsive to customer

needs—a 55 percent improvement in the proportion indicating that the Bank does well in this regard. By improving the quality and the scope of its services, the Bank fosters competition and innovation in the marketplace. Strides made by the Bank during 1983 bode well for the future, indicating that the Bank will continue to provide a significant level of service to the District through this avenue for many years to come.

Executive changes

Directors

Charles M. Bliss, Chairman of the Board and Chief Executive Officer of Harris Trust and Savings Bank, Chicago, was elected a Class A director by the largest member banks in the District, effective January 1, 1983, filling the seat formerly held by Roger E. Anderson, Chairman of the Board and Chief Executive Officer of Continental Illinois National Bank and Trust Company of Chicago, who was elected by the board of directors to serve as the District's representative to the Federal Advisory Council.

Charles T. Fisher III, Chairman and President, National Bank of Detroit, was appointed a director of the Detroit Branch by the board of directors of the Federal Reserve Bank of Chicago in place of Dean E. Richardson, Chairman of the Board of Manufacturers National Bank of Detroit, whose term on the Branch board expired at year-end 1982.

At the end of 1983, Class A director O. J. Tomson, President, The Citizens National Bank of Charles City, Iowa, and Class B director Leon T. Kendall, Chairman of the Board and Chief Executive Officer, Mortgage Guaranty

Insurance Corporation, Milwaukee, were re-elected to the Bank's board by the District's smallest and medium-sized member banks, respectively, to begin new terms on January 1.

Also effective January 1, 1984, Stanton R. Cook, President and Chief Executive Officer, Tribune Company, Chicago, was appointed chairman of the Federal Reserve Bank of Chicago's board of directors. He had served as deputy chairman of the board for the four previous years under John Sagan, Vice President-Treasurer, Ford Motor Company, Dearborn, Michigan, who completed the maximum two full terms as a Chicago Reserve Bank director at year-end 1983. Moving into the post of deputy chairman was Edward F. Brabec, Business Manager, Chicago Journeymen Plumbers-Local 130, and assuming the Class C director seat formerly held by Mr. Sagan was Robert J. Day, President and Chief Operating Officer, United States Gypsum Company, Chicago. All three appointments were made by the Board of Governors in Washington, D.C.

A new director was also named at the Detroit Branch, to begin a term January 1, 1984: Ronald D. Story, Presi-

dent and Chief Executive Officer, The Ionia County National Bank, Ionia, Michigan, was appointed by the Federal Reserve Bank of Chicago board of directors to replace Lawrence A. Johns, President, Isabella Bank and Trust, Mount Pleasant, Michigan, who completed six years of service on the Branch Board. Also effective at the beginning of 1984, Karl D. Gregory, Professor of Economics and Management, Oakland University, Rochester, Michigan, was re-appointed as a director of the Detroit Branch by the Board of Governors, and Russell G. Mawby, Chairman of the Board and Chief Executive Officer, W. K. Kellogg Foundation, Battle Creek, Michigan, was re-appointed as chairman of the Branch board by the Detroit directors.

Officers

Among officers promoted during 1983 were Marlene M. O'Sullivan, named Vice President in charge of Computer Operations; David R. Allardice, named Economic Adviser and Vice President in the Economic Research Department; Steven M. Pill, named Vice President and Gerard J. Nick, Assistant Vice President, both in FRB Customer Services; and Glen Brooks, named Vice President at the Detroit Branch.

Also Vice President Richard P. Anstee was designated Director of Automation Services; Vice President Harvey Rosenblum was designated Associate Director of Research; and at Detroit, Vice President Frederick Dominick was designated Assistant Branch Manager.

Four new officers were appointed during 1983. Robert D. Lauson was named Vice President in charge of Facilities Planning and Management; Kenneth R. Berg was appointed Assistant Vice President in Automation Services; Valerie J. Middlebrooks was named Operations Officer in Cash Services; and Allen R. Jensen was named Operations Officer at the Des Moines Office.

The year 1983 also saw the retirement of five officers who had provided the Bank a total of 180 years of dedicated service: Vice President and Economic Adviser Dorothy M. Nichols, Vice President William Rooney, Vice President Raymond M. Scheider, Assistant Vice President Carl C. Welke, and Examining Officer Thomas L. Wolfe. The contribution that each of these individuals made to the Bank was enormously important and very much appreciated.

Directors (as of December 31, 1983)

Federal Reserve Bank of Chicago

Chairman

John Sagan

Vice President-Treasurer, Ford Motor Company, Dearborn, Michigan

Deputy Chairman

Stanton R. Cook

President and Chief Executive Officer, Tribune Company, Chicago, Illinois

Charles M. Bliss

Chairman of the Board and Chief Executive Officer, Harris Trust and Savings Bank, Chicago, Illinois

Edward F. Brabec

Business Manager, Chicago Journeymen Plumbers-Local 130, Chicago, Illinois

Mary Garst

Manager—Cattle Division, The Garst Company, Coon Rapids, Iowa

Dennis W. Hunt

President, Hunt Truck Lines, Inc., Rockwell City, Iowa

Leon T. Kendall

Chairman of the Board and Chief Executive Officer, Mortgage Guaranty Insurance Corporation, Milwaukee, Wisconsin

Patrick E. McNarny

President and Chief Executive Officer, The First National Bank of Logansport, Logansport, Indiana

O. J. Tomson

President, The Citizens National Bank of Charles City, Charles City, Iowa

Detroit Branch

Chairman

Russell G. Mawby

Chairman of the Board and Chief Executive Officer, W.K. Kellogg Foundation, Battle Creek, Michigan

Robert E. Brewer

Executive Vice President-Finance and Director, K mart Corporation, Troy, Michigan

James H. Duncan

Chairman and Chief Executive Officer, First of America Bank Corporation, Kalamazoo, Michigan

Charles T. Fisher III

Chairman and President, National Bank of Detroit, Detroit, Michigan

Karl D. Gregory

Professor of Economics and Management, Oakland University, Rochester, Michigan

Lawrence A. Johns

President, Isabella Bank and Trust, Mount Pleasant, Michigan

Thomas R. Ricketts

Chairman of the Board and President, Standard Federal Savings and Loan Association of Troy, Troy, Michigan

Federal Advisory Council Member

Roger E. Anderson

Chairman of the Board and Chief Executive Officer, Continental Illinois National Bank and Trust Company of Chicago, Chicago, Illinois

Officers *(as of December 31, 1983)*

Silas Keehn, President

Daniel M. Doyle, First Vice President

Central Bank Activities

Supervision and Regulation and Loans

James R. Morrison, *Senior Vice President*

Supervision and Regulation

Franklin D. Dreyer, *Vice President*

Roderick L. Housenga, *Chief Examiner*

Nicholas P. Alban, *Assistant Vice President*

John L. Bergstrom, *Assistant Vice President*

James A. Bluemle, *Assistant Vice President*

Rose M. Kubush, *Assistant Vice President*

Patrick J. Tracy, *Assistant Chief Examiner*

Alicia Williams, *Consumer Affairs Officer*

Loans

Hilbert G. Swanson, *Assistant Vice President*

Economic Research and Information Services

Karl A. Scheld, *Senior Vice President and Director of Research*

Economic Research

Harvey Rosenblum, *Vice President and Associate Director of Research*

Patricia W. Wishart, *Vice President and Assistant Director of Research*

David R. Allardice, *Economic Adviser and Vice President*

Gary L. Benjamin, *Economic Adviser and Vice President*

George W. Cloos, *Economic Adviser and Vice President*

Joseph G. Kvasnicka, *Economic Adviser and Vice President*

Larry R. Mote, *Economic Adviser and Vice President*

Anne Marie L. Gonczy, *Senior Economist and Assistant Vice President*

Jean L. Valerius, *Assistant Vice President*

Information Services

Nancy M. Goodman, *Assistant Vice President*

Services to Depository Institutions

Operations

Robert M. Fitzgerald, *Senior Vice President*

Cash and Funds/Securities Transfers

David R. Starin, *Vice President*

James M. Rudny, *Assistant Vice President*

Valerie J. Middlebrooks, *Operations Officer*

Check and Automated Payments

Louis J. Purol, *Vice President*

Robert W. Wellhausen, *Vice President*

Theodore E. Downing, Jr., *Assistant Vice President*

Lawrence J. Powaga, *Assistant Vice President*

DeWayne W. Baker, *Operations Officer*

Fiscal Agency and Securities Services

Daniel P. Kinsella, *Vice President*

William A. Bonifield, Jr., *Assistant Vice President*

Warren E. Potts, *Assistant Vice President*

Warren J. Taubman, *Assistant Vice President*

FRB Customer Services

Roby L. Sloan, *Senior Vice President*

Customer Service

Allen G. Wolkey, *Vice President*

Jack S. Light, *Assistant Vice President*

William D. Stratton, *Assistant Vice President*

Financial Institution Accounts

Ruth F. Vilona, *Vice President*

Gerard J. Nick, *Assistant Vice President*

Product Management

Paul J. Bettini, *Vice President*

Stephen M. Pill, *Vice President*

Support Functions

Financial, Management and Automation Services

Carl E. Vander Wilt, *Senior Vice President*

Automation Services

Richard P. Anstee, *Vice President and Director of Automation Services*

George E. Coe, *Vice President*

Marlene M. O'Sullivan, *Vice President*

Kenneth R. Berg, *Assistant Vice President*

R. Steve Crain, *Assistant Vice President*

Carol P. Kaspar, *Assistant Vice President*

Frank S. McKenna, *Assistant Vice President*

Robert W. Roberts, *Assistant Vice President*

Charles L. Schultz, *Assistant Vice President*

Janet M. Terry, *Assistant Vice President*

Financial and Management Services

Glenn C. Hansen, *Vice President*

Jerome F. John, *Financial Officer*

LeRoy E. Ketchmark, *Systems Officer*

Office of the General Auditor

(reporting to the Board of Directors)

Richard P. Bush, *General Auditor*

Andrew M. Cook, *Assistant General Auditor*

George W. Steffen, *Assistant General Auditor*

Office of the General Counsel

William H. Gram, *Vice President, General Counsel and Secretary*

Oliver I. Ireland, *Vice President and Associate General Counsel*

Office of the Bank Secretariat

Susan H. Riis, *Administrative Officer*

Support Services

Charles W. Furbee, *Senior Vice President*

Administrative Services

Wayne R. Baxter, *Vice President*

Facilities Planning and Management

Robert D. Lauson, *Vice President*

General Services

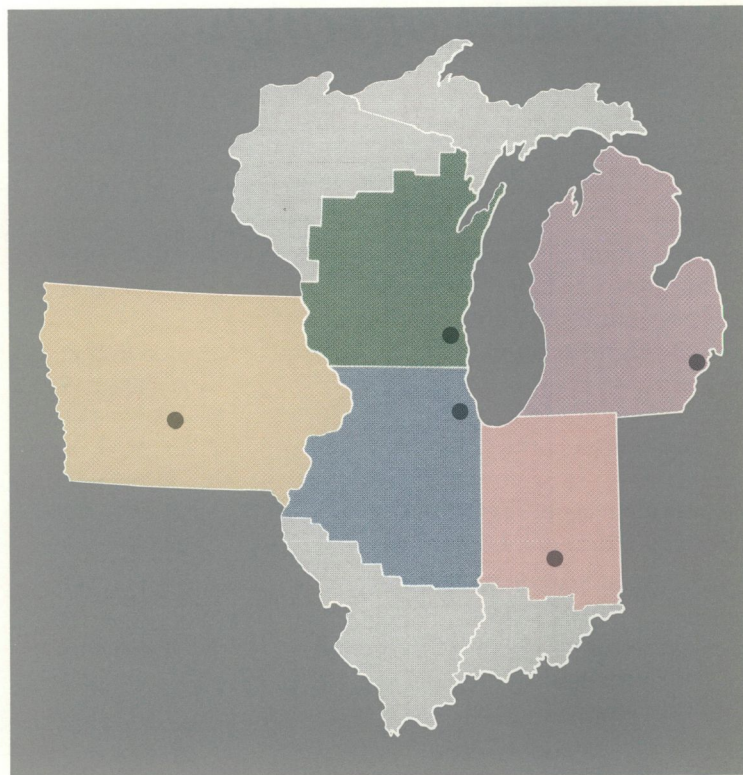
Robert A. Ludwig, *Vice President*

Richard H. Ramsdell, *Assistant Vice President*

Human Resource Services

Adolph J. Stojetz, *Vice President*

Gerald I. Silber, *Assistant Vice President*



District Offices

Detroit Branch

William C. Conrad, *Senior Vice President and Manager*

Frederick S. Dominick, *Vice President and Assistant Branch Manager*

Glen Brooks, *Vice President*

Joseph R. O'Connor, *Assistant Vice President*

Richard L. Simms, Jr., *Assistant Vice President*

F. Alan Wells, *Assistant Vice President*

Regional Check Processing Centers

Des Moines Office

Thomas P. Killeen, *Assistant Vice President*

Allen R. Jensen, *Operations Officer*

Indianapolis Office

Russell O. Langan, *Assistant Vice President*

Milwaukee Office

Thomas G. Ciesielski, *Assistant Vice President*

Statement of condition *(in thousands of dollars)*

	As of December 31	
	1983	1982
Assets		
Gold certificate account	1,504,000	1,476,000
Interdistrict settlement account	90,606	(158,061)
Special drawing rights certificate account	646,000	646,000
Coin	24,225	25,897
Loans and securities:		
Loans	95,030	83,094
Federal agency securities	1,191,372	1,268,324
U.S. government securities	<u>20,748,385</u>	<u>19,245,508</u>
Total loans and securities	22,034,787	20,596,926
Cash items in process of collection	1,054,115	922,928
Bank premises	20,072	18,526
Other assets	<u>1,045,064</u>	<u>1,247,565</u>
Total assets	26,418,869	24,775,781
Liabilities		
Federal Reserve notes	22,424,894	20,611,700
Deposits:		
Depository institutions	2,340,732	2,854,254
U.S. Treasury—general account	0	0
Foreign	20,400	29,610
Other	<u>97,598</u>	<u>114,422</u>
Total deposits	2,458,730	2,998,286
Deferred availability cash items	822,403	508,189
Other liabilities	<u>329,072</u>	<u>288,260</u>
Total liabilities	26,035,099	24,406,435
Capital accounts		
Capital paid in	191,885	184,673
Surplus	<u>191,885</u>	<u>184,673</u>
Total capital	<u>383,770</u>	<u>369,346</u>
Total liabilities and capital	26,418,869	24,775,781

Statement of income *(in thousands of dollars)*

	Year ending December 31	
	1983	1982
Current income		
Interest on loans to depository institutions	6,616	17,978
Interest on government securities	2,096,979	2,235,497
Interest on investments of foreign currencies	37,236	60,767
Service fees	72,018	61,052
All other	1,099	1,320
Total current income	2,213,948	2,376,614
Current expenses		
Operating expenses	129,784	125,450
Other current expenses	19,050	8,069
Total current expenses	148,834	133,519
Less reimbursement for certain fiscal agency and other expenses	9,567	9,323
Current net expenses	139,267	124,196
Current net income	2,074,681	2,252,418
Additions to (or deductions from) current net earnings		
Net profit (or loss) on sales of securities	2,948	11,947
Net profit (or loss) on foreign exchange transactions	(62,056)	(21,095)
Board of Governors assessment	(30,833)	(20,781)
All other—net	(103)	(500)
Net additions (or deductions)	(90,044)	(30,429)
Net earnings available for distribution	1,984,637	2,221,989
Distribution of net earnings		
Dividends paid	11,399	10,926
Payments to U.S. Treasury (as interest on Federal Reserve notes)	1,966,026	2,206,445
Transferred to surplus	7,212	4,618
	1,984,637	2,221,989

NOTE: As of January 1, 1983, Board of Governors assessment includes the cost of Federal Reserve currency previously shown as a current expense item. Figures for 1982 have been restated for purposes of comparison.

Highlights of operations

	Dollar amount		Number	
	1983	1982	1983	1982
Check and related services				
Checks, NOWs, and share drafts processed	1.0 trillion	1.1 trillion	1.8 billion	1.8 billion
Fine sort and packaged checks handled	134.3 billion	144.6 billion	311.5 million	346.7 million
U.S. government checks and postal money orders processed	81.9 billion	101.0 billion	77.4 million	80.0 million
Automated clearinghouse (ACH) items processed	171.8 billion	99.6 billion	53.7 million	42.0 million
Transfers of funds	16.5 trillion	15.6 trillion	7.6 million	7.3 million
Cash operations				
Currency received and counted	12.7 billion	11.8 billion	1.3 billion	1.2 billion
Unfit currency withdrawn	2.4 billion	2.5 billion	406.4 million	441.1 million
Coin received and processed	359.1 million	325.6 million	2.6 billion	2.2 billion
Securities services for depository institutions				
Safekeeping of securities:				
Definitive, balance December 31	14.7 billion	13.4 billion	1.0 million	1.1 million
Book entry, balance December 31	108.6 billion	87.5 billion	—	—
Purchase and sale of securities	2.3 billion	2.5 billion	17.9 thousand	23.8 thousand
Collection of bonds, coupons and other noncash items	2.0 billion	2.6 billion	381.0 thousand	389.6 thousand
Loans to depository institutions				
Total loans made during year	14.6 billion	36.2 billion	4,207	10,326
Institutions accommodated	—	—	327	411
Services to U.S. Treasury				
Marketable government securities issued, exchanged, and redeemed:				
Definitive securities	4.4 billion	3.5 billion	315.1 thousand	378.0 thousand
Book entry securities	2.2 trillion	1.8 trillion	915.1 thousand	960.1 thousand*
U.S. government coupons paid	376.7 million	346.5 million	748.0 thousand	771.0 thousand
U.S. savings bonds issued, exchanged, and redeemed	2.5 billion	2.6 billion	27.5 million	33.2 million
Federal tax deposits processed	72.2 billion	70.2 billion	816.6 thousand	802.8 thousand
Food stamps received and processed	1.6 billion	1.3 billion	384.1 million	341.3 million

*Basis for counting revised.

Photography:

George Kufirin, Click/Chicago, pp. 3,
7 (*middle*), 8 (*middle, bottom*), 9, 10, 11.

Courtesy of Harris Trust and Savings Bank,
p. 7 (*top*).

Tracy Sweet, p. 7 (*bottom*).

Rex Arrowsmith, p. 8 (*top*).

Michael Beasley, Click/Chicago, p. 13.

Robert Frerck, Click/Chicago, p. 15.

Michael Mauney, Click/Chicago, p. 17.

